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 3 of 16 Parts

(May 14, and 18, 1970)

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TARIFF AND TRADE PROPOSALS

THURSDAY, MAY 14, 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.

STATEMENT OF AMBASSADOR CARL J. GILBERT, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; ACCOMPANIED BY THEODORE R. GATES, ASSISTANT SPECIAL REPRESENTATIVE FOR INDUSTRY AND LABOR; MORTON POMERANZ, ACTING GENERAL COUNSEL, EXECUTIVE SECRETARY, TRADE EXECUTIVE COMMITTEE; AND ALLEN H. GARLAND, CHAIRMAN, TRADE STAFF COMMITTEE, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS (Resuming)

The CHAIRMAN. We have back with us this morning as our next witness the Special Representative for Trade Negotiations, Ambassador Carl J. Gilbert.

We appreciate having you back. You are recognized.

Ambassador GILBERT. Thank you, Mr. Chairman.

This committee spent a great deal of time during its hearings in 1968 on the subject of the American selling price system of valuation and on the reasons for and against eliminating the system in return for concessions by other countries. It is a complex issue with many details. It is complex because the system itself is exceedingly complex both in its workings and its results.

To understand it fully requires many details because the system covers a vast range of different competitive situations, highly diverse products, and equally diverse company situations. In some instances, moreover, a full understanding may also require examination of business confidential information which cannot properly or legally be discussed in public.

With your permission, I will not take up your time today discussing all the many specific and often highly technical details that are involved in the proposals nor all of the information which has been assembled in reaching a decision to put them before you. Instead, I propose to discuss those elements which I believe should bear most heavily in your deliberations and which to a relative newcomer to this subject such as myself, strike me as the most important of the many

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considerations. I will, of course, be glad to discuss any and all of your specific questions here or, if necessary, in executive session.

I believe, first of all, that you should be told how this administration approached this subject and the grounds on which it determined that this recommendation should be made to you. You will recall, I am sure, that a very similar proposal originated in the previous administration.

Secondly, our discussion today will, I believe, be more purposeful if I also very briefly describe what ASP is and how it works.

Thirdly, I want to review the status and competitive situation of the benzenoid chemical industry, the principal area of controversy in the proposed elimination of this system of providing extraordinary protection. I will particularly emphasize developments in the years since you last had an opportunity to examine the facts.

Fourth, I intend to summarize the reciprocal nature of the agreement you are, in effect, being asked to put into effect. Finally, I would like to give you our views as to the most probable results, domestically and internationally, of your acceptance or your rejection of this recommendation.

I should apologize in advance for the number of facts and figures I must put before you. I cannot provide you with a sound or adequate basis for your decision with anything less. This recommendation is not based on any theoretical or philosophical grounds, but on as searching an examination of the facts associated with trade and competition in this industry as it is possible to make. The many generalizations which have been made about this issue can only be tested and a proper judgment reached on the basis of facts.

Extensive information is essential in dealing with the ASP issue because the impact of the present system and that of its removal can properly be judged only in terms of many different chemical product categories, many different company situations, and, because of the inherent nature of ASP, of many different tariff situations. Attached to my testimony you will find a set of statistical tables to which I shall refer during my testimony. Additional data can be supplied on a wide variety of pertinent aspects.

In addition, if the committee wishes, I am prepared to submit for this record the testimony which appears in the record of your 1968 hearings on this subject updated to take account of all of the developments since it was prepared and for which new statistical data have since become available.

REVIEW OF THE AGREEMENT

I think the committee perhaps knows that when this administration took office early last year the President set in motion a broad series of policy reviews, including a comprehensive review of our trade policies.

Among other subjects, extensive reexamination was made of the unfinished business inherited from the previous administration—an agreement negotiated in 1967 in which that adminisration undertook to seek congressional approval of the elimination of the ASP system in exchange for trade concessions by others involving both tariffs and nontariff barriers.

We studied in detail the methods by which this agreement had been reached, and the facts and arguments upon which it had been decided to negotiate such an agreement.

Our reexamination had the very considerable added advantage of the record of your previous hearings and was, thereby, able to study in detail the case that had been presented to you in 1968 by the chemical industry and by other witnesses both in opposition to and in favor of elimination.

We were able, thereby, to compare the opposing contentions, the varying facts, the gaps, and reach a new, independent judgment.

Finally, we had the still further benefit of at least some experience with the tariff reductions negotiated during the Kennedy round which have since begun to go into effect.

Our purposes and our criteria in this review were the following: Since it was an inherited issue, we sought to assure ourselves that the procedures and the preliminary work had been thoroughly and fairly done, that all possible resources, expertise, and facts had been brought to bear, that a fair opportunity had been offered to all parties to make their views and their cases known, that these had been properly considered, and that a reasonable judgment had been reached.

Equally important, since the proposal involves an agreement for exchange of concessions, it was examined with a view to its balance and reciprocity.

Finally, since it had been asserted that a domestic industry and its workers would be adversely affected if the agreement were implemented, great care was taken to examine any possibly injurious consequences.

Our judgment, embodied in H.R. 14870, is that it will be in our interest to eliminate this system. The form in which elimination is proposed and the rates whch would replace the present, ASP-based rates were fairly and reasonably arrived at, the agreement in which they are embodied provides reciprocity, and, above all, the application of these rates should not be the cause of injury to the firms and workers involved.

It should lead, instead, directly to an expansion of mutually beneficial trade in chemicals, and to benefits, both direct and indirect, to other American industries, farmers, and consumers.

I can add without any equivocation whatsoever, that although no value is assigned to them in appraising reciprocity, the elimination of ASP will lead to an improved climate, greater credibility, and a major stimulus to the future removal of other nontariff trade barriers.

Moreover, all of the evidence accumulated since 1968 and virtually all of the trends since then reaffirm the evidence you had before you in 1968 that the chemical industry, including its benzenoid producers, is one of our more aggressive international competitors scarcely in need of extraordinary protection. I should like to return to all of these points later.

THE ASP SYSTEM

The ASP system as it applies to certain chemicals has now been in operation 2 years short of a half century. It began, as the record the committee has assembled indicates, as a means to afford adequate protection for one of our infant industries—the benzenoid segment of the chemical industry.

Its particular form originated in the feeling that some unusual form of protection was needed under the conditions which existed during World War I and which were continuing in 1922 when the Congress enacted the basic legislation.

The form may very well have also been influenced by hesitation in the Congress to legislate openly the nominal duties high enough to achieve this goal.

The ASP system has been in effect without significant change ever since. Meanwhile, the chemical industry has grown from an infant to its present $49 billion scale.

Its benzenoid segment alone now accounts for $4.3 billion in annual shipments. Meanwhile, too, its technology has changed vastly, shifting from a coal-tar base to primary dependence today upon petroleum and natural gas.

Throughout this period, today, and in the future unless the Congress changes the existing statute, the products covered by this system are valued for duty purposes not—as are the bulk of all other products seeking entry into this country—on the foreign "export value," but on the basis of the price set by an American manufacturer of a competitive product. Benzenoid products not deemed competitive with domestic products are assessed for duty purposes on the "U.S. value," that is, the wholesale price here of the imported product less such elements as general expenses, profits, duty, and transportation costs.

GENERAL OBJECTIONS TO ASP

This might sound simple and fair enough to some. The objections to it are five in number:

First, it provides a very extraordinary degree of protection, both in comparison to the duties which now apply to other U.S. imports and in comparison with comparable duties abroad. Our statutory or nominal rates for benzenoids today are already higher on the average than those applying to most other products entering the United States and higher, also, than those typical of other developed nations' tariff schedules.

When further applied to American wholesale prices, these tariff rates produce effecitve rates often many times higher than the apparent duty. Some are actually above 100 percent and the peak, as determined by the Tariff Commission, is 172 percent. These effective rates are, in effect, invisible. The system clearly disguises the degree ofp rotection it provides. Moreover, there is no way of knowing how high rates can go; an effective rate can only be calculated on the basis of actual transactions. Beyond any doubt, some chemical trade is prohibited by this system.

Second, the systsem is inconsistent with the customs practices of all our trading partners for nonagricultural goods.

Third, under the ASP system a domestic manufacturer has certain unique and, I believe, unnecessary and unfair advantages. Within the the limits of the effectiveness of competitive forces operating in the U.S. market, a U.S. manufacturer can adjust the level of his own tariff protection against the products of his foreign competitor by the wholesale price he sets for his own product.

Moreover, if he is not actually selling a product which is "like or similar" to one currently imported, he can indicate a price that he would be "willing to receive" for this product and thereby trigger an increase, usually substantial, in the tariff wall that any import must surmount.

Fourth, a foreign exporter of a product potentially subject to ASP cannot know at the time he signs a contract or ships the product whether it will be subject to ASP, or what the ASP will be until it has passed through our Customs. This uncertainty as to the amount of duty is a further burden on trade.

Fifth, when there are few producers, a relatively frequent situation for many individual chemicals, any ability to set or vary prices becomes under the ASP system the further ability to determine a product's own level of tariff protection. This, in turn, can further restrain competition, both domestically and internationally.

SPECIFIC OBJECTIONS TO ASP

Above and beyond these general propositions are a variety of more specific objections to this system. The statutory language in section 402(e) of the Tariff Act of 1930 specifies that in the absence of actual domestic sales of a like product the ASP shall be that price at which chemicals are "offered for sale for domestic consumption in the principal market of the United States, in the ordinary course of trade and in the usual wholesale quantities" or, alternatively, the price a producer "would have received or was willing to receive," again in the ordinary course of trade and in the usual wholsale quantities.

Such broad language inevitably creates problems both in administration and in equity. It, in effect, explicitly assumes that there is necessarily a single price for each chemical and one which can be determined with certainty and accuracy by customs officials. It implicitly assumes that list prices, where they exist, will be equal to prices at which goods are actually sold and, where they do not exist, that Customs will be readily able to obtain the necessary data.

These assumptions are not realistic. They do not allow for the desirability of determining whether a quoted price is a reasonable one—a problem which may arise in the case, for example, where the domestic article, often patented, is neither offered nor sold as an intermediate product, but rather, is made by a single or a few integrated producers who use the product internally to make finished articles from it. In the latter case, the price for the intermediate may well be established at a level which deters any prospective purchasers of a similar import from importing. Yet this is, under the present statute, the proper basis for valuation.

The "willing to receive" provision of the statute further means that an importer may bring chemicals to the United States under the impression that there is no domestic production, only to learn that an American manufacturer does produce them, not for commercial sale but entirely for his own, internal use. If this manufacturer then states to Customs that he "would be willing to receive an offer" and quotes his price, even though no commercial transactions have actually occurred at that price, it also becomes the basis for duty.

This feature of the statute thus permits situations where domestic firms have the potential for manipulating prices to deter and even eliminate any import competition.

As a result, in order to anticipate these effects, importers often bring in very small samples, solely in order to establish the magnitude of the prospective duty. This practice is one of the explanations why our trade statistics show that imports do, indeed, sometimes enter over fairly astronomical tariff levels.

Still another difficulty with ASP concerns the alternative valuation base which applies when a benzenoid chemical is found not to be competitive with a domestic product. In this situation, the statute provides that a "United States value" will be determined and used as the basis for valuation.

This essentially requires Customs to work back from a quoted wholesale price of the import in the U.S. market, to estimate and deduct all necessary expenses and markups incurred in its importation and arrive at an estimated equivalent of an export value for the chemical.

This, too, is time-consuming and often leads to controversial results. Certain shipments, we have been informed, have been under consideration for a decade while the matter was being litigated through the courts.

Customs regulations require dye producers to file data on the dyes they make and offer to sell. The number of commercial dyes on file with Customs, however, is small relative to the total number of chemically known products potentially subject to ASP. It would be administratively impracticable to establish a system for all benzenoid products similar to that used by Customs in the case of dyes.

Because of these problems, my predecessors in the executive branch undertook an inquiry to determine if another system could be devised which would provide adequate protection for this industry and whether, in the course of the international trade negotiations then taking place, a reciprocal agreement could be obtained in return.

The committee's record adequately documents the procedures followed by the Tariff Commission in arriving at new rates, its further role in appraising whether or not they could be reduced during negotiations, and the basis upon which a separate, and referendum agreement was eventually obtained—the agreement which is now before you. It is our judgment that these procedures were fair and equitable and that the results, given the inherent nature of the ASP system, provided an equitable basis for future tariff treatment for the chemical industry.

THE COMPETITIVE RECORD

I should like to turn now briefly to a few of the key facts I believe you should keep in mind about the chemical industry. Its amazing record of growth, documented for you in your 1968 hearings, has continued over the intervening years.

Since 1967, it has grown better than 7 percent per year. It has continued its enviable record of a faster rate of growth than manufacturing in general. Over the longer term, since 1947, for example, it has grown at nearly twice the rate of our economy and nearly 80 percent faster than all manufacturing.

Its profits have consistently outpaced those of all manufacturers. In 1969, a less than exuberant year for many industries, its profits were 6.5 percent of sales, while manufacturing profits on the average were only 4.8 percent. Its return on investment has also been consistently above average. The rate of annual increases in capital expenditures are similarly above average. This year, by the way, its degree of confidence in the future is implicitly visible in its planned increase of 19 percent in capital expenditures.

I think I need probably not remind you that it is one of our more research-oriented industries, one known for new product development and for steadily rising productivity, as well. Productivity, moreover, has increased while employment has also been rising steadily. Reflecting its high productivity, labor costs are only about 22 percent of the value of shipments, one of the lowest ratios in manufacturing.

This domestic performance is matched by its performance in world markets. Its $2.2 billion trade surplus in 1969 was double that of as recently as 8 years ago, one-fourth greater than in 1966. Exports over the past 5 years have increased an average of 7 percent per year. The percentage growth in imports has been greater, but the dollar increase is only half as much. Between 1964 and 1969, imports increased $500 million, exports by $1 billion.

In recent years, the industry, in spite of renewed strength of foreign producers, has kept close to a 25-percent share of the total world export market in chemicals. Import figures, moreover, include a substantial share of necessary chemical raw materials, as well as finished imports which do not directly compete with American products. Nearly half of all imports, for example, are duty-free, and another portion come from Canadian subsidiaries of American firms who have rationalized their productive operations on a North American basis.

During the past 3 years, chemical imports on the average have grown 8.8 percent per year. This rate, while greater than that of our exports, is only slightly more than half as much as the comparable recent growth rate of our imports of all manufactured products. With imports of other manufacturers growing faster in recent years, chemicals have actually dropped off as a proportion of our total imports.

Our continued ability to export, and export more each year, moreover, has occurred over a period when the industry's foreign investments and its producing operations abroad have been growing rapidly.

Its sales from its foreign subsidiaries in 1967, for example, are estimated to have totaled approximately $9 billion, a figure far in excess of its foreign sales from U.S. factories.

A further very important dimension of the industry's competitive posture is its ability to achieve a surplus in trade with every major region of the world, including those areas with strong, internationally oriented chemical industries and also with substantial American subsidiary operations.

Our surplus with the European Community, for example, grew from $356 million in 1965 to $497 million last year, and with Japan, from $103 million to $183 million over the same period. It has increased comparably with Canada and declined moderately only with the EFTA countries since 1965.

Thus far, I have been portraying for you the salient facts about the entire chemical industry. Since ASP applies only to benzenoids, I should properly add the corresponding figures for this segment, though in many respects the two are intimately intermingled and often data on benzenoids alone cannot be separated out. Our only source for figures applying only to benzenoids is in the Tariff Commission. Its data, however, cover only production, sales, and imports, and are subject to the rules of confidentiality and, therefore, cannot always provide the entire picture.

For all practical purposes, however, the recent benzenoid performance alone can be summarized as being as good, if not better, than that of the entire chemical industry. The shipments of the domestic industry in 1968, the last year for which we now have data, were $4.3 billion, or about 10 percent of all chemicals. Over the past 3 years, domestic shipments have grown at an average rate of 10 percent per year, well above the all-chemical growth rate and about the same as its growth in each of the other years of the last decade.

Exports in 1968 were an estimated $734 million—one-fifth of all chemical exports—while imports were only $107 million, thereby recording a trade surplus of $627 million. This surplus is even greater—$681 million—if calculated on the basis of only those imports which actually competed with domestic production.

Of total imports of $107 million in 1968, $53 million were classified by Customs as competitive with domestic products, equivalent to 1.5 percent of domestic consumption. This was an import market share far below the national average for all manufactures.

Although employment data in benzenoids are not regularly compiled, it would appear that employment, too, has been increasing steadily. Profits of the benzenoid segment of the industry are not separately compiled, but there appears little evidence to suggest that overall they differ substantially from that for all chemicals.

Like any broad industrial group or category, the benzenoid segment of the chemical industry is not homogeneous. Many different products are made by many firms of different sizes and market situations. The benzenoid sector can be generally subdivided into 10 major product groups: Intermediates—including rubber-processing chemicals—dyes—including azoics—pigments, medicinal chemicals, flavor and perfume materials, plastics and resins, plasticizers, surface-active agents, pesticides and agricultural chemicals, and miscellaneous chemicals.

Over 25 percent of total benzenoid sales consists of plastic and resin materials, an area where the United States has long been a major inovator, a dominant producer, and a very large exporter to virtually every corner of the globe. Another 20 percent of total sales is in the area of plasticizers, surface-active agents, and pesticides and agricultural chemicals. The United States is also a dominant producer in each of these product areas.

There have been few suggestions that foreign competition is a serious factor in either of these areas. Neither has foreign competition been a particular issue with respect to flavor and perfume materials which comprise about 1 percent of total benzenoid sales. Finally, there appears to be little question over miscellaneous other benzenoid chemicals.

THE PROBLEM AREAS

The areas of contention, that is, the areas where the domestic industry has primarily asserted that there is a likelihood of injury from conversion of the ASP system and from reductions of tariffs are the intermediates and, in the finished products area, dyes, azoics, pigments, and medicinals.

Intermediates, the raw or semiprocessed materials from which the finished, benzenoid products are made, are typically consumed by their own producers and, typically, too, the nature of import demand for them fluctuates from year to year, often in response to domestic shortages.

Total imports in 1969 of $49 million, for example, were only 0.4 percent of consumption in pounds and 3.8 percent in value. The import data for recent years reveal this fluctuating pattern.

The largest single intermediate imported in 1966, for example, was phenol at 8.6 million pounds. In 1968, however, less than 500 pounds were imported.

In 1968, on the other hand, the largest single import was of 11.1 million pounds of phthalic anhydride. In 1965, there were no imports at all of this product.

In contrast, consumption of finished benzenoid products has grown from $1.9 billion in 1965 to $2.5 billion in 1968, while overall imports have less than 3 percent of the U.S. market, 1.5 percent if noncompetitive imports are excluded. Between the major categories of finished products, however, there are normally wide variations.

Dye imports, for example, in 1968 accounted for 8.8 percent of the U.S. market—3 percent for competitive dyes only—and pigment imports were 3.9 percent of all sales here—0.6 percent for competitive imports only. Imported medicinals accounted for 5.8 percent of our market, 2.1 percent if only competitive drugs are considered.

Parenthetically, I should note that dye imports rose sharply in 1968—about 44 percent. When this figure is mentioned in subsequent testimony, as I am sure it will be, it should be recalled that two-thirds of the increase was in noncompetitive dyes. Much of the remaining increase was in a single dye, called vat blue 1. Typical of the changing product mix of chemical imports, imports of this product fell off in 1967, but rose again in 1968 back essentially to the level prevailing since 1963.

Total imports in 1968 of finished benzenoids other than dyes, pigments, and medicinals, were about 1 percent of all sales, and less than one-half percent if noncompetitive products are excluded.

Our benzenoid exports, by the way, are heavily concentrated in finished products—nearly 70 percent of the $734 million total I mentioned earlier involves final products. Further details and figures for a longer time period can be found in the tables appended to my statement.

I must apologize for subjecting you to this stream of figures. I can summarize their meaning simply as providing a basis for confidence in the ability of this industry, including its benzenoid segment, to compete internationally. There are, of course, undoubtedly, individual products in which, for any one of a variety of reasons, we have fallen behind or someone abroad has found a way to do a better job. If this is true, it is normal for any industry.

Secondly, these figures provide no basis for concern that this industry's strengths have deteriorated in the last several years. Events have borne out the forecasts made to this committee in 1968 that this was a strong and expanding area of American industrial ability, and one which would continue to meet and gain in the challenge of the world marketplace.

Finally, the figures before you dramatically testify to the facts that while imports have continued to increase, in some areas at a fairly rapid pace, they have not increased as rapidly as imports of other manufactured products. They account in most instances for a very small share of our domestic market. Moreover, the surplus of exports over imports testifies definitively to the international competitiveness of this segment of the industry.

THE SUPPLEMENTARY AGREEMENT

I would now like to turn to the question of the reciprocity of the agreement before you. I do not believe that at this time it is particularly useful to review the chemical negotiations during the Kennedy round; the issue today is whether it is in our interest now to ratify an agreement separate from but contemporaneous with that negotiation.

A few preliminary comments are in order. A judgment that reciprocity has or has not been achieved in a trade agreement necessarily involves a great many separate considerations. In the first instance, it involves a judgment that there has been a fair and balanced exchange of new trade opportunities.

A negotiator, however, can only seek new opportunities and value them with the facts at hand; he cannot insure that all of the subsequent actions necessary to take adavntage of those new opportunities will be taken or that trade will actually occur. Nor can he obviously take into account all of the future imponderables and unforeseen events. Practically, he must make a judgment based on both quantitative and qualitative factors.

It is necessarily a judgment based in the first instance on a composite of the nature and volume of trade subject to a concession, the depth of that concession if it involves a tariff reduction, and an evaluation of the potential thereby created for future growth of trade.

Combining these and the many related factors into a judgment of future opportunities, I believe that, should the Congress approve this bill, we will obtain significant concessions and new trade opportunities, both for the chemical and for other industries.

The agreement, when implemented, requires the United States to:

(1) Reduce chemical duties by an average of about 5 percent. This reduction consists of:

(*a*) A 30-percent reduction in certain low-duty chemicals, cut by only 20 percent in the Kennedy round;

(*b*) Reductions in certain high duties to about a 20-percent level;

(*c*) Establishing duties of more than 25 percent for sulfa drugs and of 30 percent for dyes and pigments, duties, which, in many cases, will be nominally at higher rates than at the end of the implementation of the Kennedy round.

(2) Convert duties now based on ASP to normal bases of valuation.

The agreement requires the European Community to:

(1) Reduce its chemical duties by an average of 26 percent. This reduction consists of: (*a*) Reduction in tariffs on all chemicals by 30 percent except those for which only partial or no reductions were made in the Kennedy round.

(2) Modify its road-tax system to eliminate discrimination against American automobiles.

The agreement requires the United Kingdom to:

(1) Reduce its chemical duties by an average of 22 percent. This reduction consists of:

(*a*) Binding its previously unbound duties on plastics at a low level;

(*b*) Reduce by a further 30 percent duties on chemical products which it cut by only 20 percent in the Kennedy round;

(*c*) Further reduce by varying percentages all duties on chemicals which are 25 percent or higher to bring them to a level of 12.5 percent.

(2) Reduce the preferential tariff margin on its tobacco imports from us.

Finally, Switzerland, which made a 49-percent reduction in its chemical duties in the Kennedy round, agreed if ASP is eliminated to modify its regulations on canned fruit imports. In addition, Sweden, Austria, Norway, Denmark, and Finland—none of which are parties to the agreement—are bound by the Kennedy round agreement to make substantial additional reductions in chemical tariffs when the agreement before you is implemented.

THE AGREEMENT SUMMARIZED

The trade significance of all of these commitments is not easily summarized. Perhaps the best way to begin, though I do not intend to dwell long on mere numbers, is with the statistical summary in terms of the amounts of trade involved in the tariff reductions.

Our concessions involve $330 million of our imports in 1964—the base year used in negotiating this agreement—from the participants in the agreement, and $440 million of our imports from all sources. Both figures, by the way, are our actual trade adjusted to a c.i.f. basis as is the customary practice in our trade negotiations. In return, we will be obtaining concessions upon $890 million of our exports from them.

I cannot, unfortunately, update these 1964-based calculations which were the basis of the agreement. However, it seems quite reasonable to assume that the greater absolute dollar volume of increases in our exports than in our imports since then and the accompanying growth of our trade surplus would indicate overall that the benefits to be gained now are as great, if not greater, than as calculated on the basis of our 1964 trade pattern.

In my judgment, the qualitative factors in the agreement before you outweigh any statistical measurement. They could be summarized as follows:

(1) The United States gained important concessions and in only very few instances agreed that duties would not be reduced in the areas

which are significant for our future trade. The basket rates, where the products of our industry's massive research-and-development effort will largely be classified for duty purposes in the future, will be substantially reduced. In so dynamic an industry as this, where half of today's sales are in products not known 10 years ago and where few can predict the nature of tomorrow's products, the tariff rates on the basket categories of a chemical tariff schedule are of major importance.

(2) Foreign tariffs on other rapidly growing U.S. chemical exports will also be drastically reduced. The concessions involved are particularly significant, for example, in plastics. United Kingdom and Community tariffs in this key area will almost all be 10 percent or less when the agreement is implemented. In 1964, U.S. plastics exports to the United Kingdom and the Community alone were $145 million.

(3) The United Kingdom will also make very subtantial reductions on rates on organic chemicals. U.S. exports in 1964 in this category were $50 million, largely at rates of 33⅓ percent. The additional reductions necessary to insure that no rate remains above 12.5 percent will be made. Reductions from the 33⅓ level will average 62 percent.

(4) Chemical tariffs in major U.S. export markets will uniformly be reduced to extremely low levels and should provide a very considerable opportunity for increased export sale, certainly, for greater profits in exporting at current levels. With relatively few exceptions, there will be no Community or United Kingdom rate above 12.5 percent and most Community rates will be well below this level. Most Japanese duties will be below 15 percent, the principal exceptions being cosmetics and films, which happen to fall in the Japanese chemical tariff schedule. The highest Canadian rate will be 17.5 percent and the bulk of Canadian duties will be substantially lower. U.S. duties in potentially sensitive areas, however, will remain substantially above comparative rates in other countries.

(5) For example, dyestuff tariffs in the EEC will be 10 percent, and in the United Kingdom, 15 percent, compared to the proposed U.S. rate of 30 percent. This should benefit the U.S. dye industry, even now a significant exporter.

(6) The agreement provides protection for U.S. producers in the significant basket categories. Only one was reduced by approximately 50 percent—the intermediates basket where it was considered the industry would not be adversely affected.

(7) Where it is proposed that U.S. rates would be reduced to a level of approximately 20 percent, the recommended rates, in fact, will provide a floor for tariff protection, not as has been alleged, a ceiling. The rates were derived from average duties obtained in 1964 trade. Any future imports at low unit values will be provided with effective protection at higher levels through the continuation of the specific duties in the U.S. tariff schedule.

OTHER ASPECTS OF THE AGREEMENT

I should also point out that even after this agreement is implemented, many U.S. chemical tariffs will still remain exceedingly high.

I have already noted some specific instances. In other cases, the same result will be achieved by the continuation of our specific duties where they apply to products which sell at low unit values.

This type of duty has the effect in some cases of producing fairly astronomical effective tariffs, a characteristic of our overall tariff schedule which frequently provides relatively greater protection for lower priced commodities.

I should also comment on a further aspect of the proposed reductions in U.S. duties. In certain cases, additional reductions are proposed in the agreement where no potential exists for serious injury.

This results from the fact that in the negotiation of this agreement when other countries proposed significant reductions in their own, often much lower rates, they strongly objected that a proportional duty by the United States, in turn, would not in such instances be fully reciprocal since it would leave certain of our duties still with very high rates.

The reductions proposed for this reason should bring no adverse effects; they often involve an additional reduction of only a few percentage points. Most of them, in fact, involve products in which we are net exporters, or in which little trade exists.

They include some intermediates, usually large volume items with little or no imports, some pesticides, a few photographic chemicals, some drugs, and some perfumes and flavorings.

THE ECONOMIC EFFECTS

I will not dwell long on the complicated analysis nor the many facts and judgments which together constitute the case that this agreement will not adversely affect American firms and workers, but will, instead, if the opportunities it provides are aggressively pursued lead to an expansion of our production sales, jobs, and profits.

The record of your 1968 hearings contains the basic arguments in considerable detail and, as I said earlier, the situation in this industry has not deteriorated since then. If anything, it appears to have improved.

Secondly, these judgments were carefully arrived at virtually on a case-by-case basis, through an examination of all of the available facts and evidence in each proposed concession on both sides, and as a result of one of the most comprehensive series of studies undertaken in the field of trade policy. They can be reviewed in detail with the committee in the areas or products of most interest to it.

I should note, however, that they frequently come down to matters concerning individual products and companies, particularly the smaller firms, and involve data from confidential sources which cannot be revealed in public hearings.

I do want, however, to make one very fundamental point. As I read the record of opposition to the elimination of ASP submitted at your earlier hearings, a very curious theme was given great stress, the logic of which as a former businessman escapes me.

Time and time again, in a variety of formulations with varying amounts of supporting facts, you were told that reductions in U.S. duities and/or the elimination of ASP would depress our domestic price levels and lead to injurious consequences.

In virtually the same breath, you were also told that reductions in return by other countries on the duties on products we export to them now or in the future would be worthless.

Trying to break this logic down, there seem to be several things which ought to be pointed out. As far as the domestic impact is concerned, such statements assume that the full measure of the tariff reduction or the more elusive measure of the effects of eliminating ASP will be promptly reflected in consumer prices here, while, abroad, there will be no reflection of the tariff reductions—and we are talking in this agreement of 30 percent and greater reductions.

It is suggested that prices will decline here, though, apparently, there will be no offsetting increases in total sales as a result. Overseas, on the other hand, prices will be unaffected and our sales unchanged.

There would seem from the record, moreover, to be no recognition that even under these circumstances, at the very least, our profit margins on existing export business will increase in step with the amount of duty saved.

As a businessman, I find it hard to understand both why changes in tariffs should have effects different from changes in the other elements of costs, or, secondly, why changes in tariffs should have such disparately different effects here and abroad. I can only conclude, on the one hand, that there must be the further assumption in these conclusions that export opportunities will not be sought after.

Further, it would seem that a segment of an industry long receiving extraordinary protection from foreign competition in this market, but with an enviable record of ability to compete both at home and in exporting as well, has concluded that it prefers to protect its home market, regardless of the consequences.

This, in blunt terms, is the issue involved in the elimination of ASP. Those who have enjoyed its special favors for half a century are perhaps understandably loath to relinquish such effective insulation from the forces of competiton, even though what I consider to be an adequate effort has been made to provide them with satisfactory and reciprocal benefits in return.

The question the bill before you poses must, however, be decided on the broader grounds of whether this agreement—both for its immediate benefits and for its longer range significance—is in our national interest.

The facts indicate to this administration that the elimination of ASP will not have any significant adverse impact upon the benzenoid segment of the industry but that the new rates proposed in H.R. 14870 and those which other countries will put into effect, if it is passed, will enable those producers and workers engaged in benzenoid production to continue to expand their sales, including their exports. Moreover, there will be substantial new export opportunities for other products, both chemicals and nonchemicals.

Finally, I must urge the Congress to give careful weight to the broader significance of this issue. I would mislead you if I pretended to guarantee that the elimination of ASP will literally unlock the door to future progress in the removal of other nontariff barriers to trade. Yet, on the other hand, I cannot stress too strongly to you that the system and the level of protection ASP provides has become the

leading symbol to others of unnecessary, indefensible American protection.

As such, its continuation will, in a very real sense, impede our future efforts to engage in trade negotiations, while its elimination would be unequivocal evidence of our determination to move ahead.

The issue is whether we are willing to remove one of our most restrictive barriers, not unilaterally or for future promises, but in return for new trade opportunities while still providing substantial and adequate potection for one of our domestic industries. I urge the Congress to weigh this consideration and to approve the elimination of the American selling price system of valuation.

RUBBER SOLED FOOTWEAR WITH FABRIC UPPERS

In addition to benzenoid chemicals, the bill before you authorizes the President to eliminate the application of ASP to rubber soled footwear with fabric uppers, canned clams, and certain wool knit gloves.

Unlike benzenoid chemicals, the elimination of ASP for rubber soled footwear was not the subject of any agreement during the Kennedy round. Nor did ASP first become applicable to such footwear by statute but rather by Presidential proclamation in 1933. The action proposed with regard to rubber footwear is also a reflection of a very different economic position which obtains for that industry from the one presented by the chemical industry. A consequent final difference between the two is that no reduction is proposed in the converted rate that was developed by the Tariff Commission.

On the basis of 1965 data, the Tariff Commission then determined that the ASP rate was equivalent to a converted rate of 58 percent based on export value. The Tariff Commission also proposed that noncompetitive footwear be subject to a rate of 20 percent.

Since the introduction of H.R. 14870, several things have occurred which may require amendment of the proposals in section 401 of the bill, including:

(1) A Bureau of Customs ruling which became effective May 7, 1970, now makes it desirable to remove any reference to "iron filings" from the tariff description to which the bill refers.

(2) The accuracy of import data on rubber footwear has recently been questioned. The Tariff Commission has been examining these data and we understand that it will be advising the committee of its findings. This reexamination may make it necessary to reconsider the rate of 25 cents per pair plus 20 percent, but not less than 58 percent, which is proposed in the bill.

In view of these factors, I do not believe it useful to pursue the subject further until the Tariff Commission report is available. However, I would emphasize that for the reasons stated in my earlier discussion of benzenoid chemicals, this system of valuation should be eliminated on a fair and equitable basis for any products subject to it.

CANNED CLAMS AND WOOL KNIT GLOVES

Finally, the bill proposes elimination of ASP as it also applies to canned baby clams and a low-priced bracket of wool knit gloves. Both

were made subject to ASP as a result of Tariff Commission investigations under section 336 of the Tariff Act of 1930. There appears to be no likelihood of adverse consequences from the elimination of ASP with respect to canned clams. On the other hand, the price bracket of gloves is obsolete and no imports have been recorded since the 1930's. The National Association of Glove Manufacturers recommended that ASP be eliminated. Finally, Japan has agreed to a one-third reduction in its duty on abrasive paper if ASP is eliminated with regard to these two products.

Thank you, Mr. Chairman.

The CHAIRMAN. Without objection, Mr. Ambassador, the material appended to your statement will be made a part of the record at this point.

Also, you requested that certain excerpts from the hearing of 1968 be included in this record.

Without objection, that will also be done at this point.

(The material referred to follows:)

STATEMENT PERTAINING TO BENZENOID CHEMICALS ON TITLE IV OF H.R. 17551 (TRADE EXPANSION ACT OF 1968) ELIMINATION OF THE AMERICAN SELLING PRICE SYSTEM

INTRODUCTION

I want to review for you the entire range of considerations involved in our recommendations concerning the American selling price (ASP) system of valuation, the process of factfinding and deliberation which has preceded these recommendations, and our appraisal of the probable economic effects of the removal of this system.

I should note at the outset that this will necessarily and unavoidably be a long, detailed, and often technical account. I cannot provide a sound and proper basis for your judgment with anything less than a thorough discussion, nor would it be fair to those whose livelihoods are involved. This system has been in operation for 48 years. During this period the industries to which it applies have made their investment and other business decisions in accordance with its provisions, benefits, and effects. To consider its elimination with anything less than the most comprehensive examination possible would not be a responsible act.

This has been our basic attitude and our policy within the Executive Branch as we have studied and deliberated over ASP during the past five years. Our recommendations to you today are based on one of the most thorough reviews ever made during the history of American trade policy. Similarly, our efforts to obtain balanced concessions in return—should it be eliminated—constituted one of our major preoccupations during the Kennedy Round. We were determined not to reach any agreement unless a fair *quid pro quo* was obtained. On the basis of these efforts, we firmly believe that the recomendations before you will expand our trade to the nation's benefit and will not cause any significant adverse impact upon the industries concerned.

Let me add just a few other initial comments on some of the other important issues in this discussion of ASP. For the time being, I want to comment on the Bill only as it affects the chemical industry. I will return to the other products concerned later.

A healthy and growing chemical industry is essential to a modern, industrial economy. Looking back over the past half century, it has been one of the major contributors to our well-being and our rising living standards. Its never-ending flow of new products has enriched the lives of all of us. Internationally, it has contributed enormously to better and longer lives of people everywhere; at the same time, it has been a major contributor to our trade balance. We would not have it otherwise.

The action we are recommending concerns a segment of this industry—the benzenoid segment—involving products accounting for about 10 percent of its total sales. This has been and continues to be an important segment—the source

of many important innovations and new products. It is also, as I will be reviewing in greater detail later on, one of the more rapidly growing segments of the chemical industry and, indeed, of our entire economy. It is, finally, an integral part of the total chemical industry. Few companies today specialize only in benzenoid chemicals; rather, benzenoids are made by many firms and their production is dominated by those same large and integrated firms which have established their competitive ability and attained industry leadership both at home and world-wide. Benzenoids, in turn, typically account for only a fraction of their total business.

I should note at this point that in many phases of our discussion it will be impossible, as well as unreasonable, to separate benzenoids from the rest of the chemical industry. Only in the U.S. tariff structure are these products separately identified. None of the other usual sources of information—U.S. or foreign for that matter—makes this distinction. In short, the classification adopted in 1922, when our separate treatment for certain chemicals was initiated is unique. Apart from certain specialized statistics on imports, production, and sales prepared annually with the cooperation of the industry by the Tariff Commission, this classification cannot be paralleled in the other sources of information necessary for a full examination. This limitation, taken together with the closely interwoven nature of benzenoid and other chemical activities in most of the companies of the industry, means that in some areas, profits or labor costs, for example, we are unable—despite our best efforts—to focus exclusively on the chemical activities directly affected by this Bill.

In our analysis of the probable effects of the elimination of ASP we have relied heavily upon confidential data, data on production and sales, in particular, which have been submitted by the firms. Disclosure of these data would identify the operations of specific firms and market situations for specific products and is, therefore, prohibited by section 1905 of title 18 of the United States Code. However, since such information is essential to the understanding of this industry and fundamental to a judgment of the effects of the action we propose in the Bill, we are prepared to discuss such data in detail with the Committee in Executive Session.

The final introductory point I would make is the broader significance of our recommendation with regard to future U.S. trade policy and to the effort already underway, which will grow in significance as trade barriers fall, of eliminating nontariff barriers to world trade. In a very real sense, the fundamental issue we face today is whether the United States is willing to remove one of its most restrictive nontariff barriers to the trade of others, while still providing substantial and adequate protection for a domestic industry. And to remove it, not unilaterally, but in exchange for fair and adequate new opportunities for growth in the industry affected, as well as for significant liberalization in certain nontariff trade barriers of other countries. There can be no doubt that the action that is taken upon this proposal will surely be regarded by other nations as the indication of our determination (or lack of determination) to move forward in the difficult task of freeing world trade from such barriers in the years ahead. We cannot hope to retain a major nontariff barrier of our own and yet expect others to remove theirs at our request.

THE ORIGINS OF ASP

The origin of the ASP system predates World War I. At that time, the coal-tar products industry produced primarily dyes. The U.S. industry was truly an infant industry and most dyes that we consumed were imported. Wartime needs required a rapid expansion both in terms of numbers of producers and in total production. Dye supplies were cut off by hostilities, while our need for other chemical products, especially explosives and poison gas, grew rapidly.

To facilitate this expansion the Congress raised duties and adopted a licensing system during the war and later adopted the present treatment in the Tariff Act of 1922. The House Bill, in fact, provided that this system would apply to all imports, but the Senate would accept its application only to coal-tar products and to products which might be covered by the predecessor legislation to the present section 336 of the Tariff Act of 1930, the so-called flexible tariff provision.

The justification for applying the ASP system to certain chemicals was essentially the need to provide an infant industry with extraordinary protection in its efforts to compete with well-established foreign producers, especially those in a country with which we had recently been in conflict. 1922 was also a period

of chaotic market conditions in Europe, of rampant inflation and currency devaluation. These considerations also weighed heavily in the deliberations.

The record of Congressional deliberation also suggests a reluctance to legislate opening the very high nominal duties based on export values deemed necessary to protect the industry, given the then existing discrepancy between U.S. and foreign costs and prices.

The ASP system for what we now call benzenoid chemicals has been in effect without significant change ever since—a period of nearly half a century. During this time, the industry which it was designed to protect has grown to a *$50* billion a year status, and its sales of benzenoid products amount to *almost $5* billion. Most of these products, moreover, are no longer derived from coal-tars but from petroleum and natural gas, and other great strides in research and discovery have developed hosts of new products. Dyes, once its principal end product, now account for less than 10 percent of all benzenoid sales.

METHODS OF VALUING IMPORTS

Since the enactment of the Customs Simplification Act of 1956, section 402 of the Tariff Act of 1930 has provided three alternative methods of custom valuation for purposes of computing ad valorem rates of duty. The first and internationally-preferred method of valuation is known as "export value," or the wholesale price of the imported product offered in arm's length transactions in the country of origin. Virtually all of our imports are valued on this basis.

If "export value" cannot be detremined, the next method of valuation is "U.S. value," or the wholesale price of the imported product in the United States—less such elements as general expenses and profit, duty, and transportation costs—in order to approximate "export value." If "U.S. value" cannot be determined, the final method of valuation is "constructed value," or an estimate of what "export value" would be based upon the costs of production in the country of origin.

The three normal methods of valuation under section 402 of the Tariff Act of 1930 do not apply to certain products enumerated in a list published by the Secretary of the Treasury pursuant to section 6 of the Customs Simplification Act of 1956, known generally as "the Final List". Merchandise enumerated on "the Final List" follows a different sequence in applying methods of valuation, i.e., foreign value or export value, whichever is greater, or United States value or cost of production.

In addition, there are certain conceptual differences in these various bases of value. These definitions are contained in section 402a of the Tariff Act. Also, as a matter of law, four groups of imported products—benzenoid chemicals, rubber-soled footwear, canned clams, and woolen knit gloves—whether or not enumerated on this list, do not follow the normal method of valuation outlined above. These products are generally appraised in accordance with an ASP definition which is defined under both section 402 and 402a.

METHODS OF VALUING BENZENOID CHEMICALS

With respect to benzenoid chemicals, the law now provides that any imported benzenoid chemical which is competitive with a similar domestic product shall be valued on the basis of the ASP of the domestic product. If the imported benzenoid chemical is not competitive, it is to be valued, first, on the basis of the U.S. value of the imported product and, if this cannot be determined, then export value or constructed value of such product.

WHAT IS WRONG WITH ASP?

This system has long been criticized by other countries. Its removal was requested in the Dillon Round and it was a major issue from the beginning of the Kennedy Round. The objections can be summarized in five categories:

First, it provides extraordinary protection, both in comparison to the duties which now apply to other U.S. industries and in comparison with duties in effect abroad. The statutory rates for benzenoids today are already higher on the average than those applying to most other products entering the United Statess and higher than those typical of other nations' tariff schedules.

When further applied to American wholesale prices, these rates produce effective rates often many times higher than the apparent duty. Some are actually above 100 percent and the peak, as determined by a Tariff Commission study, is 172 percent. These effective rates are invisible and the system clearly disguises the degree of protection it provides. There is no way of knowing how high rates

can go; an effective rate can only be calculated on the basis of actual transactions and, beyond a doubt, some trade is prohibited by this system.

Second, the system is inconsistent with the customs practices of all our trading partners for non-agricultural goods. Moreover, it would be in violation of the standards of customs valuation laid down in the General Agreement on Tariffs and Trade (GATT) but for the fact that its use in this country antedates our adherence to the GATT and was made permissible under a "grandfather" clause. Article VII of the GATT provides that dutiable values of the imported goods should not be based on the values of domestically produced merchandise.

Third, under the ASP system a domestic manufacturer has unique and unfair advantages. Within the limits of the effectiveness of competitive forces in the U.S. market, a manufacturer can adjust the level of his tariff protection against his foreign competitor by the wholesale price he sets for his product.

Moreover, if he is not actually selling a product which is "like or similar" to one currently imported, he can indicate a price that he would be willing to receive for this product and thereby trigger an increase, usually substantial, in the tariff wall that any imports must surmount.

Fourth, a foreign exporter of a product potentially subject to ASP cannot know at the time he signs a contract or ships the product whether it will be subject to ASP, or what the ASP will be until it has passed through our Customs. This uncertainty as to the amount of duty of itself is a burden on trade.

Fifth, when there are relatively few producers, any ability to set or vary prices becomes under the ASP system the further ability to determine a product's own level of tariff protection. This, in turn, can further restrain competition, both domestically and internationally.

SPECIFIC OBJECTIONS TO ASP

Above and beyond these general propositions are a variety of more specific objections to this system. The statutory language in section 402(e) of the Tariff Act of 1930 specifies that in the absence of actual domestic sales of a like product the ASP shall be that price at which chemicals are "offered for sale for domestic consumption in the principal market of the United States, in the ordinary course of trade and in the usual wholesale quantities" or, alternatively, the price a producer "would have received or was willing to receive," again in the ordinary course of trade and in the usual wholesale quantities.

This broad language inevitably creates problems in administration and in equity. It, in effect, assumes that there is necesarily a single price for each chemical and one which can be determined with certainty and accuracy by Customs officials. It implicitly assumes that list prices, where they exist, will be equal to prices at which goods are actually sold and, where they do not exist, that Customs will be readily able to obtain the necessary data.

These assumptions are not realistic. They do not allow for the desirability of determining whether a quoted price is a reasonable one—a problem which may arise in the case, for example, where the domestic article, often patented, is neither offered nor sold as an intermediate product, but rather is made by a single or a few integrated producers who use the product as an intermediate exclusively to make finished articles from it. In the latter case, the price for the intermediate may well be established at a level which deters any prospective purchasers of a similar import from importing. Yet this is, under the present statute, the proper basis for valuation.

The "willing to receive" provision of the statute further means that an importer may bring chemicals to the United States under the impression that there is no domestic production, only to learn that an American manufacturer does produce them not commercially but entirely for his own, internal use. If this manufacturer states to Customs that he "would be willing to receive an offer" and then quotes his price, even though no commercial transactions have actually occurred at that price, it also becomes the basis for duty.

This feature of the statute permits situations where domestic firms have the potential for manipulating prices to deter and even eliminate any import competition. This has, in fact, happened. As a result, in order to anticipate these effects, importers often bring in very small samples, solely in order to establish the magnitude of the prospective duty. This practice is one of the explanations why our trade statistics show that imports do, indeed, enter over fairly astronomical rates.

Still another difficulty with ASP concerns the alternative valuation base which applied when a benzenoid chemical is found not to be competitive with a domestic product. In this situation the statute provides that a "United States value" will be determined and used as the basis for valuation. This essentially requires working back from the quoted wholesale price of the import in the United States market, deducting all necessary expenses and markups incurred in its importation, to arrive at an equivalent of an export value for the chemical. This, too, is time-consuming and often leads to controversial results. Certain shipments have been under consideration for as much as 8 years while the matter was being litigated through the courts.

Customs regulations require dye producers to file data on the dyes they make and offer to sell. The number of commercial dyes on file with Customs, however, is small (approximately 4,000 items) relative to the total number of commercial products potentially subject to ASP. It would be administratively impracticable to establish a system similar to that used by Customs in the case of dyes for all products.

As a result, importers face delays in clearing chemicals other than dyes through Customs while it ascertains their competitive status and, then, the proper American price. For that matter, clearing dyes is not necessarily a simple and expeditious matter. Imported dyes not familiar to Customs officers must first undergo extensive laboratory tests to determine whether they are competitive with a domestic product.

These and other aspects of ASP add up to a formidable problem of obtaining highly detailed technical and commercial information on domestic chemicals. The Bureau of Customs is in the business of monitoring international transactions. It maintains an expert staff which has available to it a long and comprehensive record of every significant import transaction and a wealth of accumulated experience and knowledge relating to foreign shippers, their prices, and business practices.

However, the Bureau does not normally investigate domestic business firms, or the complexities of transactions prices, or methods and terms of sale in the U.S. domestic market. Ordinarily it relies upon the information submitted by the domestic firm regarding the current American selling price. However, the importer often challenges such information, thereby placing Customs in the position of having to determine the value—a single value—which is not necessarily agreed to by either of the interested parties. As a result, administration of this provision requires special attention by Customs, generates criticism and controversy, and can result in an inordinate amount of inquiry, record-keeping, delay, and hardship. It is, in short, a barrier to trade despite the best possible administrative efforts.

All of this was known and, indeed, was generally a matter of public record when preparations for the negotiations began. What was not known, however, was precisely how much protection ASP actually provided, how it varied between products, or its economic effects. What was necessary was a systematic and comprehensive investigation of the magnitude of hidden protection involved, the need of the industry for this protection, and an exploration of possible alternatives.

CONVERSION OF ASP RATES

This work began with a preliminary examination by Executive agencies of available data on all import transactions in benzenoid chemicals. The conclusions reached, briefly, were (1) that the effects of ASP on different products were of such complexity that a much more detailed and complete study was necessary to develop a satisfactory basis for judgment, (2) that every useful resource must be employed in this effort, and (3) that the fairest and most equitable method to deal with the problem was not to eliminate the system outright but to develop equivalent rates of duty on the basis of conventional bases of valuation. We concluded that this task could only be done properly by experts, both in the fields of benzenoid chemicals and in customs valuation procedures.

Consequently, at the direction of the President, the Special Trade Representative, Christian A. Herter, on December 22, 1965, requested the Tariff Commission, the agency most qualified for such an assignment, to undertake an investigation to determine rates of duty which, when applied under conventional valuation procedures, would in the Commission's judgment have provided an amount of collected duty on imports in a recent period substantially equivalent to that amount provided by the ASP system. The Commission was also asked to deter-

mine the rates in accordance with sound standards of tariff nomenclature and to indicate its assessment of the degree of equivalency of protection achieved. The Bureau of Customs was requested to assist the Commission in carrying out this investigation.

The Commission began its task by soliciting the suggestions and views of all interested parties. On May 2, 1966, it published a list of tentative converted rates with an explanation of the procedure by which these rates were developed. It then held public hearings to receive information and views concerning the tentative, converted rates. In the light of the information presented at these hearings, data submitted by interested parties, further analysis of import invoices, and further investigation by its staff, the Commission made a number of revisions in the tentative rates. It then published its final report, containing recommendations for converted rates which could replace the current rates in the absence of the ASP provisions.

HOW CONVERTED RATES WERE DERIVED

Benzenoid chemicals are currently provided for in 70 items in the Tariff Schedules of the United States (TSUS). Most of these are subject to compound rates of duty—duties containing both a specific, so many cents per pound, and an ad valorem component. When assessed on an ASP basis, the impact of an ad valorem component is quite unlike that of the usual ad valorem duty. Its impact, instead, resembles that of a specific duty. Once the American selling price is determined, an identical duty in dollars and cents is imposed on all entries of a given product, irrespective of their varying foreign values. Unlike the results obtained from the usual specific duty, however, the duty imposed also varies with changes in the American selling price of the competitive domestic product.

After considerable study of alternative methods of computing converted rates, the Commission chose a method which involved calculating new compound rates. Under this method, the present specific rates would be unchanged while the ad valorem rates would be revised to a new percentage which, if applied to export value, would yield the same revenue on the imported products in a given period as did the ASP system. In the Commission's judgment rates thus computed would be those that would most closely approximate the present schedule of rates, both in structure and in burden imposed. This method of maintaining the present specific components intact and combining them with converted new ad valorem components was designed not only to yield substantially the same revenues as the present rates, but also to retain as closely as possible the effectiveness of the present rate structure as import prices change in the future.

DATA USED IN CONVERSION

The Tariff Commission regularly compiles detailed data from Customs invoices on each importation of benzenoid chemicals. It also publishes annual summaries of both U.S. benzenoid imports and domestic production—the only existing data sources dealing directly with the benzenoid industry. To calculate the converted rates, the Commission used the information available to it on all entries of dutiable benzenoid chemicals in 1964—approximately 15,000 in number.

A sample of approximately 1,000 of these import entries was further selected for more intensive analysis. In selecting this sample, the Commission gave particular attention to the frequency of importation of each chemical; the size of individual shipments; unit values; whether duty was based on ASP, U.S. value, or foreign or export value; import sources; and the volume of trade between the two parties—the foreign manufacturer and the U.S. importer. Every effort was made to ensure the reliability and representativeness of this sample. The sample included chemicals accounting for the bulk of 1964 imports.

The Bureau of Customs officer who regularly appraises all imports of benzenoid chemicals at the Port of New York, where the bulk of shipments of benzenoid imports enter this country, then estimated the dutiable value which Customs would have used in the absence of the ASP provisions for each chemical in the sample. In the light of these revised values, the values for all similar import entries were then adjusted to reflect estimated dutiable values that would have been used in the absence of ASP.

COMPUTATION OF CONVERTED RATES

The Commission determined a converted rate for each chemical covered by the 70 TSUS items involving dutiable benzenoids. It did this on the basis of individual data for each entry of benzenoid chemicals in 1964, adjusted to reflect

dutiable values that would have prevailed in a conventional valuation. Imports entered in only 54 of these items in 1964, however, with no imports recorded in the remaining 16.

For these 54 TSUS items the Tariff Commission converted the ad valorem parts of the current rates in the following manner: the computed duty, based on only the ad valorem part of the current rate, for each individual chemical or group of chemicals, was divided by the revised dutiable value, usually export value or foreign value. The result was the ad valorem component of the new, converted rate.

Since this ad valorem component was an average for each compound, or an average of the ad valorem equivalents for a group of compounds, there were necessarily balancing increases and decreases in the computed rates. Twelve of the 54 TSUS items then were divided into subclasses, each with approximately the same rate, in order to minimize the extent of any duty change. These subclasses were formed by determining the ad valorem equivalent for each individual compound imported in 1964 and then inspecting the range and distribution of the ad valorem equivalents (AVE's) for each TSUS item. Items were not subdivided if the range of computed AVE's was small and evenly distributed in terms of volume of imports.

If the range of computed AVE's was large, the Commission then combined compounds or groups of compounds with substantial imports and similar AVE's into new subclasses, to ensure that assigned duties would accurately represent the underlying values. The Commission specifically named in these subclasses all compounds for which the duty deviated significantly from the average and in which there were significant imports. When the duty difference was substantial, compounds with as little as $1,000 of imports were specifically named in the subclasses. After subclasses for the compounds or groups of compounds significant in import trade in 1964 were provided for, the remaining compounds were grouped at an average converted rate based on the AVE's of the compounds remaining in the "all other" or basket group.

For the 16 TSUS items in which there were no imports in 1964, the Commission suggested in its tentative list of converted rates that the existing nominal rates be continued. However, usable foreign price data were subsequently received from industry sources for converting the rates on 11 of these items, and the Commission accepted these figures. Using such data, increased converted rates were computed for 10 of the items.

For the 5 items for which no data at all were received from industry and one item for which data did not warrant an increase, the Commission made no change in its tentative converted rate. The products included in these items generally consist of commercially insignificant or obsolete compounds, or low-priced compounds that are produced in large quantities in the United States with little if any possibility of significant competition from imports if the basis of the present rate of duty were shifted from ASP to export or foreign value.

COMPETITIVE AND NONCOMPETITVE IMPORTS

Separate converted rates were not established for competitive and noncompetitive imports. Of the 70 TSUS items for which new rates are proposed, all imports in 19 items were competitive. Of the remaining 52 items, there no imports in 16, 9 were wholly noncompetitive and 27 items, mainly basket categories and multiple product items, included both competitive and noncompetitive products.

The breakout of the new tariff subclasses, however, had the effect of segregating most of the competitive and noncompetitive imports. For example, all of the noncompetitive imports contained in TSUS item 403.48 were placed in subclass 403.48A and accounted for about 90 percent of that subclass. Nearly all imports in subclass 403.50A were noncompetitive and all those in 403.50B and 403.50C were competitive. Virtually all of the noncompetitive imports in TSUS item 407.85 were in subclass 407.85F, in which only about 1 percent of imports were competitive. Of the more than 100 converted rate provisions, only four (403.60G, 405,25, 405.30, and 406.50J) accounted for most of the mixing of competitive and noncompetitive imports having AVE's different from each other.

DEGREE OF EQUIVALENCY OF PROTECTION—FIRST TARIFF COMMISSION INVESTIGATION

In assessing the degree of equivalency of protection achieved by the converted rates which it determined, the Tariff Commission recognized that the inherent

nature of the ASP system of valuation is such that no possible schedule of converted rates could be devised which would provide for future imports "protection" equivalent to that afforded by the ASP system in the strict sense of the term.

In actual operation ASP valuation is used only when a domestic product is competitive with a given import. Normally, for non-ASP imports, the dutiable value is determined from the value of the imported article in a foreign market. Thus, ASP, in effect gives to the domestic industry the opportunity of achieving a duty increase by undertaking to produce a chemical in competition with an imported product. Further, under ASP, the amount of duty collected automatically responds to price changes by American producers. The ASP system thus provides a flexible tariff, a tariff which the industry can influence, if not determine, by its own decisions. Also, under the ASP system any change in the export price by a foreign supplier has no effect on the duty. If the rates were converted to normal valuation bases, a change in the export price would also result in a change in the duty. Any change to a valuation basis other than ASP necessarily eliminates these inherent features and in this broad sense it is not strictly possible to achieve equivalent protection.

The computation of the converted rates also involved other problems of equivalency, particularly those affecting the degree of protection for future imports. No matter what base period is chosen, or whether it is any one or series of years, it would not be possible to assert categorically that the trade of future periods will be exactly the same, especially in the product mix and unit prices, and certainly not in an industry with as demonstrated a record of new product development as the chemical industry. For this problem the Commission chose the solution of relying upon the results of a representative base period, 1964. Preliminary computations for 1965 and 1966 confirm this judgment.

The Tariff Commission reported that in its judgment a substantial degree of equivalency of protection was achieved in the converted rates for single-line TSUS items imported in 1964, and for the specifically named chemical compounds that were imported in the various subgroups, such as 403.60A, B, C, and D. In basket categories, such as 403.60G and 406.50J, the equivalency of the degree of protection was deemed to vary. Because their converted rates were weighted averages, the degree of protection was usually raised somewhat on noncompetitive articles and lowered somewhat on competitive articles falling in such categories.

The Commission noted that a more equivalent degree of protection might only have been achieved for these categories by establishing rates for each competitive compound and each noncompetitive compound. However, the maintenance of any such distinction between competitive and noncompetitive products would, in fact, continue the essential features of the present system. It would not provide rates which would prevail in the absence of the ASP provision.

On the other hand, the Commission found that a substantial degree of equivalency of protection for those benzenoid chemicals imported in 1964 was achieved by specifically naming as many compounds within the various subcategories as sound standards of tariff nomenclature would allow. This resulted in a large increase in the number of chemicals treated separately in the recommended new tariff schedule. However, this served to achieve the purpose of assuring a fair and equitable equivalency of protection.

ECONOMIC EFFECTS OF CONVERSION AND REDUCTION—SECOND TARIFF COMMISSION INVESTIGATION

The Commission's initial investigation had focused entirely upon the problem of devising a new set of converted rates. Upon receipt of its recommendations, Governor Herter, acting again at the direction of the President, requested that the Commission undertake a second investigation. Its purpose was to "furnish advice as to the probable economic effect upon the domestic industries producing like or directly competitive articles (1) of the elimination of the ASP system of valuation as a system through the establishment of the new converted rates, which have been prepared by the Tariff Commisison, and (2) of a reduction of up to 50 percent in such new converted rates."

In this new investigation, the Commission again held public hearings and carefully examined all information developed through these hearings and from other sources. The Commission's second report, which was confidential, was submitted in October, 1966.

According to this report, the Commission "followed to the fullest extent possible the legislative instructions set forth in section 221" of the Trade Expansion Act

(TEA) in preparing its advice on "probable economic effect". The Commission advised whether particular concessions would or would not have an "adverse effect" on domestic producers, i.e., whether "this concession would or would not result in increased imports that would have significant effect on employment, profit levels, use of productive facilities, or on one or more of these economic factors".

This report also provided a detailed analysis of the industry, relying heavily upon confidential business information submitted by the industry, both regularly on an annual basis and during the hearings, as well as its judgment of the probable economic effects. Disclosure of the contents of this document is also prohibited by section 1905 of title 18 of the United States Code. If the Committee wishes to examine it, it can be made available in Executive session.

REVIEW OF TARIFF COMMISSION'S DETERMINATIONS

The Commission's recommendations were examined in detail by all Executive agencies concerned. Further studies were undertaken of the sectors considered relatively more sensitive and still additional data was assembled, primarily involving the individual benzenoid producers.

On the basis of all this evidence, the Executive agencies concluded that the determinations of the Tariff Commission concerning the method of conversion and the structure of tariff classifications and converted rates were fair and equitable. Further, they also provided a reasonable method of converting from ASP to a normal basis of valuation, while still retaining adequate protection for this industry. Secondly, the agencies determined the extent of the reductions which could be made from each of the converted rates proposed by the Commission. These decisions were made on the basis of the same standards and criteria which were established in the TEA for determining which duties could be offered for reduction and which had been employed previously in determining the offers on products of other industries.

Briefly, we found that the benzenoid industry would not be seriously injured by the elimination of ASP on the basis of new rates proposed by the Commission, and that most of its major segments would not be injured by 50 percent reductions in these equivalent rates. For certain other segments, we found that reduction of converted duties by 50 percent might have adverse effects. In these cases we agreed upon lesser tariff reductions, based upon a judgment of all available facts and advice in each separate case.

During the extensive work which had been done previously in establishing the initial U.S. negotiating position, a great deal of information had already been assembled on the chemical industry, and on its benzenoid segment. The Tariff Commission's reports, together with the additional work done on the ASP issue, also provided a broad basis of fact. Let me review briefly at this point some of our principal findings, first on the overall chemical industry and, then, on its benzenoid segment to the extent it can be separated in the available data and in company operations.

PROFILE OF THE CHEMICAL INDUSTRY

The chemical industry is beyond any doubt one of our largest and strongest industries with an impressive record of growth, efficiency, profitability, and international competitiveness. Its output has consistently grown faster than that of any other major domestic industry. The available forecasts, moreover, all indicate continued, dynamic growth. The Federal Reserve Board Index of industrial production, for example, for the chemical and allied products industry was *239* for *1969* (1957–9=100) whereas the index for all manufacturing industries was *173*. The average annual growth rate of the chemical industry *has been* 8 percent in recent years, a pace consistently faster than the comparable rate for all manufacturing industries. In 1967, when business activity generally slowed down, the chemical growth rate was still 5.4 percent compared to an all manufacturing average of only 0.6 percent. The growth in output of the chemicals and allied products industry, moreover, has been, on the average, nearly double that in all manufacturing industries.

This spectacular growth rate reflects the ever-expanding role of chemicals and chemical products in our economy—a trend that provides every indication of extending into the future. A *1967* McGraw Hill survey of the projected growth in output of 27 selected U.S. industries from 1967 to 1982 ranked chemicals first and rubber and plastic products second. It projected increases of 227 and 206 percent, respectively, for these industries. The projection for the latter group,

moreover, was 30 percentage points higher than that for the next ranking industry, electric utilities.

The latest forecasts predict growth through 1980 to be between 7 and 8 percent per year. Production this year is projected to be nearly 7 percent over 1969's record high.

Such optimistic forecasts are not confined to sources outside the chemicals industry; they pervade the industry itself. The American Chemical Society, for example, *accurately predicted* an 8 percent increase in the output of chemicals and allied products in 1968.

The optimism of the industry is further reflected in its expenditures for new plant and equipment. They increased from *an average of $1.5 billion during 1959–63 to an average of $2.7 billion during 1965–1969. Estimated capital expenditures for 1970 are expected to reach a record $3.4 billion.*

The efficiency and capabilities of the U.S. chemical industry are rarely questions. Its annual rate of productivity growth, as measured by the value added per production worker, averaged *5.0* percent from *1953* to *1968*, well above the annual increase of *2.9* percent for all U.S. manufacturing industries. The annual increase in the organic chemicals subsector of the industry was even greater. These significant productivity gains have made possible substantial concurrent increases both in wages and in value added per dollar of wages in every major sector of the chemical industry.

The situation with respect to profits in the chemical industry appears equally enviable. The industry has consistently been more profitable than the average for all manufacturing. Net profits, after taxes, of the producers of chemicals and allied products increased from $1.6 billion *in 1958 to $3.6 billion in 1969*, an average annual increase of *7.4* percent. The ratios of net profits after taxes to net sales and to stockholders' equity, which were *6.5* percent and *12.8* percent, respectively, in 1967, have consistently been higher than the corresponding ratios for all manufacturing industries, which were *4.8* and *11.5* percent in *1969*.

ITS INTERNATIONAL COMPETITIVENESS

The competitive strength of the U.S. chemical industry is nowhere better demonstrated than by its large and consistently growing surplus in world trade. United States exports of chemicals and allied products have increased steadily from $1.8 billion in 1961 to *$3.4* billion in *1969*, an increase of *89* percent or an annual average increase of *8.3* percent. During the same period imports increased from $732 million to *$1,232* million, an average annual increase of only *6.7* percent. *During this period* our trade surplus in chemicals *doubled* from $1.1 billion to *$2.2* billion. If all U.S. industries were able to do as well, there would be no balance-of-payments problem today.

Trade data alone can not tell the whole story. Some 40 to 50 percent of the total value of U.S. imports are duty free predominantly raw materials or noncompetitive products. When our chemical exports are compared only with dutiable chemical imports, as they might be for a better measure of our competitive strength, we find that they have been five to six times greater than competitive imports. This export advantage is even greater if the very substantial flow of products from Canadian subsidiaries of American firms who have rationalized their production on a North American basis is discounted.

Another important dimension of our competitive posture is that our trade in chemicals and allied products produces a surplus with every major region of the world. Moreover, these separate surpluses have been substantial, again with every region, including those European countries such as the EEC which have well developed chemical industries of their own. Let me cite a few figures to illustrate the magnitudes involved:

U.S. TRADE SURPLUS IN CHEMICALS, BY REGION

[Dollar amounts in millions]

	1961	1969	Percent change
EEC	$270	$497	84
EFTA	103	138	34
Canada	−42	200	
Japan	132	183	39
World	1,057	2,151	104

It is also significant that this substantial growth in U.S. exports occurred over the same period as did a tremendous expansion in U.S. direct foreign investment. Annual plant and equipment expenditures abroad by the U.S. chemical industry increased from $261 million in 1958 to *$1.5* billion in *1968*.

This expansion in foreign investment has inevitably generated a very substantial growth in the sales of chemicals and allied products by U.S.-owned overseas enterprises—from $2.4 billion in 1957 to an estimated $9 billion in *1967*. Notwithstanding this increase in investment abroad and despite a quadrupling of sales by American owned overseas enterprises, U.S. exports have continued to rise—and at an above average rate.

The chemical industry's record of superior performance, both domestically and in world markets, is due in no small part to its long-established emphasis upon the development and introduction of new products and upon efficient operations. In 1966 the value added per person employed in the U.S. chemical industry was *$23,810, almost* three times the average in the European chemical industry (*$8,030* per person) and *almost* four times the value added per person in the Japanese industry (*$7,860*). Furthermore, this advantage has been growing steadily.

A major factor which will contribute to maintaining this leadership will be its research and development capabilities. From 1958 through *1968* the U.S. chemical industry has increased expenditures for these purposes from $800 million to *$1.6* billion. Approximately two-thirds of these expenditures have been in the category of industrial chemicals, the category which includes the benzenoid sector. In *1968*, the last year for which we have detailed data on R&D, the chemical industry spent more money on basic research than any other U.S. industry group.

The results of these research expenditures have been a continuous flow of new products and processes which have kept the industry in the vanguard of the nation's and, indeed, in the free world's technological progress. These new products have been introduced and these new processes have been implemented through steady expansion of new capital expenditures. Capital expenditures by the chemical industry increased from $1.3 billion in 1958 to *an estimated $3.4* billion in *1970*, an increase of *161* percent.

The chemical industries of other countries are aware, of course, of the basic importance of R&D and many have also made significant advances in chemical technology. But, the size and strength of our domestic industry gives every evidence that it can stay ahead in world competition—without excessive tariff protection. Dr. Antonie T. Knoppers, an experienced international scientist and businessman, *now Senior Vice-President of Merck and Company, Inc.*, drew the following comparisons between R&D in the United States and in Europe:

"America's leadership in technology is a fact, and it is increasing. Furthermore, in my view, this leadership is greater than is generally realized in Europe. . . ."

"There is no doubt that in nearly all fields of chemistry, some excellent work is being done in Europe. Yet in many fields *there is a distinct* and *growing gap*. And in some fields where a balance exists today, there is also the danger of a gap developing. . . . Significant shifts have occurred in the theoretical field and Europe is having difficulty catching up." (emphasis added)[1]

Dr. Knoppers then proceeds to illustrate his point with discussions of the U.S. technological lead in fields with such far reaching industrial implications as quantum chemistry and holography.

LABOR FORCE

I would like at this point briefly to note the situation with respect to employment in the chemical industry and will return to it in detail later. Notwithstanding its outstanding record of productivity growth, employment in the chemical industry has increased more rapidly than that in all manufacturing industries. Total employment in the chemical industry increased from 794,000 persons in 1958 to *1,049,000* persons in *1969*, an increase of *32* percent. This compares with an increase of *26* percent in all manufacturing industries during the same period.

In discussions of the competitive position of the U.S. chemical industry vis-à-vis its foreign competitors much attention has been given to high U.S. wage rates

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[1] Antonie T. Knoppers, "The Question of Technology," in *Building the American-European Market . . . Planning for the 1970s*, ed. by Gene E. Bradley (Homewood, Ill., 967), pp. 39–46.

and their bearing on our competiive position. In this regard two facts should be made clear. First, employee cost constitutes a relatively small proportion of total costs. In *1968* total employee costs amounted to only *22* percent of the value of shipments of the U.S. chemical industry. Secondly, the value added per wage dollar in the chemical industry has been steadily increasing. In light of facts such as these, it is certainly not self-evident that higher U.S. wage levels by themselves either do or could have an adverse effect on its competitive position.

A final word about the implications of the overall performance and potential of the entire chemical industry for a small segment known as the benzenoid sector. The benzenoid industry, as such, is not a separate economic entity. The benzenoid industry is, in fact, a group of chemicals and chemical products of benzenoid origin that are scattered through existing categories of data on the chemical industry. They are inermingled, statistically, with other chemicals just as they are intermingled in the production and sales of the companies, and as they are in cost accounting and financial reporting. With relatively few exceptions, the record of benzenoid performance is intermingled with the performance and potentials of thousands of other chemical products, both known and yet to be developed.

More important, much of the industry today is highly integrated and diversified. The same large chemical complexes which are the leaders of the overall chemical industry dominate, in at least equal degree, the benzenoid sector of the industry. A recent study by the Federal Trade Commission, for example, indicated that the four largest firms in the category of *Chemicals and Allied Products*, had a combined average investment of *$6.0* billion and earned *$723* million after taxes in *1967*, a *12.0* percent rate of return. These four companies controlled 49 percent of the industry's assets and earned 47 percent of its profits in 1966. Our analysis of the benzenoid sector has indicated that three of these four companies dominate also the production and sales of benzenoid chemicals.

THE BENZENOID SEGMENT

A benzenoid chemical is about as difficult for the layman to identify as is the scope of the benzenoid chemical industry for the analyst.

The ASP valuation system does not cover all benzenoid chemicals and products. Benzenoid crudes are entered free of duty. Benzenoid elastomers, or synthetic rubbers, which account for approximately 10–15 percent of the value of sales of all benzenoid chemicals, are also not subject to ASP valuation. Finally, most benenoid chemicals produced from natural animal or vegetable products are not subject to ASP provisions. On the other hand, chemicals which are not benzenoid in structure but which at an earlier stage of manufacture were derived in whole or in part from a benzenoid product are subject to ASP.

When we began our study of the benzenoid segment of the chemical industry we had available essentially two sources of information outside of the Executive agencies. The Tariff Commission annually publishes two reports, one on production and sales, based on data which it obtains from individual companies, and one on imports of benzenoids, which it compiles from Customs invoices. These are reasonably comprehensive documents, but necessarily do not disclose all details. Production and sales, for example, of products made by fewer than three producers are not reported separately.

We also had available the public record made by the benzenoid industry over the many years it has argued in support of the retention of ASP and in opposition to any reduction of tariff rates on benzenoids. It was a record that, briefly asserted that benzenoids were unique products, normally made by so-called batch processes, involving highly labor-intensive methods. Its total production costs were, therefore, dominated by labor costs. Since wage rates and hourly wage costs are higher in the United States, its total costs were higher and it could not compete with foreign-made products. Therefore, it argued that it continued to be as much in need of ASP-type protection as it was in 1922.

The position of the benzenoid industry also indicated that it was, allegedly, an industry primarily of small firms with very low, if any, profit margins and quite unable to compete with larger, foreign companies. It was also asserted that ASP was scarcely enough protection for such an industry, as demonstrated by the fact that total benzenoid imports were rapidly growing, and at that time, were in the neighborhood of $40 or $50 million dollars.

On the other hand, we could not find any comprehensive data provided by this industry for all benzenoid activities in support of most of these assertions.

There was no precise knowledge, for example, even of the total sales of this industry with which to compare its import figures. There was little more than fragmentary, unsubstantiated figures on profits on sales and none on profits on investment or equity. There was no concrete evidence of either growth or retardation, nor of exports, nor of its labor costs in relation to its total costs of production. A reading of the record, moreover, would have led to the belief that the principal product of this industry was dyestuffs and that the technology of dyestuff manufacture was crucial to the development of a vast range of products—in the past from penicillin to nylon—and equally portentous for the future of the chemical industry.

It was extremely difficult to examine the validity of these contentions and to fill in some of the very serious gaps. As I have noted, the benzenoid classification is unknown in the usual existing sources of business and economic statistics. Production and sales had to be pinpointed more precisely, employment and profits were total unknowns and had to be ascertained—and there are still some uncertainties about them both. To try to fill these many gaps, we held many consultations with the industry, we asked many questions, and we assembled much general information on those aspects where firms were willing to cooperate in our inquiries.

FINDINGS AS TO BENZENOIDS

This is what we finally learned. The sales of benzenoid chemicals subject to ASP in 1966 amounted to approximately *$3.6* billion, *8.8* percent of total sales of all chemicals. *In 1968 benzenoid sales amounted to roughly $4.3 billion.* From 1962 to *1968* total sales of benzenoid chemicals increased at an annual rate of *8.9* percent—an even greater rate of increase than that of *8.0* percent for all chemicals during the same period, and better than the performance of the rest of the economy.

Our export statistics do not show benzenoid separately, but the closest possible product-by-product examination leads to the very likely probability that benzenoid exports have grown even more rapidly than have benzenoid domestic shipments, and probably accounted for 15 percent or even more of the industry's sales in *1968*.

In the area of benzenoid intermediates, for example, where relatively good, accurate and identifiable data are more generally available, exports increased approximately *159* percent from 1962 to *1969*. These exports accounted for approximately 15 percent of producers' total sales of intermediates in each of the last *six* years, 1964 *to 1969. Exports of intermediates more than doubled from approximately $90 million in 1962 to roughly $233 million in 1969.*

Imports of benzenoids have also increased over the same period, but from a much lower base. Despite this trend, they remain very small relative to sales. In *1968* general imports of benzenoid chemicals amounted to *$107* million, of which *$53* million were classified as noncompetitive by the Bureau of Customs. The remaining *$54* million in competitive imports were equivalent to approximately *1.5* percent of U.S. *consumption* of comparable products. This market share is far below the national average for all manufactured products.

Like any broad industry group or category the benezenoid industry is not homogeneous. A wide range of products are made and by firms of many sizes and situations. The benzenoid sector can be generally subdivided into 10 major product groups: intermediates (including rubber-processing chemicals), dyes (including azoics), pigments, medicinal chemicals, flavor and perfume materials, plastics and resins, plasticizers, and miscellaneous chemicals.

Approximately 25 percent of total sales consists of plastic and resin materials, an area where the United States has long been a major innovator, a dominant producer, and a very large exporter to virtually every corner of the globe. Another 20 percent of total benzenoid sales is in the area of plasticizers, surface-active agents, and pesticides and agricultural chemicals. The United States is also a dominent producer in each of these product areas. Again, there have been few suggestions that foreign competition is or will be a serious factor in these areas. Neither has foreign competition been much of an issue with respect to flavor and perfume materials, which comprise about one percent of total benzenoid sales. Finally, there appears to be little question over the miscellaneous benzenoid chemicals area.

The areas of contention, that is, the areas where the domestic industry has primarily asserted that there is a likelihood of injury from conversion of the ASP system and from reductions of tariffs, are the intermediates, dyes, azoics, pigments and medicinals.

THE MAJOR BENZENOID AREA

None of these product areas is identified as a separate and distinct industry group in any statistics other than those compiled by the Tariff Commission. The closest available Census data are those on the Intermediate Coal-tar Products Industry.

This industry classification, admittedly, does not include all products subject to ASP. In particular, it excludes medicinals. It does include, however, virtually all of the other products where the threat of foreign competition has been raised. Put another way, virtually all of the products it includes are ASP items, and most of the allegedly sensitive ones at that.

The picture of performance revealed by this body of data is consistent and clear. Every available economic indicator in it points to an above average performance. The value of shipments by the intermediate coal-tar products group increased from $817 million in 1958 to $1.5 billion in 1967, an average annual increase of 6.9 percent. Value added by manufacture increased from $373 million in 1958 to $708 million in 1967, an average annual increase of 7.4 percent.

The value added per production worker increased steadily from $20,809 in 1958 to $37,087 in 1966, an average annual increase of 7.4 percent. Notwithstanding this very substantial rate of productivity growth, which even exceeded that of the rest of the chemical industry, to say nothing of that of all manufacturing industries, employment in the industry has also steadily increased. Between 1958 and 1967 the total number of employees increased 6.7 percent, the number of production and related workers alone increased 6.0 percent, and the total manhours increased 9.8 percent.

A further insight afforded by these Census data is a rare, concrete estimate of the rate of labor costs in the benzenoid product area. As I have noted, a major argument long made for retention of ASP is the assertion that it is a highly labor-intensive industry, though no concrete evidence has been available in support of this proposition.

According to Census data, employee costs constitute a relatively small and moreover a decreasing proportion of total costs in this industry. The ratio of total employee costs, including salaried personnel, to the value of shipments declined steadily from 19 percent in 1958 to less than 16 percent in 1966. This is substantially less than the comparable ratio for all manufacturing industries—23.3 percent. In short, labor costs appear to be relatively less important than average.

Moreover, productivity gains have exceeded labor cost increases during the same period. Despite increased hourly wages of 28.6 percent during 1958–66, the value added per wage dollar increased 29 percent, an average annual increase of 3.2 percent.

OTHER BENZENOID AREAS

I mentioned earlier that sales of benzenoid plastics and resin materials, which amounted to almost $1 billion in 1967, accounted for approximately 25 percent of the total sales of benzenoid chemicals and products in 1967. This industry, too, has registered an impressive economic performance. The value of its shipments and the value it added in manufacturing almost doubled between 1958 and 1966, its total employment increased by approximately 40 percent, total payrolls by 81 percent, and the value added per production worker by 45 percent. As is the case in the other major segments of the chemical industry, its productivity gains have also outpaced wage increases, resulting in a significant increase in value added per dollar of wages.

No Census category, it should be made clear, deals directly and only with the products covered by ASP. The results they reveal might well be somewhat different if ASP products could be isolated. However, they are the closest it is possible to come to a comprehensive view of this elusive industry. We have been unable to develop a more precise set of data and no tailor-made substitutes covering only ASP have been provided by the industry.

A detailed discussion of the comparable record in each of the other Census classifications—pesticides, medicinals and pharmaceuticals, and surface-active agents—which also produce products of benzenoid origin would provide much the same results as these illustrations. Each has experienced rapidly expanding sales, substantial productivity gains in excess of wage increases, and rising employment.

I want to make only a few more comments on the major benzenoid product areas, relying now heavily upon the production and sales data published in the annual reports of the Tariff Commission. These product categories, again, do not correspond precisely with those of the ASP provisions in our Tariff Schedules. Furthermore, many very important benzenoid chemicals are produced by only one or two producers. Data on the production and sales of such chemicals are, therefore, not separately published under the rules of confidentiality. Nevertheless, these data also come reasonably close to the full coverage of the benzenoid products subject to ASP and warrant our examination.

There, again, can be no question about the fundamental trends that these data reveal. For the industry as a whole we see an exceptional rate of growth. The average annual growth rate *averaged 8.9* percent between 1962 and *1968*. With respect to the assertedly sensitive product areas, moreover, in intermediates, dyes, and pigments, the average annual growth rates each exceeded *8* percent. In the case of benzenoid medicinals, it was *3.4* percent. *This low percentage for medicinals is largely due to the exclusion in Tariff Commission data of finished medicinals after 1965.*

BENZENOID IMPORTS

What happened to imports between 1962 and *1968*? Here, again, there are two sources of data, the results of which usually vary to some degree. As between the annual reports of the Tariff Commission and the Bureau of Census import statistics, the Commission's data appear more in point. It is the only source which subdivides benzenoid imports into those which compete and those which do not compete with American products. The Tariff Commission reports, moreover, are prepared on the basis of a detailed invoice analysis by a staff of experts thoroughly versed in the ASP nomenclature and its interpretation. In any case, regardless of the source used, the trends are clear.

Imports of intermediates, which account for *46* percent of total benzenoid imports in *1968*, were only a fraction of U.S. consumption. Despite a substantial increase between 1962 and *1968*, on a quantity basis they accounted for *less than* 1 percent, and only *3.8* percent on a value basis, of apparent U.S. consumption of benzenoid intermediates in *1968*. Even though imports were at a record level, they were still equivalent to less than one-fifth of U.S. exports of intermediate products.

However, even these figures substantially overstate this competitive impact. Nearly one-third of all imports consisted of chemicals classified by Customs as noncompetitive with U.S. production. Another significant portion of imports of intermediates comes from Canadian subsidiaries or affiliates of U.S. firms. Canada was the largest foreign supplier of benzenoid intermediates, on a quantity basis, in each of the years 1965 and 1966. It should also be noted that *a 1966* Department of Commerce survey of the subject reported that 40 percent of the total U.S. imports of chemicals and allied products from Canada were from foreign affiliates of U.S. firms. There is little reason to doubt that at least a similar proportion of the imports of benzenoid chemicals from Canada were from foreign affiliates of U.S. firms. The available evidence also suggests that still other imports of intermediates supplemented U.S. production where domestic shortages existed. In an industry that has grown as rapdily as the benzenoid industry, shortages are not an infrequent occurrence.

Data for the finished benzenoid products—as opposed to intermediates—reveal much the same record. Imports of finished products were *$68* million in *1968*, or *63* percent of all benzenoid imports. Of this total, *$42* million was classified by Customs as noncompetitive with U.S. production.

The remaining *$26* million of competitive imports was equivalent to less than 1 percent of the *$3.0* billion U.S. sales of comparable products in *1968*. Of these competitive imports, approximately *$9* million was in the area of miscellaneous products—primarily plastics and resins materials, plasticizers, surface-active agents and pesticides—where there has been no suggestion of a cometitive problem. Another *$4* million consistetd of flavor and perfume materials—still another area where import competition has not been a significant issue. Medicinals and pharmaceuticals accounted for *$12* million.

The remaining group of finished benzenoid products are dyes. Even in this area, however, competitive imports of *$11* million comprised less than 3 percent of apparent U.S. consumption in *1968*, the year in which imports reached their peak. I want to return to the situation in the dyestuff segment later.

BENZENOID EXPORTS

I would now like to turn to an area that has been virtually ignored in most previous discussions of the benzenoid product group and the ASP issue—its exports. Reliable data on U.S. exports of benzenoid chemicals are particularly difficult to obtain since the term is nowhere used in our export statistics. However, it is possible to tabulate exports of known, individual benzenoids. In addition, it is possible to make reasonable estimates of the value of other benzenoids which fall into broader export classifications. The best available estimates would indicate that U.S. exports of benzenoid chemicals and products are not negligible, but more likely exceeded *$700* million in *1968*. An amount in this neighborhood is more than 7 times the total value of all benzenoid imports and more than *13* times the total value of competitive benzenoid imports in *1968*. In short, this appears to be one of our more important export industries.

Benzenoid export data are most clearly identifiable in the area of benzenoid intermediates. In this area we find that the combined exports of product classes consisting almost exclusively of benzenoids increased from $90 million in 1962 to *$233* million *1969*. If we include the estimated exports of those benzenoid intermediates intermingled with non-benzenoids in our export statistics, total benzenoid exports would probably have amounted to approximately *$240* million in *1968*.

Turning to finished benzenoid products, in contrast to intermediates, we again find a substantial export surplus in virtually every product category. Exports of dyes exceeded imports in every year through 1965. *Since 1956 exports have been slightly less than imports.* Exports, however, were *nearly* three times greater than competitive imports. Exports of pigments have also consistently exceeded our imports. In *1968* pigment exports were *$13* million, more than *3* times greater than total pigment imports of *$4.3* million, and more than *19* times greater than competitive pigment imports of *$0.7* million.

Export data for medicinals and pharmaceuticals are more elusive. We do know, however, that our total exports of medicinals and pharmaceuticals were *$288* million in *1968* and our best estimate is that some *$80* to *$150* million of this total probably consisted of products of benzenoid origin. On the basis of the more conservative *$80* million figure, exports were nearly seven times greater than total imports of benzenoid medicinals and nearly *15* times greater than competitive imports.

A detailed product-by-product review of the other major benzenoid areas in *1968* would reveal much the same story. Exports of benzenoid pesticides were in the range of *$100* to *$150* million. Moreover, exports of plasticizers were approximately *$28* million, and exports of plastics materials were in the $75 to *$175* million range.

These data despite their limitations leave no question that we have an export surplus in benzenoid. The only issue they do not clearly resolve is whether exports exceed imports by a ratio of 4 to 1, 5 to 1, or 10 to 1.

BENZENOID LABOR FORCE

The fact that benzenoids as such occur only in U.S. tariff terminology also presented a very serious obstacle to our investigation of its labor force—a major phase of our inquiry into the probable economic effects of eliminating the ASP system. When our study began, the available data concerning the numbers of employees whose livelihood was related to benzenoids, their skills, locations, alternative employment prospects, or other essential information were confined almost entirely to Census data covering broader classifications than benzenoids alone. Earlier in my testimony, I presented data showing that even in the most labor-intensive parts of the overall chemical industry it seems clear that labor intensity is still considerably below that of most industries in the United States. Furthermore, wages in the industry are higher in the benzenoid sector than in chemicals generally and among the highest in U.S. industry groups.

However, we concluded that more data concerning the labor force in the allegedly sensitive areas had to be developed before any judgment could be made. The Tariff Commission undertook to canvass all benzenoid producers, soliciting their estimates of the numbers and portion of their total employees engaged in work involving benzenoids. This survey was conducted by mail with no opportunity for field verification of the methods of estimation and allocation. The firms estimated that their production workers totaled as many as 90,000, with

an additional 25,000 persons in research, sales, and administration involved in one way or another with benzenoids.

A thorough examination of other sources, however, strongly suggests that these company responses overestimated actual eemployment and something in the neighborhood of 60,000 persons are actually employed in the production of benzenoids. Subsequent to the Tariff Commission study, the Department of Labor conducted a further investigation into some important aspects of employment in the dye and pigment segment of this industry. In the course of this inquiry, the Department assembled additional confidential data which would be discussed with the Committee in Executive session, along with an analysis of confidential labor force information gathered from a variety of sources. We believe that such confidential information will support the conclusion that any adverse impact on employment caused by the elimination of ASP would be minimal.

CHEMICALS IN THE KENNEDY ROUND

ASP was a major issue from the very outset of the Kennedy Round. It was one of the most difficult and disruptive of all issues. Other countries insisted, as they had during the previous Dillon Round, that ASP was an extraordinarily high and unjustifiable nontariff barrier. Rightly or wrongly, it became a symbol of extreme protectionism—protectionism for an industry with no longer any semblance of need for it.

One concrete indication of the intensity of criticism of ASP was the linkage others made between their formal offers on chemicals and the removal of ASP. The EEC made its offers on the three most important, from the U.S. export point of view, areas of its chemical tariff schedule conditional upon the removal of the system. The United Kingdom and Japan also linked the maintenance of offers to reduce their tariffs upon its removal. In effect, a major U.S. industry, one of the fastest growing, one with a very substantial export surplus, and one contributing significantly to our overall trade balance was liable to be excluded from the negotiations.

In response, we stated that the TEA gave us no authority to modify ASP. The exchanges continued in Geneva until our internal examination of possible methods of dealing with ASP and their economic effects was completed. When we had decided that an offer could be made to remove the system without risking adverse consequences to the industry, we proposed that it be the subject of a separate negotiation, governed by certain strict conditions. We insisted that any negotiation on ASP would have to be separate and distinct from the regular chemical negotiation in the Kennedy Round and, secondly, that it be *ad referendum*, subject to the approval of the Congress. These conditions were to ensure that the Congress would have a full and free opportunity to judge the issue on its merits.

We also insisted that this separate negotiation be a balanced one, including both concessions for the chemical industry and significant liberalization by other countries of their nontariff barriers. Again, it was our purpose to provide the Congress with an opportunity to determine whether reciprocity had been obtained in exchange for eliminating ASP.

These results were not easily achieved. Until virtually the last week, other countries refused to separate the negotiations on ASP, and until the last hour, they refused to pay what we considered to be a fair price. In the end, we were able to achieve both a separate ASP agreement and a balance of concessions in it and in the separate, but concurrent, Kennedy Round chemical negotiation. Under the authority delegated to the President in the TEA, the results of the Kennedy Round have already begun to take effect. The first stage of five equal reductions took place last January 1; the remaining will go into effect annually on the same date and be completed in 1972.

THE TWO AGREEMENTS

At this point I would like to describe briefly these two agreements, as well as some of the reasons why we concluded that they were both in the interests of the United States. I will, of course, be glad to answer any questions about them later.

A judgment that reciprocity has or has not been achieved in a trade negotiation involves a great many separate considerations. In the first instance, it involves a judgment that there has been a fair and balanced exchange of new trade opportunities. The negotiator can only seek new opportunities and value them with the facts at hand; he cannot ensure that all of the subsequent ac-

tions necessary to take advantage of those new opportunities will be taken or that trade will actually occur. Nor can he obviously take into account all of the future imponderables and unforeseen events.

Practically, he must make a judgment based on both quantitative and qualitative factors. It is necessarily a judgment based in the first instance on a composite of the nature and volume of trade subject to a concession, the depth of the concession, and an evaluation of the potential thereby created for future growth of trade. Combining these and all the many related factors into judgment of future opportunities, the United States negotiated a balanced exchange with each major participant in the Kennedy Round, while we still retain ASP. Moreover, should the Congress approve this bill, we shall obtain significant concessions and new trade opportunities, both for the chemical and for other industries.

THE KENNEDY ROUND CONCESSIONS

The major concessions in the Kennedy Round were the following:

1. The United States undertook to make only 20% cuts on most low-duty chemicals.
2. It excepted from any reduction certain other chemicals.
3. It agreed to reduce by 50% over five equal stages the duties on all other chemicals.
4. It retained the ASP system of valuation for benzenoid chemicals.

These concessions averaged out to a 43% cut on $325 million of our imports in the base year, 1964.

The European Community agreed in the Kennedy Round to:

1. Less than 50% reductions, ranging between 10% and 40%, on some chemicals, and no reductions on three chemicals.
2. 30% reductions on chemicals with duties of 25% or higher.
3. 35% reductions on chemicals for which Switzerland is its principal supplier.
4. 20% reductions on most other items.

These concessions averaged out to a 20% cut on $465 million of imports from the United States in the base year.

The United Kingdom agreed in the Kennedy Round to:

1. Partial or no reductions on a limited number of chemicals, including certain of its domestic revenue duties.
2. No reductions on most plastics, products which now generally have 10% or lower rates.
3. 30% reductions on chemicals with duties of 25% or higher.
4. 20% reductions on all other chemicals.

These concessions averaged out to a 25% reduction on $110 million of imports from the United States in the base year.

Switzerland and Japan agreed to make their entire reductions in the Kennedy Round. Together with the United Kingdom and the EEC, the average cut of these countries on imports in the base year will be about 26% on $890 million of imports from the United States. The remaining countries did not participate in the separate ASP negotiation and their entire reductions will take place as specified in the Kennedy Round agreement.

THE ASP CONCESSIONS

Under the separate ASP agreement, the United States agreed conditionally to:

1. Convert duties based on ASP to normal bases of valuation.
2. Reduce by a further 30% the low duty items cut by only 20% in the Kennedy Round.
3. Further reduce certain chemical duties to rates which on the basis of 1964 trade would average 20% but are not limited to that level.
4. Establish duties of more than 25% for sulfa drugs and 30% for dyes and pigments.

The average U.S. reduction would be five percent, or a total of 48% in both agreement combined.

The European Community undertook in the ASP agreement to:

1. Reduce by a further 30% on all items, except those for which only partial or no reductions were made in the Kennedy Round. The average reduction would be 26%, or a combined total of 46% in both agreements.
2. Modify its road tax system to eliminate discrimination against American automobiles.

The United Kingdom undertook in the ASP agreement to:

1. Reduce duties on plastics, where necessary, to the level of European Community duties on plastics, and bind all duties on plastics.

2. Reduce by a further 30% on all items cut by 20% in the Kennedy Round.

3. Further reduce by varying percentages duties of 25% or higher to bring them to a level of 12.5%.

4. Te average reduction would be 22%, for a combined reduction of 47% in both agreements. They would also reduce the preferential tariff margin on tobacco imports.

Switzerland agreed to modify its regulations on canned fruit imports when the ASP agreement becomes effective. Its average tariff cut would be 49%, while that of Japan would be 44%. In short, all major participants agreed to make about the same average overall percentage reduction in their chemical tariffs.

Looking at the Kennedy Round separately, while the United States agreed to a deeper cut, on the average 43% as compared to a combined 26% concession by the other participants in the ASP negotiation, its offers involve only $440 million of imports—adjusted to a c.i.f. basis as were all U.S. offers—from all sources, of which $330 million came from participants in the ASP agreement. In return it obtained reductions on $890 million of its exports, while still retaining ASP protection.

If these offers are adjusted according to their deviation from the linear, 50% rule of the negotiations and then weighted by the imports involved in each offer, the U.S. offer was worth $288 million, that of other countries $463 million, with a balance of $175 million in our favor in the Kennedy Round. For the ASP package, the same arithmetic of combining both depth of cut and trade coverage would calculate that the U.S. offer is $26 million plus the elimination of ASP, while the offer of others totals $333 million, plus their nontariff barrier concessions.

In both agreements combined, the U.S. tariff offer totals $314 million on a 50% equivalent basis, while the offer of others is $796 million and our advantage is $482 million. In short, there is a positive balance for U.S. trade in both agreements separately, even more when they are combined. This balance, by the way, holds separately for our bilateral trade with each of the major participants as well, and in each of the two agreements. The full benefits of the Kennedy Round, moreover, would even be somewhat greater if concessions from all other participating countries were included.

ASSESSMENT OF BOTH AGREEMENTS

I do not wish to dwell long on summary numbers. Our judgments, as I've said, also relied heavily upon all of the qualitative factors we could assemble. We also gave significant weight to such considerations as these:

1. We gained important concessions and accepted very few exceptions in the areas significant for future trade. The basket rates, where the products of our industry's massive research and development effort will largely be classified for duty purposes in the future, will be substantially reduced. We fought long and hard for these concessions; in so dynamic an industry as this no one can predict the nature of tomorrow's products. The "all other" category in a chemical tariff schedule is the key to much of our future success.

2. Foreign tariffs on other rapidly growing U.S. chemical exports will also be drastically reduced, while exceptions or concessions of less than 50% by others will not adversely affect our future trade to any substantial degree. The concessions obtained are particularly significant in plastics. U.K. and EEC tariffs in this key area will almost all be 10% or less when the ASP package becomes effective. A 30% cut on one minor EEC item is the only major exception to a linear reduction by the EEC. Assuming the ASP package is implemented, the presently unbound U.K. plastics rates will not be raised to prevent CXT levels, as was the prospect, but bound at the halved CXT levels. In 1964 U.S. plastics exports to the U.K. and the EEC alone were $145 million.

3. The U.K. will also make very substantial reductions on rates on organic chemicals. U.S. exports in 1964 in this category were $50 million, largely at rates of 33⅓%. The U.K. will unconditionally cut these duties 30% in the Kennedy Round and the remainder in the ASP package so that no rate will remain above 12.5%. The cuts from the 33⅓ level will average 62%.

4. Chemical tariffs in the major U.S. export markets will uniformly be reduced to extremely low levels and should provide a very considerable opportunity for both increased export sales or greater profits in exporting. With relatively few

exceptions, there will be no EEC or U.K. rate above 12.5% and most EEC rates will be well below this level. Most Japanese duties will be below 15%, the principal exceptions being cosmetics and film which happen to fall in the chemical tariff schedule. The highest Canadian rate will be 17.5% and the bulk of Canadian duties will be substantially lower. U.S. duties in potentially sensitive areas, however, will remain substantially above comparative rates in other countries.

5. For example, dyestuff tariffs in the EEC will be 10%, and in the U.K. 15%, compared to the proposed U.S. rate of 30%. This should benefit the U.S. dye industry, already a significant exporter.

6. The exceptions taken by other countries, which bring their average depth of cut slightly below that of the U.S., should not affect U.S. exports significantly. U.S. exceptions, on the other hand, are generally of significant export interest to other countries.

A major negotiating objective, and the subject of many days of discussion, was to eliminate exceptions or improve offers in which U.S. chemical firms had indicated an export interest. Even most EEC exceptions, moreover, are actually partial concessions, ranging from reductions of 26% to 34% on items where there is any U.S. export interest. U.K. exceptions of interest to the U.S. industry are generally either revenue duties already at very low rates, or are, in effect, refusals to bind chemicals now duty-free.

7. Careful treatment was accorded the significant basket categories in U.S. concessions. Only one was reduced by almost as much as 50%, the intermediates basket where it was considered the industry would not be adversely affected. Partial reductions were made in all others to levels where adequate protection will still be afforded.

8. Where it is proposed that U.S. rates would be reduced to a level of approximately 20 percent, the recommended rates, in fact, provide a floor for tariff protection. The rates were derived from average duties obtained in 1964 trade. Any future imports at low unit values will be provided with effective protection at higher levels through the continuation of the specific duties in the U.S. tariff schedule. I shall return to this crucial point later.

OTHER ASPECTS OF ASP AGREEMENT

I want now to comment briefly on a few other aspects of the ASP Agreement. In our efforts to achieve a settlement satisfactory to all participants, we examined all chemical tariffs, here and abroad. We found, among other things, that even after 50 percent reductions, some U.S. chemical tariffs would still remain exceedingly high. This is usually the result of a given specific duty, applying to a product now selling at a very low unit value. The specific rate has the effect in some cases of producing fairly astronomical effective tariffs, a characteristic of our tariff schedule which frequently provides relatively greater protection for the lower priced commodities.

With other countries proposing significant reductions in their own, often much lower rates, it was objected that a proportional cut by the U.S. would in such instances not be fully reciprocal. We examined all available evidence on these products and concluded that no adverse effect would result from the additional reduction—often a few percentage points—necessary to bring them to a 20 percent average. Most of them, in fact, were products in which we are net exporters, or in which little trade existed. They include some intermediate chemicals, usually large volume items with little or no imports, some pesticides, a few photographic chemicals, some drugs, and perfumes and flavorings.

Another point which I should comment upon briefly is the alteration we made in the tariff structure for dyes which the Tariff Commission recommended. The Commission converted literally each existing dye category to its equivalent, as well as subdividing those with multiple products and, of course, subdividing the basket into 10 new categories. The result was a great many proposed new tariff categories, with a very wide range of rates. Their rates vary essentially depending on the differences between each pair or group of American and foreign dye prices in 1964.

A tariff structure such as this would present, as does the present one to a more limited extent, inevitable possibilities for rate evasion. By minor alterations in the product, a producer can readily reduce his duty, shifting it to a lower rate bracket within the dye schedule. Opportunities for such manipulation and for unpredictable, differential treatment of products—all quite unrelated to the economics of dye production and trade—should be avoided. Rather than continue

an even more complicated version of the present system, we recommend a single rate for all dyes. At the 30% rate we propose this will involve some marginal increases and some decreases greater than 50%, but as I will explain later, we believe this will provide adequate protection for this segment of the industry, while eliminating manipulative possibilities.

THE ECONOMIC EFFECTS OF THE ASP AGREEMENT

A full assessment of the economic effects of the ASP agreement encompasses a great range of facts and judgments, far more than our time today will permit. For the present, let me limit my comments to the areas of the benzenoid industry which, it is claimed, would be most affected by the elimination of ASP. Our economic judgment of the probably effects in these areas relied heavily upon the confidential business data available to us, but there are some points which I can make which would not disclose information from these sources.

BENZENOID INTERMEDIATES

As the name implies, intermediates are the "way-stations" between the original raw materials—petroleum, natural gas, or coal-tar crudes—and the production of dyes, drugs, synthetic rubbers, pesticides, and plastics, as well as other far more advanced items, such as fibers, wherein the benzenoid origins can be sompletely submerged. Of the five controversial areas in the benzenoid industry, it was our judgment that the intermediates provide the basis for the least concern. Their sales are rising rapidly and now exceed $1 billion annually, or roughly one-third of all sales subject to ASP. About half of all production, moreover, is used captively by the producing firms themselves in the manufacture of more advanced chemicals and do not reach the open market. The magnitude of this sector, hence, is far greater than it appears.

The overwhelming preponderance of intermediates, moreover, is manufactured by only five of the more than 200 companies in the field. The hundred or more small companies involved in the production of the intermediates are usually to be found in competition with one or more of the major producers. For them the threat of domestic competition is more substantial and immediate than any possible threat from imports.

The bulk of total production of intermediates is in large-volume, low-unit-value chemicals. The Tariff Commission reported that the average unit value of all intermediates produced in the U.S. in *1967* was only *11* cents per pound. Prior to the Kennedy Round all of the large-volume intermediates were protected by compound duties which, in addition to a protective ad valorem element, had a specific component ranging from 2.4 to 3.5 cents per pound, a very substantial tariff, in and of itself, on a *11*-cent item. Such protection is still substantial after a 50 percent cut. Since these chemicals are basic for a wide variety of advanced products such as dyes, drugs, and plastics, competitive prices are important to the whole of the U.S. chemical industry.

I can present no more graphic picture to you than that provided by a table we are submitting for the record. This table presents, for a representative "baker's dozen" of the largest-volume intermediates produced, a comparison of the U.S. and EEC tariff rates as provided for in the ASP agreement. This table indicates that U.S. rates will still be considerably higher than those of the European Community, if the Bill is approved, and that the smallest spread between them is 11 percentage points over an 8 or 9 percent EEC rate. For cyclohexane the spread is as much as 53.5 percentage points. Moreover, imports of all of these 13 intermediates usually occur only in periods of domestic scarcity. Their exports, on the other hand, have usually represented more than 15 percent of U.S. sales.

Prior to the Kennedy Round the weighted average duty for all U.S. dutiable chemical imports was almost 16 percent. It will be almost 9 percent after implementation of the agreement before you. Intermediates, on the other hand, with only very limited exceptions will be subject to duties which start at a level of over 18 percent and will rise in many cases to considerably higher levels.

Imports of all intermediates, both competitive and noncompetitive, have grown from *$13* million in *1962* to *$49* million in *1968. Such exports reached* a high of *3.0* percent of sales in *1968.*

Approximately a third of intermediate imports are not competitive with U.S. production. In addition large volumes of intermediates are imported for produc-

tion of such advanced products as medicinals, drugs, and fibers, which are then exported with attendant drawback of the duties paid on the original importation.

An estimated 17,000 workers are employed in intermediates in production, sales, and management. All but a thousand of these are employed by the 25 largest firms, all large, diversified American corporations.

The high concentration of intermediate production, most of which is captive, in a small number of large diversified corporations, and the substantial tariff protection which will remain under the proposed compound rates, contribute to our conclusion that any necessary adjustment can easily be made by the large U.S. producers. Any possible threat to the small producers will more probably be found in competition with one or more of the major companies.

In short, there are basically two reasons why we believe the elimination of ASP will not have an injurious impact on the intermediate sector. First, the sector is strongly export-oriented. In *1969* exports were worth more than *$230* million and accounted for *over* 15 percent of domestic sales. Second, the new rates of duty will afford substantial tariff protection for this healthy sector. These rates will begin at approximately 20 percent and will in many cases be considerably higher by operation of the specific component.

BENZENOID DYES

Of the five controversial benzenoid areas, the greatest attention and the strongest defense of the ASP system have traditionally been devoted to dyes. The converted dye rates of duty have also attracted the most attention abroad, since they range up to a peak of 172 percent.

The dye industry's average annual increase in sales since 1962 has been over *8* percent, well above the national average. In *1968* its sales increased *11.5* percent. There is every indication that its long-term growth trend will continue.

Exports have nearly doubled since 1958. Until 1966 imports were also less than exports. The reversal of the pattern in 1966 was in large measure due to heightened domestic economic activity that year. More than two-thirds of our dye imports in *1968* were classified by Customs as not competitive with U.S. production.

About 7,000 workers are directly engaged in production, with another 1,800 associated with sales, administration, and related activities. Employment has grown and the skills involved in dye making are currently in short supply. Much of the work force in a dye plant typically involves unskilled labor which should have good alternative prospects in the areas where they are currently employed, should any adjustment ever become necessary for some of the smaller firms.

The bulk of U.S. dye production and sales is made by a few firms. Of the 35 production companies, *in 1964* (or divisions of larger companies), four make half of total sales and 10 account for 75 percent. Twelve of the 35 are large, integrated chemical producers and only the smallest companies are significantly dependent upon dyes for their revenues. They frequently provide unique custom services, standby technical assistance, have patent and trademark rights, specialize in low volume products not attractive to larger firms, or benefit from other advantages which tend to insulate them from foreign competition. If the Committee wishes, details on each of these firms can be supplied in Executive Session.

In short, the dye industry overall is strong and growing. Its sales are rising, its exports are substantial, and the ratio of imports to consumption is low. We see no reason why this sector cannot adjust to the elimination of ASP.

BENZENOID PIGMENTS

The pigment sector of the industry is also strong and has an equally good record of growth. Its total sales have grown *8* percent per year on the average since 1962. Pigment production, too, is heavily concentrated in a few firms. One firm (*in 1964*) has 25 percent of the market and 10 firms have 85 percent. The remaining firms all have sales of less than $1 million.

Over 80 percent of imports have been noncompetitive and have complemented rather than competed with domestic products. In *1968* they were *$4.3* million, while exports were *$13.0* million and sales totaled *$120* million. Total imports amounted to only *3.9* percent of U.S. consumption. Many producers also have a substantial business in inorganic pigments which are not subject to ASP. Total employment of possibly as much as 3,000 in 1964 has apparently since grown along with the substantial growth in sales.

The large firms, which provide the great bulk of production and employment and for which pigments are generally a small fraction of their total business, have the resources and skills to adjust both plant and labor forces to any increased competition. The skills involved, as in the case of dyes, are in short supply.

The smaller firms are similar in many ways to those in the dye industry. They usually enjoy advantages of close relationships with major customers for whom they often provide quasi-captive services. In the unlikely event that import competition should prove to be too great, their less than an estimated 200 employees, in widely scattered locations, should have good chances of alternative employment. Again, as in the case of dyes, we are prepared to discuss our information on each of the small producers in detail in Executive Session.

In short, the Bill before the Committee should cause no significant problems for the pigment sector. A 30 percent duty will provide ample protection, especially in the light of the structure of the industry and its strong export surplus position.

BENZENOID AZOICS

The smallest of the controversial benzenoid groups is the azoic industry, which makes brilliant dyes and their ingredients. Total sales of the industry approached only $9 million in 1968. Its employees are probably less than an estimated 300. Azoic products have not experienced a growth in demand compared to that of virtually all other benzenoid chemicals. This is in large part the result of the development of other dyes, rather than imports. Producers, worldwide, are faced with the same prospect and are turning to other products.

Many of the larger companies have already abandoned this product line and the few smaller firms which are responsible for most of U.S. production are either in the process of diversifying or of merging with other companies in other lines of production, frequently non-chemical.

The production of one major azoic has been found to be harmful and its production has been outlawed by several of the states where it was formerly produced. Imports of this azoic have increased as U.S. firms have abandoned its production. The other principal source of import competition is an azoic whose use has steadily declined and which is now produced in small quantities by only one remaining company.

In spite of a recent increase to almost a third of consumption, imports, all told, do not appear to have contributed to any of the difficulties faced by the remaining producers. The ASP agreement should not appreciably increase their problems nor slow the process of adjustment and diversification, now well underway.

MEDICINALS

Benzenoid medicinals are those grades of benzenoid chemicals which are of adequate quality to serve as therapeutic agents for human or veterinary use and for animal feed supplements.

Viewed either in terms of production or sales, the medicinal sector of the benzenoid industry is dominated by a few large-volume products and by large corporations. Aspirin, salicylic acid, and sulfa drugs consistently make up *a large percentage* of the total quantity of U.S. production. Nine major drug corporations are responsible for approximately 70 percent of the manufacture of the bulk medicinals included in this category. Approximately 70 other companies produce the remainder. Sales are even more heavily concentrated among the larger companies.

U.S. production of bulk medicinals has more than doubled in the last 10 years. An outstanding instance of growth over the same time span has been the quadrupling of the production of penicillin.

Imports, which include dosages as well as the bulk medicinals (production data are confined to bulk products) were *about 6 percent* of consumption in *1968*. Exports are estimated to be running at a consistent level of *about* 10 times the amount of imports.

Most production is in items which ,if imported, would enter under the basket tariff classification. The converted rate proposed for this basket by the Tariff Commission is 25 percent. The Bill before you proposes only a five percent reduction in this rate. For sulpha drugs, the Bill provides a compound duty which will provide protection in excess of 25 percent. The record of performance in the U.S. drug industry, including its profitability, indicates that it is clearly able to continue to grow and meet competition.

CONCLUSION

These, then, are the assertedly critical areas of the benzenoid sector—complex in range of products and diverse in its ways of doing business. But the salient facts, we believe, speak for themselves. It is a strong and growing ten percent segment of a much larger, perhaps even stronger industry—one of America's foremost industrial achievements. It has a proven record of ability to compete, and there is no reason to forecast any different prospect for the future.

The elimination of ASP will not have any significant adverse impact. To the countrary, under the tariff structure and the level of rates proposed in the Trade Bill, both here and those which others will put in effect if the Bill is approved, the benzenoid industry has every prospect of further increasing its export surplus.

The Bill will also provide new export opportunities for the even greater range of other chemical products. These will benefit from very substantial tariff reductions in some of their largest and fastest growing markets. In short, it is the chemical industry itself which stands to be a major beneficiary of this legislation.

Neither negotiation of the Agreement nor enactment of the Bill of course, can ensure that new opportunities will become new business. There can be little doubt that the larger, integrated and diversified firms in this industry have the resources, research base, and managerial competence to adjust to new competition and capitalize on new market opportunities—to develop and diversify into the never ending stream of new chemical products, to rationalize, and to shift or re-employ any displaced employees.

Some of the smaller firms may, in all candor, face somewhat greater problems. So long as the lofty and flexible protection of ASP existed, there was little incentive for these few firms to modernize or keep abreast of technological and other developments or to rationalize and consolidate product lines, or to abandon obsolete, depreciated facilities.

On the other hand, many of these smaller firms have been among the more prosperous in the industry, filling in key gaps in product lines where low volumes were unattractive to the larger firms, or making specialty products with unique know-how and specialized facilities. Others have been, in effect, adjuncts of their major customers, providing virtually capitive or in-house services. Still others are subsidiaries or divisions of major American corporations.

Because of their potentially greater vulnerability to foreign competition we studied the operations of these smaller firms as intensively as we could. I have made no attempt today to summarize all of the facts and insights we obtained, on a company-by-company basis, or area-by-area. Most of it is confidential and could only be reviewed with you in Executive Session. I would not attempt to mislead you with the judgment that no adjustments will be required in this industry, but I believe I can demonstrate to you on the basis of the facts that they will, despite all that we have so long heard about this segment, be surprisingly minimal, and that the adjustment assistance provisions proposed in this Bill will be adequate.

Let me turn briefly now to some of the other benefits. Again, while the negotiator can not ensure that lower tariffs will mean any lower prices—and the record in chemicals of past reductions is certainly a mixed one in this regard—removal of the excessive protection ASP has long provided should give promise of some benefits to the farmers who need the pesticides, fungicides, herbicides, feed additives, and animal medicines—all derived from benzenoids. All consumers of synthetic rubber products, paint, plastics, gasoline additives, synethetic fibers, food flavors and additives, detergents, medicinals, and the wide range of other final products into which benzenoids are blended should benefit.

The automobile industry has long had a legitimate complaint against the discriminatory road tax systems in the EEC and these will be removed. Our tobacco industry should be able to expand its already $115 million export business to the United Kingdom.

We also recognize that our analysis would be unlikely to persuade those who have enjoyed such special treatment for so long. We recognize that a person would be loath to give up such formidable, highly effective insulation from competition. We believe it is in the national interest to eliminate the ASP system as proposed in the Bill.

Mr. Chairman, we have prepared a number of tables upon which many of my comments have been based. I should like the Committee's permission to insert these in the record following my remarks.

TABLE 1.—CHEMICALS AND ALLIED PRODUCTS—U.S. SHIPMENTS, EXPORTS, IMPORTS, AND APPARENT CONSUMPTION, 1962-69

[Dollar amounts in millions]

	Shipments	Exports	Imports			Apparent consumption	Percent imports of apparent consumption
			Total	Free	Dutiable		
1962	$29,273	$1,877	$758	$500	$258	$28,154	2.7
1963	31,778	2,009	700	427	273	30,469	2.3
1964	34,261	2,364	703	366	337	32,600	2.2
1965	37,477	2,402	769	361	408	35,844	2.1
1966	40,797	2,675	955	411	544	39,077	2.4
1967	42,347	2,802	958	420	538	40,503	2.4
1968	46,465	3,287	1,129	482	644	44,407	2.5
1969	48,698	3,383	1,232	513	718	46,547	2.6

Source: Department of Commerce.

TABLE 2.—BENZENOID CHEMICALS—SHIPMENTS, ESTIMATED EXPORTS, IMPORTS BY COMPETITIVE STATES, AND APPARENT CONSUMPTION, 1965-68

[Dollar amounts in millions]

	Shipments	Exports [1]	Imports [2]			Apparent consumption	Percent total imports of consumption
			Total	Competitive	Other		
1962	$2,564	(3)	$39	$18	$21	(3)	(3)
1963	2,729	(3)	44	21	23	(3)	(3)
1964	2,950	(3)	49	23	26	(3)	(3)
1965	[4] 3,190	$495	65	31	34	$2,760	2.4
1966	3,608	548	88	46	42	3,148	2.8
1967	3,913	620	83	43	40	3,376	2.5
1968	4,266	734	107	53	54	3,639	2.9

[1] Estimated.
[2] Imports data prior to 1965 are understated because of a change in the method of reporting.
[3] Not available.
[4] Shipment data prior to 1965, not strictly comparable with later data due to the exclusion of finished medicinal preparations after that year.

Sources: Department of Commerce, Tariff Commission.

TABLE 3.—INTERMEDIATES—PRODUCTION, SALES, EXPORTS, IMPORTS BY COMPETITIVE STATUS, AND APPARENT CONSUMPTION, 1962–69

Year	Production	Sales	Exports	Imports[1]			Apparent consumption	Percent total imports of consumption
				Total	Competitive	Other		
Millions of pounds:								
1962	12,109	4,675	576	20	15	5	11,553	0.2
1963	13,576	5,555	725	28	22	6	12,879	.2
1964	15,832	6,562	1,332	19	16	3	14,579	.1
1965	17,601	7,505	1,797	38	34	4	15,842	.2
1966	20,113	8,722	1,702	69	57	12	18,480	.4
1967	20,871	9,169	2,091	72	51	21	18,852	.4
1968	23,943	10,394	2,545	71	54	17	21,469	.3
1969[1]	27,486	11,933	2,651	91	(3)	(3)	24,926	.4
Millions of dollars:								
1962		795	90	13	8	5	718	1.8
1963		834	98	15	9	6	751	2.0
1964		920	140	14	9	5	794	1.8
1965		1,008	159	19	14	5	868	2.2
1966		1,122	164	31	22	9	989	3.1
1967		1,185	179	28	19	9	1,034	2.7
1968		1,288	226	39	27	11	1,101	3.5
1969[2]		1,478	233	49	(3)	(3)	1,294	3.8

[1] Import data prior to 1965 are understated because of a change in the method of reporting.
[2] Estimated.
[3] Not available.

Source: U.S. Department of Commerce; Tariff Commission.

TABLE 4.—DYES AND AZOICS—PRODUCTION, SALES, EXPORTS, IMPORTS BY COMPETITIVE STATUS, AND APPARENT CONSUMPTION. 1962–68

Year	Production	Sales	Exports	Imports [1]			Apparent consumption	Percent total imports of consumption
				Total	Competitive	Other		
Millions of pounds:								
1962	188.9	178.0	11.3	6.5	3.1	3.5	184.1	3.5
1963	204.0	187.0	12.9	8.9	5.0	3.9	200.0	4.5
1964	184.4	178.3	14.2	10.1	5.6	4.5	180.3	5.6
1965	207.2	190.0	18.7	12.3	6.1	6.2	200.8	6.1
1966	219.2	204.1	17.3	13.7	6.2	7.5	215.6	6.4
1967	206.2	198.6	13.8	12.8	6.4	6.4	205.2	6.2
1968	226.5	214.7	15.9	19.1	9.4	9.7	229.7	8.3
Millions of dollars:								
1962		227.2	20.9	12.4	4.3	8.1	218.7	5.7
1963		239.7	23.7	12.7	4.4	8.3	228.7	5.5
1964		264.0	26.6	16.3	5.3	11.0	253.7	6.4
1965		292.3	23.4	20.5	5.9	14.6	289.4	7.1
1966		331.5	25.4	25.8	8.2	17.6	331.9	7.8
1967		332.0	21.9	23.4	7.9	15.4	333.5	7.0
1968		370.2	22.9	33.7	11.0	22.7	381.0	8.8

[1] Import data prior to 1965 are understated because of a change in the mehod of reporting.

Source: U.S. Department of Commerce; Tariff Commission.

TABLE 5.—PIGMENTS—U.S. PRODUCTION, SALES, EXPORTS, IMPORTS BY COMPETITIVE STATUS, AND APPARENT CONSUMPTION, 1962–68

Year	Production	Sales	Exports	Imports[1]			Apparent consumption	Percent, total imports of consumption
				Total	Competitive	Other		
Millions of pounds:								
1962	37.2	31.6	2.5	0.4	0.1	0.3	35.1	1.1
1963	39.4	33.5	2.5	.4	.2	.2	37.3	1.1
1964	44.1	35.1	2.8	.7	.3	.4	42.0	1.7
1965	48.1	38.0	4.1	.8	.2	.6	44.8	1.8
1966	51.1	43.3	4.7	1.0	.2	.8	46.5	2.2
1967	53.3	42.9	5.6	1.5	.4	1.1	49.2	3.0
1968	53.7	45.8	7.3	2.0	.5	1.5	48.4	4.1
Millions of dollars:								
1962		74.3	5.7	1.1	0.4	0.7	69.7	1.5
1963		79.6	5.9	.6	.2	.4	74.3	.8
1964		84.1	6.7	1.1	.2	.9	78.6	1.4
1965		96.3	8.0	1.5	.3	1.2	87.2	1.7
1966		107.6	9.3	1.7	.4	1.5	100.0	1.7
1967		108.4	10.0	2.9	.7	2.2	101.3	2.9
1968		119.9	13.0	4.3	.7	3.6	111.2	3.9

[1] Import data prior to 1965 understated because of a change in the reporting method.

Source: U.S. Department of Commerce; Tariff Commission.

TABLE 6.—MEDICINALS—PRODUCTION, SALES, EXPORTS, IMPORTS BY COMPETITIVE STATUS, AND APPARENT CONSUMPTION, 1968

Year	Production	Sales	Exports[1]	Imports[2]			Apparent consumption	Percent, total imports of consumption
				Total	Competitive	Other		
Millions of pounds:								
1962	72.7	[1] 56.6		3.0	2.5	0.5		
1963	78.0	[1] 61.4		3.0	2.5	.5		
1964	79.6	63.1		3.1	2.7	.4		
1965	84.7	[3] 61.0		3.4	2.8	.6		
1966	97.9	63.7		4.7	3.9	.8		
1967	91.7	58.3		4.6	3.6	1.0		
1968	95.4	64.9		4.1	3.3	.8		
Millions of dollars:								
1962		[1] 242.0	75.0	8.8	3.0	5.8	175.8	5.0
1963		[1] 271.2	70.0	10.1	3.5	6.6	211.3	4.8
1964		281.6	72.6	9.8	3.0	6.8	218.8	4.5
1965		[3] 224.2	91.6	12.6	3.4	9.2	145.2	8.7
1966		269.8	81.3	10.9	4.1	6.8	199.4	5.5
1967		263.7	93.2	11.9	5.4	6.5	182.4	6.5
1968		296.3	107.4	11.7	4.8	6.9	200.6	5.8

[1] Estimated.
[2] Import data prior to 1965 are understated because of a change in the method of reporting.
[3] Sales data prior to 1965 not strictly comparable with later data due to the exclusion of finished benzenoid medicinal preparations after that year.

Sources: Exports: U.S. Department of Commerce. All other: Tariff U.S. Commission.

TABLE 7.—OTHER BENZENOID PRODUCTS [1]—U.S. SHIPMENTS, EXPORTS, IMPORTS, AND APPARENT CONSUMPTION 1962–68

[Millions of dollars]

	Shipments [2]	Exports [2]	Imports [3]			Apparent consumption	Percent total imports of consumption
			Total	Competitive	Other		
1962	$1,226	(4)	$4.0	$2.9	$1.1	(4)	(4)
1963	1,305	(4)	4.9	3.8	1.1	(4)	(4)
1964	1,400	(4)	7.5	5.0	2.5	(4)	(4)
1965	1,572	$213	10.9	7.2	3.7	$1,370	.8
1966	1,777	268	18.4	11.9	6.5	1,527	1.2
1967	2,024	316	16.1	10.3	5.8	1,724	.9
1968	2,192	365	18.7	8.9	9.8	1,846	1.0

[1] Includes all benzenoid products subject to ASP except dyes, azoics, pigments, medicinals, and intermediates.
[2] Estimated.
[3] Import data prior to 1965 are not strictly comparable with data after that date due to a change in the method of reporting
[4] Not available.

Source: Tariff Commission; Department of Commerce.

TABLE 8.—COMPARISON OF UNITED STATES AND EEC TARIFF RATES FOR LARGE-VOLUME BENZENOID INTERMEDIATES

TSUS No.	Intermediate	Pre-KR statutory rate	ASP package rate	Representative unit value (cents per pound)	Ad valorem equivalent ASP package rate (percent)	EEC tariff rate under ASP agreement (percent)
403.08	Phthalic anhydride	2.4 cents per pound + 14 percent ad valorem	1.2 cents per pound + 7 percent ad valorem	$0.09	20.3	9.0
403.10	Styrene	2.8 cents per pound + 18 percent ad valorem	1.4 cents per pound + 8 percent ad valorem	.08	25.5	4.0
403.40	Phenol	3 cents per pound + 17 percent ad valorem	1.5 cents per pound + 12 percent ad valorem	.10	27.0	2.0
403.60	Ethylbenzene	3.5 cents per pound + 25 percent ad valorem	1.5 cents per pound + 18 percent ad valorem	.04	55.5	4.0
403.60	Monochlorobenzene	do	do	.06	43.0	9.0
403.60	Dodecylbenzene	do	do	.10	33.0	6.5
403.60	Nitrobenzene	do	do	.09	34.7	8.0
403.60	Dimethylterephthalate	do	do	.21	25.1	7.0
403.60	Aniline	do	do	.12	30.5	8.0
403.75	Hexamethyleneadipimide	3 cents per pound + 20 percent ad valorem	1.5 cents per pound + 15 percent ad valorem	.30	20.0	9.0
403.80	1, 6-Hexanediamine	3.5 cents per pound + 25 percent ad valorem	1.5 cents per pound + 16 percent ad valorem	.54	19.0	8.0
403.80	Adipic acid	do	do	.22	23.1	8.5
403.80	Cyclohexane	do	do	.04	53.5	0

Source: Supplementary agreement relating principally to chemicals.c

TABLE 9.—U.S. CHEMICAL EXPORTS, IMPORTS, AND TRADE BALANCE BY PRINCIPAL DESTINATION AND SOURCE, 1961-69

[In millions of dollars]

SITC section	Imports from—					Exports to—					Balance				
	World	EEC	EFTA	Canada	Japan	World	EEC	EFTA	Canada	Japan	World	EEC	EFTA	Canada	Japan
5 All chemicals:															
1961	732	135	68	323	20	1,789	405	171	281	152	+1,057	+270	+103	−42	+132
1962	766	146	78	300	24	1,876	410	183	289	130	+1,110	+264	+105	−11	+106
1963	714	159	82	241	33	2,009	412	203	301	157	+1,295	+253	+121	+60	+124
1964	707	183	95	192	38	2,364	540	255	334	193	+1,657	+357	+160	+142	+155
1965	778	199	106	221	45	2,402	555	265	382	148	+1,624	+356	+159	+161	+103
1966	942	263	139	253	69	2,676	596	272	411	181	+1.734	+333	+133	+158	+112
1967	963	261	127	270	70	2,803	593	266	421	227	+1,840	+332	+139	+151	+157
1968	1,135	331	163	292	91	3,289	754	343	462	247	+2,154	+423	+180	+170	+156
1969[1]	1,232	331	186	310	121	3,383	828	324	510	304	+2,151	+497	+138	+200	+183

512 Organic chemicals:															
1961	58	24	9	10	3	379	132	39	55	38	+321	+108	+30	+45	+35
1962	73	37	13	10	5	403	139	42	54	34	+330	+102	+29	+44	+29
1963	94	41	21	14	10	481	173	48	58	52	+387	+132	+27	+44	+42
1964	127	49	29	24	12	425	196	38	44	52	+298	+147	+9	+20	+40
1965	161	64	33	32	17	669	237	68	81	41	+508	+173	+35	+49	+24
1966	220	87	45	31	31	691	219	66	82	49	+471	+132	+21	+51	+18
1967	219	87	34	38	29	748	217	72	85	65	+529	+130	+38	+47	+36
1968	281	123	50	42	40	850	266	85	95	54	+569	+143	+35	+53	+14
1969 [1]	314	126	63	42	57	905	315	81	101	67	+591	+189	+18	+59	+10
413 Inorganic chemicals:															
514 1961	403	24	14	243	9	223	48	24	45	13	−180	+24	+10	−198	+4
515 1962	496	29	14	209	10	221	47	26	44	10	−275	+18	+12	−165	0
1963	307	150	27	12	12	269	72	29	50	17	−38	−78	+2	+38	+5
1964	254	29	8	88	13	219	44	31	43	9	−35	+15	+23	−45	−4
1965	219	29	11	77	14	300	75	37	64	12	+81	+46	+26	−13	−2
1966	247	43	17	79	18	330	92	34	72	15	+83	+49	+17	−7	−3
1967	232	41	12	65	14	350	78	29	72	18	+118	+37	+17	+7	+4
1968	269	43	16	75	16	392	70	59	74	24	+123	+27	+43	−1	+8
1969 [1]	331	43	19	99	22	373	96	38	97	62	+42	+53	+19	−2	+40
531 Synthetic dyestuffs:															
1961	15	6	10	(2)	(2)	25	5	2	7	3	+10	−1	−8	+7	+3
1962	17	6	11	(2)	(2)	27	5	3	9	2	+10	−1	−8	+9	+2
1963	18	7	11	(2)	(2)	30	4	3	10	2	+12	−3	−8	+10	+2
1964	22	8	13	(2)	(2)	33	5	5	11	2	+11	−3	−8	+11	+2
1965	27	10	16	(2)	(2)	31	5	5	11	2	+4	−5	−11	+11	+2
1966	35	15	20	(2)	(2)	35	5	5	13	2	0	−10	−15	+13	+2
1967	37	19	17	(2)	(2)	32	5	3	11	2	−5	−14	−14	+11	+2
1968	53	26	24	(2)	2	35	7	4	12	2	−18	−19	−20	+12	0
1969 [1]	65	32	28	1	3	33	5	3	11	2	−23	−27	−25	+10	−1
532 Dye tanning extracts:															
1961	10	2	(2)	(2)	(2)	2	(2)	(2)	1	(2)	−8	−2	(2)	+1	(2)
1962	9	2	(2)	(2)	(2)	3	(2)	(2)	1	(2)	−6	−2	(2)	+1	(2)
1963	8	1	(2)	1	(2)	3	(2)	(2)	1	(2)	−5	−1	(2)	0	(2)
1964	10	1	1	1	(2)	3	(2)	(2)	1	(2)	−7	−1	−1	0	(2)
1965	11	1	1	1	(2)	2	(2)	(2)	1	(2)	−9	−1	−1	0	(2)
1966	12	2	1	1	(2)	3	(2)	(2)	1	(2)	−9	−2	−1	0	(2)
1967	10	2	1	1	(2)	3	(2)	(2)	1	(2)	−7	−2	−1	0	(2)
1968	10	2	1	(2)	(2)	3	(2)	(2)	1	(2)	−7	−2	−1	+1	(2)
1969 [1]	9	1	(2)	1	(2)	3	(2)	(2)	1	−6	−6	−1	(2)	0	(2)
533 Pigments:															
1961	4	1	2	(2)	(2)	48	6	4	11	3	+44	+5	+2	+11	+3
1962	5	1	3	(2)	1	49	6	4	12	3	+44	+5	+1	+12	+2
1963	5	2	2	(2)	(2)	47	6	3	11	3	+42	+4	+1	+11	+3
1864	5	2	2	(2)	(2)	55	7	4	12	4	+50	+5	+2	+12	+4
1965	5	1	2	1	(2)	60	14	4	17	4	+55	+13	+2	+16	+4
1966	5	2	2	1	(2)	68	9	6	18	5	+63	+7	+4	+17	+5
1967	6	2	2	1	1	74	11	6	19	7	+68	+9	+4	+18	+6
1968	8	3	3	2	1	86	17	7	19	9	+78	+14	+4	+17	+8
1969 [1]	9	2	4	1	1	85	15	7	19	9	+76	+13	+3	+18	+8

See footnotes at the end of table.

SITC section	Imports from—					Exports to—					Balance				
	World	EEC	EFTA	Canada	Japan	World	EEC	EFTA	Canada	Japan	World	EEC	EFTA	Canada	Japan
541 Pharmaceuticals:															
1961	51	20	17	1	3	234	31	12	21	66	+183	+11	−5	+20	+63
1962	54	18	20	1	4	240	32	15	24	6	+186	+14	−5	+23	+2
1963	48	16	16	1	5	238	30	19	14	8	+190	+14	+3	+13	+3
1964	42	15	11	1	4	235	34	15	12	12	+193	+19	+4	+11	+8
1965	57	16	13	1	3	256	40	20	22	11	+199	+24	+7	+21	+8
1966	73	23	14	2	4	269	43	19	25	15	+196	+20	+5	+23	+11
1967	72	19	14	2	4	288	50	20	25	16	+216	+31	+6	+23	+12
1968	76	23	17	2	4	314	56	26	27	22	+238	+33	+9	+25	+18
1969 [1]	83	24	19	3	5	363	62	33	32	30	+280	+38	+14	+29	+25
561 Fertilizers:															
1961	81	15	4	60	1	79	1	(2)	12	15	−2	−14	−4	−48	+14
1962	88	16	3	65	1	99	5	1	9	13	+11	−11	−2	−56	+12
1963	90	16	3	63	1	92	4	(2)	8	11	+2	−12	−3	−55	+10
1964	105	21	3	65	(2)	137	9	1	11	12	+32	−12	−2	−54	+12
1965	124	12	3	90	(2)	153	5	1	13	13	+29	−7	−2	−77	+13
1966	131	12	4	107	(2)	221	3	1	13	12	+90	−9	−3	−94	+12
1967	142	11	4	116	4	231	9	1	15	15	+89	−2	−3	−101	+11
1968	142	7	3	121	1	268	13	1	14	16	+126	+6	−2	−107	+15
1969 [1]	137	5	3	120	1	218	15	2	12	12	+81	+10	−1	−108	+11
581 Plastic materials:															
1961	8	4	2	1	1	308	84	47	59	32	+300	+80	+45	+58	+31
1962	13	5	3	3	2	316	88	51	66	20	+303	+83	+48	+64	+18
1963	15	7	4	1	3	323	77	58	65	22	+308	+70	+54	+64	+19
1964	31	12	10	2	7	402	88	72	73	23	+371	+76	+62	+71	+16
1965	40	16	9	7	8	425	95	76	88	20	+385	+79	+67	+81	+12
1966	59	24	13	8	12	472	110	82	99	26	+413	+86	+69	+91	+14
1967	60	22	15	5	17	473	111	76	102	32	+413	+89	+61	+97	+15
1968	94	40	20	9	23	589	158	87	121	36	+495	+118	+67	+112	+13
1969 [1]	99	36	23	9	28	590	153	82	133	34	+491	+117	+59	+124	+6

599 Chemical products n.e.s.:														
1961	30	10	2	2	1	317	61	30	53	27	+287	+51	+28	+51	+26
1962	31	10	2	3	2	344	58	30	55	29	+313	+48	+28	+52	+27
1963	33	12	3	4	3	346	63	31	57	32	+313	+51	+28	+53	+29
1964	42	13	6	4	----------	385	67	37	61	38	+343	+54	+31	+57	+38
1965	53	14	6	7	1	337	61	36	56	30	+284	+47	+30	+49	+29
1966	65	20	9	7	1	393	74	42	57	37	+328	+54	+33	+50	+36
1967	67	23	13	6	1	416	76	41	59	47	+349	+53	+28	+53	+46
1968	71	26	13	5	1	504	97	50	64	56	+433	+71	+37	+59	+55
1969 [1]	68	22	13	6	1	467	91	42	68	61	+399	+69	+29	+62	+60

[1] Preliminary.

[2] Less than $500,000.

Source: Department of Commerce.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS

Item	Article	Rate on July 1, 1962	Kennedy round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
	Cyclic organic chemical products in any physical form having a benzenoid, quinoid, or modified benzenoid structure, not provided for in subpart A or C, part 1, schedule 4:							
403.02	Anthracene having a purity of 30 percent or more by weight	2.8 cents per pound plus 16 percent ad valorem	1.4 cents plus 8 percent	1.4 cents plus 10 percent	31	16	16	206
403.04	Carbanole having a purity of 65 percent or more by weight	3.5 cents per pound plus 25 percent ad valorem	1.7 cents plus 12.5 percent	1 cent plus 18 percent	64	32	20	55
403.06	Naphthalene which after the removal of all water present has a solidifying point of 79° C or above	1.4 cents per pound plus 8 percent ad valorem	.7 cents plus 4 percent	.7 cents plus 4 percent	(3)	(3)	(3)	----------
403.08	Phthalic anhydride	2.4 cents per pound plus 14 percent ad valorem	1.2 cents plus 7 percent	1.2 cents plus 7 percent	(3)	(3)	(3)	----------

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
403.10	Styrene	2.8 cents per pound plus 18 percent ad valorem	1.4 cents plus 9 percent	1.4 cents plus 8 percent	(3)	(3)	(3)	
	All distillates of coal tar, blast-furnace tar, oil-gas tar, and water-gas tar, which on being subjected to distillation yield in the portion distilling below 190° C. a quantity of tar acids equal to or more than 5 percent by weight of the original distillate or which on being subjected to distillation yield in the portion distilling below 215° C. a quantity of tar acids equal to or more than 75 percent by weight of the original distillate:							
403.40	Phenol (carbolic acid) which on being subjected to distillation yields in the portion distilling below 190° C. a quantity of tar acids equal to or more than 5 percent by weight of the original distillate	3.0 cents per pound plus 17 percent ad val.	1.5 cents plus 8.5 percent.	1.5 cents plus 12 percent.	(3)	(3)	(3)	
403.42	Cresylic acid which on being subject to distillation yields in the portion distilling below 215° C. a quantity of tar acids equal to or more than 75 percent by weight of the original distillate	1.75 cents per pound plus 10 percent ad val.	.8 cent plus 5 percent.	.9 cent plus 5 percent.	23	11	12	2
403.44	Metacresol, orthocresol, paracresol, and metaparacresol, all the foregoing having a purity of 75 percent or more by weight	1.75 cent per pound plus 10 percent ad val.	do	.9 cent plus 7 percent.	19	9	9	67
403.46	Other	3.5 cents per pound plus 20 percent ad val.	1.7 cents plus 10 percent.	1.7 cent plus 10 percent.	25	12	12	207
403.48 A	2,4-Dimethoxyaniline; N-Methylaniline; 2-Pyridinecarboxaldehyde; Sodium tetraphenylboron; and Vinylcarbazole, mono	3.0 cents per pound plus 20 percent ad val.	1.5 cent plus 10 percent.	1.5 cent plus 10 percent.	21	11	11	120

403.48 B	o-Acetoacetenisidide; o-Acetoacetotoluidide; 2′,4′-Acetoacetoxylidide; 3′-Aminoacetophenone; 1-Amino-5-benzamidoanthraquinone; o-Anisidine; p-Anisidine; 6-Chloro-m-cresol [OH-1]; 4-Chloro-2,5-dimethoxyaniline [NH_2-1]; 3-Ethylamino-p-cresol; Iminodianthraquinone; 5-Methoxy-m-phenylenediamine; dl-Phenylephrine base: Phenylsulfone; and 2,4,6-Trimethylaniline (mesidine)	3.0 cents per pound plus 20 percent ad val.	do	1.5 cent plus 16 percent.	35	18	18	479
403.48 C	2-Acetamido-3-chloroanthraquinone m-Diethylaminophenol; 1,8-Dihydroxy-4,5-dinitroanthraquinone (4.5-dinitrochrysazin)	do	do	1.5 cents plus 19 percent	49	25	20	118
403.50 A	p-aminobenzoic acid: Biligrafin acid; 3.5-Diacetamido-2,4,6-triiodobenzoic acid (Urografin acid); 2,3-Dichloro-1,4-naphthoquinone; Gentisic acid; 2-Hydroxy-3-dibenzofurancarboxylic acid; and o-Toluenesulfonamide	2.8 cents per pound plus 20 percent ad valorem	1.4 cents plus 10 percent	1.4 cents plus 10 percent	21	11	11	516
403.50 B	7-Amino-1,3-naphthalenedisulfonic acid and its salts: 8-Amino-1-naphthalenesulfonic acid and its salts; 6-Amino-1-naphthol-3-sulfonic acid and its salts; 8-Amino-1-naphthol-5-sulfonic acid and its salts; 4-Amino-2-stilbenesulfonic acid and its salts; m-Dimethylaminophenol; 1-Hydroxy-2-carbazolecarboxylic acid; Hydroxycinnamic acid and its salts; p-Phenetidne; o-Thenylenediamine; 2,4,4′,5′-Tetrachlorophenylsulfone; and 2,4-Xylidine	do	do	1.4 cents plus 15 percent	34	17	17	422

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
403.50 C	5-Amino-2-naphthalenesulfonic acid and its salts:							
	8-Amino-2-naphthalenesulfonic acid and its salts;							
	p-Hydroxybenzoic acid;							
	2-Naphthol-3,6-disulfonic acid and its salts;							
	7-Nitronaphth[1,2]oxadiazole-5-sulfonic acid and its salts;							
	p-Nitrotoluene;							
	m-Phenylenediamine;							
	N-Phenyl-2-naphthylamine; and							
	Toluene-2,4-diamine	do	do	do	51	25	20	363
403.60 A	p-Acetoacetophenetidide;							
	N-Acetoxyethyl-N-cyanoethylaniline;							
	o-Aminobenzenesulfonic acid [SO_3h-1];							
	2-Amino-4-tert-butylphenol;							
	4-Amino-6-chloro-m-benzenedisulfonamide;							
	2-Amino-4-(p-cumyl)phenol;							
	2-Amino-4-[(2-hydroxyethyl)sulfonyl]phenol;							
	4-Amino-4′-hydroxy-2′-[(2-hydroxyethyl) sulfonyl]benzanilide;							
	2-Amino-5-methoxybenzenesulfonic acid;							
	2-Amino-5-nitrobenzonitrile;							
	4-Amino-4′-nitro-2,2′-stilbenedisulfonic acid;							
	m-Aminophenol;							
	o-Aminophenol;							
	p-[(p-Aminophenyl)azo]benzenesulfonic acid;							
	6-[(p-Aminophenyl)azo]metanilic acid;							
	Amino-1-pyrazolone;							
	4-Amino-3-sulfophenyl gamma acid;							
	2-Amino-4-[(2,5,6-trichloro-4-pyrimidyl)amino] benzenesulfonic acid;							
	Benzyldiethyl (2,6-xylylcarbamoylmethyl) ammoniumbenzoate (Bitrex);							
	Carbazole-3-carboxylic acid and its salts;							
	4′-Chloroacetoacetanilide;							
	6-Chloro-3-amino-4-sulfobenzoic acid;							
	2-Chloro-4,6-dinitroaniline;							
	Chlorodiphenyl sulfone;							
	5-Chloro-8-quinolinol hydrochloride;							
	6-Chloro-o-toluidine;							
	6-Chloro-3,4-xylenol;							

2,3-Cresotic acid;
2,4-Diaminoanisole sulfate;
4,4′-Diamino-1,1′-bianthraquinonyl-3,3′-disulfonic acid, disodium salt;
4,4′-Diamino-3-biphenylsulfonic acid;

403.60 A Dibenzylamine;
4-(2,5-Dibutoxy-4-nitrophenyl)morpholine;
1,8-Dichloranthroquinone;
10,11-Dihydro-5H-dibenz[b,f]azepine;
3′-[(Dihydroxyethyl)amino]-4′-ethoxyacetahilide;
3,6-Dihyrdoxy-2,7-napththalenedisulfonic acid and its salts;
1,4-Dimesidinoathraquinone;
2′,4′-Dimethoxyacetoacetanilide;
2′,5′-Dimethoxyacetoacetanilide;
2′,5′-Dimethoxysulfanilanilide;
N-Ethyl-2-aminobenzenesulfonanilide;
2-Hydroxyanthroic acid and its salts;
m-Hydroxybenzaldehyde;
2-Hydroxycarbazolecarboxylic acid;
3′-(Hydroxyethylamino)4′-ethyoxyacetanilide;
m-[(2-Hydroxyethyl)sulfonyl]aniline;
6-[(2-Hydroxyethyl)sulfonyl]-m-anisidine;
4-[(2-Hydroxyethyl)sulfonyl]-2,5-dimethoxyaniline
4-[(2-Hydroxyethyl)sulfonyl]-5-methyl-o-anisidine;
4-[(2-Hydroxyethyl)suflonyl]-3-methyl-1-phenyl-2-pyrazolin-5-one;
1-Hydroxy-6-(methylamino)naphthalenesulfonic acid;
4-Hydroxy-1-methylcarbostyril;
4-Hydroxy-2-napthalenesulfonic acid;
Isophthalonitrile;
Lysergic acid;
4-Methoxy-m-phenylenediamine;
2-Methyl-p-anisidine [NH_2 1];
Methylchlorophenoxybutyric acid and its salts;
2-(3-Methyl-5-oxo-2-pyrazolin-1-yl)naphthalene-5,7-disulfonic acid;
1-Methyl-2′,6′-pipecoloxylidide;
1,8-Naphthalenediamine;
1,5-Napthalene diisocyanate;
2,3-Naphthalenediol;
3-Nitro-p-phenetidine;
Phthalocyanine, crude, and its salts;
Phthalonitrile;
Polyalkylbenzene;
Pyrocatechol;
1,9-Thianthrenedicarboxylic acid;

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate[1]	ASP package final rate[2]	Ad valorem equivalent: July 1, Rate 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
	Toluene-2,5-diamine sulfate; p.Toluenesulfonic acid, methyl ester [$SO_3H=1$]; (2,4,6-Trichlorophenyl) hydrazine; Tris [p-isocyanatophenyl] methane; O,0,0- Tris[p-isocyanatophenyl] phosphorothioate; o-Vanillin; and m-Xylene-α, α^1-diamine	3.5 cents per pound plus 25 percent ad val.	1.7 cents plus 12.5 percent.	1.5 cents plus 13% percent.	28	14	14	2,919
B	Acetoacetanilide; 2-(p-Aminoanilino)-5-nitrobenzenesulfonic acid; 2-Amino-p-benzenedisulfonic acid; 1-Amino-4-bromo-2-anthraquinonesulfonic acid (Bromamine acid) and its salts; 2-Amino-4-chlorophenol; 6-Amino-4-chloro-m-toluenesulfonic acid [$SO_3H=1$]; 2 - Amino - 5 - chloro - p - toluenesulfonic acid [$SO_3H=1$]; 4′-Amino-2′,5′-Diethoxybenzanilide; 4-Amino-5-hydroxy-1,3-naphthalenedisulfonic (Chicago acid) and its salts; 4′-Amino-6′-methyl-m-benzanisidide (Fast Violet B Base); 6-Amino-2-naphthalenesulfonic acid (Broenner's acid); 2-(p-Aminophenyl)-6-methylbenzothiazole; 6-Amino-m-toluenesulfonic acid; 6-Anilino-1-hydroxy-3-naphthalenesulfonic acid (Phenyl J acid); Anthranilic acid (o-Aminobenzoic acid); Anthraquinone; Benzidine dihydrochloride; Benzoyl peroxide; [1,1′-Binaphthalene]-8,8′-dicarboxylic acid; p-Chloroaniline; 5-Chloro-o-anisidine[$NH_2=1$]; 1-Chloroanthraquinone; 2-Chloro-4-nitroaniline; 1-Chloro-2-nitrobenzene;							

	1-Chloro-4-nitrobenzene; α-Chlorotoluene; 4,4′-Diamino-2,2′-biphenyldisulfonic acid; 4,4′-Diamino-2,2′-stilbenedisulfonic acid; 3,4-Dichloroaniline; 4,5-Dihydroxy-2,7-naphthalenedisulfonic acid (Chromotropic acid); 2,5-Dimethoxyaniline; 2,2′-Dithiobis(benzothiazole); 7-Hydroxy-1,3-naphthalenedisulfonic acid and its salts; 1,1′-Iminobis [4-aminoanthraquinone]; 7,7′-Iminobis [4-hydroxy-2-naphthalenesulfonic acid]; Metanilic acid; 3-Methyl-1-phenyl-2-pyrazolin-5-one; 2-Naphthol; 1-Naphthylamine; o-Nitroaniline; 4-Nitro-o-anisidine [NH_2=1]; p-Nitrobenzoic acid and its salts; o-Phenylphenol and its salts; Salicylic acid-technical grade and its salts; 1-(o-Tolyl)biguanide;							
	p-Tolylmethylpyrazolone; and γ,γ,γ-Trifluorotoluene.	do	do	1.5 cents plus 18 percent.	48	24	20	2,128
C	3-Amino-5-chloro-2-hydroxbenzenesulfonic acid; 4-Amino-1-naphthalenesulfonic acid and its salts; 8-Amino-2-naphthol; p-Anilinobenzenediazonium sulfate; 2′-Chloroacetoacetanilide; o-Chloroaniline; 4-Chloro-2-nitroaniline; Dichlorodiphenylsilane; Dihydroxydiphenylsulfone; 2,4-Dinitroanliine; 2-Hydroxy-11H-benzo[a]carbazole-3-carboxylic acid and its salts; 6-Hydroxy-2-naphthalenesulfonic acid (Schaeffer's acid) and its salts; 1,5-Naphthalenedisulfonic acid; 2-Nitro-p-anisidine[NH_2=1]; 5-Nitro-o-toluidine[NH_2=1]; Phenylcarbethoxypyrazolone;							
	2,4-Quinolinediol and sodium salt; and p-Tuloidine	do	do	do	59	30	20	232

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
D	4'-Chloro-2',5'-dimethoxyacetoacetanilide; p-(Diethylamino)benzaldehyde; 1,5-Dihydroxy-4,8-dinitroanthraquinone; 4,4'-Dinitro-2,2'-stilbenedisulfonic acid; 5-Hydroxy-1-naphthalenesulfonic acid; 4,4'-Isopropylidenediphenol (Bisphenol A); p-(3-Methyl-5-oxo-2-pyrazolin-1-yl)benzenesulfonic acid; 1,5-Naphthalenediol; p-Toluenesulfonamice; 8-(p-Toluidino)-1-naphthalenesulfonic acid; and DL-Tryptophane.	do	do	do	70	35	20	364
403.60 E	6-Amino-3, 4'-azodi [benzenesulfonic acid]: 1-Amino-5-nitrophenol; 2-Amino-5-nitrophenol; 4', 4'''-Azobis [4-biphenylcarboxylic acid] and its salts; 2, 5-Diaminobenzenesulfonic acid; 4, 5'-Dibenzamido-1, 1'-iminodianthraquinone; and 8-Quinolinol	do	do	1.5 cents plus 18 percent.	81	40	19	157
403.60 F	1-Chloronaphthalene: 1, 1'-Iminobis [4-benzamidoanthraquinone]; 2-Methylindole; and 1, 3, 3-Trimethyl-$\Delta^{2(c)}$-indolineacetaldehyde	3.5 cents per pound 25 percent ad valorem.	do	do	115	57	19	41
403.60 G	Other	do	do	do	39	20	19	4,364
	All other products, by whatever name known, not provided for in subpart A or C, pt. 1, schedule 4, including acyclic organic chemical products, which are obtained, derived, or manufactured in whole or in part from any of the cyclic products having a benzenoid, quinoid, or modified benzenoid structure provided for in the foregoing provisions of this subpart or in subpart A, part 1, schedule 4.							
403.70	Caprolactam monomer	3.0 cents per pound plus 20 percent ad val.	1.5 cents plus 10 percent.	1.5 cents plus 16 percent.	(3)	(3)	(3)	
403.75	Hexamethylene adipamide	do	do	1.5 cents plus 15 percent.	36	18	19	1

403.78	Methylcyclohexanone	do	do	1.5 cents plus 10 percent.	29	15	15	1
403.80A	Adipic acid; 6-Aminopenicillanic acid; 1,2-Cyclohexanediamine; Cyclohexylamine; 1,6-Hexanediamine; Methylcyclohexanol acetate; 4,4'-Methylenebis (cyclohexylamine); Thiophene-2,5-dicarboxylic acid	3.5 cents per pound plus 25 percent ad val.	1.7 cents plus 12.5 percent.	1.5 cents plus 16 percent.	36	18	19	1,916
403.80B	Other	do	do	1.5 cents plus 18 percent.	51	25	22	506
403.90	Mixtures in whole or in part of any of the products provided for in subpart B, part 1, schedule 4.	do	do	1.5 cents plus 13 percent, but not less than the highest rate applicable to any component provided for in subpart B.	34	17	17	95
	Products obtained, derived, or manufactured in whole or in part from any product provided for in subpart A or B, part 1, schedule 4:							
405.05	Explosives	3.5 cents per pound plus 22.5 percent ad val.	$3.5 cents plus 22.5 percent.[4]	3.5 cents plus 40 percent.[4]	(3)(4)	(3)(4)	(3)(4)	
			1.7 cents plus 11 percent.[5]	2 cents plus 19 percent[5]	[5] 41	[5] 20	[5] 19	8
405.10	Ink powders	3.5 cents per pound plus 22.5 percent	do	1.8 cents plus 11 percent.	(3)	(3)	(3)	
405.15 405.15A	Pesticides: p-Chloro-m-cresol (4-Chloro-m-cresol [OH=1]); 0,0-Diethyl 0-(p-nitrophenyl) phosphorothioate; Lindane.	3.5 cents per pound plus 25 percent ad val.	1.7 cents plus 12.5 percent.	1.7 cents plus 17 percent.	49	24	20	238
405.15B	Other	do	do	1.7 cents plus 13 percent.	29	15	15	770
405.20 405.20A	Photographic chemicals: Not over $2 per pound	6.0 cents per pound plus 38 percent ad val.	3 cents plus 19 percent.	2 cents plus 14 percent.	61	30	20	135
405.20B	Over $2 per pound	do	do	2 cents plus 19 percent.	53	27	19	61
405.25	Plastics materials	2.8 cents per pound plus 18 percent ad val.	1.4 cents plus 9 percent.	1.5 cents plus 10 percent.	25	12	12	3,284

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
405.30	Products chiefly used as assistants in preparing or finishing textiles.	2.8 cents per pound Plus 16 percent ad valorem.	1.4 cents plus 8 percent.	1.5 cents plus 8 percent.	20	10	10	358
405.35	Products (except those in item 405.30) chiefly used for any one or combination of the following purposes: as detergents, wetting agents, emulsifiers, dispersants, or foaming agents.	3.5 cents per pound Plus 25 percent ad valorem.	1.7 cents plus 12.5 percent.	do	30	15	11	101
405.40	Products chiefly used as plasticizers	do	do	1.5 cents plus 15 percent.	49	24	20	66
405.45	Sodium benzoate	3 cents per pound plus 21 percent ad valorem.	1.5 cents plus 10.5 percent.	1.5 cents plus 12 percent	54	27	20	7
405.55	Synthetic tanning materials	7 cents per pound plus 45 percent ad valorem.	3.5 cents plus 22.5 percent.	1.5 cents plus 13 percent.	91	46	19	56
	Colors, dyes, stains, and related products:							
406.02	Sulfur black, "Colour Index Nos. 51385, 53190, and 53195."	3.0 cents per pound plus 20 percent ad val.	1.5 cent plus 10 percent.	30 percent	53	27	30	3
406.04	Vat blue 1 (synthetic indigo), "Colour Index No. 73000."	do	do	do	44	22	30	297
406.10A	Acid black 31, 50, 129: Acid blue 54, 127, 129, 143; Acid brown 58, 188, 189; Acid green 40; Acid red 130, 145, 174; Acid violet 31, 41, 48; Acid yellow 2, 75, 116; Direct black 62, 91; Direct blue 92, 106, 108, 109, 160; Direct frown 103, 115, 116; Direct green 5, 29, 31; Disperse blue 30; Fluorescent brightening agent 18, 24, 32; Mordant black 8; Mordant red 27; Reactive black 1; Reactive blue 1, 2, 4; Reactive orange 1;							

	Reactive red 1, 2, 3, 5, 6; Reactive yellow 1; Vat blue 2; Vat red 44; Vat solubilized orange 3; Vat violet 9; and Vat yellow 4, 20	32 percent ad val	16 percent	do	34	17	30	2,239
406.10 B	Acid blue 45, 106; Acid brown 44, 46, 48; Acid violet 19; Basic red 14; Direct blue 172; Direct red 83; Mordant red 17; and Solvent orange 11	do	do	do	46	23	30	214
406.10 C	Acid black 94; Acid red 211; Basic blue 3; Basic yellow 13; Direct blue 86; Ingrain blue 2; and Mordant green 47	do	do	do	57	29	30	464
406.10 D	Basic orange 22; and Vat orange 7	do	do	do	64	32	30	58
406.10 E	Basic red 13: Basic yellow 1, 1; Direct orange 37; Direct yellow 28; Disperse red 4; Vat orange 2; and Vat violet 13	do	do	do	82	41	30	86
406.10 F	Solvent yellow 25; and Vat brown 3	do	do	do	98	49	30	14
6.50 A	Acid black 132: Acid blue 185, 221; Basic orange 28; Direct yellow 47; Disperse blue 73; Disperse red 54; Fluorescent brightening agent 121; Mordant blue 77; Mordant brown 45; Reactive black 4; Reactive blue 19, 29; Reactive yellow 11, 15; Solubilized vat black 5; Solubilized vat brown 6; Solubilized vat violet; and Vat blue 21	40 percent ad valorem	20 percent	30 percent	38	19	30	620

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
406.50 B	Acid black 62, 63, 67, 77, 131; Acid blue 41, 52, 66, 72, 98, 181, 182, 183, 215; Acid brown 30, 33, 147, 224, 227, 253; Acid green 43, 44, 57; Acid orange 47, 94; Acid red 127, 252, 259; Acid violet 21, 54; Acid yellow 79, 127; Basic blue 41, 45, 62; Basic green 2; Basic orange 27; Basic red 22, 23, 29; Basic yellow 19, 23, 24, 25, 32; Direct black 118; Direct blue 90, 158, 207, 225; Direct green 67 69; Direct orange 107; Direct red 89, 92, 95, 205; Direct violet 62; Direct yellow 58, 68, 96, 109; Disperse blue 7, 79; Disperse orange 30; Disperse red 73, 105, 107, 108; Fluorescent brightening agent 47, 55; Mordant black 75; Mordant green 45; Reactive blue 5, 7, 8, 10, 21, 24; Reactive brown 2, 5; Reactive green 6; Reactive red 9, 17, 40, 45; Reactive yellow 10, 27; Solvent blue 45; Vat blue 26; and Vat green 13	do	do	do	42	21	30	5,044
406.50 C	Acid red 131, 143; Acid yellow 61; Direct blue 98; Direct green 51; *Direct red 9;* Direct yellow 27, 98;							

	Disperse red 15; Mordant blue 29; Reactive red 12; Solvent orange 41; Vat green 1; and Vat yellow 33	do	do	do	54	27	30	520
406.50 D	Acid black 29; Acid blue 9, 198; Acid green 25; Acid orange 87; Acid red 1, 249; Basic blue 54; Basic red 15; Basic violet 16; Direct brown 31; Direct orange 26; Disperse blue 65; Disperse brown 2; Disperse red 55; Disperse violet 8; Disperse yellow 5, 54; Reactive blue 18; Sulfur green 14; Vat green 9; and Vat red 1	40 percent ad valorem	20 percent	30 percent	65	33	30	755
406.50E	Acid blue 27, 62, 67, 78: Acid green 9, 28; Acid orange 80, 85; Acid red 52; Basic blue 5, 21, 22; Basic red 1; Basic violet 10; Basic yellow 15 Direct black 38; Disperse blue 1, 60; Disperse orange 5; Disperse red 59, 60; Reactive yellow 25; Solvent black 3; and Vat orange 9	40 percent ad valorem	do	do	73	37	30	1,210

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
406.50F	Acid black 1, 24: Acid blue 83, 120; Acid red 114; Acid yellow 118; Basic orange 21; Basic red 27; Basic violet 1; Basic yellow 21; Direct blue 78, 199; Direct orange 102; Direct red 13; Direct yellow 4, 11, 50; Disperse red 5, 11; Mordant red 3; Solvent yellow 62; Vat black 9, 27; Vat blue 6; Vat green 3; Vat red 10; and Vat yellow 1, 2	40% ad val.	do	do	83	42	30	539
406.50	Acid blue 35, 90, 113: Acid green 16; Acid red 85, 99; Acid violet 17; Acid yellow 7; Basic blue 9, 26; Basic green 4; Basic red 18; Basic violet 2; Direct blue 6; Direct brown 1; Direct orange 34; Direct red 2, 79, 81; Disperse red 1, 13, 17; Disperse yellow 1, 3, 42, 64; Mordant black 11; Mordant yellow 30; Solubilized vat blue 6; Solubilized vat brown 1; Solvent red 109;							

	Solvent yellow 63; Vat blue 20; Vat brown 1; Vat green 20; and Vat orange 15	40% ad val.	do	do	98	49	30	311
406.50	Acid black 107, 140: Acid blue 23; Acid-orange 7, 74; Acid red 14, 73, 225; Acid yellow 63; Basic blue 44, 47; Basic green 1; Basic yellow 2; Direct black 41, 51; Direct blue 1, 2; Direct brown 2; Direct green 6; Direct red 76; Direct yellow 12; Mordant black 13, 17; Mordant blue 1; and Vat blue 14, 28, 19	do	do	do	117	59	30	359
406.501	Acid brown 19: Acid red 133; Basic orange 14; Basic violet 14; Direct blue 120, 122; Direct red 23; Disperse blue 3; Solvent red 49; Vat orange 3; and Vat yellow 10	do	do	do	172	86	30	43
406.50J	Other	do	do	do	48	24	30	4,469
406.60	Natural alizarin and natural indigo; colors, dyes, and stains (except toners), whether soluble or not in water, obtained, derived, or manufactured in whole or in part from natural alizarin or natural indigo; color acids, color bases, indoxyl, indoxyl compounds, and leuco-compounds (whether colorless or not), obtained, derived, or manufacutred in whole or in part from natural alizarin, natural indigo, or any product provided for in subpart A or B, part 1, schedule 4	5.6 cents per pound plus 36 percent ad valorem.	2.8 cents plus 18 percent.	do	54	27	30	1

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
406.70	Color lakes and toners, obtained, derived, or manufactured in whole or in part from natural alizarin, natural indigo, or any product provided for in subpart A or B, part 1, schedule 4; Pigment blue 1; Pigment blue 15; Pigment green 7, 10; Pigment orange 7; Pigment red 81; Pigment violet 23; and Pigment yellow 3, 12, 14, 83	40 percent ad valorem.	20 percent	do	72	36	30	350
406.70B	Pigment black 1; Pigment orange 5: Pigment red 2, 3, 48, 53; and Pigment yellow 1, 13, 49	do	do	do	98	49	30	52
406.70C	Other	do	do	do	43	22	30	558
406. 80	Fast color bases, fast color salts, and Napthol AS and its derivatives:							
406.80A	A.S. 1 and D.S. 4 stabilized diazo salt; Azoic coupling component 32, 107, 108, 111; and Azoic diezo component 15, 16, 40, 51, 121 (bases cand salts)	3.5 cents per pound plus 20 percent ad valorem.	1.7 cents plus 10 percent.	do	22	11	30	229
406.80B	Other	do	do	do	42	21	30	1,047
	Products suitable for medicinal use, and drugs: Obtained, derived, or manufactured in whole or in part from any product provided for in subpart A or B, part 1, schedule 4: Products suitable for medicinal use:							
407. 02	Acetanilide	3.5 cents per pound plus 25 percent ad valorem.	1.7 cents plus 12.5 percent.	1.7 cents plus 17 percent.	46	23	20	1
407. 04	Benzaldehyde	do	do	1.7 cents plus 19 percent.	(3)	(3)	(3)	
407. 06	Benzoic acid	do	do	1.7 cents plus 15 percent.	(3)	(3)	(3)	

407.08	2-Naphthol (beta-naphthol)	do	do	1.7 cents plus 13 percent.	(3)	(3)	(3)	
407.10	Resorcinol	do	do	1.7 cents plus 18 percent.	46	23	19	4
407.12	Salicylic acid and its salts	do	do	1.7 cents plus 16 percent.	60	30	20	32
	Drugs:							
407.20	Acetphenetidine (phenacetin)	2.8 cents per pound plus 20 percent ad valorem.	1.4 cents plus 10 percent.	1.7 cents plus 17 percent.	46	23	20	166
407.25	Acetylsalicylic acid (aspirin)	3.5 cents per pound plus 25 percent ad valorem.	1.7 cents plus 12.5 percent.	1.7 cents plus 14 percent.	58	29	20	47
407.30	Antipyrine	do	do	1.7 cents plus 12 percent.	26	13	13	18
407.32	5-Chloro-7-iodo-8-quinolinol and 2[1-(p-chlorophenyl)-3-dimethylaminopropyl]pyridine maleate	2.8 cents per pound plus 20 percent ad valorem.	1.4 cents plus 10 percent.	1.7 cents plus 19 percent.	46	23	19	32
407.35	Diethylaminoacetoxylidide (xylocaine)	3.5 cents per pound plus 22.5 percent ad valorem.	1.7 cents plus 11 percent.	1.7 cents plus 18 percent.	(3)	(3)	(3)	
407.40	5-Ethyl-5-phenylhexahydropyrimidine-4,6-dione	2.4 cents per pound plus 17 percent ad valorem.	1.2 cents plus 8.5 percent.	1.7 cents plus 9 percent.	17	9	9	360
	Hydantoin derivatives:							
407.45	Methylphenethylhydantoin	2.8 cents per pound plus 18 percent ad valorem.	1.4 cents plus 9 percent.	do	(3)	(3)	(3)	
407.50	Other	do	do	1.7 cents plus 19 percent.	40	20	20	16
	Imidazoline derivatives:							
407.55	2-Benzyl-4,5-imidazoline hydrochloride	do	do	do	42	21	19	19
407.60	Phenylbanzylaminoethylimidazoline hydrochloride	do	do	1.7 cents plus 9 percent.	(3)	(3)	(3)	
407.70	Other	do	do	do	18	9	9	53
407.72A	Phenylephrine hydrochloride; Salicylazosulfapyridine.	2.8 cents per pound plus 20 percent ad valorem.	1.4 cents plus 10 percent.	1.4 cents plus 10 percent.[6] 1.4 cents plus 25 percent.[7]	(3 6) [7] 20	(3 6) [7] 10	(3 6) [7] 25	 255
407.72B	Sulfadiazine; Sulfapyridine	do	do	1.4 cents plus 25 percent.	34	17	25	211
407.72C	Sulfamerazine; Sulfamethazine	do	do	do	44	22	26	428
407.72D	Sulfaguanidine	do	do	do	62	31	27	104
407.75	Phenolphthalein	3.5 cents per pound plus 25 percent ad valorem.	1.7 cents plus 12.5 percent.	1.7 cents plus 17 percent.	(3)	(3)	(3)	
407.80	Salol	do	do	do	(3)	(3)	(3)	

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: July 1, 1962 Rate	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
407.85A	Acetaminophen (p-Hydroxyacetanilide) (APAP): p-Aminobenzoic acid; Benzocaine (p-Aminobenzoic acid, ethyl ester); Carbarsone; Chloroquine diphosphate; Danthron (Chrysazin); p-Hydroxybenzoic acid, propyl ester (Propylparaben); Isoniazid; Phenazopyridine (2,6-Diamino-3-phenylazo-pyridine) hydrochloride; Phenobarbital and its salts; Procaine hydrochloride; Salicylamide; and Sulfisoxazole	do	do	1.7 cents plus 18 percent (8).	42	21	19	744
				1.4 cents plus 25 percent (9).	41	21	25	35
407.85B	Acriflavine; 5-Aminosalicylic acid; p-Aminosalicyic acid salts; Diphenhydramine hydrochloride; Mandelic acid; Mephobarbital; Phthalylsulfacetamide; Sulfacetamide; Sulfamethizole; and Sulfathiazole sodium	do	do	1.7 cents plus 18 percent (8)	53	26	20	388
				1.4 cents plus 25 percent (9)	52	26	26	101
407.85C	p-Aminosalicylic acid (PAS); H-Chloro-p-toluenesulfonamide, sodium salt (Chloremine T); Epinephrine bitartrate;							
407.85C	Merbromin: Pseudoephedrine hydrochloride; Sulfacetamide sodium; and							

	Sulfamethoxypyridazine	do	do	1.7 cents plus 18 percent.[8]	71	36	19	143
				1.4 cents plus 25 percent.[9]	72	36	26	10
407.85D	Menadione sodium bisulfite; Mersalyl acid; Papaverine hydrochloride; Phthalysulfathizaole; Sulfanilamide; and Sulfathiazole	do	do	1.7 cents plus 18 percent.[8]	80	40	18	6
				1.4 cents plus 25 percent.[9]	84	42	27	328
407.85E	Cyanocobalamin; and Folic acid	do	do	1.7 cents plus 18 percent.	106	53	18	121
407.85F	Other	do	do	1.7 cents plus 18 percent.[8]	26	13	18	6,809
				1.4 cents plus 25 percent.[9]	25	13	25	23
407.90	Drugs, from whatever source obtained, produced or manufactured: Guaiacol and its derivatives.	do	do	1.7 cents plus 18 percent.	43	22	19	16
	Aromatic or odoriferous compounds including flavors, not marketable as cosmetics, perfumery, or toilet preparations, and not mixed, and not containing alcohol: Obtained, derived, or manufactured in whole or in part from any product provided for in subpart A or B, part 1, schedule 4:							
408.05	Benzyl acetate	7 cents per pound plus 45 percent ad val.	3.5 cents plus 22.5 percent.	3.5 cents plus 15 percent.	58	29	20	1
408.10	Benzyl benzoate	7 cents per pound	do	1.7 cents plus 18 percent.	(3)	(3)	(3)	
408.15	Diphenyl oxide	7 cents per pound	do	do	(3)	(3)	(3)	
408.20	Heliotropin	3.5 cents per pound plus 22.5 percent ad val.	1.7 cents plus 11 percent.	1.7 cents plus 9 percent.	19	9	9	1
408.25	Methyl anthranilate	7 cents per pound plus 45 percent ad val.	3.5 cents plus 22.5 percent.	3.5 cents plus 19 percent.	54	27	20	7
408.30	Musk, artificial	5.6 cents per pound plus 18 percent ad val.	2.8 cents plus 9 percent	3.5 cents plus 13 percent.	30	15	15	303
408.35	Phenylacetaldehyde	7 cents per pound plus 45 percent ad val.	3.5 cents plus 22.5 percent.	3.5 cents plus 19 percent.	47	24	20	X

See footnotes at the end of table.

TABLE 10.—BENZENOID CHEMICAL RATES OF DUTY, AD VALOREM EQUIVALENTS, AND 1964 IMPORTS—Continued

Item	Article	Rate on July 1, 1962	Kennedy Round final rate [1]	ASP package final rate [2]	Ad valorem equivalent: Rate July 1, 1962	Ad valorem equivalent: KR rate	Ad valorem equivalent: ASP package rate	1964 imports ($1,000)
408.40	Phenethyl alcohol	7 cents per pound	do	3.5 cents plus 18 percent.	45	23	20	2
408.45	Saccharin	do	3 cents per pound plus 19 percent ad val.	1.5 cents plus 18 percent.	40	20	20	629
408.60	Other compounds	7 cents per pound plus 45 percent ad val.	3.5 cents plus 22.5 percent.	3.5 cents plus 19 percent.	55	28	20	45
	From whatever source obtained, derived, or manufactured:							
408.70	Coumarin	do	do	do	44	22	20	13
408.75	Methyl salicylate	do	do	1.7 cents plus 16 percent.	(3)	(3)	(3)	
408.80	Vanillin	3 cents per pound plus 19 percent ad val.	1.5 cents plus 12 percent.	1.5 cents plus 12 percent.	26	13	13	1,287
	Mixtures in whole or part of any of the products provided for in subpart C, part 1, schedule 4.	7 cents per pound plus 45 percent ad val.	3.5 cents plus 22.5 percent.	3.5 cents plus 16 percent but not less than the highest rate applicable to any component provided for in subpart C.	54	27	20	409

A=Other than sulfa drugs.
B=Sulfa drugs.
Asp applicable.

[2] ASP eliminated.
[3] Not available.

Source: Tariff Commission.

TABLE 11.—CHEMICALS AND ALLIED PRODUCTS—NEW CAPITAL EXPENDITURES BY SELECTED INDUSTRIES AND INDUSTRY GROUPS, 1961–70

[In millions of dollars]

SIC code		1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
28	Chemicals and allied products	1,498	1,347	1,546	1,862	2,475	2,898	2,833	[1] 2,618	[1] 2,867	[1] 3,440
281	Basic chemicals	741	651	813	989	1,227	1,522	1,219	(2)	(2)	(2)
2815	Int. coal tar products	67	74	105	101	90	87	128	(2)	(2)	(2)
2818	Organic chemicals [3]	381	268	401	496	641	886	639	(2)	(2)	(2)
282	Rubber, plastics and fibers	364	336	379	480	692	816	940	(2)	(2)	(2)
283	Drugs	107	95	113	118	138	162	198	(2)	(2)	(2)
287	Agricultural chemicals	111	75	67	111	193	130	139	(2)	(2)	(2)

[1] Estimated.
[2] Not available.
[3] Not elsewhere classified.

Source: Department of Commerce.

ANNUAL PLANT AND EQUIPMENT EXPENDITURES ABROAD BY U.S. MANUFACTURING COMPANIES—ALL MANUFACTURING AND CHEMICALS AND ALLIED PRODUCTS

	All manufacturing (millions)	Chemicals and allied products (Millions)	Chemicals and allied products Percent of all manufacturing
1957	$1,347	$234	17.4
1958	1,180	261	22.1
1959	1,141	216	18.9
1960	1,337	237	17.7
1961	1,697	278	16.4
1962	1,941	308	15.9
1963	2,153	436	20.3
1964	3,007	619	20.6
1965	3,884	861	22.2
1966	4,583	1,040	22.7
1967	4,525	1,210	26.7
1968	4,175	1,208	28.9
1969 [1]	4,874	1,109	22.8
1970 [1]	6,933	1,525	22.0

[1] Estimated.

Source: U.S. Department of Commerce.

TABLE 12.—ESTIMATES OF PLANT AND EQUIPMENT EXPENDITURES BY FOREIGN AFFILIATES OF U.S. COMPANIES, BY AREA AND INDUSTRY, 1965–70

[In millions of dollars]

	1965	1966	1967	1968	[1] 1969	[1] 1970
All areas:						
Chemicals	$861	$1,040	$1,210	$1,208	$1,109	$1,525
All manufacturing	3,884	4,583	4,525	4,175	4,874	6,933
Canada:						
Chemicals	225	221	166	158	184	244
All manufacturing	944	1,174	1,001	842	988	1,365
Latin America:						
Chemicals	151	143	150	179	203	203
All manufacturing	459	451	505	575	623	797
Europe, total:						
Chemicals	321	462	637	871	722	1,079
All manufacturing	1,860	2,244	2,332	2,759	3,264	4,771
Common Market:						
Chemicals	147	275	427	313	293	482
All manufacturing	1,042	1,331	1,438	1,195	1,466	2,201
Other Europe:						
Chemicals	174	187	210	210	183	271
All manufacturing	818	913	894	817	1,076	1,475
Other areas:						
Chemicals	164	231	258	348	246	326
All manufacturing	621	714	687	747	722	1,095

[1] Estimated.

Source: Department of Commerce.

TABLE 14.—CHEMICALS AND ALLIED PRODUCTS: SALES BY AMERICAN-OWNED ENTERPRISES ABROAD AND EXPORTS FROM THE UNITED STATES
[Millions of dollars]

	Sales by U.S. plants abroad	Exports from the United States	Total
1957	$2,411	$1,376	$3,787
1959	2,950	1,558	4,508
1961	3,890	1,789	5,679
1962	4,400	1,883	6,283
1963	5,130	1,994	7,120
1964	5,903	2,374	8,277
1965	6,851	2,402	9,253
1967	[1] 9,000	2,803	11,803

[1] Estimated by the Manufacturing Chemists' Association.

Source: U S Department of Commerce, except 1967 sales.

TABLE 15 —RESEARCH AND DEVELOPMENT EXPENDITURES, BY INDUSTRY, 1958–68
[Millions of dollars]

	All industries	Chemicals and allied products	Industrial chemicals	Drugs and medicines	Other chemicals
1958	8,389	792	553	128	11[1]
1959	9,618	891	600	154	137
1960	10,509	980	666	162	152
1961	10,908	1,101	706	180	215
1962	11,464	1,175	738	195	242
1963	12,630	1,239	809	216	214
1964	13,512	1,300	876	238	186
1965	14,197	1,377	928	268	181
1966	15,548	1,461	955	318	188
1967	16,415	1,569	1,004	356	209
1968	17,435	1,640	1,025	393	222

Source: National Science Foundation

TABLE 16.—VALUE ADDED PER EMPLOYEE COMPARISONS—CHEMICAL INDUSTRY—ALL MANUFACTURING—ALL ACTIVITY

	Value added (billions of 1958 dollars)			Number of employees (thousands)			Value added per employee (1958 dollars)		
	Chemical industry	All manufacturing	All activity	Chemical industry	All manufacturing	Total economy	Chemical industry	All manufacturing	Total economy
1947	$4.1	$91.8	$309.9	649	15,545	57,039	$6,317	$5,905	$5,433
1953	7.0	128.6	412.8	768	17,549	61,181	9,115	7,328	6,747
1959	10.9	138.9	475.9	809	16,675	64,630	13,473	8,330	7,363
1960	11.0	140.9	487.7	828	16,796	65,778	13,285	8,389	7,414
1961	11.5	140.4	497.2	828	16,326	65,746	13,888	8,600	7,562
1962	12.4	154.6	529.8	849	16,853	66,702	14,605	9,173	7,943
1963	13.1	162.4	551.0	865	16,995	67,762	15,144	9,556	8,131
1964	14.0	173.7	581.1	879	17,274	69,305	15,927	10,056	8,385
1965	15.9	190.5	617.8	908	18,062	71,088	17,511	10,547	8,691
1966	17.0	205.7	657.1	958	19,214	72,895	17,745	10,706	9,014
1967	17.4	206.5	673.1	1,001	19,447	74,372	17,383	10,619	9,050
1968	19.5	221.1	707.6	1,026	19,768	75,290	19,006	11,185	9,398
1969	(1)	(1)	727.5	1,049	20,121	77,902	(1)	(1)	10,708

[1] Not available.

Source: Department of Commerce, Department of Labor.

TABLE 17.—SELECTED ECONOMIC INDICATORS FOR THE INTERMEDIATE COAL-TAR PRODUCTS INDUSTRY, 1958–67 [1]

	Millions of dollars		Production workers			Millions of dollars				
	Value of shipments	Value added by management	1,000 hours	Number	Total employment	Production workers' wages	Total payroll	Value added per production worker	Value added per dollar of wages	Ratio of total payroll to value of shipments (percent)
1958	$817	$373	35,503	17,930	26,218	$97	$155	$20,809	$3.84	19.0
1959	994	480	38,531	18,837	27,153	107	169	25,462	4.46	17.0
1960	1,004	479	37,107	18,609	27,160	109	174	25,749	4.39	17.3
1961	1,015	493	35,779	17,401	25,888	109	175	28,317	4.53	17.2
1962	1,032	495	33,914	16,844	24,912	107	175	29,416	4.63	17.0
1963	1,108	570	35,725	17,576	26,089	116	191	32,444	4.91	17.2
1964	1,197	593	36,240	17,678	26,902	121	202	33,525	4.88	16.9
1965	1,371	656	39,623	18,970	28,393	135	224	34,555	4.84	16.3
1966	1,483	742	41,107	19,350	28,191	145	233	37,087	4.95	15.8
1967	1,485	708	39,000	19,000	28,000	(2)	238	(2)	(2)	(2)

[1] Standard industrial classification category 2815.
[2] Not available.

Source: Department of Commerce.

TABLE 18.—INDEX OF INDUSTRIAL PRODUCTION (1957–59=100)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 [1]
All manufacturing industries	93.2	106.0	108.9	109.6	118.7	124.9	133.1	145.0	158.6	159.7	166.9	173.3
Chemicals and allied products	95.8	109.8	116.6	123.4	136.1	148.6	159.6	173.4	193.2	203.8	221.7	238.5
Inorganic chemicals (subtotal)	97.1	106.7	110.6	113.7	122.6	135.9	149.3	159.7	176.2	190.9	198.0	208.1
Basic inorganic chemicals	95.3	107.1	110.9	112.0	124.1	142.0	162.0	184.5	214.4	237.4	249.5	262.9
Organic chemicals (subtotal)	91.4	114.4	124.1	136.3	158.1	174.0	190.7	211.7	239.9	254.9	289.0	314.5
Basic organic chemicals	92.2	110.7	125.1	136.1	150.2	158.2	163.6	172.9	195.9	216.2	226.8	233.8
Synthetic materials	90.4	118.8	123.0	136.5	167.2	192.3	222.3	257.0	291.0	299.9	361.3	408.4
Plastics materials	91.4	125.8	134.7	156.0	189.5	244.9	260.4	298.5	343.3	348.6	401.5	[2] 466.8
Synthetic rubber	88.9	116.5	121.1	117.3	133.0	135.9	148.7	153.3	166.5	161.1	179.5	[2] 189.4
Manmade fibers	89.6	111.4	109.8	119.0	150.6	170.0	198.2	237.4	264.8	281.9	365.4	400.7
Chemical products (subtotal)	98.6	107.4	112.9	116.8	124.4	134.2	140.3	149.8	164.6	170.7	180.3	193.8
Soap and related products	98.3	108.1	112.7	113.8	114.7	123.4	132.0	133.8	145.9	149.0	156.7	162.0
Paints	96.8	103.9	101.9	98.4	98.9	107.5	111.0	119.1	128.9	120.4	129.2	135.5
Fertilzer	95.9	107.9	110.3	114.9	117.6	126.1	129.5	134.4	136.4	139.8	134.1	132.0

[1] Preliminary.
[2] 11 months' averages.

Source: Board of Governors of the Federal Reserve System.

TABLE 19.—SELECTED ECONOMIC DATA: COMPARISONS OF CHEMICALS AND ALLIED PRODUCTS INDUSTRY WITH ALL MANUFACTURING INDUSTRIES, 1958-69

	Shipments by all manufacturing industries (billions)	Shipments of chemicals and allied products (millions)	Net profits after taxes		Percent profits after taxes of—			
					Net sales		Stockholders' equity	
			All manufacturing corporations (millions)	Chemicals and allied products (millions)	All manufacturing corporations [1] (percent)	Chemicals and allied products (percent)	All manufacturing corporations [1] (percent)	Chemicals and allied products (percent)
1958	$326.8	$23,174	$12,670	$1,646	4.2	7.0	8.6	11.4
1959	369.1	26,298	16,340	2,141	4.8	7.9	10.4	13.7
1960	368.7	26,585	15,198	2,011	4.4	7.5	9.2	12.2
1961	370.8	27,290	15,311	2,045	4.3	7.3	8.9	11.8
1962	397.4	29,273	17,719	2,239	4.5	7.4	9.8	12.4
1963	420.4	31,778	19,483	2,427	4.7	7.5	10.3	12.9
1964	448.0	34,261	23,211	2,857	5.2	7.9	11.6	14.4
1965	492.0	37,477	27,521	3,188	5.6	7.9	13.0	15.2
1966	538.5	40,797	30,937	3,474	5.6	7.8	13.4	15.1
1967	548.5	42,347	29,008	3,261	5.0	6.9	11.7	13.1
1968	603.7	46,465	32,069	3,525	5.1	6.8	11.7	13.1
1969	655.8	48,698	33,248	3,591	4.8	6.5	11.5	12.8

[1] Data on profits and profit rations cover all manufacturing corporations, except newspapers, as reported by the Federal Trade Commission and the Securities and Exchange Commission.

Source: Department of Commerce; Federal Trade Commission and Securities and Exchange Commission.

The CHAIRMAN. Mr. Burke had some questions, Mr. Ambassador, that he wanted to appear in the record with your answers. I will hand you the list of questions. He could not be here this morning.

(Questions and answers referred to follow:)

QUESTIONS SUBMITTED BY MR. BURKE TO AMBASSADOR GILBERT ON ASP

1. Is this country getting a quid pro quo for the elimination of ASP on rubber-soled footwear with canvas uppers?

A. At the moment there is no agreement with any country for eliminating ASP on rubber-soled footwear with canvas uppers.

If the Congress approves the elimination of ASP in the bill, the President will be authorized to negotiate reciprocal concessions for eliminating ASP on this product.

2. Can you assure us that the conversion formula for rubber footwear will not result in a tariff cut for such countries as Taiwan, Hong Kong, and Korea?

A. In my testimony I stated that we were awaiting results of the Tariff Commission study to determine whether the proposal in the bill should be maintained in its present form.

3. Is it not true that the Government has recently revised downward the value figures for rubber footwear imports, and that this change requires a revision of the formula so as to prevent a cut in duties?

A. Again we are awaiting the data being compiled by the Commission. There is some indication that data were not accurate at least for imports through one port.

4. Are you willing to modify the January 1, 1971, date for the rubber footwear conversion, so as to give the domestic industry an opportunity to adjust to the elimination of ASP?

A. Before rendering an opinion, it will be necessary to resolve the issue about the data and the proposed rate. I think that extension of the January 1, 1971 date will depend, in large part, on resolution of the problem about the rate.

The CHAIRMAN. Let me ask you a few questions, if I may, based upon some material that came to members of the committee this morning from the SOCMA, the Synthetic Organic Chemical Manufacturers Association, I believe.

I have only one thought in mind and that is to try to get information because I frankly know very little about the controversy other than what developed in our 1968 hearings.

Let me see what your answers would be to some of these points which they make, which I am sure are points they will make when they come before our committee in public hearing.

This is under the heading "Why the Congress Should Reject the Separate Package Agreement on American Selling Price."

One, the basic Kennedy round deal on chemicals is unreciprocal.

You have spoken to that.

Our negotiators agreed to cut U.S. chemical tariffs by almost 50 percent in return for a tariff reduction of only 20 percent by the Common Market and the United Kingdom.

You mentioned all of this in your statement, but you disagree, then, with the statement that they make here, apparently.

Ambassador GILBERT. That is my impression, Mr. Chairman. I have not prepared myself for a justification of the Kennedy round negotiations or their history.

The item which I have tried to prepare myself on, and tried to confine my testimony on, is the ASP Agreement before you.

The CHAIRMAN. I understand. Would you, though, advise us for the record of your views with respect to whether or not the original basic Kennedy round did do this?

Did we cut out duties under that, our chemical duties, by almost 50 percent in return for tariff reductions of only 20 percent by the Common Market and the United Kingdom?

That has nothing whatsoever to do with what is before us other than, I assume, this organization points this out to show that this factor should be considered as we weigh what we get in return in further reductions by European countries for the elimination of ASP.

Ambassador GILBERT. I think one would have to make that assumption.

The CHAIRMAN. Yes.

Ambassador GILBERT. As I understand it, the comment which you read was first the charge of lack of reciprocity in the Kennedy round, and; second, that there were reductions of more than 50 percent made?

The CHAIRMAN. Almost 50 percent. That was in return for tariff reductions of only 20 percent by the Common Market and the United Kingdom.

Ambassador GILBERT. I think I can undertake to submit an analysis of this for the record.

The CHAIRMAN. I would like for you to do it; if you will, please.

Ambassador GILBERT. I think it would be better than for me to try to answer it off the cuff.

The CHAIRMAN. I think so myself. I did not expect you to do it off the cuff. No. 2, there is no consideration for the separate package deal. It would require the United States to eliminate ASP valuation and to make further tariff reductions in excess of the 50-percent reduction required by the Kennedy round deal.

In return for this, the Common Market and United Kingdom would merely return to us the remaining 30 percent of the reduction which we have already paid for in the Kennedy round, and modify three relatively unimportant nontariff barriers.

Ambassador GILBERT. That is really a continuation, as I hear it, of the first point. My examination of this, as I tried to point out, or our examination on the part of the entire administration involved,

has been based on trying to satisfy ourselves that within the four corners of the so-called ASP Agreement, the supplementary agreement, there was reciprocity.

As I have testified, we have satisfied ourselves to that effect.

The CHAIRMAN. The third point also seems to be a continuation: For most benzenoid chemicals produced in the United States, the separate package would result in an additional tariff reduction of more than 20 percent on top of the 50-percent reduction authorized in the Trade Expansion Act.

Four, the separate package not only exceeds the broad 50-percent tariff cutting authority delegated by the Congress, but also contravenes Senate Concurrent Resolution 100 which warned our negotiators not to negotiate with respect to ASP without obtaining authority from Congress in advance.

Five, the separate package agreement will result in large increases in chemical imports which will not be offset by increased export opportunities.

You also dwelled on that.

Ambassador GILBERT. Yes, sir.

The CHAIRMAN. As a result of the first two 10-percent Kennedy round tariff reductions, benzenoid chemical imports have already increased 50 percent in just 2 years with no change in ASP valuation.

I wish you would check that and supply an answer for the record.

Ambassador GILBERT. We would be happy to, sir.

The CHAIRMAN. Six, the further tariff reductions provided for under the separate package will force some producers to drop products or close plants. Others will be forced to expand their facilities overseas in order to overcome their inherent labor and raw material cost disadvantages.

You may want to comment on that. I don't mean now but for the record when you get a chance to look at it.

Ambassador GILBERT. I would be happy to.

I might point out in an aside, if you like, one implication of the last point. Although I am not qualified on the subject of oil import program studies, I have sought to be certain that everyone approaching this problem has recognized the need for free availability to feed stocks for this industry so that it can remain competitive and keep its facilities in the United States.

I have seen no indication of any contrary feeling within the administration. I certainly would hope that everyone concerned will regard this as an essential of any future approach to the oil import program, that we must provide competitive availability of feed stocks to this industry.

The CHAIRMAN. The seventh point is: Implementation of the separate package would have a serious adverse effect on the deteriorating U.S. balance of payments and upon employment in the chemical industry.

It would cause imports to increase much more rapidly than exports and force the industry to export jobs and capital to plants abroad in order to remain competitive.

Eight, the Congress is being asked to implement the separate package without public disclosure of the Tariff Commission's findings and

conclusions as to the probable economic effect which such action would have upon the U.S. chemical industry and its workers.

U.S. tariff officials have repeatedly refused to release the Tariff Commission's findings to the Congress, industry or labor.

You can comment on all of these, if you will.

Nine, there can be little justification for the U.S. eliminating American selling price valuation at a time when our principal trading partners persist in maintaining and expanding their border taxes, export rebates, variable import levies, preferential trading arrangements.

These unfair methods for competition cost the U.S. hundreds of millions of dollars in exports each year.

Ten, the separate package is opposed by the Manufacturing Chemists Association, AFL–CIO, the Synthetic Organic Chemical Manufacturers Association, the International Chemical Workers Union, the Dry Color Manufacturers Association, District 50 of the United Mine Workers; the Oil, Chemical, and Atomic Workers, and numerous Mebers of Congress on both sides of the aisle.

We are unanimous that this reciprocal deal is not in the interest of the United States, its chemical industry or its workers.

I will let you have this so that you may go over it in preparing your answers for the record. We would appreciate your doing that.

Ambassador GILBERT. Thank you, Mr. Chairman.

(The information requested follows:)

RESPONSE TO SOCMA QUESTIONS

1. Evaluation of a trade negotiation must involve more than a comparison merely of the depth of the tariff reductions made. It must also involve a composite judgment which includes the nature and volume of the foreign trade subject to the tariff reductions as well as a qualitative judgment of the potential created for expansion of exports. Combining all these factors, the U.S. negotiated a balanced exchange with each major participant within the Kennedy Round while retaining ASP. In the Kennedy Round the U.S. obtained from the EEC, Japan, and Switzerland a combined average tariff reduction of 26 percent on their $890 million of imports. It, in turn, cut its duties by an average of 43 percent but on only $330 million of imports from them.

2. There is more than ample consideration for the supplementary agreement on chemicals. Under this agreement, the U.S. would reduce its chemical duties by an average of only about 5 percent and eliminate ASP. In return, the European Community is committed to reduce its chemical duties by an average of 26 percent and modify its road tax system to eliminate discrimination against American automobiles, a concession considered by U.S. auto manufacturers to be of value. The U.K. is, in turn, committed to reduce its chemical duties by an average of 22 percent and reduce the preferential tariff margin on its tobacco imports from us; Switzerland, which made a 49 percent reduction in its chemical duties in the Kennedy Round, agreed is ASP is eliminated to modify its regulations on canned fruit imports; and, finally, Sweden, Austria, Norway, Denmark, and Finland—none of which are parties to the supplementary agreement—are bound by the Kennedy Round agreement to make substantial additional reductions in chemical tariffs when the supplementary agreement is implemented.

The trade subject to these concessions is heavily weighted in our favor. The tariff reductions will apply to $330 million of our imports, but the concessions to be made by other countries involve $890 million of our chemical exports (both figures adjusted to a C.I.F. basis).

3. As indicated in the above responses, the U.S. tariff reductions averaged 43 percent in the KR and an additional 5 percent in the supplementary agreement, for a total average reduction of 48 percent, not 70 percent as suggested by SOCMA.

No reductions in excess of 50 percent were involved in the Kennedy Round and since none of the supplementary agreement reductions will be effective without Congressional action there is not presented on these facts any question of the Administration exceeding the 50 percent authority of the Trade Expansion Act.

It has never been denied that reductions greater than 50 percent are involved in the supplementary agreement. Further the Administration strongly believes that where any such reductions were agreed to, they were based on a decision that the resultant level of duty is sufficient to protect the overall intersts of the chemical producers. The industry has yet to meet this issue.

4. The supplemnary agreement in no way binds the U.S. Congress. It stands on its own terms. It is submitted for approval as an agreement containing reciprocity within the four corners of the agreement itself. As I said in my testimony, "Those who have enjoyed [ASP] for half a century are perhaps understandably loath to relinguish such effective insulation from the forces of competition even though what I consider to be an adequate effort has been made to provide them with satisfactory and reciprocal benefits in return. The question the bill before you poses must, however, be decided on the broader grounds of whether this agreement—both for its immediate benefits and for its longer range significance—is in our national interest."

5. In the two-year period referred to, 1967–1968, benzenoid chemical imports increased by less than $20 million over 1966. This is less than a 25 percent increase and certainly not the 50 percent increase which is alleged. During this same period U.S. exports of benzenoids increased by about $200 million, or almost 10 times the growth in imports. Moreover, as indicated in the formal statement, imports increase for a variety of reasons other than tariff reductions.

6. The recently issued Oil Task Force Report found both the majority and minority agreeing that the industry does not now suffer a raw material cost disadvantage. The available data belie any labor cost disadvantage. In this regard it can be noted that the value added per person employed in the U.S. chemical industry was $23,810, almost three times the average in the European chemical industry ($8,030 per person) and almost four times the value added per person in the Japanese industry ($7,860).

7. In my statement to the Committee I have presented the facts which would argue to an opposite conclusion. Such dire forecasts by the industry have certainly not been borne out thus far by the experience with the early KR tariff reductions.

8. Essentially what is involved is that the President, through his then Special Representative for Trade Negotiations, directed the Tariff Commission to conduct an investigation and to furnish him with its advice on the probable economic effects of both the conversion of tariff rates based on the American Selling Price system of valuation and the reduction of those converted rates.

The President further requested that the Commission's advice be reported in confidence, and the report was prepared by the Tariff Commission on this basis. The President then took this advice, and the supporting information supplied with it, into account and acted upon it. Under these circumstances, I do not see any means by which the conclusion can be circumvented that the documents in question were and are privileged communications prepared entirely for the use of the President in reaching decisions that he then made.

My predecessor, notwithstanding the above, and also fully aware of the separate matter of 18 U.S.C. 1905, agreed to make the material available to the Ways and Means Committee in executive session. In spite of any reservations as to the legality of this action, I am prepared to honor this commitment.

9. The justification for the elimination of ASP is simple—it proposes that we would give up one non-tariff barrier in return for the elimination by other countries of non-tariff barriers which they maintain against us while both sides make balanced reductions in their chemical tariffs. Such a deal is in the national interest and provides as well an opportunity to our chemical industry to improve on its consistent export surplus position. Discussion of other foreign non-tariff barriers applying to our trade generally is not pertinent to the issue before us—namely that of implementation of the self-balancing supplementary agreement.

10. The industry and labor groups cited have one thing in common. They have enjoyed ASP protection for almost half a century and are understandably loath to relinquish such effective insulation from competition. In opposition to this group, the Administration continues to support the position that the sup-

plementary agreement is in the interest of the United States, its chemical industry, and the workers of that industry.

The CHAIRMAN. I didn't know that the Tariff Commission had ever refused to submit to the Congress information that the Congress had asked for. Certainly, we will want this information. It may have to come to us in executive session.

Ambassador GILBERT. I think that may be the answer, sir, because the reluctance of the Tariff Commission in both this and previous administrations to make this business confidential information public may be based on law, but is certainly also based on the very practical consideration that if business is going to be ready to submit information to various government agencies on the assurance of a business confidential basis, we have to protect that availability in the future when we may need it very badly by honoring the commitment.

It certainly can be made available to the committee in executive session.

The CHAIRMAN. There is no question but what certain information has to be protected and not made available to the public.

Let me ask you this: I know you didn't intend it, but as I listened to you very carefully, very attentively, and with your statement before me, you were describing the strength of this industry and how it had grown and grown and grown.

You may have laid the case for the argument against the elimination of ASP if you are not careful. Those who come before the committee to speak in behalf of retaining ASP may use your statement, Mr. Ambassador.

I am wondering what the situation would have been if we had had the American selling price valuation for all of our products. Our tariffs would be much higher, would they? Would the American selling price protect against differentials in labor costs here and abroad?

Ambassador GILBERT. Certainly not directly, sir.

The CHAIRMAN. It wouldn't do it directly?

Ambassador GILBERT. I wouldn't think so.

The CHAIRMAN. I would think it would have the indirect effect of doing it if it didn't do it directly, because the American selling price apparently includes all costs which would include labor.

I know you didn't intend to make a case for the opposition but I am just wondering if the opposition won't seize upon this.

Ambassador GILBERT. The facts are certainly there. The industry is strong and it has grown. Whether I state them or someone else does, they are certainly the facts.

The point I think I was trying to stress which I really believe is the final acid test of competitive ability and need for protection of an industry is the fact that this industry has proven highly successful in competing in a world market situation where they have no special advantages.

The CHAIRMAN. Why did they deem it necessary to go abroad with any of their production, do you know? If they can produce here and sell abroad, why was it necessary for them to go abroad to produce and sell abroad?

Ambassador GILBERT. I was obviously not involved in any chemical company decision to do it, but I can conjecture that one of the impetuses for moving abroad was the fact, as you will recall, of the retalia-

tion in 1962 on the carpets and glass action, in the spring of 1962, to raise the tariffs in the European community at that time on certain areas of major chemical exports.

I don't recall the exact figures, but we had a very substantial market in the Community in certain areas of plastics, just as we have now, both in polyethylene and polystyrene, for which there was a rapidly increasing packaging and industrial use in general. The rates were jumped very substantially as a part of the carpets and glass retaliation.

In addition, of course, these normal business reasons for moving overseas. A customer is very frequently ready to place greater reliance on a supplier when the supplier's methods of delivery are by truck and rail rather than involving long transatlantic shipments.

A local base of supply is frequently also desirable as a way of developing and maintaining a substantial market, which, at the outset, was developed by export.

The CHAIRMAN. It was my recollection, Mr. Ambassador, of the retaliation carried out by the Community against chemicals that it was not across the board, and did not have application to most of our exports in chemicals.

Ambassador GILBERT. I think that is correct.

The CHAIRMAN. It was limited in the items that it affected.

Ambassador GILBERT. The two they thought were most sensitive to us, polystyrene and polyethylene. I don't know this, but it could be obtained either from industry or other sources, but my impression is that the first major chemical installations were for production of plastic materials.

The CHAIRMAN. Let me say for you that you have made a good statement. The present administration has the same view, then, of the past administration, that this is, in the opinion of both of you, a reciprocal agreement that apparently, on the basis of the dollar amount of trade, gives us an advantage of almost 2-to-1.

Ambassador GILBERT. That is right, sir. We think it is a good deal.

The CHAIRMAN. If it is 2-to-1, it is in our favor. It will be the first one we have ever had.

Ambassador GILBERT. That is a pretty good target to set for the future.

The CHAIRMAN. I would say so. I don't remember anyone else ever contending we had that much. We do well to get one-half against two. I will not take any more of your time.

Mr. Byrnes.

Mr. BYRNES. Mr. Ambassador, can it be said that this package is entirely separate from the Kennedy round negotiations, or weren't some of the actions in the Kennedy round taken on the assumption that there would be this additional package?

Ambassador GILBERT. Of course, I wasn't there or involved in it. My impression is that that was not true, sir. Subjects were discussed, obviously, about the same time as the agreements, on contemporaneous, but my understanding was that every effort was made by our negotiators to be sure that the Kennedy round would balance in itself and that this would have to stand on its own feet.

Mr. BYRNES. I thought there were certain interrelationships among individuals and subjects involved in negotiating. There were some changes in chemicals made in the Kennedy round, were there not, both

for the United States and the Common Market countries?

Ambassador GILBERT. That is correct, sir.

Mr. BYRNES. I wondered if there might not have been some interrelationship there.

Ambassador GILBERT. I can only conjecture on this. All I can say is that none of the Kennedy round agreements are contingent on this.

Mr. BYRNES. But if we don't enact your new proposal, are we going to be worse off? Stated another way, would we have had it better as far as the Kennedy round is concerned if there hadn't been this new proposal coming?

I wonder if we went a little further, in the Kennedy round, than we otherwise would in order to make this package more palatable.

Ambassador GILBERT. I can only conjecture, which wouldn't be profitable. I think all I can say is what I said earlier, that our examination of this in this administration has been to examine this agreement on its own four feet and see whether within this agreement we see reciprocity.

Mr. BYRNES. My concern goes more to the questions of whether there was reciprocity, how the elimination of ASP figured in negotiations, and whether it is desirable or not to maintain the ASP?

Basically, I am curious as to what was the reciprocity that was involved here. Was it a good bargain for us?

One of the contentions that was made during 1968 trade hearings was that, in looking at the whole range of trade negotiations along with what the Common Market was doing in terms of its border taxes, it could be argued that the Common Market—and one country, Germany, in particular—ended up with more protection than it had before as far as the chemicals coming from this country were concerned. They also ended up better as far as their exports to this country were concerned.

So they had it better both ways. You will find a tabulation on page 4550 of the foreign trade and tariff proposals hearings, part 10, involving sessions of June 28, July 1, and July 2, 1968,

This table has to do with German barriers to U.S. chemical exports, showing the percentages based on c.i.f. value. If you based these percentages on f.o.b. value, as we base our tariffs, the result would be higher percentages than are shown in this table.

Let me ask, briefly, on that point, when we talk in general terms of barriers to trade, do we attempt to equate our tariffs, based on f.o.b. value, with those of other areas which are based on c.i.f.?

Ambassador GILBERT. My understanding of the past, because there have been no negotiations since I have been in office, is that in weighing comparative advantages and disadvantages, this Government's approach has been to do this on a c.i.f. basis.

The actual assessment of tariffs under the customs laws is f.o.b.

Within the Government, in the previous administration, and I am sure it will continue in anything that comes up in the future, these have been translated to a c.i.f. basis in assessing reciprocity, so that we are talking apples and apples, and not mixing up two sets of statistics.

Mr. BYRNES. It seems to me that we have a little gimmickry here. It is more than gimmickry in fact. We have a situation which makes

tariff levels of the Common Market appear lower than they actually are because of a different base.

Doesn't it strike you that there is something wrong wherein the Common Market value added tax is not based only on the c.i.f. value, even, but is really on the value plus the tariff that has been assessed.

It is after the payment of duty that they apply their value added tax to an import.

In other words, they impose a duty, let us say, of 10 or 15 percent, and then they impose a further tax on that in the form of a value added tax.

Ambassador GILBERT. At the risk of sounding as though I was digressing, and maybe I am in answer to you, sir, the whole border tax problem or adjustments at the border is a complicated subject in itself. But let me make one point. In 1968, everyone concerned was looking at the problem of border tax adjustments in the light of the fact that the Germans had just changed from their old cascade tax, so-called, which was a tax on every transaction all the way through the process, to a tax on value added.

In the course of the change they moved from where they had been trying to average an effect of the cascade tax, which hit different industries and companies differently—an integrated industry paid a much smaller cascade tax, or there was a smaller cascade tax effect in the ultimate product than an industry which depended on a lot of suppliers to them for the earlier processes—and in the course of their averaging of the cascade tax effect my understanding is that in fact they had really been undercompensating at the border, certainly as applied to some companies and some products, and perhaps overcompensating as to others.

But in order not to be heavily overcompensating they really were probably net undercompensating. Then they shifted to a different internal tax system, of a tax on value added.

Its rate was a larger amount than the average they had been assessing in connection with the cascade tax. Every time there is a change of this sort there is a major problem.

Mr. BYRNES. We really haven't felt yet, have we, Mr. Ambassador, the full effect of their shift from the border tax and generalization by the Common Market?

Ambassador GILBERT. I was going to ramble on a little bit about Germany specifically.

At a subsequent date, after the change to the tax on value added, you will recall that the Germans, for their own internal reasons, concerned about inflation, put on a tax on exports and the net effect of it was a grant in favor of imports, which continued for a period of time until the Germans revalued.

The last thing I am is an economist, and certainly, I am not one of the special, peculiar breed of tax economists. When they start talking they lose me pretty quickly.

But some of these effects, it seems to me, clearly wash out in the course of revaluations.

Mr. BYRNES. Do you mean devaluation?

Ambassador GILBERT. They made an upward revaluation. What I think I am saying is that a heavy emphasis on the shift of the border adjustments in Germany when people were talking in 1968 had a much

greater significance then than any impact of border taxes today because there has recently been a very substantial change.

Mr. BYRNES. Let us go to this table and you can comment on where the table is off, or why it is misleading, if it is. The table shows that on December 31, 1967, before the Kennedy round reductions and the German border tax increase, the tariff was 11.5 percent, and the border tax was 4 percent, for a total barrier of 15.5 percent.

On January 1, 1968, their tariff on chemicals was 11.5, but their border taxes came to 10 percent, after the increase, so that you had a total trade barrier of 21.5.

On July 3, 1968, after full EEC-Kennedy round reductions, the tariff was 11.7 percent, but the border tax had risen to 11 percent, so you had a 22.7 percent trade barrier.

With the separate package reductions that you are talking about here, and the border tax harmonization, which hasn't fully gone into effect yet but will, apparently, by January 1, 1972, you will have a situation where the tariff is down to 7.1 percent, but the border tax would be up to 15.

The total tariff barrier, then, would be 22.1 percent.

If this is what happens, one wonders what became of the great Yankee trader. Somebody certainly has been very ingenious here to come out ahead after presumably making concessions in order to get equal concessions from us.

Ambassador GILBERT. I think perhaps, sir, I should confine an oral answer here to two comments, and ask your indulgence to submit a more detailed analysis.

The two comments I would like to make are—and perhaps it is only one—that I can see myself falling off the cart here on the logic of this table in that the barrier to trade I regard as applicable is a burden on imports which is not equally applicable to domestic production.

I think it is the trade barrier that we have to look at. To the extent the domestic producer is paying the same tax in competition in the German market, I would find it a little difficult to follow the addition of the first two columns and totaling them up into a second column.

It changes. I couldn't disagree with you at all.

Mr. BYRNES. Even a shift in their valuation with respect to border taxes, which results in a higher total tax, certainly is an additional burden.

That burden didn't change as far as their general imports are concerned; did it? They even exempt some items of import from the border taxes; as I understand it. They don't apply these taxes generally, do they?

Ambassador GILBERT. That is my understanding, except as to capital goods.

Mr. BYRNES. It is my impression that they acted selectively. I could be wrong. I would like to have you verify it.

Ambassador GILBERT. I would be very glad to submit a paper on it, sir.

Mr. BYRNES. If that isn't the record, tell me I am wrong.

Ambassador GILBERT. I doubt I will be telling you are wrong. It is very complex.

Mr. BYRNES. All I am doing is seeking information here.

Ambassador GILBERT. That I appreciate, sir.

Mr. BYRNES. I would like to have you follow through and see if the shift in border taxes, from a 4-percent rate on U.S. chemical exports to Germany in December 1967, to what will amount to 15 percent on January 1, 1972, means that there was also a change in the tax applicable to their domestic chemical industry.

Ambassador GILBERT. Exactly. This we will be glad to cover.

Mr. BYRNES. I wonder whether their taxes on the chemical industry have been going up that much, from 4 to 15 percent, from 1967 to 1972.

Ambassador GILBERT. All I can say as a quick aside on that is if they haven't, we have a basis for raising a certain amount of hell. And we will.

Mr. BYRNES. That is what I am trying to stimulate, really. I don't know why it isn't advisable to raise a little hell about the idea of applying a border tax.

They shouldn't be allowed to double it up and say, "We are going to consider the value of this product coming in, after we apply the duties."

Those duties are not imposed on their own domestic industry, so they are not equalizing. If you impose a level on the value of goods coming in, saying this is a tax that has to be paid, that is one thing. But if you double it up, I am not sure but that you are putting a tax on top of a tax, and this could have some basis for complaints.

Ambassador GILBERT. We will try to cover that point in the memorandum.

Mr. BYRNES. While you are doing that, on the following page of part 10 of those hearings is a record of U.S. barriers to German chemical exports as a result of the shift in the German export rebates during this period.

Our tariffs on December 31, 1967, before the Kennedy round, were approximately 15.9 percent. After harmonization with the full Kennedy round reduction, and the EEC tax harmonization at 15 percent, our tariffs went down to 9.1. But the German export rebate had risen in the same period from 4 to 15 percent. So there was a complete offset. In fact, they end up ahead of the game there, too. They are getting it both ways. They are getting their exports subsidized to a higher degree, and we are reducing our duty.

If this is the situation, I think we should be concerned about how we end up after all the gimmickry is added or subtracted, and we look at what the basic effects are as of January 1, 1972.

Ambassador GILBERT. Right.

Mr. BYRNES. Thank you very much.

(The information requested follows:)

BORDER TAX ADJUSTMENTS

VALUATION BASE FOR CONSUMPTION TAXES ON IMPORTED PRODUCTS

Countries generally include customs duties in the valuation base on which consumption (sales) taxes are charged on imported products. Customs duties are included in the base because: (1) to fail to do so would be to reduce the proportionate level of tariff protection as a result of the partial offset thereof through a reduction of the sales tax on imported goods: and (2) under many sales tax systems such as those where the tax is usually paid at a stage after the importation stage, it would not be administratively practicable to subtract customs duties from the full value of the final product.

All consumption taxes levied in the United States on the value of the product include the duty in the tax base for imported products. The Federal manufacturers' excise taxes are all levied on imports, at the time of sale by the importer, on the full value of the product, including customs duties. State and local retail sales taxes also include customs duties in the tax base. Federal and state commodity excise taxes which are specific taxes, not advalorem taxes, are not relevant to this question.

THE GERMAN CHANGE TO A VALUE-ADDED TAX

The Federal Republic of Germany adopted the value-added tax on January 1, 1968. The former consumption tax system was a gross turnover tax—known as cascade tax—which was charged on sales transactions for most goods and services at each stage of production and distribution, generally whenever a sale was made. The tax rate for each transaction was low, but the cumulative tax on the finished product was usually much higher.

The tables and text on pages 4550, 4551 and 4552 of the record of the trade hearings in 1968 before the Committee on Ways and Means are based on two erroneous assumptions: (a) the purpose and effects of border tax adjustments are similar to tariffs, that is, they apply to foreign but not domestic goods and provide protection to domestic producers by the full amount of the tax rate, and (b) a remission or exemption on exports of consumption taxes is *per se* an export subsidy to the full extent of the tax.

The assumptions would be true only if equivalent taxes are not imposed on similar German chemicals sold in Germany, to use the example on page 4550. But there is no product produced and sold in Germany that is exempt from the German value-added tax while a similar imported product is subject to the tax, nor is any imported product taxed at a higher rate than the similar German product. German products are subject to the same tax in the German domestic market from factory to consumer as are imported products from border to consumer. This crucial fact is ignored in the tables.

The only products exempt from the value-added tax in Germany are: (a) seagoing vessels, (b) securities, shares in corporations and other associations, legal currency and domestic official stamps; and (c) blood plasma. Imports of these products are therefore exempt from the tax.

The table on page 4550 uses a 15 percent value-added tax rate for Germany in 1972, assuming that that rate will be applied in all EEC countries in 1972. A 15 percent standard rate has been suggested by the EEC Commission on several occasions over the past few years, but the member states of the EEC have not yet taken a position on the suggestion.

Late in 1968 the German Government, concerned about inflation, imposed a tax on German exports and a subsidy on imports. This measure was followed by revaluation of the Deutsche Mark. Some—or perhaps all—of whatever disadvantage was suffered by our industries from the tax change may well have been washed out by these actions.

Mr. WATTS (presiding). Mr. Gilbert, I am glad you have been able to point out to us one American industry that is highly competitive over the world, that is successful and has made money in spite of our trade policy in foreign markets. You are to be congratulated for picking one out.

I am assuming from what you said that the benzenoid chemical industry has been very successful, and in all probability due to the American selling price. Is that right?

Ambassador GILBERT. That is a fact I don't follow, sir.

Mr. WATTS. If it hasn't helped it any, what is the use of doing away with it?

Ambassador GILBERT. I have no question in my mind, Mr. Watts, that in the early stages of the development of this industry when, as you will recall, there was pretty universal reliance around the world on the German coal-tar industry prior to World War I, when this industry developed during World War I to provide substitutes for what had previously been brought from what was then an enemy nation,

that the industry would have been in real trouble in 1922 if they had been exposed to a revivified German industry with all of its old talent.

The thrust of what I have been saying on ASP is that what was necessary to protect a still developing infant industry has long since lost its necessity, and we stand to gain more by reverting to a normal basis of valuation for customs purposes today than we do by maintaining this old system.

Just as an aside, you don't have the gray hair I have but in 1922, for example, customs valuation without something like the ASP as a practical matter would have been impossible.

On a shipment leaving Germany at various stages of 1922, by the time the shipment arrived here, with the German wild inflation of that period, to assess a tax on the basis of an F.O.B. price would have been to assess a penalty duty.

With the prices in Germany rising in the course of a ship crossing the Atlantic, with the "mark going to the devil" so fast, to provide a basis for a certainty in 1922, this was a highly appropriate device.

What we are saying is that the need for that special protection has long since gone. We have a highly competitive industry that can stand on its own feet.

Mr. WATTS. At the bottom of page 3 of your statement, you state, "Under the ASP system, a domestic manufacturer has certain unique and, I believe, unnecessary and unfair advantages."

My question is: Is there anything wrong with an American industry having a little advantage once in a while?

Ambassador GILBERT. I have always liked to have any fair advantage I could get; yes, sir.

Mr. WATTS. Stacked up against the hundreds of gimmicks that our manufacturers and exporters run up against in every country in the world, that is, border taxes, added value taxes, and so many of them I couldn't even recount them—if you filed all of them it would take 10 sheets to put them all on—we have one little thing that might be called a gimmick, and that is the American selling price.

Now this bill undertakes to do away with that, without, in my opinion, any compensation for doing so. What do we get back? We get back a tariff reduction that we should have had in the Kennedy round. We do away with the road tax somewhere, I guess in France or some other place.

The minute we do away with this, they will come up with some other gimmick.

The automobile manufacturers who testified here never testified it was bothering them or that there would be any relief to them if they got rid of it.

Then you say that the United Kingdom is going to reduce tariffs on tobacco. I represent a great tobacco section. That is about 12 percent, or an infinitesimal amount, compared to what the tariff is.

We have a seller's market in England on tobacco because they have an embargo against tobacco coming in from Rhodesia.

This thing won't do us one iota of good because it is so small that if they ever stop trading with us and go back to Rhodesia, the price down there is just about half of what ours is, so we are cut out of the market anyway. What do we get?

We are getting what we should have gotten in the Kennedy round on tariffs. We are getting rid of a road tax in lieu of something else that they will bring up to take its place, and nothing on tobacco because we already have the market.

There are only two places they can get it, Rhodesia and here. If they start getting it from Rhodesia, we haven't a prayer to compete with them because their price is half of ours.

The infinitesimal reduction that you are talking about wouldn't amount to a hill of beans.

I have some prepared questions here. I am sure it is certainly not your desire or this administration to single out this industry to hurt it simply because it has been successful in international trade; is it?

Ambassador GILBERT. Certainly not.

Mr. WATTS. And if the results would be that, you think it would be wrong to do it?

Ambassador GILBERT. Our appraisal is that the industry will not be hurt.

Mr. WATTS. They don't agree with you, and their laborers don't agree with you, and a lot of people don't agree with you.

I have some prepared questions I would like to ask you for the record, sir.

In 1966, the Special Representative for Trade Negotiations requested the Tariff Commission to prepare a report on the probable economic effect of eliminating ASP valuation and then further reducing the converted rates by 50 percent. In his request, your predecessor referred to the Tariff Commission as the agency best qualified to advise the President with respect to this issue.

Despite repeated requests from industry, labor, and numerous Members of Congress, including myself, your office has refused to release the Commission's findings and conclusions as to the probable economic effect of the supplemental agreement on chemicals which you are today requesting this Congress to approve.

How can you expect the Congress to intelligently consider this matter when you refuse to release the nonconfidential portions of the Tariff Commission's findings and conclusions as to the probable economic effect of the action which you are asking us to take?

Ambassador GILBERT. This was the subject of an interchange earlier.

Mr. WATTS. I heard that.

Ambassador GILBERT. My predecessor did, in 1968, offer to make this information available in executive session. It has been perfectly clear, apparently, in the past, and it seems clear to me, that if we are to preserve the ability to get business confidential information from business we have to respect the confidentiality of it.

I think my predecessor's decision was a correct one.

Mr. WATTS. Certainly, confidential information is confidential information. Nobody is expecting you to reveal that.

All we wanted was the findings, what the effect would be, not on this company or that company, or what this company was doing or what that company was doing. We wanted to know what the findings were, what the actual effect on the industry would be.

Ambassador GILBERT. To separate out the information from the Tariff Commission volumes about 5 inches thick to be sure all the con-

fidential information was removed from it is a task I wouldn't like to undertake.

I believe that the approach which has been made in the past to the problem of agreeing to make it available to the committee in executive session is a sound approach to the problem.

Mr. WATTS. You are going to make it available?

Ambassador GILBERT. Yes, sir.

Mr. WATTS. I have a few more questions.

In your letter to me, you stated that you could not see any means by which the conclusions can be circumvented that the documents in questions are privileged, executive branch communications, prepared entirely for the use of the President in reaching decisions which he then makes.

Even if we are to assume that this is a privileged executive branch communication, which the President has a right to withhold, is it not also true that we in the Congress have the prerogative to refuse to act with respect to the supplemental agreement unless the President decides to share with us the findings and conclusions of the administrative agency, the Tariff Commission, which your predecessor stated to be best qualified to prepare this report?

I assume you answered that in the first question.

Ambassador GILBERT. I think so.

Mr. WATTS. In your letter to me, you stated that inasmuch as your predecessor had agreed to let us see the Commission's findings and the conclusions in the executive session, you also would be willing to let us see the report at that time. We can't turn this committee into a star chamber proceeding, although I am sure we do at times, whereby you are permitted to specially plead your case before the committee in executive session while industry and labor would not be accorded an opportunity to rebut the Tariff Commission's findings, or perhaps I should say rebut your rebuttal of the Tariff Commission's findings.

What I want to know is why you can't place the Commission's findings and conclusions in the record, except, of course, for any portion that would reveal confidential business information. Of course, in doing so, you are free to put in any other material you may wish supporting or rebutting the Commission's findings and conclusions should you feel that to be necessary.

In other words, what I am trying to arrive at is shouldn't the people who are going to be affected by the action that you are asking this committee to take have some access to some portion of the findings of the Tariff Commission as to whether they were going to be injured or damaged?

Ambassador GILBERT. This information was collected, as I understand it—talking on belief, obviously, now—from some 800 or 900 companies.

In order to try to clear the way for exactly what you are talking about, I am informed that my predecessors asked the companies submitting the information as to whether it could be made public.

There was a sufficiently strong dissent from a sufficiently large number of companies so that the position as to confidentiality was supported by the sources of the information.

Mr. WATTS. I am satisfied that any company in any industry wouldn't want all of its facts bared to its competitors in this country or abroad.

Ambassador GILBERT. I quite agree.

Mr. WATTS. But I do feel like the people who are going to be affected by what you want done ought to at least have some inkling or some idea of what conclusions were reached and what those conclusions were based on, and what the effect of it is going to be, without divulging any confidential information that any company gave.

Well, we will pass that.

Ambassador GILBERT. I think I have really said all I can say on the subject.

Mr. WATTS. In his 1968 testimony, your predecessor in describing the Commission's report stated:

> The Commission advised whether particular concessions would or would not have an adverse effect on domestic producers, that is, whether this concession would or would not result in increased imports that would have significant effects on employment, profit levels, use of productive facilities, or on one or more of these economic factors.

What I want to know is why the Commission's advice as to whether particular concessions would or would not have an adverse effect on domestic production cannot be made public.

Why can't you tell us whether the Commission found that these concessions would result in increased imports and would have significant effects on employment, profit levels, use of production facilities, or any one of these economic factors?

It seems to me that it is essential that the committee have this information in order to be able to arrive at an informed judgment on this supplemental agreement.

I assume you are going to give it to us in executive session and we will have that information.

Ambassador GILBERT. I would also suggest that perhaps in view of the fact we are now talking about 1970, the testimony coming from industry representatives at a subsequent point in this hearing would perhaps be of even greater significance.

Mr. WATTS. Another question: In February 1967, your predecessor, in a letter to Senator Randolph, stated that the Tariff Commission's conclusions are stated in a summary form with respect to each and every item and subitem of the tariff schedules of the United States, which the Tariff Commission has proposed as part of the conversion of the ASP system with respect to benzenoid chemicals.

Since you refuse to release the Commission's findings and conclusions for insertion in the record, I want you to tell me what the Tariff Commission's conclusions were as to the probable economic effect of, one, with respect to dyes, with respect to pigments, with respect to dye intermediates, with respect to other products.

I would request that at the very least you submit the summary form of the Tariff Commission's conclusions for the record at this point.

I guess you are not going to do that. I guess you are going to give it to us in executive session.

Ambassador GILBERT. Yes, sir.

Mr. WATTS. We have gone over the concessions we are going to get, which appear to me to be nothing. Apparently, you lay great stress on

doing away with the road tax and allowing them to put up a county line tax or something else, and to reduce the tariff on tobacco which we can't sell over there anyway, if Rhodesia starts selling.

Ambassador GILBERT. I don't think I lay disproportionate stress on it. I think the guts of this agreement lays in the chemical field itself.

Mr. WATTS. I think, Mr. Ambassador, as one member of the committee, that we are very fortunate to have one industry that has been able to do well in the foreign field against tough competition.

It would not be my purpose to want to do anything to injure an industry that has had this kind of remarkable success in the face of all these gimmicks that have been raised abroad.

Thank you, sir.

Ambassador GILBERT. It would be the last intention of mine to see anybody hurt.

The CHAIRMAN. Are there any further questions?

Mr. Betts.

Mr. BETTS. I have a couple of questions to see if I understand more clearly some of the things that have been brought out in the discussion this morning.

As I understand it, in return for repeal of the ASP, some of our trading partners have agreed to do certain things which you have enumerated here in your statement and which Mr. Watts has commented upon.

Ambassador GILBERT. Yes.

Mr. BETTS. That doesn't include elimination of c.i.f. or border taxes, and other tariff barriers; is that correct?

Their agreements don't touch those; is that correct?

Ambassador GILBERT. The only nontariff barriers involved in this agreement are the road taxes, which our automotive industry at varying times has laid varying stress on, but in 1967 and 1968, they laid very heavy stress on these.

The second point is the then significant differential in tariff between Rhodesian tobacco and American tobacco, which, as Mr. Watts very properly points out, due to the British embargo on Rhodesian products, has even less significance today than it had then.

The third is on a Swiss removal of a nontariff barrier on American exports of canned fruits which contain corn syrup.

Those are the only nontariff barriers.

Mr. BETTS. I just want to be sure that it doesn't include any agreement on other nontariff barriers such as c.i.f. or border taxes. It doesn't touch those at all?

Ambassador GILBERT. I am not sure I understand the significance of c.i.f. as a nontariff barrier.

Mr. BETTS. I just understood it was.

Ambassador GILBERT. Not as I understand it. It is just a different method of valuation. In addition to cost, it includes cost, insurance, and freight.

Mr. BETTS. But there are all sorts of objections to it. I always assumed it was in the classification, maybe not properly denominated, as a tariff barrier, something in that classification.

A road tax is; isn't it?

Ambassador GILBERT. Yes.

Mr. BETTS. Isn't there a class of harbor duties in nontariff barriers?

Ambassador GILBERT. This ASP agreement, if it is put into effect, will not clear up a great many nontariff barriers.

Mr. BETTS. That is the point I am getting at. They would be subject for future negotiations.

Ambassador GILBERT. I couldn't agree with you more.

The only point I was trying to make is that as long as the ASP agreement which was made in 1967 is not put into effect, then the possibilities of negotiating on these other nontariff barriers which are not part of this weighing of reciprocity is a lost cause.

Mr. BETTS. The point I am getting at is after this is all done, the repeal of the ASP and these reciprocal agreements, what do we have left to bargain with?

Is it more tariff reductions to get rid of these nontariff barriers?

Ambassador GILBERT. No, sir. We have a reasonable number of interferences with trade which are asserted against us as nontariff barriers.

It would certainly be the contemplation that if we get into a serious negotiation with other countries non-nontariff barriers, we will have to be ready to put some of ours on the line, also.

Mr. BETTS. I am just interested to know what we have to offer. You say if we get into negotiations. Is it that remote?

Ambassador GILBERT. Well, it is a big "if". It is an "if" to this extent: Certainly, I am not going to get involved in any negotiations with any single or group of foreign countries in the area of nontariff barriers unless I am satisfied that there is a feeling in the Congress that they want it done.

I am speaking now as an individual. I think the congressional resentment against the agreements that were executed and presented to Congress as fait accompli had a good constitutional justification.

My intention is that I am not going to get involved in a repeat of that process. Therefore, I think anything that is going to be done in negotiations on nontariff barriers should receive, as the President has pointed out, and I tried to point out on Monday, some sort of blessing from the Congress that, "We know we are going to have some stuff we are going to have to do, too," but without approving in advance any specific agreements I should be informing the Congress as to what I think I can get, if I am good enough in negotiations, and what I might have to pay for it.

I think I should be guided by the Congress as to whether they want such an exercise undertaken. That is the "if."

Mr. BETTS. I was connecting my inquiry with the statement you made Monday, I think, in which you stressed the significance of nontariff barriers. I wanted to see what the possibility was of dealing with them and how soon. I understand now that there has to be some congressional expression of concern about them before you are willing to enter into negotiations. Is that correct?

Ambassador GILBERT. That form of congressional expression could take any form, including, sir, comments from the appropriate committees that you don't need any blessing and, "Why haven't you and your predecessors gotten off the dime and done some more about it before?"

I don't want any authorization to give anything away.

Mr. BETTS. But you do want some congressional expression of concern before you begin negotiations?

Ambassador GILBERT. That is right.

The record of the hearings might provide me with enough to indicate to people on the other side that it is going to be worth talking to me.

Mr. BETTS. I have one other question.

Mr. Watts has discussed the favorable trade balance that exists in the chemical industry because of ASP. I think you pointed out that if this were repealed there would be increased imports. Is that correct?

Ambassador GILBERT. I didn't quite hear you.

Mr. BETTS. You pointed out there would be increased chemical imports if ASP were repealed; did you?

Ambassador GILBERT. We, of course, laid great stress on the fact that the competitive ability of our chemical industry is well established by the fact that its exports in the world market, where it has no special advantages, have been very successful and have grown very well.

Mr. BETTS. Have you any estimate of what the effect would be on the balance in this industry if ASP were repealed? It has a favorable balance now. What woulud be the effect if we repealed the ASP?

Ambassador GILBERT. In our opinion, as a result of this AEP agreement, we would anticipate an improvement in the trade balance in the chemical industry.

Mr. BETTS. Thank you.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Following what Mr. Betts was talking about, on nontariff barriers, I assume we have a list of what we consider at least the obvious ones?

Ambassador GILBERT. We have a list of those that others have asserted against us, too.

Mr. BYRNES. And also a list of those that we feel exist in other areas?

Ambassador GILBERT. That is right.

Mr. BYRNES. To what degree is the removal of some of these limited by the requirement of negotiation? What I really mean is, are some of them under analysis? Are any of them in violation of GATT? I am talking about the other side, and I would like also the information as to whether people are alleging that some of ours are in violation of GATT.

Ambassador GILBERT. Yes; there are some of them.

Mr. BYRNES. On both sides?

Ambassador GILBERT. Yes. The one that has been most openly talked about recently on our side is the gun-control legislation. I think probably by inadvertence, Mr. Byrnes, it discriminates between domestically produced hand guns and those produced abroad. I am sure this was never intended by Congress.

Mr. BYRNES. I am not so sure.

Ambassador GILBERT. The miserable type of weapon they are talking about is something that isn't any better if it is made by an American manufacturer or made by a foreign manufacturer.

Mr. BYRNES. But there is the allegation that that is in violation of GATT?

Ambassador GILBERT. That is correct. We have actually been taken to GATT to answer for it.

Mr. BYRNES. You have been taken to GATT?

Ambassador GILBERT. That is correct.

Mr. BYRNES. I wonder whether most of the restraints that we have, or are alleged to have, in violation of GATT, have been presented to GATT and a protest made?

Ambassador GILBERT. Those in the area of formal protest?

Mr. BYRNES. Yes.

Ambassador GILBERT. I am conscious only of this gun control thing under active formal confrontation procedures at the moment. Of course, there also is a current proceeding in GATT, as I indicated on Monday, a long working program in which working committees, working groups, set up under the GATT examining barriers classification by classification. Each country involved that has been asserted to have a nontariff barrier is being called on to justify its practice.

The direction of these efforts are in the direction of trying to ascertain what really are nontariff barriers, where are their trade diversionary effects, and to try to conjecture, if you like, as to what conceivably could be methods of negotiating their removal or reduction.

We are going to know a good deal more about the area of what might be accomplished, what we might have to pay, 4 or 5 months from now.

Mr. BYRNES. There is a formal protest and a formal proceeding before GATT with respect to the gun-control legislation; is there?

Ambassador GILBERT. That is right.

Mr. BYRNES. And that is being pursued?

Ambassador GILBERT. That is right.

Mr. BYRNES. Are we pursuing any nontariff barriers that we believe are in violation of GATT that are being used by other countries?

Ambassador GILBERT. We have mounted an overall protest on all quantitative restrictions whether maintained by the other side of the Pacific or in Europe.

Mr. BYRNES. And that includes those cases where the restriction is zero?

Ambassador GILBERT. We are getting into how one can ever negotiate on the subject of a monolithic structure of government, banking, and industry which leads to a certain amount of loss of sleep when you think about it. I wish I knew a simple answer of how to go at it. This is one we will have to face up to.

Mr. BYRNES. But for the most part the list that we have of nontariff barriers in other countries has been submitted to GATT for a sort of general perusal, shifting, and discussions?

Ambassador GILBERT. It is more than a general perusal. We are pressing pretty hard inside these working groups, not to a stage of negotiation on any of them, but to try to press pretty hard to find out what is really involved, what the justifications are. and, as I said a moment ago, to try to use some imagination as to what conceivable basis of approach could be used in negotiating about them.

If I could be a little more discoursive in an answer to this, one of the areas which gives me great concern is an area of potential future effective nontariff barriers I think I may have alluded to this on Monday.

As we understand it, and for quite understandable reasons, the six nations of the European Community are in the process of trying to harmonize—their pet word—their various health, safety, and commercial standards. Of course, they vary from every country, even to such radical differences as to what are acceptable denaturants for alcohol. As I recall it, they are different in all six countries.

In the process, they are also working with the various seven nations of the EFTA, informally, three or four of whom are prospective members, and the others would probably get involved in these informal exchange agreements they have been operating on.

The thing that concerns me is that if we are not active, these things may get frozen in concrete. On what starts out as a perfectly justified and understandable effort to be sure each country is properly protecting their own citizens and consumers, all this sort of thing we are familiar with, we may get left out on the other side if we are not actively talking with them about nontariff barriers.

Just to speculate in areas that I haven't thought through, one of the problems, which could potentially become a very serious problem, is if the Community, for example, takes the position that all inspection has to be done in Europe. This means unless you make the thing in Europe it isn't going to get inspected. We have some of these, too. I am very much tempted to think that this Government and industry, segment by segment in industry, should at this point be very actively engaged not in any effort to have the U.S. Government impose standards on an industry, but to have some sponsorship within the Government of an industry-led attempt to agree on standards.

There may well be a time when we should, as a government, be proposing means, as our Department of Agriculture now does where health standards and safety standards on foods can be inspected abroad—we may have to take some action to encourage some of our independent standards operations to carry their inspection activities abroad.

We should be able to get a situation so our manufacturers are not excluded from the European market just because they manufacture here where there is no European inspection.

We may be able to do something by way of acceptance, mutually, of the other fellow's inspection techniques. We may have to try to guide the adoption of standards so that there isn't something in theirs that blocks us out, or that we could accept their standards, maybe getting them to change them so that they meet our requirements, as well.

My guess is this might turn out to be one of the most important areas of constructive activity to avoid future nontariff barriers.

Mr. BYRNES. To what extent have you focused on licensing as a nontariff barrier device? I understand that Japan, for instance, uses the licensing technique to quite an extent.

Ambassador GILBERT. They have a wide variety of licensing. There are some more onerous than others. But any form of licensing is something we don't like.

Mr. BYRNES. I know we don't like it. Is that approved by GATT?

Ambassador GILBERT. The GATT is more like our Constitution. It isn't that specific.

Mr. BYRNES. In other words, you don't think that licensing is necessarily a violation of GATT?

Ambassador GILBERT. We certainly are arguing to that and will attempt to maintain that position as strongly as we can.

One of the real vices, I think, of licensing, even if it is automatic, or so-called automatic, is that it provides an occasion where the prospective importer has to go to his bank and say, "I want a license to import this product," and if the banker raises his left eyebrow and says, "Do you mean you can't get it here in this country?" and if I am absolutely dependent on my banker's daily extension of credit, I probably decide then and there I don't want to import it.

So, it can be an effective part of a very essential piece of mechanics of an administrative control of imports which isn't sufficiently visible or frank to make a profitable subject for discussion in GATT. In that sense, we don't like licensing even if it is completely automatic.

Mr. BYRNES. Thank you, Mr. Ambassador.

The CHAIRMAN. Thank you again, Mr. Ambassador, for your statements Monday and today. We appreciate very much your responses to our questions, also.

Without objection, the committee will adjourn until 10 o'clock Monday morning.

(Whereupon at 12:28 p.m., the committee adjourned, to reconvene at 10 a.m., Monday, May 18, 1970.)

TARIFF AND TRADE PROPOSALS

MONDAY, MAY 18, 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.

Our first witnesses this morning are appearing on behalf of the Emergency Committee for American Trade: Mr. Kendall, Mr. Haggerty, Mr. Hazard, and Mr. Townsend.

STATEMENTS OF DONALD M. KENDALL, CHAIRMAN; ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN; ELLISON L. HAZARD; AND LYNN TOWNSEND, ON BEHALF OF EMERGENCY COMMITTEE FOR AMERICAN TRADE

The CHAIRMAN. Mr. Kendall, you are the chairman of the group, I believe. We appreciate having you with us this morning. If you will, identify yourselves for the record, and we will be glad to recognize you.

Mr. KENDALL. Thank you, Mr. Chairman and members of the committee. My colleagues and I are pleased to be testifying today on behalf of the Emergency Committee for American Trade.

I am Donald M. Kendall, chairman of our committee and president of PepsiCo, Inc. With me are Ellison L. Hazard, chairman of the board and president, Continental Can Co., Inc.; and Lynn Townsend, chairman, Chrysler Corp. Patrick E. Haggerty, chairman, Texas Instruments, Inc., had planned to join us but is unable to appear at this time. We will submit a statement on his behalf for the record.

The CHAIRMAN. It will appear at the conclusion of your remarks in the record today.

Mr. KENDALL. In keeping with your time schedule, we will speak briefly and submit material for your further consideration.

ECAT was formed in 1967 to oppose the surge of protectionism which you, Mr. Chairman, and your committee, have dealt with so constructively. Our members are gratified that U.S. trade policy has not been crippled by harsh restrictions that others have asked you to impose. We grew in a few months from a handful of companies to slightly more than 50, the number we have decided to maintain. ECAT members are practical, working businessmen. We have not become free trade theorists but, rather, have concentrated on specific

issues and have supported the reciprocal trade program because we know it has worked.

Our members have been personally involved in ECAT initiatives. We have taken the ECAT case to the Congress, to the prior and present administration, and to the public and, when necessary, we have taken it abroad.

It is a fact, Mr. Chairman, that we are mostly large companies. Many of our companies are larger today than when we last appeared here. And I may say that many of the companies and industries that were clamoring here for protection 2 years ago are also larger today. We are delighted by this latter fact.

We are particularly pleased to see the improvement that has taken place in the steel industry. In 1968, the industry's association asked your committee for a complicated system of mandatory quotas on grounds of national security needs.

It now appears that conditions have improved and the president of a major steel company was quoted earlier this month in the press as saying:

> In retrospect, the 1960's were rough on the steel industry. The combination of factors that combined to produce a climate of unfair world trade that was characteristic of much of the 1960's was really a blessing in disguise for the American steel industry. We upgraded our facilities, eliminated unprofitable products, invested in new materials and new businesses, and built a stronger base on which to grow and improve.

We hope this proves to be the case and that it helps demonstrate the healthy effect that international competition has on the American economy. ECAT believes that any drastic reduction in such competition could burden America with lethargic, non-competitive industries sheltered behind quota walls. The members of ECAT do not want to see a single job lost in America or to see even the smallest business suffer. Although ECAT comprises large companies with operations in every American State, our fortunes depend on the good health of thousands of small concerns, on suppliers, dealers, retailers, processors, and many others.

I, personally, believe that the backbone of American business can be found in the more than 3,300,000 companies in our country with fewer than 50 employees. I also feel these small companies have a greater stake in freer trade than they realize. ECAT members can easily reckon the billions of dollars that we contribute to America's exports and to its balance of payments. Small companies cannot measure their collective contribution so readily but they are no less essential to our standing in world markets and a great potential for improving our performance resides with them.

Your committee has been rightly concerned with America's balance of trade—a very significant area in which condition have changed since ECAT was last before you. In our view, the situation is not as bleak or as prohibitive to freer trade policies as those seeking protection would have us believe.

The history of the reciprocal trade program holds volumes of protectionist pronouncements that America had priced itself out of world markets and that we had better give up the game. The record shows that these judgments have been consistently wrong.

Our trade balance has indeed declined. We are not likely in the near future to see the $6 billion and $7 billion annual surpluses of a few years ago. However, I do understand that the current surplus is running at a $2.4 billion annual rate in 1970, approximately a threefold improvement over 1968 and nearly a twofold improvement over 1969 when the recorded surplus was $1.3 billion.

Europe, Canada, and Japan and other countries are challenging our competitive edge in many manufactured goods, as Secretary Stans outlined here last week. The green revolution is easing—at least, temporarily—the demand for American farm products and trade balances in natural resources are worsening. These are real changes and present real problems. But they are no cause for the kinds of quota legislation now being proposed.

First of all, there are offsetting factors. For example, it is true that technology moves faster around the world today than in the past. It is also true that advanced technology is generated and applied much faster today than in the past. American primacy in this area is firmly established.

Second, other factors that have damaged our trade balance are subject to correction. We know an overheated economy sucks in imports. Economists can actually predict the abnormally high rates at which this occurs. We have had such an economy for a number of years, accompanied by inflation as the consequence of the war in Southeast Asia and rising demands at home. ECAT believes that ameliorating these problems—so critically important in itself—will significantly improve our performance in trade. We also believe that the United States is capable of exporting far more than it does today.

Despite our declining trade balance, U.S. exports have continued to climb at the historic rate of 7 percent a year. Those who despair of our competitive abilities either ignore this important fact or are unaware of it. This seven percent rate is not up to our capacities. I believe the United States could be termed an underdeveloped country when it comes to trade. Almost every country in the world exports a far higher percentage of its gross national product than the United States. We cannot blame this fact completely on our continental economy, on competitive factors or on foreign restrictions. Part of it is our own fault.

It is important to encourage export mindedness in the United States and to provide the means for American producers to compete on even terms with others on matters like export credit and tax incentives. It is even more important in terms of fairness as well as trade figures to use every means possible to open foreign markets to American products on the same basis that our markets are open. We do not believe this should be a subject for acrimony or name-calling but rather for vigorous, tough negotiation.

You have heard administration witnesses propose new measures to improve our export performance such as Domestic International Sales Corp. We have not studied this matter to a point where we can comment precisely on various proposals but our members are well aware of the competitive advantages that foreign producers enjoy as a result of the assistance and encouragement they receive from their governments in world trade. We strongly recommend vigorous and even costly action to improve the export side of the trade equation.

We believe that as American producers become more export-minded the initial investment will be repaid many times, that the appetite will grow on what it feeds, which is certainly the case in many other countries.

While there is great need for improvement, we must call attention to the inconsistency of protectionist claims that, on one hand, the United States cannot compete in world markets and that, on the other, there is widespread discrimination against our exports. After all, if our products were not competitive, there would be no need for other countries to discriminate against them.

If discrimination was as severe as some say, we could not have racked up the big surpluses of the past or the modest, but improving, one of the present.

We must also recognize that one-sixth of American trade is covered by quotas. It is impossible for ECAT members to conduct our businesses around the world without being daily reminded that the United States has its full share of import restrictions. Unlike some countries, we have managed to accommodate many of these restrictions to the letter of international rules. It would be erroneous, however, for members of this committee to presume that ours are the only clean hands in international trade or that ours is the only open market in the world. The facts are that no nation has perfectly clean hands or a wide open market.

What we believe is needed is the negotiation of a series of agreements adding up to a "fair competition policy" that would establish reasonably equal competitive conditions for all traders on matters like subsidies and bidding on Government procurement. We believe that the kind of cooperation that would lead to such a policy could also be employed to establish common policies on issues assuming new importance in the world such as the safety of products traded internationally and even safeguards against undue damage to the environment.

ECAT can only predict that the forces working in favor of our trade balance will prevail and that vigorous efforts to obtain fairer treatment of American goods will succeed. We can, however, be categorical in stating that legislated quotas and other restrictions are self-defeating in terms of our trade balance.

The record shows that restrictions breed restrictions, that nations can and do retaliate and the results cancel each other out on a downhill race. Protectionists will tell you this won't happen—ignoring recent American retaliation on chickens and Belgian retaliation on carpets. We are also certain that the cost of quotas domestically is higher prices, less ability to compete abroad and less incentive to compete at home.

Japan is probably the country where changes affecting our trade position have occurred most dramatically. In a few short years, our trade balance with Japan has completely reversed itself and we are now operating at a substantial deficit. ECAT has been very concerned about this situation.

We note, among other things, that developments in Japan shed light on the simplistic notion that low wages are the most important factor in world trade. Japanese wages have doubled and tripled in recent years and yet, Japan's trade performance has steadily improved. Yet, despite its rapid rise in the ranks of major industrial powers, Japan still main-

tains a relatively closed market to both foreign goods and capital—a far cry from the environment of fair competition that we have espoused.

Rather than wring our hands about this situation, the members of ECAT see great opportunities in the Japanese market and we see equally great dangers, political as well as economic, in a policy of matching their restrictions with restrictions of our own making.

We have met a number of times in the United States with Japanese business leaders who believe as we do, that the best interests of both countries are to be found in fair competition. This March, a team of ECAT members visited Japan for an important meeting with our counterparts there who have formed an ECAT-like group to press openly for liberalization of Japanese restraints on trade and investment.

We have seen the results of their work and they are very encouraging although the outcome is still in precarious balance. We look forward to substantial American sales in Japan and profits from operations there but we are most apprehensive about the danger of protectionism in the United States playing into the hands of the still powerful Japanese economic nationalists.

I would like to add that ECAT members have also met in the United States and Europe with a group of business leaders from the European Common Market. As in the case of our Japanese endeavors, we have encouraged them to urge upon their governments policies of fair treatment of American trade and investment. Just as the Japanese businessmen have given us evidence that they have been influential in accelerating a policy of liberalization, the Europeans have convinced us that they are working hard to prevent restrictions on such American exports as soybeans.

Obviously, these business-to-business contacts can only be of limited help in bringing about fairer treatment of American trade and investment. But, to the extent that they can help at all, ECAT is prepared to continue them. We believe there is too much at stake to overlook any medium of effective communication.

The chief device offered by protectionists for dealing with the U.S. trade balance has been import quotas. Although ECAT does not wish to appear doctrinaire on any trade matter, it is difficult for us to be anything else on the subject of import quotas.

I believe you are familiar with why we do not regard quotas as a practical solution to trade problems. In addition to the factor of retaliation, quotas should be anathema to any businessman. They place in the hands of Government officials the power to favor one firm over another, one region over another, one set of labor practices over another, or what-have-you. No matter how skilled their administration, they are the hallmark of a "planned" as against a "market" economy.

As you know, Mr. Chairman, ECAT was formed to oppose quotas. We are well aware that the various proposals for "orderly marketing agreements" or "equitable trade" bills have a rhetorical appeal and a facade of fairness. But, in fact, they would restrict trade in a meat ax fashion. They would cut off competition without any proof of injury.

Moreover, they would engender an alien idea in the American economy—the idea that each industry should have an arithmetic share in future growth and be restricted to a fixed percentage of future resources. It is difficult to offer an analysis of how such measures would

operate and what their precise effect would be because of the multitudes of uncertainties that attend them. Most would be a thrust into the unknown—a radical and even reckless experiment.

Voluntary quotas may also be more attractive than mandatory ones but they obviously have their own drawbacks. The bitterness that has been engendered in Japan and other countries by real or imagined inequities in certain voluntary quotas is evidence of this. ECAT has not opposed voluntary quotas when they are the only practical alternative to more objectionable measures. We are not purists on the subject. This leads to the difficult subject of textile quotas.

The members of ECAT are naturally reluctant to disagree publicly with fellow businessmen, who in many cases are old and valued customers. Yet, we cannot concur with the view of the textile industry that textile quotas should be applied across-the-board and that the time-tested and internationally accepted principle of proving injury before relief is granted should be abandoned.

These principles, Mr. Chairman, are hard won in this world. It is in the interests of the United States to do everything possible to strengthen rather than undermine them. They include, for example, the principle that expropriation should not take place without prompt and adequate compensation. This is really a "law and order" issue and the United States has the most to lose if the few rules that have been established are vitiated.

Again, we are not unsympathetic to the textile industry's problems. We are aware that disagreements exist as to very important facts such as sales, profits, and employment. We recognize that aggregate statistics can often mask particular problems. These problems can be painfully real and should be exposed so that when damage is being done to a particular part of the industry, remedies can be applied.

It is, of course, our hope that when relief is justified, it will be granted in accord with international obligations. In short, we recommend relief when demonstrated and warranted. If this relief could take the form of voluntary agreements with supplying countries, we would welcome it.

What I have said about textiles is generally applicable to other industries experiencing difficulties.

I would like to add another cautionary comment about dealing with other countries on problems of imports. You will hear many arguments based on self-interest. Certainly, the views of ECAT spring from self-interest—enlightened, we hope—but self-interest, nevertheless. In the case of Japan, we believe that the current fixation with textiles that has required so much attention over the past year while the problem of open markets has been neglected is like playing ball in a sandlot rather than in the big ball park.

We believe that much of the time and energy devoted to the textile problem with Japan could have been better used in opening the growing Japanese market to American autos and farm goods and the like. We ask you to consider this view when you hear the views of those who would have quotas at any price.

In this connection, we would like to emphasize our recognition that action on trade policy should be considered in the context of the interrelationship of all elements of our international economic policy. I have mentioned our business concern with the close relationships between trade and investment. We realize that you must bear in mind

the fact that action on either of these matters will have ramifications in other areas such as monetary and financial affairs. We fully realize that the hearings before this committee relate to a very large and crucial universe of which we as businessmen are only a part.

THE TRADE ACT OF 1969

When the President sent his message on foreign trade to the Congress on November 18, 1969, ECAT commented:

> In his proposed Trade Act, President Nixon appears to have written precisely the right prescription for the United States at this juncture in its trading relations with the rest of the world.

We have since been able to study the act further and are now able to place our considered support behind what we regard as a positive program, one that will make it clear to the rest of the world that American trade policies will continue to be sensible and consistent.

We further believe that the act will stimulate similar prudent and positive actions on the part of other nations.

NEGOTIATING AUTHORITY

ECAT supports the granting of authority to the President for a 3-year period to reduce tariffs by 20 percent or 2 percentage points ad valorem below the rate on July 1, 1967. We understand that no important new tariff negotiations are envisaged but the authority would enable the United States to offer a tariff reduction on one product in compensation for an increase in the tariff on another.

Such tariff increases might occur, for example, as the result of an escape clause action. Without such compensation, the affected countries might choose to retaliate against U.S. products—which is how trade wars start. We would also have to go back to the time before the Trade Agreements Act of 1934 was passed to find another period when the President had no latitude to negotiate reductions in tariffs.

AMERICAN SELLING PRICE SYSTEM (ASP)

ECAT would welcome the long overdue abolition of this anachronistic feature of the import valuation system in our foreign trade policy. It has been an impediment to the United States in our efforts to obtain fairer treatment of American exports by the elimination of many nontariff barriers in other nations.

The original reason for granting special protection for benzenoid chemicals in 1922 to foster the development of a new industry has long since disappeared. There is now no justification for providing privileged treatment to one industry while denying it to others. ECAT understands that the elimination of ASP will result in additional reductions by other nations of tariffs on U.S. chemical exports and end certain nontariff barriers that impede exports of U.S. automobiles and tobacco. We consider this a fair deal with important symbolic benefits.

CONGRESSIONAL STATEMENT ON NONTARIFF BARRIERS

In his message to the Congress, the President requested a congressional statement of intent that would direct him to seek to negotiate

the reciprocal lowering of such barriers. We realize this will be a difficult undertaking and are pleased that the President has promised to work closely with the Congress in carrying out its intent. ECAT warmly endorses this proposal and its members will cooperate with Government officials in the efforts resulting from it.

ESCAPE CLAUSE

The escape clause in intended to enable American industries to adjust to serious injury from imports through the temporary imposition of higher tariffs or quotas. The bill provides that relief will be available whenever increased imports are the primary cause of actual or threatened serious injury to a domestic industry.

Presently, the import increases have to be related to an earlier tariff reduction. In fact, most U.S. imports have been subject to such tariff concessions and ECAT believes that if imports are a cause of injury, that is the relevant fact and prior tariff reductions are now only incidental.

We know this change will be critized by many advocates of freer trade but we have concluded that it is a practical means of assuring fair consideration for the needs of domestic industries. We assume, however, that the Congress will make it clear that it wishes the test of imports as a primary cause of serious injury to be a meaningful and exacting one.

ADJUSTMENT ASSISTANCE

ECAT strongly supports the concept of assisting industries, individual firms and groups of workers to adjust to foreign competition. As in the case of the escape clause, we believe the President's proposal to drop the link between increased imports and prior tariff concessions to be a sensible one. We also think that the proposal for requiring that imports only be a substantial rather than a primary cause of damage is reasonable.

With regard to both the escape clause and adjustment assistance, ECAT would like to see steps taken to assure more prompt action on industry requests. ECAT is unwilling to defer to anyone in its concern for the plight of businessmen and workers in demonstrated need of assistance as the result of the effects of foreign trade.

In our opinion, the failure of administrative procedures to provide such assistance promptly and in full measure is a national disgrace. Like justice, assistance delayed, is assistance denied. We do not offer any specific proposals on how this situation may best be corrected but suggest that Congress express its views.

RESTRICTIVE ACTIONS BY OTHER COUNTRIES

ECAT is, of course, opposed to all forms of unfair competition but believes that these should be dealt with under international rules. We approve of that part of the recommended revision of the Trade Expansion Act of 1962 that would extend section 252 coverage to all U.S. products and not just agricultural ones.

On the proposal for extending the potent retaliatory power of this section to cases of subsidies of exports to third countries, we believe this might better be dealt with by the negotiation of an international

code that would define subsidies, their legitimate uses and limits and provide appropriate sanctions for violations. This approach is consistent with ECAT's espousal of a fair competition policy and with the spirit of GATT.

Like many businessmen, the members of ECAT have been troubled by the fact that section 252 presently overlooks the close link between U.S. investments and exports. ECAT has worked for recognition of the important fact that when a country restricts our investment, it also damages our trade since investments almost always result in substantial exports of machinery, parts, and the like. Therefore, in exhibit A, ECAT offers detailed justification for an amendment that would establish this link and the statutory language recommended for effecting it. We commend this to your attention as a matter for serious concern.

GENERAL AGREEMENT ON TARIFFS AND TRADE

ECAT is pleased to be able to endorse the proposal for annual appropriations of the U.S. contribution to GATT. This simple action will have useful ramifications in our efforts to encourage fairer treatment of American trade.

ITEMS 806.30 AND 807.00 OF THE TARIFF ACT

ECAT recommends that the present patchwork treatment of American-made products that are exported and then retuned to the United States with foreign value added be made consistent. We are strongly opposed to eliminating the present sections unless this is accomplished. Without the present sections, the United States would lose valuable export markets and any gains in U.S. employment resulting from elimination would be quickly offset. In addition, ECAT is opposed to the principle of placing any tariffs on American-made products.

In conclusion, ECAT would like to thank the committee for its interest in our views and for the monumental canvassing of the opinion of so many Americans at these hearings. We hope we have been helpful and we hope we have adequately documented our judgment that American trade policy should be continued in the same spirit that has earned it wide acclaim as the most successful economic policy of our time.

(The material referred to follows:)

EXHIBIT A

RATIONALE FOR PROPOSED AMENDMENTS TO SECTION 252 OF THE TRADE EXPANSION ACT OF 1962

The attached proposed amendments to Section 252 of the Trade Expansion Act of 1962 would modify this section in three respects:

1. The President's authority to retaliate against countries maintaining unjustifiable restrictions against U.S. commerce would be broadened to encompass *all* U.S. exports, not just agricultural exports.
2. The President would be armed with new authority to impose discriminatory import restrictions against countries nullifying or impairing tariff concessions to the United States by restrictions on U.S. direct foreign investment.
3. The President's use of his retaliatory authorities under this section would be circumscribed by an enjoiner to take "due regard for the international obligations of the United States."

BROADENING THE PRESIDENT'S AUTHORITY

At present, Section 252 authority to take retaliatory action against countries unjustifiably restricting U.S. commerce is limited only to U.S. agricultural products. U.S. efforts to ensure fair treatment for U.S. exports would be strengthened considerably if the President had the means to take effective action on all American exports.

EXTENDING THE PRESIDENT'S AUTHORITY TO FOREIGN INVESTMENT RESTRICTIONS

A country is in violation of the General Agreement on Tariffs and Trade (GATT) when it fails to compensate another country for nullifying or impairing grants reciprocal tariff concessions on parts and components and then denies its trading partner, by investment restrictions, the opportunity to assemble these parts and components, ECAT is of the opinion that the tariff concessions granted to the United States have been nullified or impaired.

The case of the automobile industry provides an excellent example. The fact that U.S. automobile manufacturers have not been allowed to invest in Japan precludes a substantial volume of shipments of productive car-making equipment to Japan, as well as necessary components and parts for assembly, that would follow the direct manufacturing investments. Further, tariff concessions on such equipment, components and parts have little, if any, consequence in absence of the ability to invest. The value of such tariff concessions, therefore, is impaired by the investment restrictions. Under current law, the President has no authority to deal with this problem.

The proposed amendment to Section 252 would remedy that deficiency. It would give the President the authority to impose discriminatory restrictions against imports from countries restricting U.S. foreign direct investment when such restrictions impair or nullify tariff concessions that have been granted to the United States. Such discriminatory restrictions would be imposed, however, in accordance with our international obligations under the GATT, particularly, in accordance with Article XXIII, which provides for discriminatory import restrictions against any country nullifying or impairing tariff concessions.

LIMITING THE PRESIDENT'S RETALIATORY AUTHORITY

Subsection (a)(3) of Section 252 authorizes the President to impose retaliatory on imports from any foreign country maintaining unjustifiable import restrictions against U.S. agricultural products to the extent that he deems such action necessary and appropriate, "notwithstanding any provision of any trade agreement." In other words, exercise of this provision could be under circumstances that would violate our GATT obligations.

ECAT firmly believes that the United States should always act in conformity with its international obligations, lest it provide a poor example to the rest of the world to the detriment of U.S. commerce. For this reason, Section 252 would be amended, so as to delete the clause condoning action in violation of our international obligations and to enjoin the President to take "due regard for the international obligations of the United States."

PROPOSED AMENDMENTS TO SECTION 252 OF TRADE EXPANSION ACT OF 1962

Subsection 252 of the Trade Expansion Act of 1962 (19 U.S.C. 1882) is amended as follows:

(a) In subsection (a)(3), strike "notwithstanding any provision of any trade agreement under this Act" and insert in lieu thereof "having due regard for the international obligations of the United States", and strike "agricultural" wherever it appears.

(b) Subsection (d) is redesignated subsection (e), and a new subsection (d) is inserted reading as follows:

"(d) Whenever the President determines that—

(1) a foreign country or instrumentality has granted a tariff concession applicable to a United States product;

(2) such United States product is not likely to be exported in significant quantities to such foreign country or instrumentality unless direct United States investment is made in that country or instrumentality in order to assemble, manufacture, or further process such product;

(3) such foreign country or instrumentality has imposed unjustifiable or unreasonable restrictions on such direct United States investment; and

(4) such foreign country or instrumenality has thereby impaired or nullified the value of the tariff concession applicable to such United States product, the President may, to the extent that such action is consistent with the purposes of section 102, and having due regard for the international obligations of the United States, impose duties or other import restrictions on the products of such foreign country or instrumentality."

(c) New subsection (e) is amended by inserting after "United States commerce" in the first sentence "and concerning the restrictions on direct United States investment abroad which are referred to in subsection (d)".

STATEMENT OF ELLISON L. HAZARD

Mr. HAZARD. Mr. Chairman and members of the Ways and Means Committee, I am Ellison L. Hazard, chairman of the board and president of the Continental Can Co., Inc. I am pleased to have this opportunity to appear with my associates from the Emergency Committee for American Trade to express my serious concern about the direction of our Nation's trade policy and its implications for my industry.

Packaging, Mr. Chairman, is the fourth largest industry in the United States. Unlike some industries, packaging is not susceptible to easy categorization. The industry's operations are diverse and widespread. It uses a very wide range of materials, most of them produced in the United States.

The industry's domestic sales and production are far more significant than its international activities. Yet, I believe the industry has a critical stake in the subject of your hearings and I wish to strongly recommend that the committee renew our Nation's policy of international trade expansion under conditions of reciprocity. I believe this can best be accomplished by enactment of President Nixon's trade proposals.

Let me present a few salient facts about the interests of my company and the industry of which it is a part, and the relationship of these interests to freer trade. Many packaging companies, including Continental Can, have operations in many countries. As you know, the United States is the world's leader in the field of packaging.

Our methods and processes and technology are needed and emulated in almost every nation.

As an illustration, my company has over 50 licensing agreements with packaging companies throughout the free world. In addition, we own and operate 61 plants abroad. Their earnings make a substantial contribution to the hard-pressed balance of payments of the United States.

These overseas plants serve overseas markets. There is very little international exchange of finished products in the industry, because most of our finished products are normally quite bulky and do not lend themselves to shipment over great distances. Thus, if we did not operate abroad, others would take our place to the detriment of American economic interests.

What is traded internationally are the raw and semifinished materials on which this industry is dependent. The balance of this trade, as applied to packaging, is very much in the favor of the United States.

Paper and paper products are an important part of our company's activities. As a matter of information, our company ranks third in the production of paperboard in the United States.

These facts, and the importance of paper operations to our company, all have an important bearing on the welfare of the 48,000 Americans my company employs in its plants in 33 States and on the welfare of a company with annual sales approaching $2 billion, 72 percent of which are generated in the United States.

As I understand the legislation before you, the basic choice is between the proposals of the President which would continue U.S. trade policy on the same course it has followed for many years and a variety of bills that would subject trade to regulation by quotas. I realize that some of these quota bills are restricted to one or two commodities and some are more general in nature.

Since my company is not dependent to any extent on imports, it may appear that we should be indifferent to the outcome of your considerations. To the contrary, however, there are a number of reasons that compel me to support the policies that your committee has promulgated in the past and are now proposed by the President.

Our first consideration involves the international climate in which we must operate. The notion that national economies are neatly divided into domestic and international business is not borne out in our experience. When trade is subject to restrictions and the hostile policies that restrictions engender, it becomes more difficult to operate efficiently in any country. Our plants overseas are dependent to a large extent on cooperative relations among the countries concerned. And especially with the United States. We would not wish them to be caught in the middle of a trade war.

Additionally, we regard international competition in raw materials as a beneficial restraint on rising prices which, as you know, are a problem everywhere in the world. Without the spur of such competition, our industry and the people we serve would find suppliers less impelled toward policies of maximum efficiency, modernization, and competitive pricing.

Although ECAT does not wish to appear doctrinaire on any trade matter, it is difficult for us to be anything else on the subject of import quotas. I believe you are familiar with why we do not regard quotas as a practical solution to trade problems. In addition to the factor of retaliation, quotas should be anathema to any businessman. They place in the hands of Government officials the power to favor one firm over another, one region over another, one set of labor practices over another, or what-have-you. No matter how skilled their administration, they are the hallmark of a "planned" as against a "market" economy.

In conclusion, I would like to say that we are opposed to quotas not only as members of ECAT but simply as businessmen.

The CHAIRMAN. Thank you, Mr. Hazard.

Mr. Townsend, you are recognized.

STATEMENT OF LYNN TOWNSEND

Mr. TOWNSEND. Thank you.

Mr. Chairman and members of the Ways and Means Committee, I am Lynn Townsend, chairman of the Chrysler Corp., and I am delighted to be here today with some of my fellow members of the Emergency Committee for American Trade to support continuance

of the historical reciprocal trade policies of the United States and to recommend approval of the President's trade proposals.

I would like to preface my remarks by quoting from a current statement of policy of the Automobile Manufacturers Association. The quote is as follows:

> Protectionism by any trading nation undermines the principles of reciprocity and endangers the long-term growth of any economy which retreats behind its arguments.

I strongly believe in the truth of this statement. A retreat into any major form of economic isolationism can only work against the best economic and political interests of this or any other country undertaking such an unwise step. If there is one successful economic policy that this country has had experience with, it is the policy of reciprocal trade agreements legislated initially by the Congress in 1934. I hate to see success tampered with.

The automobile industry has long supported and promoted efforts to expand international trade. We firmly believe that competition is desirable whether that competition be within our own market or foreign markets.

As is well known to members of this committee, American automobile companies operate on a truly international scale with facilities in every country of the free world. In some countries we have manufacturing facilities while in others we have either facilities for assembly or for distribution.

I am sure that I speak not only for myself but for my associates in the automobile industry when I say that we believe that any impediment imposed upon us in competing for world markets would be undesirable not only for ourselves but also for the economic interests of the United States. In the period from 1947–69, for example, exports of automobile products totaled $38.3 billion and imports of automobile products $19.6 billion.

This has afforded the United States an automotive trade surplus during that period of $18.7 billion, which I think a very major contribution to the balance of payments of this country. While it is true that imports of foreign cars have increased greatly in recent years to the disadvantage of the automotive balance of trade, the domestic automobile industry is facing that competition head on through the introduction of smaller domestic cars to the marketplace. We firmly believe this the proper response to import competition.

We believe equally firmly that pleas for import protection through legislated quotas would be the wrong response for a variety of reasons. Among them are our recognition that such quotas would trigger counteractions abroad, which could lead to a major trade war from which there could emerge no winners. Among the principal losers would be the consumer, whose range of product choice would be narrowed.

Policies seeking to expand trade and investment, on the other hand, benefit private enterprise and the national economy. Such policies provide the consumer wider product selection and stimulate greater price competition, from which he also benefits. Restrictive import legislation, on the other hand, would lead to higher costs and prices for raw materials both through a reduction in supply and in comeptition, thus adding fuel to already strong inflationary pressures.

In supporting an open-looking trade policy, I, in no way, want to gloss over or ignore the many serious problems confronting this committee in its present examination of present and proposed trade policies. The U.S. automobile industry faces many commercial risks, and has a variety of serious problems at home and abroad that require the serious attention of yourselves and the agencies of the executive branch. We want a fair shake in foreign markets.

We would like to see our Government negotiate for us treatment in foreign markets similar to that accorded foreign companies in the U.S. market. In short, we would like full reciprocity, and consistent with that we believe that trade negotiations should be aimed at the reduction and ultimate removal of nontariff barriers.

The American automobile industry is seriously affected by foreign nontariff barriers. Among them is a device used by many foreign governments requiring specified percentages of "domestic content" in autos sold in their countries. This requirement forces U.S. auto manufacturers into often high-cost assembly or manufacturing operations in the countries concerned to the detriment of consumers in those countries, who pay the resultant higher prices.

Another serious barrier abroad are internal taxes that discriminate against American cars through forcing payment of proportionally higher taxes than on the smaller cars produced in the home market. This fiscal discouragement to foreign purchase of U.S. cars is a serious problem. Among the countries utilizing such discriminatory taxes are Japan and some members of the European Common Market. As members of this committee are aware, the U.S. negotiators in the Kennedy round of tariff negotiations negotiated a package of concessions concerning the American selling price (ASP). As part of that package, Congress is being asked by the President to eliminate that system of import valuation. We in ECAT and we in the American auto industry support the President's request for two basic reasons.

First, unless it is eliminated, it is our belief that our trading partners will attach little credibility to stated U.S. intentions that it wants to negotiate on nontariff barriers. Foreign businessmen often remind us that unless the United States is able to implement the negotiated ASP package, then what confidence can they or their governments have in the United States.

The second reason for supporting the President's ASP request is that as part of the negotiated ASP package, Belgium, France, and Italy have agreed on elimination of ASP to modify their internal automobile tax system to eliminate the discrimination against U.S. cars. This would benefit U.S. exports of automotive products.

Mr. Chairman and members of the committee, I thank you for your generous attention.

(The prepared statement of Patrick E. Haggerty follows:)

PREPARED STATEMENT BY PATRICK E. HAGGERTY

Mr. Chairman, I am Patrick E. Haggerty, Chairman of Texas Instruments, and a founding member of the Emergency Committee for American Trade.

While I am here as a member of the Emergency Committee for American Trade, I think it worthy to note that the electronics industry, of which my company is a part, has an enormous stake in international trade. It is an industry that last year achieved approximately $25 billion in domestic sales; that employed over 1 million persons in the United States; that had $2.8 billion in export

sales and that saw imports of $1.8 billion. Thus, the electronics industry 1969 stake in U.S. international trade was $4.6 billion, and we contributed a net foreign exchange earning of $1 billion to the U.S. balance of trade.

There is great competition in the United States electronic products markets. Competition is not only among domestic companies but among domestic concerns and overseas manufacturers. Competition from the latter is particularly keen in product areas with relatively stable technology, such as radios, television sets and home tape recorders. Because of the labor intensiveness of these products, many U.S. firms have established manufacturing facilities abroad or entered into business ventures with overseas partners whereby manufacture abroad is coupled with manufacture in the United States in order to keep total costs at competitive levels.

In those product areas characterized by rapidly changing technology, such as semiconductors, the production pattern is domestic manufacture with some assembly of American components overseas. Vital to this assembly is item 807.00 of the Tariff Schedules of the United States. I would like to address myself to this provision, since H.R. 14188 is one of the several issues before this Committee.

The tariff item at issue allowed the dynamic semiconductor market to expand since 1962 at an average annual rate of 22 percent. This growth has been accompanied by sharp and sustained declines in unit prices, facilitating the economic use of semiconductors in established consumer products such as radios and television sets that formerly used vacuum tubes. Low unit prices and volume production have stimulated the development, in turn, of other new industries such as the computer industry.

By making it possible for U.S. electronics manufacturers to transfer labor-intensive assembly operations abroad and to keep and expand skilled operations in this country, item 807.00 has contributed importantly to the growth of the domestic work force and to higher paying jobs in the United States.

Were this tariff provision repealed, there is no doubt in my mind that my industry would be seriously damaged to the detriment of our work force, to the American consumer, and to the economy in general. Here is what I believe would happen:

1. First, the imposition of import duties on American-made components would immediately drive up costs, which, in most cases, could not be absorbed by profits. Prices would be marked-up, which would cut sales, both at home and abroad. Then production and employment would fall. Consumers, of course, would have to pay more for the end-product.

2. With costs and prices up, our industry's competitiveness would weaken and foreign producers would enjoy a growing market share. As our domestic and overseas markets declined, our industry's contribution to the U.S. balance of payments would shrink.

3. To regain our lost markets, we would have to find ways of cutting costs. In our domestic operations, this could be accomplished, in some cases, by expanded use of labor-saving machinery. In other cases, we might expand our international activities to manufacture or purchase products abroad that are now made in the United States. Or, there could be some combination of these alternatives. Whichever way, employment undoubtedly would be hurt.

4. As more and more American production was sourced abroad, imports would rise and exports would fall, because overseas sales would be supplied by the production of our subsidiaries abroad. This, of course, would hurt the U.S. trade balance.

Were time available I would address myself to a number of other issues involved in repeal of this tariff provision. How, for example, can the United States reconcile repeal with its long-standing and justified policy of promoting economic progress in the developing countries of the world? Where is the equity in putting a tariff on an American-made product if assembled in Taiwan but exempting it if assembled in Tulsa?

There are many complicated questions that need examination and answers before action is taken. I welcome the Tariff Commission's painstaking investigation into this matter. I believe it will shed needed light on this issue. I, therefore, urge this Committee to withhold action to retain or repeal item 807.00 until the Tariff Commission reports its findings.

Mr. BURKE (presiding). Thank you for your testimony, gentlemen. I want to explain that the chairman and our ranking member of

the minority side had to leave to testify before the Rules Committee on some other legislation.

Mr. Betts.

Mr. BETTS. I have just a couple of comments.

Mr. Townsend, you made some observations about the ASP and our negotiations in connection with what some of the foreign trading partners would do if we repealed it.

The thing that bothers me about that is that it is so restricted. You, yourself, mentioned that it would do away with some barriers as far as the automotive industry is concerned, but even if we repealed the ASP it still leaves a lot of nontariff barriers and other barriers that sometimes are not called nontariff barriers in existence for further negotiations.

The thing that has always toubled me is what do we have as a lever to deal with our trading partners for elimination of all these other barriers when once we have repealed ASP?

Mr. TOWNSEND. Well, of course, I believe in this area of nontariff barriers that there are so many of them and they are of such a wide, divergent nature, that it would be almost impossible to eliminate them all at one time.

It seems to me that if we could make some progress, some trade-offs and some progress, on the elimination of these nontariff barriers, it could set a pattern that could be very helpful in the future.

Mr. BETTS. I agree with you 100 percent. I think all the witnesses who have been here agree that that is really one of the sticky points in our whole international trade problem.

But I am not sure that you really answered my question. When we agree that that is the problem, that we ought to do away with these nontariff barriers whenever possible, what is left for us to use in a deal when we have repealed the ASP, except maybe to reduce our tariffs further in return for elimination of some nontariff barriers?

It seems to me that if we repeal ASP we should include a lot more in our demands as far as our trading partners are concerned than just elimination of the road tax and adjustment of some tariffs on chemical goods.

Mr. TOWNSEND. I certainly would hope we could get the elimination of as many things as possible.

Mr. BETTS. The negotiations have already been made, haven't they?

Mr. TOWNSEND. As I understand it, that is right.

Mr. BETTS. So what do we do in the future?

Mr. KENDALL. Congressman Betts, one of the commitments we made in the Kennedy round, as you know, was on the ASP, and I think it is going to be impossible for us to negotiate many nontariff barriers until we have eliminated ASP on our side.

There are many items still to be negotiated with the Europeans, but they have refused in many cases to even discuss it until we live up to our commitment in the Kennedy round on ASP.

Mr. BETTS. I understand that. As I recall Mr. Gilbert's testimony, the negotiations to date, subject to agreement on our part, will repeal ASP and they have already agreed what they will do in return.

Once that is done, how do we get rid of the other nontariff barriers? That is the problem that bothers me. Our negotiations are all completed with respect to ASP.

Mr. KENDALL. Mr. Betts, I would like Mr. McNeill to comment on that. He actually participated in the ASP original negotiations.

Mr. MCNEILL. Mr. Betts, I think after the ASP matter is resolved there are a lot of other nontariff barriers that are mutually existent in GATT countries.

For example, in respect of Government procurement, most governments reserve to domestic producers the government procurement field, and this is an area that is, I think, fertile for negotiation.

Most governments have subsidies of one form or another that constitute nontariff barriers in the trading world, and here is another area of nontariff barrier where you could have a future negotiation to try to introduce commonality in the business environment under which international trade takes place.

I think the point that the ECAT is making today is that in order to get to these other nontariff barriers, which are terribly meaningful in terms of the restrictive effect on American exports, the ASP package must be resolved.

Mr. BETTS. I think you have confirmed what I just said. Once we have eliminated the real lever we have by repealing ASP, then we have to trust to what you call fertile area, where you think something will be done.

I just think it should be more definite than that when it comes to getting rid of all these nontariff barriers.

Mr. MCNEILL. I am sorry, I did not make myself clear. The United States, for example, has a "Buy American" act legislated by Congress in 1933 that reserves to domestic producers procurement by Federal agencies.

There are price preferences provided domestic suppliers that help them in respect of U.S. Government procurement. Other governments have similar and in many cases worse practices.

It would be advantageous for us to negotiate on procurement, and the negotiating tool that we would have would be modifications in our Government procurement practices in return for similar action abroad.

There are many other areas of nontariff barriers in this country, as well as in others, that could be negotiated. ASP is but one, but a very important and symbolic one at the moment.

Mr. BETTS. Sure, it is symbolic but it doesn't help anybody else except in a certain few areas. Instead of picking out one barrier that you say is symbolic we should be using all our barriers to negotiate for elimination of all foreign barriers.

We should say, "We will get rid of all of ours if you get rid of all of yours." It seems that is the only way to solve the problems.

Mr. CONABLE. Will the gentleman yield?

Mr. BETTS. Yes.

Mr. CONABLE. The Europeans don't look at ASP as a lever at all. They look at it as an already negotiated part of the Kennedy round package. Therefore, if we try to use that as a lever to engage in further negotiations they will claim that this is bad faith on our part because it has already been negotiated.

The tariff reductions which are triggered by our following through on the agreement to eliminate ASP by congressional action are in the other part of the package as far as they are concerned.

Isn't that right?

Mr. KENDALL. Yes, Mr. Congressman. That is the point many people don't seem to understand. If we are going to make commitments and understandings in negotiations, then we are obligated the same as other countries are to live up to those negotiations. I don't think we can ask people to give away something for something we have already negotiated.

Mr. BETTS. I am not objecting to that at all. All I am saying is that the package should be larger. I think it is a bad deal if we repeal ASP in return for such a limited response from the other side.

Those are just some thoughts I have which I think are left up in the air when we simply repeal ASP.

Mr. BURKE. Mr. Gibbons?

Mr. GIBBONS. It is refreshing to hear testimony such as yours. I am particularly glad to see that you have a very fine plan. Somewhere buried in your testimony, and I didn't get the chance to find it exactly, your group advocated that we use investments abroad in our trade negotiations with foreign governments.

Would you elaborate on that a little bit?

Mr. KENDALL. At the moment, the President doesn't have authority to deal in a retaliatory way against any country, such as Japan, which is restricting our equity or capital investments in their country.

He has that authority on agricultural products but not on capital investments. We feel he should have the same authority to retaliate.

To give you an example, if Japan doesn't allow our automobile industry to invest in Japan, then we should have the right to retaliate against Japan on their automobiles coming into this country.

Any time an American firm invests abroad, it invariably means the exporting of capital goods from this country to that subsidiary in a foreign country.

Mr. GIBBONS. I wonder if the representative of the automobile industry, Mr. Townsend, could supply for me or for the record a list of what countries discriminate against the American automobile industry and how they discriminate? Have you that prepared somewhere?

Mr. TOWNSEND. I don't have it this morning. It is a very long list and involves a very substantial number of countries. I guess we could make such a list available. It would be a long list.

Mr. GIBBONS. When I see it, I may ask, Mr. Chairman, to insert it into the record at this point.

Mr. BURKE. Without objection, it is so ordered.

Mr. GIBBONS. Would you send it straight to my office?

Mr. TOWNSEND. Certainly.

(The information referred to follows:)

Attached is a check list of tariff and non-tariff barriers to U.S. passenger car exports by country and type of barrier. In addition to these barriers which exist throughout the world that are highly discriminatory to traditional U.S. sized vehicles, there are other deterrents. These are listed as follows:

Traditional foreign customs method of calculating tariffs on the purchase price of the vehicles plus ocean freight and insurance (C.I.F.) to the point of debarkation (as compared to the typical U.S. customs method of tariff rate times purchase price loaded on vessel for shipment—F.O.B. which results in a considerably smaller base for tariff calculations).

The vast majority of foreign auto tariffs are more than double that of the U.S. and in many countries, several times that of the U.S.

Several large present or potential automobile markets such as Colombia, Chile, Peru, Brazil, Argentina, Mexico, S. Africa, require that vehicles manufactured in these markets have specific percentages (up to 90%) of material manufactured in these markets, or otherwise give favorable tariff rates to imports of knocked-down vehicles.

Several countries including the United Kingdom require large prior deposits by the purchaser several months before importation.

Several countries, including France, Germany, the Netherlands and Sweden are or will be applying the TVA tax (tax on value added) which results in a tax adavntage for locally manufactured products.

In the case of U.S.-Canadian automotive trade and the special agreement of 1965 covering such trade, the tariff-free exports of automobiles manufactured in the U.S. to Canada is limited inasmuch as "pre-qualified" manufacturers can only import new cars and only in controlled quantities. An individual buyer must pay a 15% tariff.

A review of Japan's discriminatory barriers shows the following.

Car tariff: 20% for vehicles of wheelbase up to 270 cm; 17.5% for vehicles of wheelbase over 270 cm.

Commodity tax:

	Percent
Cars, with a wheelbase exceeding 305 cm or engine capacity exceeding 3000 cc	40
Cars, with a wheelbase not exceeding 270 cm and a total width not exceeding 170 cm and an engine capacity not exceeding 2000 cc	15
Cars, other	30

Quotas (worldwide): on automobile engines (50,000 for 1970; 70,000 for 1971; thereafter, free).

Investment in automobile manufacturing: maximum 50% equity investments beginning October, 1971; assembly operations authorized, but not possible because of high tariffs and quota limitations.

Further details of some of the above tariff and non-tariff barriers to U.S. automobile exports an investment can be found in the attached *Digest of Import Duties*, published by the Automobile Manufacturers Association which has been "marked up" for your convenience.

Country	Higher tariff for larger cars	Tariff preference for 3d countries	Steeply increased registration fees and/or other taxes for larger cars	Quantitative limitations on imports	Other
Africa:					
Algeria	×	×			
Angola	×	×	×		
Burundi	×	×			
Congo (Brazzaville)	×	×	×	×	
Congo (Kinshasa)	×		×		
Chad	×	×	×	×	
Gabon	×	×	×	×	
Cameroon	×	×	×	×	
Dahomey		×		×	
Ethiopia	×				
Gambia		×			
Ghana			×	×	
Guinea			×		
Kenya	×				
Libya	×			×	
Malawi	×	×		×	
Mauritius	×	×			
Morocco	×	×			
Nigeria	×				
Sierra Leone	×				
Rhodesia		×			
Somali Republic	×		×		
South Africa	×		×		
Sudan	×				
Tanzania	×		×		
Tunisia		×	×		
Uganda	×				
West African Republics: Ivory Coast, Mauritania, Niger, Senegal, Upper Volta		×			

Country	Higher tariff for larger cars	Tariff preference for 3d countries	Steeply increased registration fees and/or other taxes for larger cars	Quantitative limitations on imports	Other
North and South America:					
Argentina	X		X		
Bahamas		X			
Barbados		X			
Bermuda		X			
Bolivia	X				
Brazil	X		X		
British Honduras	X	X			
British Leeward Islands		X			
British Virgin Islands		X			
British Windward Islands		X			
Canada		X		X	
Chile	X		X	X	X
Colombia	X				X
Costa Rica	X		X		
Dominican Republic	X		X		X
Ecuador	X		X		
El Salvador	X				
French Guiana		X	X		
French West Indies		X	X		
Guatemala	X				X
Guyana	X	X	X		
Haiti	X		X		
Honduras			X		
Jamaica	X	X		X	
Mexico	X		X	X	
Nicaragua	X				
Panama	X				
Paraguay		X			X
Peru	X	X	X	X	
St. Pierre and Miquelon		X	X		
Surinam		X			
Trinidad and Tobago	X	X	X		
Uruguay	X	X	X		
Venezuela	X		X		
Europe:					
Austria	X	X	X		
EEC		X			
Belgium		X	X		
France		X	X		
Germany		X	X		
Italy		X	X		
Luxembourg		X			
Netherlands		X			
Denmark		X	X		
Faroe Island		X			
Finland		X	X		
Gibralter		X			
Greece	X	X	X		
Ireland	X	X			
Malta	X	X			
Norway		X	X		
Portugal	X	X	X		
Spain				X	X
Sweden		X	X		
Switzerland	X	X			
United Kingdom	X	X			X
Yugoslavia			X	X	
Far East:					
Australia		X			
Cambodia	X				
Fiji		X			
Hong Kong			X		
Indonesia	X				
Japan			X		
Korea				X	
Laos	X				
Malaysia		X		X	
New Caledonia		X			
New Zealand		X			
Philippines	X		X	X	X
Singapore		X	X		
Thailand			X		
Viet Nam	X		X		
Western Samoa		X			

Country	Higher tariff for larger cars	Tariff preference for 3d countries	Steeply increased registration fees and/or other taxes for larger cars	Quantitative limitations on imports	Other
Near East and South Asia:					
Afghanistan	X				
Burma	X				
Ceylon	X	X			
Cyprus		X			
India		X	X		
Iran	X		X		X
Iraq	X				X
Israel	X		X	X	
Jordan	X	X			
Lebanon	X		X		
Nepal	X				
Pakistan	X				
Saudi Arabia				X	
Syria	X				
UAR				X	

Source: F. G. Taylor, Automobile Manufacturers Association.

DIGEST OF IMPORT DUTIES FOR MOTOR VEHICLES AND ORIGINAL PARTS AND COMPONENTS THEREOF AS LEVIED BY SELECTED COUNTRIES

The contents of this Digest are compiled from a variety of sources and are believed to be correct as of the date shown below.

Duties quoted apply to vehicles from all sources, except where preferential rates are shown.

While the Association has exercised due care in the compilation of these data, no responsibility can be accepted for errors or omissions, or loss or damage experienced by reason thereof.

Prepared by:

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ABBREVIATIONS

ad val cif	ad valorem cost including insurance and freight
BPT	British Preferential Tariff
b/u	built-up vehicles
CDV	current domestic value in country of origin
CKD	completely knocked-down
CV	commercial vehicles, including buses unless mentioned separately
CXT	common external tariff
DPV	duty paid value
DVV	depends on value of vehicle
EEC	Common Market Countries - Benelux, West Germany, France and Italy
EFTA	European Free Trade Association - U. K., Austria, Denmark, Finland, Norway, Portugal, Sweden and Switzerland
GVW	gross vehicle weight
GT or GTR	general tariff rate
Kg	kilogram
KG	kilogram gross weight - includes all packing
KL	kilogram legal weight - includes inner wrappings only
KN	kilogram net weight
LAFTA	Latin American Free Trade Association
MFN	Most Favored Nation Tariff treatment
n.e.s.	not elsewhere specified
n.s.m.	not specifically mentioned
n.e.m.	not elsewhere mentioned
SKD	semi-knocked down
SPV	special purpose vehicles
S/W	station wagons (estate cars)
T or t	ton
TPV	tax paid value
TVA	tax on value added
u/l.w.	unladen weight
w/e	with engine

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES		
	French	EEC	Other
ALGERIA			
Cars: less than 1200 cc	20%	27.5%	35% ad val cif
1200 cc & over	30%	37.5%	45% " " "
Trucks: up to 3 liters	20%	27.5%	35% " " "
over 3 liters	20%	28.5%	37% " " "
SPVs & all chassis	5%	5.0%	5% " " "
Buses: up to 19 seats	20%	27.5%	35% " " "
20 seats or more	20%	29.0%	38% " " "
inter city	20%	29.0%	38% " " "
Chassis w/e	10%	10.0%	10% " " "
Bodies	20%	20.0%	20% " " "
Parts	Free	Free	Free

Production Tax: 37.93% DPV on passenger cars
11.11% DPV on SPVs
20.48% DPV on other vehicles and chassis

ANGOLA

Cars	Duty is 2 x P escudos per KG where P = weight of car in quintals (100 Kg units)
Buses	16.00 escudos per Kg
Fire engines & ambulances	240.00 " each
Dump trucks 1/	.60 " per Kg
Refuse & tankers	10.00 " " "
Chassis w/e & cab	2.50 " " "
Bodies	60.00 " " "
Trucks, other	12.50 " " "
SPVs, n.e.c.	12% ad val cif
Jeeps	15% " " "
Engines	1% " " "
Parts (gen.)	10% " " "

Reduced rates apply to vehicles assembled in Portugal.

Import License required except for goods originating from Portugal.
Improvement Fund Tax: 1% cif
Consumption Tax: on cars with a cif value of
up to 40 contos 2/.....1 conto each
41 to 50 contos.....2 contos each
51 to 60 contos.....3 contos each
61 to 70 contos.....5 contos each
71 to 80 contos.....12.5 contos each
81 to 90 contos.....25.0 contos each
91 to 100 contos.....50.0 contos each
101 contos and over.....100.0 contos each

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

General Customs Surcharge: 3½% of cif
Development Fund Tax: 2½% of cif
Consular Invoice: $1.65 fee

1/ Rate shown applies only if the truck is used for construction or related work. If imported for other use, the rate would be 4.50 escudos per Kg.

2/ One conto = 1000 escudos (U. S. $1.00 = 28.65 escudos)

BURUNDI

Passenger cars: 1/	(EEC countries--no duty)
with 13 h.p. or more	50% ad val cif
with 4x4 drive (not jeeps)	15% " " "
dual purpose, with a payload capacity of 750 Kg or more	25% " " "
Buses	15% " " "
CVs & SPVs	15% " " "
SPVs - radiological units and mobile clinics	5% " " "
Jeeps; ambulances	5% " " "
Chassis w/e; bodies 2/	15% " " "
Parts & accessories 2/	30% " " "

1/ Entry fee 5% ad val cif
2/ Entry fee 2% DPV if for passenger cars, otherwise free.

Import License required.
Statistical Tax: 3% ad valorem on all imports into Burundi.

CAMEROON

See Central African Customs and Economic Union

CENTRAL AFRICAN CUSTOMS AND ECONOMIC UNION
(Central African Republic, Congo Brazzaville, Chad, Gabon and Cameroon)

	Customs Duty	Import Duty	Additional Taxes*
Cars: up to 2000 cc with 1 drive axle	30%	30%	10 & 12% ad val cif
other	30%	25%	17% " " "
2000 cc & over with 1 drive axle	30%	40%	8 & 10% " " "
other	30%	20%	25% " " "
Buses	30%	20%	10% " " "
CVs: up to 3000 cc (including jeeps)	30%	20%	10% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES					
3001-4500 cc	30%	15%	5-15%	"	"	"
4501 cc & over:						
with net weight up to 10 tons	30%	15%	5%	"	"	"
other	30%	5%	5%	"	"	"
SPVs	20%	10%	5%	"	"	"
Chassis, with 1 drive axle	20%	20%	10%	"	"	"
other	20%	15%	15%	"	"	"
Bodies, car and buses	20%	30%	5%	"	"	"
CVs and SPVs	20%	20%	15%	"	"	"

Turnover Tax: 10% DPV
Stamp Fee: 3% of DPV + Turnover Tax
CAMEROON - Transaction Tax: 10% DPV; Turnover Tax: 17% DPV
CONGO BRAZZAVILLE ONLY - National Solidarity Tax: 12½% ad valorem cif; French-source vehicles pay Additional Tax but no Customs Duty.
GABON - Compounded Tax: 14½% on all vehicles except trucks over 10 tons GVW; trucks over 10 tons GVW are 8½%; Road Tax: 3% cif.

Notes: DPV includes both Customs and Import Duties but not Additional Taxes.
EEC-source goods exempt from Customs Duty.
Quota - applies to automotives outside of EEC and franc zone.

CHAD

See Central African Customs and Economic Union

CONGO, DEMOCRATIC REPUBLIC OF THE (KINSHASA)

Formerly, Congo, Republic (Leopoldville)

	Customs Duty	Fiscal Duty
Cars:		
of a cif Matadi value:		
up to 1,750 Zaire (Z) (2Z = $1.00)	10%	40% ad val cif
exceeding 1,750 Z	20%	80% " " "
Ambulances	Free	-
CVs, chassis and SPVs	5%	10% " " "
Buses, 11 seats or more	10%	20% " " "
Bodies, parts & accessories	10%	30% " " "

Sales Tax: 7½% of duty and tax paid value
Statistical Tax: 3% ad val cif
Turnover Tax: 2% on 1st sale
Import License: required for quantities valued over $20,000

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
DAHOMEY		
	Customs Duty	
	EEC	Others
Cars	31%	61% ad val cif
Buses	25%	55% " " "
Trucks (10 tons or more)	5%	18% " " "
Trucks (less than 10 tons)	13%	43% " " "
Dump trucks	5%	5% " " "
SPVs	13%	31% " " "
Chassis, bodies, parts	25%	43% " " "
Engines	19%	40% " " "

Import License: required
Quota: in effect

ETHIOPA

Cars, up to 1000 Kg net and valued under E$4,000	40% ad val cif
Cars, other	55% " " "
Jeeps	50% " " "
Bodies, engines, parts	50% " " "
Trucks with carrying capacity 1500 Kg and over	10% " " "
Buses and coaches	20% " " "
SPVs	Free

Federal Tax (Transaction Tax): 12% ad valorem cif
Municipal Tax: 1% ad valorem
Deposit: 20% required

Ad valorem = cif plus 1% uplift.

FRENCH SOMALILAND (AFARS & ISSAS)

All vehicles	Free

Consumption Tax: 18% ad valorem cif

GABON

See Central African Customs and Economic Union

GAMBIA

	EEC	Others
All vehicles except SPVs	25%	30% ad val fob
SPVs, bodies, chassis, engines, parts	15%	30%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
GHANA	
Cars* & trucks	30% ad val cif
Chassis w/e	10% " " "
Bodies, chassis, frames, engines & parts	10% " " "
Ambulances, fire engines, refuse collectors	Free (but 11½% sales tax)
SPVs, other	30% ad val cif
CKDs	15% " " "

Purchase Tax: Cars - ranges from 10% to 200% according to value;
CVs - ranges from 10% to 33-1/3% according to value (from 5% to 20% if substantially assembled in Ghana)

*Import of passenger cars exceeding 1700 cc only by special government permit as of 12-12-69.

GUINEA	
Cars, buses, engines	45% ad val cif
CVs	35% " " "
CVs, dump trucks, 7 tons or over	Free
SPVs, chassis, bodies & parts	30% ad val cif

Stamp Tax: 6% cif value plus duty & statistical tax paid
Statistical Tax: 1% ad valorem cif
Equalization Tax: vehicles, 5-40% of DPV
components, 5-15% of DPV
parts, 5-20% of DPV

IVORY COAST

See West African Republics

KENYA (and Uganda)	
Cars, S/Ws, minibuses, utilities, b/u:	
up to 1200 cc	33-1/3% ad val cif
1201 to 1800 cc	45% ad val cif
1801 to 2250 cc	55% " " "
over 2250 cc	80% " " "
Trucks over 3 tons & buses	25% " " "
Other trucks	33-1/3% ad val cif
SPVs - specified	Free
Engines	33-1/3% ad val cif
Parts for assembly	15% ad val cif (providing an approved plan is submitted to their government)
Parts otherwise	up to 33-1/3% ad val cif

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATE

Bodies and chassis are dutiable at the rate applicable to the highest rated vehicle for which suited.

LIBERIA

Cars	28% ad val cif
Trucks & buses	23% " " "
SPVs	28% " " "
Ambulances, fire trucks, refuse collectors	5% " " "
Bodies, chassis, frames, engines, parts	28% " " "

Luxury Tax: 5% ad valorem cif (on automobiles only)

LIBYA

Cars: up to 1500 cc	35% ad val cif
over 1500 cc	50% " " "
Cars (diesel)	50% " " "
CVs, pickups	35% " " "
CVs, other	30% " " "
SPVs and minibuses	10-15% ad val cif
Bodies, chassis, engines, parts	25% ad val cif

Consular Fee: $5.60
Port Tax: 0.55% of cif value
Surtax of 10% of amount of duties paid
Import License required

MALAGASY REPUBLIC (Madagascar)

	Customs Duty	Import Tax
Cars	20%	31% ad val cif
Buses	15%	22% " " "
CVs	5-10%	12-22% ad val cif
SPVs	10%	3% ad val cif
Bodies, chassis	10%	12-31% ad val cif
Light 4x4 vehicles, jeeps	5%	31% ad val cif
Car & bus chassis	10%	22% " " "
Parts, engines	10%	31% " " "

Transaction Tax: 12% DPV on cars; 6% on utility vehicles
Imports from EEC countries pay Import Tax but no customs duty.
Import License (under quota) required.

MALAWI

	GTR	CTR	BPT
Cars, other passenger vehicles:			
in value, not exceeding £800 1/	35%	30%	17½% ad val fob
£800, but not more than £1200	40%	35%	22½% " " "
£1200 and more	45%	40%	27½% " " "
CVs, 3 tons or more NVW & buses (20 seats or more)	10%	10%	5% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES		
Other CVs and 4x4s	15%	15%	10% ad val fob
SPVs, CKD chassis	5%	Free	Free
Ambulances	Free	Free	Free
Other chassis	15%	10%	10% " " "
Bodies, engines, parts	30%	30%	20% " " "

Surcharge: 8½% of duty

1/ M £ = $2.40

MALI

	Customs Duty	Fiscal Tax
Passenger cars	25%	25% ad val cif
Buses (22 seats)	25%	20% " " "
Dump trucks up to 10 ton capacity	25%	10% " " "
over 10 ton capacity	25%	2% " " "
Trucks	25%	20% " " "
SPVs	15%	5% " " "
Bodies, chassis, parts	15%	25-35% ad val cif

Value-Added Tax (TVA): 31.25% DPV for cars and chassis; 12.33% others
Imports from EEC countries pay Fiscal Tax but not customs duty.
Import License required (quotas in effect).

MAURITANIA

See West African Republics

MAURITIUS

	Ad Val Cif BPT	Ad Val Cif GTR
Cars and chassis value not over 8000 rupees	42.5%	72.5%
8001-10,000 rupees	47.5%	77.5%
over 10,000 rupees	52.5%	82.5%
Buses	17.5%	47.5%
CVs & other vehicles	30.0%	60.0%

Taxes: 5% of import duty

MOROCCO

	GTR	Additional Taxes*
Cars up to 3000 cc	25% ad val cif	12.975% ad val cif
Cars 3001-3500 cc	45% " " "	13.425% " " "
Cars 3501-4500 cc	50% " " "	14.325% " " "
Cars over 4500 cc	60% " " "	14.325% " " "
CVs and all chassis	32½% " " "	13.650% " " "
SPVs	20% " " "	12.525% " " "
Bodies (and parts, generally)	25% " " "	Not known
Parts	15-30%" " "	" "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

*Additional taxes: Transaction, Special, and Stamp Tax
Import License (under quota) required.

MOZAMBIQUE

Cars	25% ad val cif
CVs	10% " " "
Buses	18% " " "
Chassis	8% " " "
Bodies	20% " " "
Parts	15% " " "
Engines	6% " " "

NIGER

See West African Republics

NIGERIA

	GTR
Cars, up to 1200 cc 1/	33-1/3% ad val cif
1201 to 1750 cc	50% ad val cif
1751 to 2150 cc	75% " " "
2151 to 2750 cc	100% " " "
over 2750 cc	150% " " "
CVs and SPVs 2/	33-1/3% ad val cif
Buses, b/u, 20 or more passengers	33% ad val cif
Bodies, parts	Free to 33-1/3% ad val cif
Chassis w/e	25-30% ad val cif
Engines	33-1/3% " " "
Fire engines, ambulances, sprayers, and mobile dispensaries	Free

Surtax: 7½% of DPV
Import License required (except for buses).

1/ CKD - 15% less than b/u
2/ CKD - 25-33-1/3%

PORTUGUESE EAST AFRICA

See Mozambique

REUNION

As for France

Additional Tax: 20% ad valorem cif on cars over 2000 cc; 1000 to 2000 cc 15%; up to 1000 cc 10%; other vehicles 5%
Added Value Tax: 14.3% DPV on cars; 9.9% on others

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY AND TARIFF RATES	
RWANDA		
	Customs Duty	Revenue Duty
Cars	10%	15% ad val cif
Trucks, buses, SPVs, chassis, bodies	Free	5-10% ad val cif
Statistical Tax: 0.1% ad valorem		
SENEGAL		
See West African Republics		
SEYCHELLES		
	GTR	BPT
Cars and CVs together with their appropriate initial equipment	41-1/3%	25%
SIERRA LEONE		
	GTR	
Cars, displacement:		
not exceeding 2000 cc	40% ad val cif	
more than 2000 cc, but not more than 2500 cc	60% " " "	
more than 2500 cc	70% " " "	
Buses	25-45% ad val cif	
4x4s, S/Ws, jeeps	31½% " " "	
CVs, SPVs, bodies (fire engines free), parts	30% " " "	
Engines	36½% " " "	
Chassis - rate as for applicable vehicle		
Import License required.		
SOUTHERN RHODESIA		
Cars, S/Ws, utilities, etc., up to 20 seats: Import duty is calculated by multiplying the wholesale CDV, expressed in £ by 0.015; the result of this calculation is then used as the ad valorem duty, applied to the CDV of the car, after adding to it:		
	GTR	PTR 1/
Complete vehicles, other than CVs	27½%	22½% ad val fob
Parts and accessories:		
Springs, suspension	20%	20% " " "
Exterior roof carriers	25%	15% " " "
Windows and windscreens but not frames supported separately	30%	20% " " "
Others including engines	10%	5% " " "
CVs	17½%	17½% " " "

1/ Preferential tariff rate: applies only to South Africa and Portugal.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY AND TARIFF RATES

Sales Tax: 1.667% of retail price
Import License required and U. S. export license not being issued now.

SOMALI REPUBLIC

	Fiscal Duty	Customs Duty
Cars, displacement less than 1000 cc	30-40%	5-10% ad val cif
1001-2000 cc	50-70%	10% " " "
more than 2000 cc	100%	20% " " "
CVs, SPVs	10%	Free
Chassis, bodies, engines, parts	30%	5% " " "

Harbor Tax: 1.5% ad val cif

SOUTH AFRICA, REPUBLIC OF (new customs union agreement effective 3-1-70 for Botswana, Lesotho and Swaziland)

Cars & S/Ws, b/u	45% + 2% ad val fob for each 100 rand in excess of 1000 rand. 1/ + 1% ad val for for every 100 lbs. in excess of 2500 lbs. (Max. of 100% ad val fob)
Cars & S/Ws, CKD	20%
Buses, b/u	10%
Buses, CKD	20%
CVs	20-25%
Chassis, bodies	20%
SPVs	Free
Ambulances, hearses	20%
Parts, gen.	20%

Excise Tax on cars, S/Ws, etc., built or assembled in South Africa weighing:
up to 3700 lbs: 15 cents per lb.
over 3700 lbs: 17 cents or more per lb., with a maximum excise of 3500 Rand.
Sales Tax: 5-20% of duty but not on locally produced vehicles
Wharfage Fee: 1.35%
Local Content Schedule reduces excise tax from between 15% and 75% according to amount of South African content.
Import License (under quota) required.

1/ 1 Rand = U. S. $1.40

SUDAN

Cars (and parts)	125% ad val cif on first £S500 value, 175% on remainder over £S500 if total is not over £S800, 250% on remainder
CVs, SPVs, chassis	50% ad val cif
Bodies	100% cars; 20% other
Parts	20%
Engines	25%

COUNTRY AND VEHICLE TYPE | CUSTOMS DUTY OR TARIFF RATES

Import Surcharge: 10% ad val cif
Quay Dues: 1.2% ad val cif on goods discharged at Sudan.

SWAZILAND

As for Republic of South Africa

TANZANIA

Same as for Kenya except:

Trucks over 3 tons and buses - 20% ad val cif

Registration Tax on retail price of cars:

up to 1200 cc	25%
1201-1800 cc	30%
1801-2250 cc	40%
2251 and over	50%

TOGO

Cars, buses, CVs and their chassis, bodies, parts	10% ad val cif
SPVs	5% " " "
Engines	20% " " "

Turnover Tax: 17% DPV
Statistical Tax: 1% cif
Stamp Tax: 2% cif
Import License required.

TUNISIA

	GTR	France
Cars: private	35%	24.5% ad val cif
public service	30%	30.0% " " "
Buses	30%	30.0% " " "
CVs and SPVs	25%	25.0% " " "
Chassis and bodies	25%	15.0% " " "
Parts	10%	6.0% " " "

Customs Formalities Tax: 1.91% ad valorem cif
Production Tax: 29% DPV on cars; 21% on trucks, chassis
Consumption Tax on Cars: 46% DPV
Two Months Deposit with Central Bank of 100% of value of cars, 25% of CVs
Vehicle Circulation Tax: 72.6 dinars per year 1/
Import License required.

1/ 0.52 dinars = U. S. $1.00

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

UGANDA

Same as for Kenya

UPPER VOLTA

See West African Republics

WEST AFRICAN REPUBLICS
(Ivory Coast, Mauritania, Niger, Senegal, Upper Volta)

	Import Duty		Fiscal Tax
Cars	25% 1/	+	20% ad val cif 1/
CVs	25%	+	15% " " "
SPVs	15%	+	5% " " "
Chassis, bodies, parts	15%	+	15% " " "
Buses	25%	+	15% " " "
Dump trucks up to 10 tons	15%	+	5% " " "
over 10 tons	15%	+	Free
Engines	10%	+	25% ad val cif

Note: EEC goods pay Fiscal Tax and additional charges, but no Import Duty.

TAXES

IVORY COAST -
1/ Car Levies: duty, 15%; Fiscal Tax - up to 20% ad val cif
Special Import Tax: 10% of DPV
Added Value Tax: 18% of DPV + all above charges
Reduced Ad Valorem Tax: 8% of DPV for dump trucks
Import License and quota applies.

NIGER -
Standard Tax: 22% DPV
Compounded Tax: 25% DPV
Statistical Tax: 1% of cif value

MAURITANIA & SENEGAL -

Turnover Tax: 10% of duty and tax paid value

UPPER VOLTA -
Standard Tax: 25% of customs duty
Forfeiture Tax: 2% cif
Statistical Tax: 1% cif value
Compensatory Tax: 3% cif
Price Support Tax: 1.5% cif
Temporary Development Tax: 10% cif

Note: DPV includes Fiscal Tax.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
ZAMBIA	
	Duty
Cars	A rate per centum calculated by adding 20 to the product of the figure representing the "value for duty purposes" 1/ expressed in pounds multiplied by 0.010.
Buses (13 or more passengers)	Free
Trucks	Free
SPVs	Free
Chassis, bodies, parts	10%
Engines	15%

1/ CDV plus export packing and inland freight to the port of export

Import License required.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
ARGENTINA	
(1) Passenger cars 1/	
weighing under 1000 Kg:	
under U. S. $1600	140% ad val cif
U. S. $1601-U. S. $2000	140% " " "
weighing 1001-1500 Kg:	
under U. S. $1601-$2000	140% " " "
(2) Passenger cars, n.e.s.	140% " " "
(3) Buses	100% " " "
(4) Ambulances 1/	90% " " "
(5) CVs - 2 axles, cab, chassis 2/	90% " " "
3 axles, (2 power driven), cab, chassis 2/	20% " " "
b/u, under 1000 Kg	90% " " "
1001-2000 Kg	90% " " "
over 2000 Kg	90% " " "
(6) CVs, n.e.s.	90% " " "
(7) SPVs	80% " " "
(8) SPVs, n.e.s.	90% " " "
(9) Chassis	30-120% " " "
(10) Bodies - cars, CVs, buses	120% " " "
- other	120% " " "
(11) Parts and accessories, engines	120% " " "

1/ Chassis are imported at the same rate as the assembled vehicle.

2/ Additional specifications required for these categories.

Note: Unassembled vehicles are classified as assembled vehicles. Importation currently prohibited for items (1) through (6), (8), (9) and (10); however, dumpers in (5) are permitted.

Statistical Tax: 1.5% of the cif
4% Tax on ocean freight charges
Steel Fund Tax imposed upon metallic products at 20 pesos per Kg 3/
Capital Goods--financing on all goods above, except passenger cars, must meet requirements set by the Central Bank (unless the value of the shipment is under U. S. $10,000).
Prior Deposit: 40% of cif value for 180 days

3/ 350 pesos = U. S. $1.00

BAHAMAS

	BPT	General
Vehicles for transport of persons	15%	30% ad val cif
Trucks, jeeps & CKD, not itemized	10%	25% " " "
Parts and accessories (except tires)	15%	30% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
Emergency Tax: 7½% ad val cif Surtax: 10% of duty		
BARBADOS		
See British Windward Islands		
BERMUDA		
	BPT	GTR
All vehicles, except fire engines	15%	17½% ad val fob
CKDs and parts	15%	17½% " " "
Fire engines	Free	Free
Surcharge: 10% of duty		
BOLIVIA		
Cars up to 1300 Kg	110-130% ad val cif	
1301-1500 Kg	140-160% " " "	
1501 Kg and over	180% " " "	
CVs up to 2100 Kg payload	43% " " "	
over 2100 Kg payload	19% " " "	
Jeeps	61% " " "	
SPVs	19% " " "	
Engines	25-28% " " "	
Bodies	48-93% " " "	
Car chassis	73% " " "	
CV chassis up to 2000 Kg payload	38% " " "	
Other CV chassis	19% " " "	
Chassis - light 4x4s	33% " " "	
Bodies	19-93% " " "	
Tractor chassis with motor	2% " " "	
Parts and accessories	19% " " "	
Surcharge: 10% of cif with some exceptions		
BRAZIL		
	DUTY	Surtax (IPI)
Passenger cars, S/Ws weighing up to 800 Kg, valued at U. S. $4000 cif	70% ad val cif	24% of DPV
weighing 800 Kg to 1100 Kg, valued at U. S. $4800	85% " " "	28% " "
weighing over 1100 Kg valued at U. S. $6300	105% " " "	30% " "
Jeeps	70% " " "	12% " "
Buses	85% " " "	10% " "
Engines	45% " " "	5% " "
Body and chassis parts	15-85% " " "	5-12% " "
Bodies	105% " " "	12% " "
SPVs - firefighting, spraying, cleaning	37% " " "	12% " "
SPVs - ambulances, vans	105% " " "	12-16% " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES		
LAFTA Rates:	Duty	Surtax	Description of Item
Separate parts and pieces and accessories for tractors and other automotive vehicles:			
For tractors tariff position in National tariff 87 -01	48%	6%	Tracks for caterpillar tractor
Trucks, motor buses, mini-buses, and all similar automotive vehicles, parts and pieces:			
Vehicles			
Stackers (for agriculture):	30%	6%	
Parts and pieces	Free	6%	Parts for differential and distributors; 3-step gears front or rear with a maximum gauge of 950 mm
Separate parts, pieces and accessories with reference to chassis parts; and auto-cycles:			
Exclusively for automotive vehicles:			
Cranks	16%	6%	Complete with cables and bars
All others	17%	6%	Including brakes for motor cycles; front and back wheels complete includes any parts for vehicles if when purchase from LAFTA member countries helps to conserve foreign exchange, however, within the law.

Port Assessment: 2% of cif value
Marine Assessment Tax: 20% of net ocean freight
Industrialized Products Tax (IPT): 0-75% of DPV
Merchandise Circulation Tax: 15-17% of DPV

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
BRITISH HONDURAS	BPT	GTR
Motor vehicles, where cif value		
(a) does not exceed $2500 ad val	30%	45% ad val cif
(b) exceeds $2500 ad val	40%	50% " " "
Chassis for cars w/e	60%	75% " " "
Chassis and bodies	15%	30% " " "
Engines	Free	15% " " "
Parts	15%	30% " " "
Entry Tax: 3% ad val cif		
BRITISH LEEWARD ISLANDS (Antigua, Montserrat)	BPT	GTR
ANTIGUA:		
Vehicles & parts (gen.)	10%	30% ad val cif
Surtax: 40% of the duty		
MONTSERRAT:		
All vehicles	15%	45% " " "
Additional Tax: 25% of duty		
ST. CHRISTOPHER-NEVIS:		
All vehicles	20%	40% " " "
Surtax: 40% of duty		
BRITISH VIRGIN ISLANDS	BPT	GTR
Vehicles (other than 4-wheel drive & omnibuses), parts	8%	12% ad val cif
4-wheel drive vehicles & omnibuses	5%	7½% " " "
Surtax: 2% of duty		
BRITISH WINDWARD ISLANDS (Barbados, Dominica, Grenada, St. Lucia, St. Vincent)	BPT	GTR
BARBADOS:		
Vehicles, b/u or CKD, parts	13%	28% ad val cif
Ambulances and engines	10%	30% " " "
Surtax: 10%; 20% for some bodies and parts		
Package Tax: B $0.25 per ea. 57 lbs.		

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
	BPT	GTR
DOMINICA:		
All vehicles and bodies	20%	40% ad val cif
Chassis	20%	30% " " "
Engines	Free	5% " " "
Other parts	20%	40% " " "
Surtax: 30% of duty		
GRENADA:		
Cars, chassis w/e mounted	10%	35% ad val cif
Trucks, lorries, vans	15%	35% " " "
Additional Tax: 10% of duty		
Purchase Tax: Cars, up to 3100 lbs.	- 10% of Invoice Price	
Cars, over 3100 lbs.	- 12½% of Invoice Price	
Trucks up to 4480 lbs. GVW	- 10% of Invoice Price	
ST. LUCIA:		
All vehicles and parts	20%	40% ad val cif
Bodies, chassis and parts	10%	30% " " "
Surtax: 25% of duty		
ST. VINCENT:		
All vehicles	20%	26% ad val cif

CANADA 1/

	BPT	MFN	GTR
All vehicles	Free	15%	27½% CDV

1/ Vehicles and original equipment parts imported free of duty by GATT members for Government-qualified manufacturers under Canadian-U. S. Automotive Products Trade Act of 1965 (same exclusions for SPVs).

Sales Tax: 12% of DPV
Used Cars: prohibited entry if manufactured prior to the year in which importation is sought

CHILE

	Specific	Ad Val Cif
Cars	3.0 pesos per net Kilos	305% 1/
Taxis	3.0 " " " "	160% 2/
4x4s	3.0 " " " "	405% 2/
Buses, minimum cap. of 40 passengers - not less than 3404 mm	3.0 " " " "	40%
Trolley buses	0.65 " " " "	140% 1/
CVs w/ van bodies w/ capacity up to 1500 Kilos	3.0 " " " "	305% 2/
refrigerated trucks	Free	35% 2/
other	3.0 " " " "	55% 2/
Chassis w/ cab up to 1500 Kilos cap.	0.45 " " " "	305%
Other chassis w/ cab	0.45 " " " "	160%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES		
	Specific	Ad Val Cif	
SPVs	Free	90%	
Firefighting vehicles	Free	10%	
Chassis with motors only	Free	305%	2/
Bodies with cabs	15.0 pesos per gross Kilos	300%	1/
Engines	0.25 " " " "	40%	2/
Parts and accessories	0.60 " " " "	300%	3/

1/ Import prohibited.

2/ Import only with 3 m. deposit of 10,000% of cif value.

3/ Import only with 3 m. deposit of 30-10,000% of cif value.

Note: Duties are quoted in gold pesos 4/ and collected in escudos. 5/

Surtax: 4% of duties (not exceeding 0.5% of cif value)
Luxury Tax: 32% DPV on cars valued at over U. S. $1200
Road Tax: 10% of retail price
LAFTA Concessions: on some gears, reducers and synchronizing mechanisms for vehicles 1000 cc cylinders or less.
Sales Tax: 6% of retail price
Special Vehicle Tax: 200% of list price on cars, S/Ws and 4-wheel drive vehicles (except taxis); 100% on trucks
Consular Fees are payable by the importer.

Vehicle imports temporarily prohibited, except for certain types of SPVs, CKD and SKD material.

4/ Gold Pesos @ 4.85 = U. S. $1.00

5/ Approximately 9.9 Escudos = U. S. $1.00

COLOMBIA

	Built-Up Vehicles		CKD Vehicles	
	Tariff Rate ad val cif	Deposit Schedule on Fob Value	Tariff Rate ad val cif	Deposit Schedule on Fob Value
Cars over fob $3300	450%	130%	225%	30%
Cars fob $1850-$3000	350%	130%	175%	30%
Cars up to fob $1850	230%	130%	115%	30%
¼-ton 4x4s for persons	20%	1%	4%	1%
Buses 1/	60%	130%	40%	30%
Trucks, chassis with cab GVW;				
up to 5000 U. S. lbs.	180%	5%	140%	5%
5001-9999 U. S. lbs.	70%	5%	50%	5%
Other	30%	5%	10%	5%
Trucks: pickups, panels and the like - GVW				
up to 5000 U. S. lbs.	200%	30% 2/	140%	10%

COUNTRY AND VEHICLE TYPE		CUSTOMS DUTY OR TARIFF RATES		
5001-9999 lbs.	100%	30%	50%	10%
Other, incl. ambulances	70%	30%	-	-
SPVs (fire, snow, crane, etc.)	60%	30%	-	-

1/ Additional tax of 15% from January to December of 1969; and 30% after January, 1970.

2/ 1% for public service trucks

SPVs (street sweepers)	20%	-	-	-
Car chassis				
over fob $3000	380%	30%	320%	30%
fob $1850-3000	280%	30%	220%	30%
up to fob $1850	180%	30%	120%	30%
¼-ton 4x4s chassis				
for persons	20%	10%	-	-
Bus chassis	25% 1/	30% 2/	5%	10%
Truck chassis				
up to 5000 U. S. lbs.	180%	30% 2/	120%	10%
5001-9999 U. S. lbs.	70%	30% 2/	120%	10%
over 9999 U. S. lbs.	30%	30% 2/	120%	10%
Car bodies				
over fob $3300	380%	130%	320%	30%
fob $1850-$3300	280%	30%	220%	30%
up to fob $1850	180%	130%	120%	30%
¼-ton 4x4s bodies for persons and bus bodies	40%	130%	-	-
Parts	5-100%	30-130%	-	-

Consular Fee: 1% ad val on fob for LAFTA only
Sales Tax: 15% retail price on cars + S/Ws
8% retail price on light 4x4s
3% retail price on other vehicles
Import License: generally required

1/ 10% for public service use

2/ Prior deposit is 1% when imported for public service use.

COSTA RICA

	U. S. $ Per Kg	Ad Val Cif
Cars, S/Ws up to 800 Kg	.79 +	50%
801-1200 Kg	.92 +	50%
1201-1650 Kg	1.00 +	50%
over	1.27 +	50%
Bodies	.75 +	30%
Car chassis	.75 +	40%
Other chassis	.23 +	20%
Pickup & panel trucks	.23 +	20%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
Trucks and SPVs	.045 +	20%
Jeeps	.230 +	20%
Engines	Free	15%
Parts and Accessories	.38-.750 +	30%

Hospital Stamp Tax: 3% of duty
Consumption Tax: (for imported or domestically produced automobiles):

	In Colones 1/
under 600 Kg	4,870
601-800 Kg	6,674
801-1000 Kg	9,283
1001-1200 Kg	11,134
1201-1400 Kg	13,580
1401-1650 Kg	16,005
over 1650 (incl. racing or sport cars of any weight)	24,500
4x4 vehicles	3,000
Delivery Vans	70% of above rates
Other vehicles	5% of retail price

1/ 6.95 Colones = U. S. $1.00 at the official rate. Luxury, non-essential goods and automobiles must be bought at the free market rate which is about 6.95 colones to U. S. $1.00.

DOMINICAN REPUBLIC

	Duty	Consolidated Internal Taxes (Fob Value)
Cars valued less than RD $1850 1/ 3/	30% ad val fob	45%
Cars valued over RD $1850 1/ 3/	40% " " "	60%
Jeeps	25% " " "	30%
Trucks	15% " " "	15%
S/Ws, trucks 2/	5%	
Buses	17% " " "	30%
Parts, generally	12-15% " " "	10-15%
Trailers	10% " " "	25%

1/ Cars valued at over $2,000 are not allocated foreign exchange; and those valued at up to $2,000 are subject to an additional excise tax of $700 each.

2/ Sole tax.

3/ Prior deposit of 40% fob value for 3 months.

20% Consumption Tax levied on all but heavy trucks, trailers and parts.
Surtax: 3% of duties and taxes

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

Used Car (Duty reductions): 1st year, 20%; 2nd year, 30%; 3rd year, 40%; and 5th year or more, 60%.
Letter of Credit and foreign exchange regulations covering automobile and jeep imports may be in effect.

ECUADOR

	Specific Duty in Sucres 1/	Ad Val 2/ Duty	Import Category List No. 3/
Cars, S/Ws, utility vans up to U. S. $1100 fob	15,001-23,000 ea	111%	II.B.2a
1101-1200 fob	25,000 ea	194%	II.B.2a
1201-1700 fob	28,500-44,500 ea	250%-305%	II.B.2a
1701 and over	55,000-253,000 ea	361%-500%	II.B.2a

1/ Approximately 18 Sucres = U. S. $1.00.

2/ Ad val duty is levied on the amount by which the fob value exceeds the lower amount of fob values cited.

Trucks over 3-ton payload (including all dumpers)	1.3 Sucres per Kg	+ 20% ad val	I
Other trucks (not all)	6.5 " " "	20% " "	I
Buses, other	7.0 " " "	20% " "	II.B.2a
SPVs	1.2 " " "	20% " "	I, IIA, II.B.2a
4x4 vehicles ("jeep" type only)	7.00-8.50 " " "	20% " "	I
Dual purpose vehicles:			
similar to autos	20.00 " " "	40% " "	I
other	10.00 " " "	20% " "	I
Chassis w/e:			
over 3-ton payload	1.00 " " "	20% " "	I
up to 3-ton payload	6.00 " " "	20% " "	I
other	10.00 " " "	20% " "	II.B.2a
Bodies, passenger cars, S/Ws	10.00 " " "	35% " "	II.B.2a
other	2.00-8.00 " " "	35% " "	II.A.2
Parts	1.00-4.00 " " "	20% " "	I

Note: Vehicles (incomplete) and sets of assembled parts generally dutiable as complete vehicles.

3/ Import Category List Number determines deposits and surcharges as:

List No.	Description	Prior deposit on cif value	Prior deposit on import duties	Special sur charge on cif value	Additional surcharge on cif value
I	Essential (to be subdivided for prior deposits purposes	35%	40%	10%	0%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES			
II A. Semi-essential	50%	80%	20%	0%
1.	70%	80%	20%	0%
2.	130%	80%	20%	0%
B. Non-essential				
1.	170%	80%	20%	0%
2.				
a.	250%	80%	20%	0%
b.	250%	80%	20%	10%
c.	250%	80%	20%	15%

Import License: granted only when supplier's credits exceed 90 days (from sight) for List I items and 180 days for List II items.

LAFTA Concessions: Fire fighting vehicles are admitted at 20% cif value and self-propelled asphalt laying vehicles are admitted at 29% cif value. Parts for these vehicles are admitted at same rate as whole vehicle.

EL SALVADOR

Cars, valued at:	
up to U. S. $2000	40% ad val cif
2001-2500	50% " " "
2501-3000	60% " " "
3001-3500	70% " " "
3501-4000	80% " " "
over $4000	100% " " "
4x4 passenger cars	20% " " "
Trucks, fire engines & refrigerated vehicles	11% " " "
Buses	10% " " "
Buses or bus chassis - CKD	5% " " "
SPVs, gen.	20% " " "
Car chassis w/e	40% " " "
CV chass w/e	10% " " "
Chassis for light 4x4s w/e	11% " " "
Bodies, chassis w/o engines, frames, parts and accessories	10-40% " " "
Engines	15% " " "

Surcharge: 30% on duty

FALKLAND ISLANDS

All vehicles — Free

FRENCH GUIANA

Same as France and EEC

TVA Tax applies.
Additional Tax: generally none but others (including chassis) have 7% on cif/DPV.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

FRENCH WEST INDIES

GUADELOUPE:
Same as France and EEC.

TVA Tax applies.
Tax on DPV: 5%

MARTINIQUE:
Same as France and EEC

Additional Tax: Cars over 2000 cc - 10% cif/DPV
Other vehicles - 20% cif/DPV
TVA Tax applies.

GUATEMALA

Cars, including S/Ws	55% ad val cif
Assembled CVs, ½-ton pickups, 4x4 vehicles	10% " " "
Assembled buses	16% " " "
CKD CVs	5% " " "
Car chassis and bodies	70% " " "
CKD CV bodies	5% " " "
Fire engine bodies	Free
Parts, including engines	15% " " "

Surtax: 100% fob on all British goods, unless they are transported in Central American ships. U. S. products not subject to surcharge and can be shipped in American bottoms.
Surcharge: 30% of duty

Note: The value of passenger cars will be increased by 5% for each 100 quetzales or fraction thereof, when the cif value of the vehicle exceeds 2,500 quetzales. (One quetzale = U. S. $1.00)

GUYANA

	BPT	GTR
Cars, 1800 cc or more	50%	70% ad val cif
less than 1800 cc	40%	60% " " "
CVs	30%	50% " " "
Bodies and vehicle parts	40%	60% " " "

Additional duty: 3% of cif value (defense levy)

HAITI

Cars, valued cif under $1400	10.0% ad val cif
Cars, valued cif $1401-$1900	15.0% " " "
Cars, valued cif $1901-$2550	22.0% " " "
Cars, valued cif $2551-$3250	35.0% " " "
Cars, valued cif $3251-$4000	45.0% " " "
Cars, valued cif over $4000	60.0% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OF TARIFF RATES
Jeeps	12.0% ad val cif
Diesel CVs and their chassis	10.8% " " "
¼-ton pickups & light 4x4 vehicles	10.8% " " "
SPVs, trucks, buses	12.0% " " "
Chassis w/e & bodies for car and bus	30.0% " " "
Parts	17.0% " " "

Internal Tax: 6% DPV
Consular Fee: 2% fob
Sales Tax: $50 to $1,000 depending on cif value of car or truck

HONDURAS

Cars, S/Ws and their chassis, engines	15% ad val cif
¼-ton pickups, jeeps, CVs, buses, SPVs	Free
CV chassis	Free
Bodies, parts	10% ad val cif

Consular Fee: 8% fob
Surcharge: 12% of duty
Sales Tax: Cars up to 5000 lempiras fob - 10% ad val cif
Other cars - 25% " " "
4x4 vehicles & pickups - 5% " " "
Economic Stabilization Tax: 30% of duty

JAMAICA

	BPT	GTR
Cars, other than buses with a cylinder capacity:		
up to 1199 cc	39½%	63½% ad val cif
1200-2999 cc	42%	66% " " "
3000-3999 cc	45%	69% " " "
4000 and over	47½%	71½% " " "
	20%	40% " " "

The rates quoted above incorporate the former surcharge of 10% of the duty and the surcharge of 10% of the cif value.

Note: Autos with a wheelbase over 116 inches will not be granted an import license.

MEXICO

Cars are dutiable at specific rates, which vary according to the official prices of different models. Ranges of duties on cars follow:

	Import Duty in Pesos 1/
Cars, assembled, priced at:	
up to 24,000 pesos	up to 8,500
up to 30,000 pesos	up to 28,000
up to 40,000 pesos	up to 43,000
up to 50,000 pesos	up to 70,000
over 50,000 pesos	75,000

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
for each additional 1,000 pesos in official price	an additional 3,000
sedans 4-door, 6 to 8 cylinders, 135 up to 1700 hp	15,000 + 15% ad val

Note: Quota limitations on import of cars by manufacturer in effect.

Cars imported CKD or otherwise unassembled for:

(1) plants authorized with official valuation	
of up to 28,000 pesos	up to 3,800
of up to 30,000 pesos	up to 4,100
of up to 40,000 pesos	up to 8,000
of up to 50,000 pesos	up to 14,000
of 50,000 to 51,000 pesos	up to 16,000
for each 1,000 pesos or fraction in official price in excess	an additional 900
(2) plants not authorized	10,000 + 80% of offical price

Trucks and buses are dutiable at specific rates plus an ad valorem rate on official prices which vary depending on the cargo capacity of trucks, and horsepower of buses:

	Import Duties on Each Vehicle in Pesos
Trucks assembled abroad	10,000 + 10% of the official price
Trucks, dumper type, with a load capacity of over 15 tons, per gross kilo	0.30 + 4% of 23.00
(These type trucks are duty-free when coming from LAFTA member nations.)	
Open trucks, load capacity of over 500 kilos	10,000 + 30% of official price
Panel trucks, load capacity of up to 2,500 kilos	10,000 + 20% of invoice value
Buses, assembled abroad	15,000 + 15% of official price
Trolley buses, assembled abroad	8,000 + 8% of the invoice value
Trucks, CKD or otherwise unassembled, with a cargo capacity of not more than 2,000 kilos, not transferable into other types of vehicles	200 + 5% of invoice value
Other trucks	10,000 + 25% of invoice value
Chassis and bodies:	
chassis - for cars & trucks	10,000 pesos each + 25% of official valuation
bodies - for cars & trucks	15,000 pesos each + 50% of official valuation (buses, 15%)
Parts: for vehicles	up to 2.50 pesos per gross kilo and up to 80% of official valuation

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

Special Use Tax:
250 pesos on sales price up to 28,000
300 pesos on sales of 28,001-40,000
500 pesos on sales of 40,001 and over
Sales Tax: 3% of sales price for all vehicles
Surtax: 3% of duty (10% if by mail)

Note: Used cars are allowed a reduction of import duties as follows: 10% for models one year old; 20% for models 2 years old; and up to 75% (maximum) for models 7 or more years old.

Note: Automobiles, trucks, chassis and buses imported by residents living in Mexico along the U. S. border in an area 20 kilometers wide need pay a duty rate of only 10 percent of the normal import duty, if importer will conform to the controls imposed on such imports.

Import License required.

1/ 12.5 pesos = U. S. $1.00

NETHERLANDS ANTILLES

Automobiles, chassis, engines, parts	14% ad val cif

NICARAGUA

Passenger cars:	
S/Ws with 4-wheel drive	30% ad val cif
valued to U. S. $2000	40% " " "
$2001-2500	50% " " "
$2501-3000	60% " " "
$3001-3500	70% " " "
over $3500	75% " " "
Trucks, buses, SPVs, jeeps	10% " " "
Chassis w/e for passenger cars, engines	15% " " "
Bodies and parts	30% " " "

Sales Tax: (Gross receipts tax) 2.2% of monthly sales by any commercial establishment or importer (even if product intended for resale).
Surcharge: 30% of the duty; except on chassis and parts effective 6-21-68, duties on used cars (except jeeps, land rovers, and 4-wheel drive station wagons) are based on the value of the automobiles as new.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

Consular Fee: 7% of ad val fob
Sales Tax: 5%; exempt buses, panel and pickup trucks, car chassis with motors mounted and chassis only, repair parts etc. for trucks.

PANAMA

Cars with an fob value of up to	
1500 Balboas 1/	22.5% ad val fob
1501-2200 Balboas	27.5% " " "
2201-2500 "	30.0% " " "
2501-3000 "	50.0% " " "
3001-3500 "	60.0% " " "
3500 Balboas and over	65.0% " " "
Passenger road motor vehicles, including dual purpose vehicles, except buses and motorcycles, assembled or not:	
weighing 1750 Kg or less	B. 0.30 per G.K.
weighing more than 1750 Kg however, a reduction of this specific duty is granted in the case of used cars, ranging from 10% of the duty for cars over 1 year old to 65% of the duty for cars up to 7 years old; for cars over 7 years old, the specific duty is reduced as follows (total duty):	B. 0.35 per G. K.
over 7 years	BS. 100.00
over 8 years	BS. 80.00
over 9 years	BS. 60.00
Buses	20.0% ad val fob
Trucks	15.0% " " "
Ambulances, vans, 4-wheel drive vehicles up to 1 ton	10.0% " " "
Chassis, parts	10.0% " " "

Additional Duty: 3½% ad val fob

1/ 1 Balboa = U. S. $1.00.

PARAGUAY

	Aforo Value 1/			% of cif Value Complimentary Tax
	Import Duty	Supplementary Duty	Additional Charge	
Cars	50%	18%	22%	24%
Trucks, to to 3 metric tons payload	11%	Free	15%	12%
Pickup trucks, up to 3 metric tons payload	15%	10%	10%	12%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES			
Microbuses up to 3 metric tons max. load	20%	Free	10%	24%
Buses	24%	7%	11%	24%
Trucks up to 3 metric tons max. load, other	22%	7%	11%	24%
4x4 vehicles, soft top (jeep)	15%	5%	8%	24%
, hard top	15%	7%	8%	24%
Truck chassis, over 3 metric tons	18%	7%	11%	24%
Trailers (platform and van) and internal combustion engines	15%	5%	5%	24%
Parts and accessories	11%	Free	15%	12%

For ign Exchange Surcharge: 32% cif
Prior Deposit: 100% fob of 4 to 6 months
Consular Fee: 5% fob

1/ Aforo Value is a figure set by a "special valuation commission" and is normally close to the cif value.

LAFTA Concessions:

	Ad Val Cif
Jeeps w/o pulley for transmission	10%

PERU

	Dutiable Unit (for purposes of specific duty)	Import Duty: Specific Duty 1/	Duty Ad Val
All CKD vehicles:			
190-750 cc		Free	5% FAS
750-1500 cc		"	25% "
1500-2500 cc		"	55% "
2500-5000 cc		"	85% "
5000 and above		"	100% "
Built-up cars & S/Ws with value of fob:			
	ad val	20%	60% cif
1101-1700	"	10%	70% "
1701-2300	"	15%	75% "
2301-3000	"	20%	80% "
over 3000 (temporarily prohibited)	"	30%	90% "
Buses up to 2000 Kg weight	gross kilo	0.50 +	30% "
over 2000 Kg weight	"	0.30 +	20% "
Trucks weighing up to 1500 Kg	"	0.30 +	30% "
weighing over 1500 Kg	"	0.20 +	20% "
Jeeps and military vehicles	"	0.50 +	20% "
SPVs	"	Free	20% "
Other vehicles, n.e.s.	"	0.50 +	30% "
Chassis, bodies	"	Free	12% "
Engines	"	0.40-3.00	+26-30% "

COUNTRY AND VEHICLE TYPE		CUSTOMS DUTY OR TARIFF RATES	
Parts for vehicles most parts, other than luxury items, average in the range of	gross kilo	6.00-25.00	+26-50% cif

1/ Approximately 38.70 Soles = U. S. $1.00.

Freight Tax: 4% of ocean freight charges
Surcharge: 12% ad val cif
Temporary Surtax: 5% cif 12-1-68 to 1-31-69

Note: Import of all built-up vehicles prohibited.

Note: Import rates based on fob value but in practice duties are levied on cif (fob plus 20%)

LAFTA Concessions:

	Specific Duty	Ad Valorem
87.02.1.01 Jeeps	Free	10%
87.07.1.01 Small work trucks (fork-lift or platform trucks) for stacking, piling, lifting or transporting	Free	12%

ST. PIERRE AND MIQUELON

Same as France

Fiscal Tax: 10% on on cars and buses; 6% on other vehicles

SURINAM

		EEC
Cars	40% ad val cif	37%
CVs, SPVs and chassis, engines, parts	20% " " "	17-20%

Statistical Tax: 1.5% ad val
License Fee: 0.1% ad val

TRINIDAD AND TOBAGO

	BPT	GTR
Cars, complete, not over 3000 lbs.	25%	30% ad val
Cars, CKD, not over 3000 lbs.	Free	5% " "
Cars, complete, over 3000 lbs.	25%	30% " "
Cars, CKD, over 3000 lbs.	Free	5% " "
Station wagons	25%	35% " "
Buses, trucks, other road motor vehicles, n.e.s., complete	25%	35% " "
Buses, trucks, semi-KD	10%	20% " "
Buses, trucks, CKD for plant assembly, so approved by the Ministry of Commerce	5%	15% " "
Chassis w/e, bodies, parts	20-25%	30-35% " "

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

Purchase Tax:
Under T&T $4,000 - 10% 1/
$4,000 to $4,999 - 20%
$5,000 to $6,999 - 30%
$7,000 and over - 40%
Import License: required for assembled automobiles and rarely granted.

1/ T&T $ = U. S. $0.50

UNITED STATES 1/

	1-1-70	1-1-71	1-1-72	
Cars	4½%	3½%	3% ad val	2/
CVs: under $1,000 value	4½%	3½%	3% "	"
$1,000 or over	25%	25%	25% "	"
Buses	5½%	5%	4% "	"
SPVs	7%	6%	5% "	"
Fire engines	9%	8½%	8½% "	"
Chassis & bodies for cars, CVs & buses	5½%	5%	4% "	"
Chassis, other	4½%	3½%	3% "	"
Engines	5½%	5%	4% "	"
Parts, gen.	1-5½%	½-5%	Free-4% "	"

1/ Vehicles and parts from Canada for use as original equipment imported duty-free (some exclusions for SPVs and duty-free status must meet certain content requirements) under Canadian-U. S. Automotive Products Trade Act of 1965.

2/ Ad valorem definition: foreign or export value, whichever is higher.

Federal Excise Tax: 7% on manufacturer's price to dealers.

URUGUAY

	Specific Duty in Pesos 1/	Ad Val Duty
Cars, weighing up to 550 Kg	1,716.00 each	83%
weighing 551-777 Kg	2,184.00 each	83%
over 777 Kg	2.808 to 7.02 per Kg	83-120%
CVs, complete	-	60%
Car chassis	1.46 to 1.95 " "	83-83.1%
Bus chassis	1.46 to 3.90 " "	2.3%
Truck chassis	1.46 to 3.90 " "	27.7%
Parts for cars	wide variation	67.7-86.2% (gen)
LAFTA Concessions:		
Buses	-	6%
Dump trucks	2.2725	81%

General Import Tax: 18% of cif value
Port Charge: 12% of cif value
Consular Invoice Fee: 12% of fob value

Balance of Payments Surcharges:	Surcharge	Prior Deposit 2/
CKD vehicles 3/	150%	400%
Other vehicles, parts	300%	400%

Additional Charges: Miscellaneous registration fees, surtaxes, and other charges totaling about 4% of cif value.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

1/ Approximately 250 Pesos = U. S. $1.00.

2/ Prior deposits are assessed only on the excess of percentage of past import patterns.

3/ Repair kits for automobile assembly are prohibited importation.

U. S. VIRGIN ISLANDS

All vehicles	6% ad val fob (U. S. exempt)

Excise Tax: 10% ad val fob

VENEZUELA

Assembled cars 1/	
up to 800 Kg	0.55 Bolivares per Kg 2/
801-1400 Kg	0.60 " " "
1401-1600 Kg	0.80 " " "
1601-1700 Kg	1.00 " " "
1701-2000 Kg	1.40 " " "
over 2000 Kg	1.60 " " "
CKD cars, weighing when assembled 1/ 3/	
up to 1800 Kg	0.001 " " "
1801-2000 Kg	0.05 " " "
over 2000 Kg	0.10 " " "
S/Ws, ½-ton pickups, 4x4s, etc.:	
CKD	0.001 " " "
SKD 3/	0.09 " " "
Assembled, weighing (S/Ws & 4x4s only)	
up to 1400 Kg	0.15 " " "
1401-1600 Kg	0.25 " " "
1601-1700 Kg	0.50 " " "
over 1700 Kg	1.00 " " "
Trucks, CKD 1/	0.001 " " "
Trucks, SKD 1/ 3/	0.09 " " "
Trucks, assembled	0.10 " " "
Buses, built/	0.15 " " "
Buses, CKD	0.001 " " "
SPVs	0.15 " " "
Fire engines	0.001 " " "
Bodies 1/	0.50 " " "
Chassis	0.09 " " "
Engines	0.001 " " "
Parts, gen.	0.05 " " "

Consular Fee: If the fob value of the goods is:

not over 10,000 bolivares	- 2% ad val fob
10,001-20,000 bolivares	- 2½% ad val fob
20,001-30,000 bolivares	- 3% ad val fob
over 30,000 bolivares	- 3½% ad val fob

COUNTRY AND VEHICLE TYPE CUSTOMS DUTY OR TARIFF RATES

1/ A previous importation license required from Ministry of Development.

2/ 4.5 Bolivares = U. S. $1.00.

3/ A previous importation license required from Ministry of Finance.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES			
AUSTRIA	Ad Valorem cif or Sch. per 100 Kg			
	1/ GTR (ad val Sch. per KG)			EFTA Rate
	1970	1971	1972	
Passenger cars & S/Ws	20.0%	20.0%	20.0%	Free
over 1200 Kg 2/	3/ 1470 S.	1470 S.	1470 S.	"
800-1200 Kg 2/	1400 S.	1400 S.	1400 S.	"
under 800 Kg 2/	1300 S.	1300 S.	1300 S.	"
Trucks under 1500 Kg	20.0%	20.0%	20.0%	"
1500-7000 Kg	31.0%	32.0%	32.0% 4/	"
over 7000 Kg	25.0%	25.0%	25.0%	"
under 2200 Kg to 1500 Kg 2/	1155 S.	1155 S.	1155 S.	"
Trucks with over 14-ton payload if type not made in Austria	Free	Free	Free	
Buses	29.0%	29.0%	29.0%	"
or, if u/l.w. is over 1200 Kg	1470 S.	1470 S.	1470 S.	"
SPVs	17.5%	15.4%	13.0%	"
Bodies, all	26.2%	25.6%	25.0%	"
Chassis w/e:				
under 1500 Kg	27.8%	26.4%	25.0%	"
1500-7000 Kg 2/	1002 S.	951 S.	900 S.	"
over 7000 Kg	23.8%	23.4%	23.0%	"
Parts	various rates, free up to 16% or 800 Sch. (as of 1-1-72)			

1/ From January 1 of each year.

2/ Specific rate per 100 Kg net applies if lower than ad val rate.

3/ Schillings 25.9 = U. S. $1.00.

4/ A temporarily reduced rate of 20% may be available; partial or total exemption from duties may apply to automotives if Government determines sufficient local supply unavailable.

Note: All vehicles with u/l.w. under 1500 Kg when imported CKD are given a 30% reduction of built/up vehicle rate.

Turnover Equalization Tax: (adjustment of this tax and the Turnover Tax reported impending.)
Buses up to 15 seats - 10.6% cif/DPV
All other vehicles and their chassis w/e - 13% cif/DPV
Turnover Tax: 2% levied on wholesale transactions; 5½% on retail transactions

AZORES

See Portugal

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

BENELUX COUNTRIES
(Belgium, Netherlands and Luxembourg)

See European Economic Community (EEC)

CANARY ISLANDS

All vehicles — Free

Luxury Tax: 16% DPV on cars up to 8 h.p.
20% DPV on cars over 8 h.p.
Local Tax: 5% ad val
Purchase Tax: 30% on invoice value
Import controls - same as for Spain
Import License required.

DENMARK

	GTR 1/				EFTA
	1970	1971	1972		
Cars, buses to 10 persons	12.0%	12.0%	12.0%	ad val cif	Free
Buses, over 10 persons	8.4%	7.2%	6.0%	" " "	"
Trucks and SPVs	2.8%	2.4%	2.0%	" " "	"
Chassis, bodies	2.8%	2.4%	2.0%	" " "	"
CKD vehicles	Free	Free	Free		"
Engines, parts	3.5%	3.0%	2.5%	" " "	"

Sales Tax: 12.5% (9% for registered importers)
Special Purchase Tax:
Cars
up to 2000 Kr. - 32% of DPV
2001-5000 Kr. - 102% of DPV
5001-10,000 Kr. - 113% of DPV
10,001-15,000 Kr - 124% of DPV
over 15,000 Kr - 156% of DPV
Trucks and SPVs - 10% of DPV
Buses and taxis - 20% of DPV

1/ from January 1 of each year.

EUROPEAN ECONOMIC COMMUNITY (EEC) (Belgium, France, Germany, Italy, Luxembourg and Netherlands)

	No Tariff to EEC countries %	CXT Rate 1/ ad val cif %	%
	1970	1971	1972
Cars and car chassis	15.4%	13.2%	11.0%
Buses (a) with spark-ignition eng., cyl. cap. 2800 cc or more; or with compression ignition eng. of cyl. cap. of 2500 cc or more	22.0%	22.0%	22.0%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES		
	% 1970	% 1971	% 1972
(b) less than above capacities	15.4	13.2	11.0
(c) with other engines	17.5	15.0	12.5
Trucks			
(a) same breakdown as under buses for EEC	22.0	22.0	22.0
(b) same breakdown as under buses for EEC	15.4	13.2	11.0
(c) with other engines; SPVs	14.0	12.0	10.0
Chassis for buses & trucks as under (a) and (b) above	see above		
Bodies: for above categories (a) & (b), including cars w/ cap. under 15 persons and SPVs	16.8	14.4	12.0
for others	21.6	20.8	20.0
Engines:			
250 cc or less	12.6	10.8	9.0
more than 250 cc:			
for industrial assembly	9.4	8.2	7.0
for other	12.4	12.2	12.0
Parts from:	9.8	8.4	7.0
to:	12.0	12.4	12.0

BELGIUM:

Transmission Tax: 19% on cars and CVs; 10.5% on SPVs; 15% on chassis with engines used in vehicles of public transport of people or transport of goods; 7-23% on other.
Value Added Tax (TVA): per EEC, not to be instituted until January 1, 1971.

FRANCE:

Value Added Tax (TVA):
cars (up to 9 seats), car chassis - 33-1/3% cif DPV
other, including chassis - 23-1/2% cif DPV
Customs Stamp Duty: 2% of import duty
Annual Vignette Tax: levied on cars and based on age and/or fiscal horsepower. Fee varies from 30 to 1,000 francs. 1/

1/ 5.56 francs = U. S. $1.00

GERMANY:

Value Added Tax (TVA): 11% DPV 1/
Annual Road Use Tax: $3.60 per 100 cc displacement or fraction thereof

1/ In effect, the rate is 7% because 4$ is subsequently refunded to importer; however, the 4% refund was suspended on October 8, 1969.

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

ITALY:

Compensation Tax: 7.8% DPV on cars and DV, 7.5% on other, plus fees
Turnover Tax: 4% DPV plus fees (TVA not effective until 1-1-72)
Administrative Tax: 0.5% ad val cif
Stamp Tax: 0.2% of duties and additional taxes, including road tax.
Annual Road Tax: levied on cars on basis of fiscal horsepower (FHP)--varies from 5,110 to 241,870 lire per year (if over 45 FHP, tax is 8,660 lire per FHP)

Import duties are levied on cif ad val plus 3% uplift.

LUXEMBOURG:

Turnover Tax (non-TVA): Wholesale: .75% levied on wholesale transactions; retail: levied on retail transactions at same rate as import tax except in certain circumstances when it is 3.75% of the retail price.
Import Tax: 10% cif DPV for vehicles (except fire engines, ambulances, sweepers); 3% for other automotive items

NETHERLANDS:

Value Added Tax (TVA): 12% cif DPV
Consumption Tax: 15% cif DPV plus markup (on retail price excluding TVA) for cars only.
Annual Car Tax: 13 Guilders per 100 Kg 1/

1/ 3.62 Guilders = U. S. $1.00.

FAROE ISLANDS

Same as for DENMARK

FINLAND

	GTR (% of ad val cif) 1/			EFTA
	1970	1971	1972	
Cars (jeeps not specified)	10	9	8	6%
Cars - CKD, for mass assembly	6	6	6	6%
CVs, b/u - diesel (wt. 10 metric tons or more)	14	14	14	Free
other	10	9	8	"
gas	10	9	8	"
SPVs, gen.	7	6	5	"
Car chassis	9	8	7	"
Other chassis, trucks, buses	14	14	14	"
Bodies	9	8	7	"
Engines	8	7	6	"
Parts	varied, free-44%			"

1/ From January 1 of each year.

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

Automobile Excise Tax on cars and S/Ws under 1,700 Kg: 140% of DPV less 2500 Finmarks (min. 50% of the landed price) 2/
Turnover Tax: 12.4% cif DPV plus above tax

2/ U. S. $1.00 = 4.20 Finmarks.

FRANCE

See EUROPEAN ECONOMIC COMMUNITY

GERMANY

See EUROPEAN ECONOMIC COMMUNITY

GIBRALTER

	GTR & BPT
All vehicles	8-1/3% ad val cif
Parts, engines	10% " " "

GREECE

	EEC	Other	Turnover Tax
Cars weighing over 800 Kg & fob factory value not over U. S. $1650	13%	24.8%	A
Cars weighing over 800 Kg & fob factory value exceeding U. S. $1650	20%	34.6%	A
Jeeps	8.75%	18.8%	A
Ambulances and hearses	9%	19.2%	A
Buses	15.3%	18.0%	A
Trucks and vans, n.e.s. (excluding refrigerated type)	14.88%	17.5%	B or C
Chassis for trucks with cab and engines	5.25%	13.9%	C
SPVs (cleaning, plows, cranes, etc.)	5%	13.0%	C
Engines	5%	11.2-12.4%	
Parts	2.5-12.3%	7.7-39.2%	

Turnover Taxes in right-hand column above as follows:
A - 8.75% of 140% of DPV
B - 8.75% of 130% of DPV
C - 4.50% of 130% of DPV
Luxury Tax: exempt
Special Import Tax: 5% cif value
Export Promotion Tax: 15% cif value
Stamp Tax: 4% cif duty + tax paid value
Initial Registration Fee: Applicable to private passenger cars at varying rates ranging from 19,500 drachmas to 100,000 drachmas.
Deposit Requirements: apply.

Note: EEC KR harmonization should commence May 1, 1970, according to prior agreements.

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

License (Circulation) Fees: Payable annually at varying rates ranging from 280 drachmas to 840 drachmas for autos and from 212 drachmas to 700 drachmas for trucks. 1/

Note: Levies are imposed on used cars at the same rate as new cars and are based on value of the vehicle when new.

1/ 30 Drachmas = U. S. $1.00.

GREENLAND

Imports from all sources enter free of tariff but shipments are controlled by the Royal Greenland Trade Department, Copenhagen.

ICELAND

Cars and taxicabs	90% ad val cif
Buses, trucks, pickups, jeeps	40% " " "
Snow cars	60% " " "
Chassis w/e for trucks, jeeps & cars	40% " " "
Chassis, other	15-90% " " "
Engines, parts:	
diesel engines over 200 h.p.	10% " " "
other internal combustion engines	35% " " "
other parts & accessories vary from	35% to 100% ad val cif
CKDs-not specified	

Special Import Fee: 60% ad val fob for private passenger vehicles, 15% for jeeps-type vehicles not exceeding 101 inch wheelbase; taxis 45%
Retail Sales Tax: 8.25% of cif DPV

IRELAND

	GTR	CANADA	BPT 1/
Cars, b/u over £1300 (or chassis)	75.0%	75.0%	22.2%
Cars, b/u under £1300 (or chassis)	75.0%	75.0%	53.0%
Trucks	75.0%	75.0%	53.0%
SPVs	37.5%	35.7%	30.5%
Fire engines, cleaners & dumps for construction	Free	Free	Free
Buses 16 passengers	75.0%	75.0%	53.0%
17 passengers and over	50.0%	50.0%	41.0%
CKD - all vehicles	17.5%	17.5%	17.5%
Engines	37.5%	37.5%	37.5%

Quotas: in effect for certain parts imports such as spark plugs, laminated springs, leaves
Wholesale Tax: 15% of cif DPV for goods imported by private individuals generally.
Turnover Tax: 2.5% of retail price of cars only, other vehicles usually excluded if imported for reseale, including dumpers.

1/ BPT - Applies to United Kingdom and Northern Ireland; other Commonwealth countries except Canada subject to GTR.

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

ITALY

See EUROPEAN ECONOMIC COMMUNITY

MALTA

	GTR	BPT
Cars	60% ad val cif	45%
with a minimum of	£120 each	£90
minimum for other cars	£138 each	£120
CKD cars and trucks; CVs chassis w/e including buses	30% ad val cif	15%
Other CV chassis	60% " " "	45%
Engines	51% " " "	30%
Parts	51% " " "	30%

Import Licenses: required for buses and hearses.

NORWAY

	GTR (% of ad val cif)			EFTA
	1970	1971	1972	
Cars, CVs, SPVs, chassis	8.8	8.4	8.0	9.2
Buses	30.0	30.0	30.0	9.2
Jeeps & CKD - not specified				
Car & bus bodies	21.0	18.0	15.0	24.0
Other bodies	14.0	12.0	10.0	16.0
Fire engines	Free	Free	Free	Free
Parts, gen.	17.5	15.0	12.5	20.0
Engines	14.0	12.0	10.0	20.0

Excise Tax: cars and chassis with motors for cars--67% of first 5000 crowns of DPV and 100% on excess 1/
buses--25% of DPV; other motor vehicles, chassis w/e for buses, and SPVs--35% pf DPV.
Sales Tax: (introduced 1-1-70); approximately 20% cif DPV; replaces Turnover Tax.
Traffic Tax: up to 0.02% ad val

1/ 1 Crown = U. S. $0.14.

PORTUGAL (Same rates apply to Azores)

	GTR	EFTA
Cars (jeeps not specified)	2.2 multiplied by "P" escudos per KN, where "P" equals weight of cars in quintals (i.e., in 100 Kg units).	1.67
(minimum duty EFTA:	15.5 escudos per Kg	12.4)
CVs	12.5 " " "	10.0)
Dump trucks	10.0 " " "	8.0)
Buses	16.0 " " "	12.8)
CKD - see note below		
Chassis for dump trucks & dump trucks for construction use	.6 " " "	.48)

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
Other chassis	11.0 escudos per Kg	8.8)
SPVs	12% ad val cif	9.6%
Bodies	60.0 escudos per Kg	36.0)
Engines	6-25% ad val cif	Free-15%
Fire engines & ambulances	2400.0 escudos each	1920.0
Parts	6-60.0 " per Kg	Free-36.0

CKD vehicles enjoy a discount of vehicle rates from 15 to 100% based on percent of Portuguese content.
Quota restrictions: on all vehicles are in effect.
Special Tax on cars and light CVs, calculated by multiplying list price in contos by 0.2; results of this multiplication are applied as a percentage to the sales price (maximum of 30%).
Turnover Tax: 7% of wholesale price. (Passenger cars, S/Ws and campers exempt
Transaction Tax: 20% of wholesale price for camping adapted vehicles

Note: 1 conto = 1000 escudos
28.6 escudos = U. S. $1.00

SPAIN

Cars and S/Ws (not more than 9 persons)	68.0% ad val cif
Car chassis	57.5% " " "
Trucks up to 2 tons & chassis,	57.5% " " "
over 2 tons & chassis	50.0% " " "
Chassis w/e, bodies	50-57.5% " " "
SPVs, buses	50.0% " " "
Engines	27-43.5% " " "
Parts	33.0% " " "

Internal Compensatory Tax: 13% on cif value plus duty
Luxury Tax: Cars & S/Ws, excluding taxis and cars for hire:
up to 8 fiscal h.p.: 16% of cif value + duty and compensatory tax
over 8 fiscal h.p.: 22% of cif value + duty and compensatory tax
Import Deposit: 20% of value of imports for period of 6 months
Import Quotas affecting automotives in effect.

SWEDEN

	GTR (% of ad val cif)			EFTA
	1970	1971	1972	
Cars (jeeps not specified)	13	13	13	Free
Cars, CKD	12	11	10	"
CVs, b/u and CKD	15	15	15	"
Parts and accessories	12	11	10	"
Engines	7	6	5	"

Sales Tax: 11.11% cif DPV of retail price (vehicles 1800 Kg or under) (also called TVA)
Transaction Tax: Applicable to cars and vans: 190 Ore per Kg of vehicle service weight and an addition of 240 Kroner for every full 50 Kg over 1600 Kg. Tax applied only to vehicles to 1800 Kg.

Note: 5 Kroner = U. S. $1.00

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES			
SWITZERLAND	Import Duty in Swiss Francs per 100 Kg			
	GTR			EFTA
	1970	1971	1972	
Cars, weighing up to 800 Kg	93.20	87.60	82.0	53,-
801-1200 Kg	106.60	98.80	91.0	53,-
1201-1600 Kg	124.80	116.40	108.0	67,-
over 1600 Kg	148.00	144.00	120.0	81,-
CVs, buses weighing				
up to 800 Kg	93.20	87.60	82.0	98.80
801-1200 Kg	106.60	98.80	91.0	114.40
1201-1600 Kg	124.80	116.40	108.0	133.20
1601-2800 Kg	140.00	130.00	120.0	Free
over 2800 Kg (gen.)	170.00	170.00	170.0	Free
Dumpers, over 2800 Kg (non-road)	70.00	65.00	60.0	Free
SPVs, gen.	106.00	98.00	90.0	Free
CKD cars: 60-85 Fr. per Kg 1/				
Mobile cranes & snow ploughs				
weighing over 12 tons	14.00	12.00	10.0	Free
Bodies for cars, CVs,				
buses	126.00	118.00	110.0	-
dumper bodies	34.0	32.0	30.0	Free
Engines for cars (gas)	134.00	122.00	110.0	Free
Parts	126.00	118.00	110.0	Free

Statistical Tax: 3% of duty
Sales Tax: 5.4% of DPV on wholesale price; 3.6% of retail price to private individuals.

Note: One France = U. S. $0.23

1/ Applies where 15% of value is represented by Swiss content.

UNITED KINGDOM	GTR (% of ad val cif)			CTR 2/
	1970	1971	1972	
Cars, S/Ws (gen.) 1/	15	13	11	7.5%
CVs, buses 1/	15/22	13/22	11/22	7.5-15%
Dumpers (for construction)	10.5	9	7.5	7.5%
SPVs	16	13.5	11	7.5%
Chassis, gen. 1/	15/22	13/22	11/22	15.0%
Bodies	16	13.5	11	7.5%
Engines, over 250 cc	17	15.5	14	9.0%
Parts	10-15	8.5-13	7.5-11	7.5%

1/ Rate varies depending on size of vehicle:
gas engines of 2800 cc or over; or dual engines 2500 cc or more; or vehicles with seating capacity of 15 or more - all; have higher rates shown.

2/ January 1, 1972 Commonwealth tariff rate. Products from the Irish Republic and EFTA admitted free.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

Purchase Tax: Passenger cars 36-2/3% on the wholesale value in the UK.
Import Deposit: 50% of value of goods before release from customs warehouse to be returned to importer after 180 days.

YUGOSLAVIA

Cars and chassis	50% ad val cif
Buses	20-26% " " "
Trucks, up to 10-ton payload	36% " " "
10 to 20 tons payload	26% " " "
over 20 tons payload, including all reefers & tankers	20% " " "
SPVs	26% " " "
CV chassis	26% " " "
Municipal vehicles	13% " " "
Engines - rate "relevant" to vehicle	
Parts - rate "relevant" to vehicle	

Customs Handling Charge: 1% of dutiable value
Equalization Tax: 3% of dutiable value
Sales Tax: 12% of retail price except in case of cars valued in excess of 23,000 New Dinar which are taxed as noted below: 1/

23,000-30,000 Dinar - 30%
30,001-40,000 Dinar - 50%
over 40,000 Dinar - 100%

Municipal & Republican Taxes: Vary according to location but are limited to a maximum of 6% in total (legislation proposed to increase maximum).
Quotas: apply to all automotive items.

1/ 12.5 New Dinar = U. S. $1.00.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
AUSTRALIA		
	BPT	MFN
All vehicles:		
up to 10 tons GVW	35%	45%
10 tons or more	12½%	22½%
Fire engines	Free	7½%
Parts	Varied	Varied

Components imported for the assembly of CKD vehicles are given duty concessions.

Sales Tax: 25% on cars, 15% on CVs and SPVs. Sales Tax is calculated on DPV increased by 20%.

1/ Duties are based on CDV or sales price, whichever is higher.

AMERICAN SAMOA

Vehicles:	
personal use	10% ad val cif
weighing less than 4600 lbs.	25% " " "
weighing over 4600 lbs.	50% " " "

BRUNEI

See Malaysia Federation

CAMBODIA

Cars, and chassis with engines up to 500 cc	15% ad val cif
501-900 cc	22% " " "
901-2180 cc	*38% " " "
2181 cc and over	*45% " " "
Buses, SPVs, bodies for passenger vehicles	30% " " "
Trucks up to 500 cc	12% " " "
501-900 cc	18% " " "
901-2180 cc	25% " " "
2181 cc and over	*30% " " "
Engines	25% " " "
Parts	30% " " "

Sales Tax: 12% of cif and customs duty
*Local Tax: 10% cif

FIJI ISLANDS

	BPT	GTR
Cars, S/Ws, taxis	30%	50% ad val cif
Other vehicles including CVs & SPVs	10-25%	35-45% ad val cif

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
	BPT	GTR
Ambulances	Free	15% ad val cif
Engines and parts	10%	35% " " "

Port and Customs Service Tax: 5% ad val cif

GUAM

All vehicles	Free

HONG KONG

All vehicles	Free

Registration Tax: 10% ad val cif on initial registrations of vehicles of Commonwealth origin plus an initial 15% ad val cif for vehicles not assembled in the Commonwealth.
Declaration Charge: U. S. $0.33 on U. S. value to $660.07; $0.82 on each $165.02 of value thereafter.

INDONESIA

Cars, b/u: under U. S. $2,000	200% ad val cif
over U. S. $2,000	300% " " "
Trucks, b/u	60% " " "
Cars, CKD	75% " " "
Trucks, CKD	20% " " "
Jeeps, CKD	30% " " "
Buses, b/u (15 seats plus) (2-ton payload)	20% " " "
Buses, b/u, other	30% " " "
Ambulances	Free
Engines	30% " " "
CKD - only manner in which above may be imported presently	

BLLD Retribution Tax: 1% of the value of the import; plus 1% charge on L/Cs which are required.
Supplementary Assessment: from 5% to 50% of ad valorem cif value

JAPAN 3/

	GATT 1/			General
	1970	1971	1972	
Cars, wheelbase up to and including 270 cm	20% ~~34.0%~~*	32.0%	30.0%	40% ad val cif
Cars, other (over 270 cm)	17.5% 2/	17.5%	17.5%	40% " " "
Buses	21.0%	18.0%	15.0%	30% " " "
Trucks over 18 tons (over 254 cm)	18.9%	16.2%	13.5%	30% " " "
CVs, other	21.0%	18.0%	15.0%	30% " " "
Chassis and bodies	21.0%	18.0%	15.0%	30% " " "
SPVs	14.0%	12.0%	10.0%	20% " " "
Engines	21.0%	18.0%	15.0%	30% " " "
Parts (average)	21.0%	18.0%	15.0%	30% " " "

*1970 reduction to 20% ~~proposed~~. Approved May 1, 1970

Commodity TAX:
Cars - Wheelbase exceeding 305CM or Engine Capacity exceeding 3000 cc = 40%
cars - " " not " 270 " and " " not " 2000 = 15%
and width not exceeding 170/cms
cars - other = 30%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

1/ GATT rates shown are effective January 1, 1970, through December 31,1970. The Kennedy Round GATT agreement calls for two final reductions on January 1, 1971, and 1972, respectively. The final rates are shown in the Appendix.

2/ On April 1, 1969, the full Kennedy Round concession of 17.5% for the U. S. The rate for other countries is 24.5%.

3/ Quotas presently are in effect through December 31, 1971 (engines, October 1, 1971) for BTN items no. 84.06, 84.63, 87.02, 87.04 and involving piston engines (and parts), crankshafts, chassis w/e, chassis w/e and cabs, and used cars. (Elimination in 1970 of chassis w/e & used car quotas proposed.)

only remaining quota as of 4-1-70

Automotive Tax:	Private Use	Business Use
Up to 360 cc displacement	$ 12.50	$ 12.50
360 cc displacement to 999 cc	50.00	16.67
1000 cc displacement to 1499 cc	58.33	19.44
1500 cc displacement to 1999 cc	66.67	22.22
2000 cc displacement and over:		
wheelbase not over 3.048 meters	150.00	62.50
wheelbase over 3.048 meters	250.00	125.00

KOREA 1/

Cars	150% ad val cif
Buses & minibuses	80% " " "
CVs	50% " " "
Pickups, 4x4 vehicles, S/W, Jeeps	80% " " "
Chassis for small cars	80% " " "
Other chassis	50-150% ad val cif
Bodies	50-80% " " "
SPVs	50% " " "
Engines	50% " " "
Parts	50-150% " " "

Special Tax of 90% of the difference between domestic wholesale price and 130% of the import price on all vehicles except SPVs, on which the tax is 70%
Commodity Tax: 10% on cif value plus customs duty (some exclusions)
Import License required.
1/ Quota restrictions: apply to most vehicles, components and parts

LAOS

Cars up to 1000 cc	45% ad val cif
Cars 1001-2000 cc	50% " " "
Cars 2001 cc and over	55% " " "
Jeeps	35% " " "
Light 4x4 vehicles	15% " " "
Buses	15% " " "
Trucks	25% " " "
SPVs	5% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Other chassis	5% ad val cif
Car chassis	25% " " "
Engines	20% " " "
Parts	25% " " "

Turnover Tax: 5% DPV

MALAYSIA FEDERATION 1/
(Brunei, Macau, Malaya, Sabah, Sarawak)

BRUNEI -

	GTR	BPT
All vehicles	20%	5% ad val cif

MACAU -

According to latest information available, no duty is charged on imported vehicles.

MALAYA -

	GTR	BPT
Cars	35%	35%
Ambulances	Free	-
Buses and trucks	20%	20%
SPVs, engines, CKD vehicles	Free	-

Surcharge: 2% of sales value
Registration Tax: $15.00 each vehicle plus 25% and 15% of the open market or invoice value for cars and CVs respectively.

SABAH -

Cars and CVs	30%	30% ad val cif
SPVs	7½%	7½% " " "
Chassis, bodies	30%	30% " " "
CKD, engines	Free	Free
Parts	20%	20%

Surcharge: 2% of sales value

SARAWAK

All vehicles, chassis, parts	25%	25% ad val cif
CKD & engines	Free	Free

1/ NON-TARIFF ITEMS FOR MALAYSIA:

Surtax: 2% on cif excluding Labuan
Quota Restrictions: set at 1% of 1966 vehicle sales

NEW CALEDONIA (FRENCH)

Cars and buses	15% ad val cif (except EEC & French overseas terr.
Trucks	10% " " " " " " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Chassis and bodies	15% ad val cif (except EEC & French overseas terr.)
SPVs	10% " " " " " " " "
Engines	5% " " " " " " " "

EEC total exemption from import duties
Special Tax: ½% cif
Fiscal Tax: 9% ad valorem cif
Additional Tax: 7% cif on all vehicles

NEW GUINEA (NETHERLANDS)

Cars	24% ad val cif
CVs	9% " " "

NEW ZEALAND

	BPT	Australian & Canadian Rates	MFN	GTR
Cars, b/u	20%	1/	55%	75% ad val CDV
Cars, CKD	6½%	"	45%	65% " " "
Buses, b/u or CKD	20%	"	55%	75% " " "
Trucks, CKD	6½%	"	45%	65% " " "
Trucks, b/u	20%	"	55%	75% " " "
SPVs	20%	"	40-55%	75% " " "
Parts	Free-35%	"	40-55%	10-75% " " "

1/ Canadian Trade Agreement. Motor vehicles imported from Canada, with a material and/or labor cost incurred in Canada (or in Canada and any other part of Commonwealth), as a percentage at the factory of the finished article, as shown below:

CKD vehicles:	
75% or more Canadian content	13-3/4%
65% or more Canadian content	16-2/3%
less than 65% Canadian content	45%
Built-up vehicles and parts therefore:	
75% or more Canadian content	33-1/3%
less than 75% Canadian content	55%

Sales Tax: 40% DPV increased by 25%. (Not levied on buses and SPVs generally.)

PAPUA AND AUSTRALIAN NEW GUINEA

Cars	25% ad val fob
CVs up to 20 cwt payload	25% " " "
Other CVs, engines, parts	15% " " "

PHILIPPINES

Note: March 3, 1970, Commerce Department advises that restriction on importation of b/u vehicles is lifted along with time deposit requirement. L/C requirement affecting CKDs (limiting imports to 50% of 1968 volume) remains in effect.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Cars, up to 4 cylinders	40% ad val cif
Cars, 6 cylinders	80% " " "
Cars, over 6 cylinders	160% " " "
Sports cars	250% " " "
CVs & chassis, diesel engine	15% " " "
CVs, other engines	20% " " "
not more than 4 cylinders	25% " " "
CKD cars, 6 cylinders	60% " " "
CKD cars, over 6 cylinders	100% " " "
SPVs	5% " " "
CV bodies	40% " " "
Other bodies	15% " " "
Engines	20-30% " " "

U. S. Exports pay 90% of quoted duty rates for life of 1955 Agreement (1974).

Sales Tax: Individual commodities subject to the percentage sales ~~tax are~~ inflated by 100% with the applicable rates applied listed below. For articles subject to the compensating tax, the inflation of the landed cost does not apply. The effective rates as of September 1, 1969, are as follows (assessed and landed cost):

(a) When the selling price does not exceed ten thousand pesos, 100%. 1/
(b) When the selling price exceeds ten thousand pesos, but does not exceed fifteen thousand pesos, 125%.
(c) When the selling prices exceeds fifteen thousand pesos, but does not exceed twenty thousand pesos, 150%.
(d) When the selling price exceeds twenty thousand pesos, 200%.
(e) Parts and accessories of automobiles imported as replacements or as CKD parts for the assembly of automobiles, 7%.

1/ P3.90 = U. S. $1 (floating rate).

SABAH (NORTH BORNEO)

See Malaysia Federation

SAMOA (American)

All vehicles less than 4600 lbs.	25% ad val fob
All vehicles 4600 lbs. or more	50% " " "

SARAWAK

See Malaysia Federation

SINGAPORE

	Preferential	General
Motor vehicles for transport of persons	30%	30%
All other vehicles, engines, parts	Free	Free
Chassis and bodies	20-30%	20-30%

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Registration Tax: (only paid on original registration):	
Cars, S/Ws and utilities:	
CKD, all origin	10% ad val cif
b/u, Commonwealth origin	15% " " "
b/u, other origin	25% " " "
CVs, Commonwealth origin	5% " " "
CVs, other origin	15% " " "

TAIWAN (FORMOSA)

Salon cars (limousines)	50% wholesale market value 1/
Other cars, buses, CVs, ¼-ton pickups, jeeps	35% " " "
SPVs and ambulances	35% " " "
Chassis w/e, bodies, engines, parts	35% " " "

1/ Where not obtainable, use cif value + 20%.

Defense Tax: 30% of duty
Harbor Construction Tax: 3.75% DPV
Quota Restrictions: Only vehicles with an engine capacity of more than 1500 cc, not locally produced, automatically qualify for import; truck chassis imports to non-end users, under 3.5 metric tons GVW, controlled as of January, 1970.

THAILAND

Cars and S/Ws, bodies	60% ad val cif
Light 4-wheel drive vehicles	40% " " "
CVs, SPVs and buses	20% " " "
CKD vehicles	(half of rates shown above)
Ambulances	Free
Chassis, car	20% ad val cif
Chassis, trucks and buses	10% " " "
Engines	15% " " "
Parts	30% " " "

Business Tax (on cif + 11% cost): cars to 10 seats - 20%; other vehicles - 15%; engines - 3%
Municipal Tax: 10% of Business Tax

TIMOR (PORTUGUESE)

Cars	937.50 escudos each 1/
CVs	312.50 " "

Municipal Tax: 20% on duty
Bridge Tax: 21.90 escudos per ton
Industrial Contribution: 3% of invoice value

1/ 28.65 escudos = U. S. $1.00

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
VIET NAM 1/		
	Import Duty	Austerity Tax
Cars:		
under 1000 cc	130% cif	150% DPV
1000-2000 cc	160% "	175% "
over 2000 cc	200% "	200% "
PSV:		
3-wheeled	20% "	5% "
other, under 2000 cc	65% "	75% "
other, 2000 cc and over	10% "	Free
Electric passenger vehicles	65% "	75% DPV
Goods vehicles:		
3-wheeled	20% "	5% "
other, payload up to 2000 Kg	65% "	75% "
other, payload over 2000 Kg	10% "	Free
Tractors	Free	Free
SPVs	Free	Free
Chassis	10% cif	Free

1/ VN $80 = U. S. $1. Valuation for duty is based on this formula, but foreign exchange must be obtained at the rate of VN $118 per U. S. $1.

Exchange Equalization Tax: 70 VN $ per U. S. $ of foreign exchange allocated for cars; 60 VN $ for CVs.
First Registration Tax on retail price:
Cars up to 1000 cc - 15%
Other cars - 25%
CVs - 10%
Import Licenses required.

WESTERN SAMOA	BPT	GTR
Cars	45%	65% ad val CDV + 10%
CVs, buses, chassis, parts	25%	36% " " " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

ADEN

See Yemen, South

AFGHANISTAN

Cars, up to U. S. $1900	64% ad val cif
Cars, over U. S. $1900, jeeps	104% " " "
Engines	39% " " "
Trucks, buses, chassis w/e, bodies, parts	14% of invoice value

Consular Fee: $2.00
Commission Fee: 4% added to all rates; 5% for vehicles and parts deposited to Ministery of Commerce
Monopoly Tax: 12% ad val on cars; 14% ad val on trucks; rates are approximate on Kabul cif price plus customs duty.
Luxury Tax: on cars, 3.0% ad val DPV
Fee for handling and administrative expenses: 2% of invoice value
Compulsory Red Crescent Society (Red Cross) donation: 1% of invoice value.

Imports controlled by Government Monopoly Organization.

BAHREIN

All vehicles and parts	10% ad val cif

BURMA

Imports are nationalized, with all importing done by Government agencies. However, presented below is, to the best of AMA's knowledge, the most accurate assessment of Burma's automotive tariff schedule available.

Cars, taxis and S/Ws up to 6000 kyat 1/	75% ad val cif
6001 to 8000 kyat	125% " " "
80001-10,000 kyat	200% " " "
over 10,000 kyat	300% " " "
Trucks and buses	30% " " "
SPVs	30% " " "
Ambulances and fire engines	10% " " "
Engines	15% " " "
Parts and accessories	50% " " "

Sales Tax applied as follows (engines exempt):

	Discount Rate	Deferred Rate
Passenger cars, S/Ws, taxis	15% ad val	18-3/4% ad val
Parts and accessories, n.e.s.	15% " "	18-3/4% " "
Trucks and buses	10% " "	12-1/2% " "
Ambulances and fire engines	10% " "	12-1/2% " "

COUNTRY AND VEHICLE TYPE — CUSTOMS DUTY OR TARIFF RATES

The discount rate applies if paid before customs clearance is effected; the deferred rate applies if paid within three months of customs clearance.
Government agencies sole importers - procurement by international tender.

1/ One Kyat = U. S. $0.21

CEYLON

	Ad Val (cif) Rate BPT	GTR
Cars and S/Ws, including engines and chassis thereof, new:		
For the first Rs 7500 of cif value 1/	40%	50%
In addition, for the part of the cif value between Rs 7500-10,000	90%	100%
10,001-12,500	190%	200%
12,501-15,625	390%	400%
Over Rs 15,625	590%	600%
CVs, buses, including engines and chassis thereof	27½%	35%
Spare parts for P/Cs, CVs and buses, other than diesel engines	50%	57½%

Import License required except for certain truck chassis w/e and all parts.
Imports controlled by need and exchange availability.
Used cars are dutiable on cif value at same rates as new cars of comparable cif values.

1/ 5.9 Rupee (Rs) = U. S. $1.00

CYPRUS

	BPT	GTR
Cars and car chassis	40%	55% ad val cif
Taxis	10%	25% " " "
Buses, SPVs, dump trucks, and refrigerated vehicles	Free	15% " " "
CVs, jeeps, chassis w/e, bodies, all engines and parts	15% (SPVs-Free BPT)	30% " " "

CKD - not specified

GOA

Subject to the same duties and taxes as in India.

INDIA

	GTR	BPT 1/
Cars, taxis, S/Ws, complete	100%	20% ad val cif - Burma
Trucks, complete	50%	10% " " " - Burma
Buses, complete	60%	52½% " " - U. K.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES	
Buses, complete	60%	5% ad val cif - Burma
Chassis, bodies, parts	50%	42½% " " " - U. K.
Machinery, n.e.c., including internal combustion engines	27½%	27½% " " " - Burma

Import License required; quotas exist for parts.
Consular Fee: $3.15

1/ The preferential rate applies on all parts of vehicles except body panels and sides for passenger cars including taxicabs.

The following motor vehicles are exempt from as much of the Excise Tax as exceeds the rates shown below:

With gasoline engines	
up to 4500 Kgs	Rs 1500 1/
4500-9100 Kgs	Rs 2450
With diesel engines	
4500-9100 Kgs:	
Bedford	Rs 3180
Fargo & Dodge	Rs 3230
Others	Rs 3540
9100-12,250 Kgs	
Alco & Alcop	Rs 4450
Mercedes	Rs 3660

1/ 7.6 Rs = U. S. $1.00

Excise Taxes:	Regular	Special Excise Tax
Internal Combustion Engines (as a prime mover)	10% ad val DPV	10% of reg. rate
Cars up to 16 RAC hp	10% ad val DPV with a min. of 1000 rupees each	+33-1/3% of reg. rate
Cars over 16 RAC hp	15% ad val DPV with a min. of 3000 rupees ea.	+33-1/3% of reg. rate
Other motor vehicles	12½% ad val DPV with a min. of 2500 rupees ea.	+20% of reg. rate

IRAN

Cars up to 100,000 rials	25% ad val cif
Cars 100,001-200,000 rials	30% " " "
Cars 200,001 rials and over	50% " " "
Buses	20% " " "
Trucks and SPVs	15-25% " " "
Tank trucks	25% " " "
Chassis 1/	10% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Bodies	25% ad val cif
Engines	5% " " "
Parts and accessories	20% " " "
CKD - not specified	

1/ Chassis imported with driver's cab pay extra duty of 15% in addition to specified customs duty.

Import Quotas: in effect for passenger cars and certain trucks
Letters of Credit and Advance Deposit: required for all automotives
Sports cars will have a Commercial Profits Tax of 50% more than basis mentioned for other cars.
Commercial Benefit Tax (CBT):

Cars with a cif value:	
up to 100,000 rials 2/	60 rials per Kg + 25,000 rials per unit
100,001-150,000	60 rials per Kg + 35,000 rials per unit
150,001-200,000	80 rials per Kg + 45,000 rials per unit
200,001-300,000	150 rials per Kg + 55,000 rials per unit
over 300,000	300 rials per Kg + 100,000 rials per unit
Bodies	60 rials per kilo
Body parts	60 rials per kilo
Other parts	20 rials per kilo
Engines	15 rials per kilo + 5-15% ad val (for cars, add 15 rials per Kg)
Buses and CVs 3/	20% ad val
Chassis w/ cab & engine	10% " "
Trucks, except tank & SPV	5-20% " "

2/ 75.7 Iranian rial = U. S. $1.00

3/ Refrigerated vehicles and refuse trucks exempt from commercial profits tax.

Other taxes and fees:
Municipal Tax: 6% of the customs duty and CBT
Special Municipal Tax: 1% or 1½% ad val depending on port of entry
Red Lion and Sun Society (Iranian Red Cross) Tax: 1.5% of the customs duty and CBT
Port Health Tax: 5 rials per metric ton
Port Tax: 30 rials per metric ton
Port Unloading Tax: 40 rials per metric ton
Registration of order fee: 4% of invoice value
Supplementary charge: $0.40/metric ton for surface cargo
$0.20/Kg for air cargo

IRAQ

Cars, for up to 10 passengers:	
weighing 1750 Kg and over	150% ad val cif
weighing less than 1750 Kg	125% " " "
Cars for public transport (under 1750 Kg)	70% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Buses	50% ad val cif
Trucks 1/	80% " " "
Chassis w/e (min. 30% of ad val)	.080 fils per net Kg
Bodies	30% " " "
SPVs, all engines	15% " " "
Parts	25% " " "

1/ If vehicle can be converted to passenger use - 60% ad val cif

Import ban: on all U. S. automotives

ISRAEL

	Ib per KN	1/	Ad Val Cif
Cars, up to 1300 cc, plus engines	2.00	+	65%
1301-1800 cc	2.00	+	65%
over 1800 cc	2.00	+	65%
Cars, CKD	-		35%
Delivery trucks	-		35%
Buses over 18 seats	-		10%
Buses up to 18 seats	-		50%
CVs			
4500-20,000 Kgs	-		10%
over 20,000 Kgs, GVW, diesel	-		5%
CKD bus chassis	-		5%
Light 4x4 b/u (jeeps)	-		25%
SPVs, n.e.s.	-		20%
Public service SPVs, generally	-		Free
CKD:			
Diesel chassis up to 20,000 Kg 2/	-		10%
Over 20,000 Kg	-		5%
CVs, having double rims on the rear axle,			
Over 4500 Kg:			
Delivery Vans	Ib0.5 (Min. Ib 7000 each)	+	25%
Other	Ib0.5	+	25%
Delivery vans:			
Other	Ib2 (Min. Ib 6200 each)	+	25%
CVs, up to 2200 Kg	Ib2 (Min. Ib 3700 each)	+	65%
Other	Ib (Min. Ib 5700 each)	+	25%
Parts (for 6 consecutive years commencing 1-1-70, auto parts duty will be reduce 5% each year)			

1/ Ib--3.50 Israel Pounds = U. S. $1.00

2/ Duty is 5% for diesel chassis for assembly of CVs exceeding 10,000 Kg if the enterprise engaged in assembly is a licensed warehouse approved for this purpose by the Director of Customs.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Purchase Tax:	
Cars and 4x4s	
less than 1300 cc:	
S/Ws with fiber glass bodies	Ib 5.50 per Kg
1300-1800 cc	Ib 8.50 per Kg
over 1800 cc	Ib 9.00 per Kg
Commercial vehicles:	
2200 Kg or less (without closed body)	Ib 3.50 per Kg, but not less than Ib 2500 each
2200 Kg or more (with closed body)	Ib 6.00 per Kg, but not less than Ib 4500 each
Delivery trucks:	
2200 Kg or less	Ib 4.00, but not less than Ib 3100 each
2201 Kg or more	Ib 0.50, but not less than Ib 800 each
Buses - 18 passengers or less	30% ad val cif

The following items are exempt from the Purchase Tax: taxis, sightseeing and touring vehicles, CVs of power wagon type with 4x4 wheel drive and weighing 3500 Kg or less; 4x4 vehicles not locally produced or the parts for which have been released by customs under heading 703.
Import Restrictions: on jeeps, buses and trucks
Deposit: As of January 11, 1970, 50% of value of imported goods (before tax) to be deposited with Bank of Israel at time of payment of customs duty for period of six months.

JORDAN

Cars and buses (gasoline fuel):	
up to 1000 Kg, jeeps	450 Fils/kilo 1/
1001-1500 Kg	550 " "
1501 Kg and up	600 " "
Cars and buses (non-gasoline fuel):	
up to 1000 Kg	1200 " "
1001-1500 Kg	1500 " "
1501 Kg and up	2000 " "
Trucks and certain SPVs (gasoline fuel):	
up to 1500 Kg	250 " "
1501-3000 Kg	300 " "
3001 Kg and up	325 " "
Trucks and certain SPVs (non-gasoline fuel):	
up to 1500 Kg	500 " "
1501-3000 Kg	600 " "
3001 Kg and up	650 " "
Ambulance, prison and hearse vehicles	Free
Chassis w/e	Same as "Trucks and certain SPVs"
Parts:	
for engines	20% ad val cif
other	23% ad val cif
CKD - not specified	

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

Arab Common Market - exempt from 9-17-68 auto tariff revision.
Additional Tax: 2% ad val cif
Entrance Tax: 2% ad val cif
Examination Tax: 1% ad val cif
Social Welfare Tax: ½% ad val cif
King Hussein Stadium Tax: ½% ad val cif
Jordan University Tax: 1% ad val cif
Aviation Tax: 2% ad val cif
Porterage Fee: $0.06 per 100 Kg
Import License Fee: 4% ad val cif
Import Restrictions: on diesel cars and heavy diesel trucks
Import License required.
Fine on goods imported other than via Agaba: 5% ad val cif

1/ U. S. $2.80 = 1 dinar = 1000 Fils

KUWAIT

All vehicles, parts	4% ad val cif
Used vehicles - prohibited import for buses and trucks	

LEBANON

Cars and buses		140 piastres per Kg net 1/
Bodies		200 " " " " (min. of 32% ad val cif)
CVs		100 piastres per Kg net
Chassis		80 " " " "
Parts and accessories for passenger cars		25 " " " " (min. of 18% ad val cif)
SPVs		7% ad val cif
Refrigerated vehicles:	GVW 4 or more tons	Free
	other	60 piastres per Kg net
Other parts of bodies		32% ad val cif (min.) or 200 piastres per Kg
Engines (cars)		50 piastres per Kg (min. of 18% ad val cif)
Engines (other)		11% ad val cif

Municipal Tax: 3.5% ad val cif
Cars: up to 1500 Kg - 20 piastres per Kg
1501-2000 Kg - 30 " " "
2001 Kg & over- 40 " " "
Vehicle Registration Fee runs from 1% to 4% ad val cif.
Import Prohibited for diesel-engined vehicles.

1/ U. S. $0.33 = 100 piastres

MUSCAT AND OMAN

All vehicles, parts	20% ad val (Market Value)

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
NEPAL	
Cars:	
less than 1300 cc	60% ad val cif (min. 2500 Rs) 1/
1301-2000 cc	73% " " " " 4000 "
2001-2900 cc	84% " " " " 6500 "
2901 cc or more	105% " " " " 9000 "
½-ton pickups, S/Ws, jeeps	53% " " " " 3000 "
CVs & SPVs, b/u or CKD	33% " " " " 4000 "
Chassis CVs	17% " " " " 500 "
Bodies, parts	8% " " "
Engines	222% " " "

Preferential Rate - on engines, chassis, bodies and parts from India
Surcharges: 20% of cif for vehicles; 10% for chassis and bodies
Import License - required for any hard currency imports.

1/ U. S. $1.00 = Rs 7.56

PAKISTAN	
Cars, taxis, S/Ws, 4x4s (jeeps not specified) and their bodies + chassis and engines with a landed cost 1/ of:	
up to 5500 rupees	75% ad val cif
5501-11,000 rupees	140% " " "
11,001 rupees and over	300% " " " (Now banned)
CVs (including chassis and bodies)	50% ad val cif
SPVs	40% " " "
CKD cars and CVs	35-62½%" " "
Parts and accessories	62½%" " "

Sales Tax: 15% DPV (exceptions for cars, including jeeps under Rs 5500)
Defense Surcharge: 25% of Sales Tax

1/ Landed cost is understood to be: FOB plus freight, plus 2½% of loading fee, plus 1% landing fee, plus a 1% fee of that sub-total. Other sales and rehabilitation taxes, plus marine insurance are collected at retail transaction.

Note: Duty on used cars and new cars purchased by consumers abroad is based upon assessed value. There is a BPT margin of 7½% below the general rate for buses and for chassis, bodies, chassis frames and parts and accessories for commercial vehicles.

QUATAR	
All vehicles, parts	2.5% ad val cif

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
SAUDI ARABIA 1/	
Small cars, S/Ws, jeeps	30% ad val cif
Buses, other cars, trucks	10% " " "
SPVs, vans	Free to 5% ad val cif
Engines, parts	5% ad val cif
Chassis w/e, bodies	Duty applicable for vehicle

Surtax: 5% of customs duty

1/ U. S. $1.00 = 4.50 Riyals

SOUTH YEMEN

See Yemen, South

SYRIA

Passenger cars:

(a) weighing 1000 Kg or less are with added tax of: — 450 piastres per Kg
- 20% on first £S5000 value 1/
- 30% on value between 5001-10,000
- 50% on value between 10,001-15,000
- 100% on value in excess of £S15,000

(b) weighing more than 1000 Kg - duty and added tax as above less 1/3
- 40% on first £S5000
- 60% on value between 5001-10,000
- 100% on value between 10,001-15,000
- 200% on value in excess of £S15,000

1/ Value is cif

Buses of over 10 seats 2/ with added duty of 20%, 30%, 50%, 100% on value increments as on preceeding page.	300 piastres per Kg
Ambulances, hearses, municipal vehicles & SPVs	15% ad val cif
Trucks, chassis for above	100 piastres per KN
Bodies, parts and accessories for motor cars (CKD not specified)	150 piastres per KN (min. of 35% ad val cif)
Engines	15% ad val cif (min.) or 0.50 piastres per Kg
Other parts and accessories for above	20-35% plus 20% ad val cif

2/ Buses imported by Minister of Municipal and Rural Affairs rate is 100 piastres per Kg.

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES

Import License Tax: 2% ad val cif
Consumption Tax: 4% " " "
Statistical Tax: 4% " " "
School Tax: 10% of Consumption Tax + 2% of Customs Duty
Port Tax: 3% ad val cif
Defense Tax: 15% of Customs Duty
Maritime Tax: 0.2% ad val cif
Import License - required; diesel vehicle imports restricted.

TRUCIAL STATES
(Abu Dhabi, Dubai, Sharjah)

All vehicles, parts (boat)	2.5% ad val cif (4.625% - Dubai)
All vehicles, parts (air) (Dubai, Sharjah)	2.0% ad val cif

Transit Tax: 2% by Dubai on goods destined Abu Dhabi, Muscat, Oman and Quatar.

TURKEY

Cars	75% ad val cif
Buses	25% " " "
Chassis w/e	10% " " "
Trucks, SPVs and ambulances	25% " " "
Engines (quotas exist)	35% " " "
Bodies	50% " " "
Parts and accessories	5-25% " " "
Parts of chassis	10% " " "
CKD - not specified	

Import License - required
Quota Restrictions apply.
Stamp Tax: 25% ad val cif
Customs Surtax: 15% of Customs Duty
Customs Clearing Expenses: variable
Port Tax: 5% of cif value plus Customs Duty, Customs Surtax, and Customs Clearing Expense
Production Tax:

cars, trucks, buses	25%	(customs duty plus
chassis with motors	15%	customs surtax plus
chassis without motors	10%	customs clearing expenses
parts of vehicles	18%	and port tax)

UNITED ARAB REPUBLIC

Cars (jeeps not specified)	250% ad val cif
Car chassis w/e	60% " " "
Buses	50% " " "
Trucks, SPVs	30% " " "
Chassis for trucks and buses; bodies	30-50% " " "

COUNTRY AND VEHICLE TYPE	CUSTOMS DUTY OR TARIFF RATES
Engines - cars	25% ad val cif
Trucks	10% " " "
Parts	15% " " "
SPVs	30% " " "
Car chassis and bodies	50% " " "
Other chassis and SPV bodies	30% " " "
CV bodies and cabs	40% " " "

Imports Prohibited: except as approved by appropriate Ministry
CED Tax: 10% ad val cif (CED - Consolidation of Economic Development)
Pavement Duty: 3% of Import Duty and CED Tax
Statistical Tax: 1% of cif
Marine Duty: 0.2% cif for goods imported through UAR marine ports

YEMEN, SOUTH
(formerly Aden)

All vehicles	Free

YEMEN

Cars, small	50% ad val cif
Jeeps	25% " " "
Taxis (Government-regulated)	37% " " "
Buses (over 9 passengers)	20% " " "
CVs	15% " " "
Parts	20% " " "

Defense Tax: 5% ad val cif
Additional Tax: 3% ad val cif

Appendix I

KENNEDY ROUND TARIFF CONCESSIONS

Listed on the following pages are import duty concessions agreed to by the indicated countries during the GATT Kennedy Round negotiations concluded on June 30, 1967.

In using the concession rate schedules, the following should be noted:

No concessions (reductions) were made by countries falling in Africa, Near East and South Asia, or North and South America groupings.

Concessions by respective countries will generally be implemented in four stages (some countries five stages) commencing on July 1, 1968. Final reductions will all be effective on January 1, 1972. The final rates are shown in the attached schedules.

COUNTRY AND VEHICLE TYPE	CONCESSION RATE OF DUTY (ad val cif or Sch. per 100 Kg)
AUSTRIA	
Passenger cars & S/Ws	No concession
Trucks	"
Buses	"
SPVs	13%
Bodies - all	25%
Chassis with engines:	
under 1500 Kg	25%
1500-7000 Kg	900 S.
over 7000 Kg	23%
Parts - largest single significant reduction involves those made of rubber, others being minor	varied, free-16% or 800 S.
BELGIUM	
See European Economic Community.	
CANADA	
All vehicles (KR reductions 100% effective June 4, 1969)	15%
See Canada in Digest for special conditions	

DENMARK

	CONCESSION RATE OF DUTY (ad val cif)
Cars, buses to 10 persons	12.0%
Buses over 10 persons	6.0%
Trucks and SPVs	2.0%
Chassis, bodies	2.0%
CKDs	Free
Engines and parts	2.5%

EUROPEAN ECONOMIC COMMUNITY (Belgium, France, Germany, Italy, Luxembourg and Netherlands)

Cars and car chassis	11%
Buses:	
(a) with spark-ignition eng., cyl. cap. 2800 cc or more; or with compression ignition eng. of cyl. cap. of 2500 cc or more	No concession
(b) less than above capacities	11%
(c) with other engines	12.5%
Trucks	
(a) same breakdown as under buses for EEC	No concession
(b) same breakdown as under buses for EEC	11%
(c) with other engines; SPVs	10%
Chassis for buses & trucks as under (a) and (b) above	see above

COUNTRY AND VEHICLE TYPE	CONCESSION RATE OF DUTY (ad val cif)
Bodies: for above categories (a) & (b), including cars w/ cap. under 15 persons and SPVs	12%
for others	20%
Engines:	
250 cc or less	9%
more than 250 cc:	
for industrial assembly	7%
for other	12%
Parts	7-12%

FINLAND

Cars (jeeps not specified)	8%
Cars - CKD, for mass assembly	6%
CVs, b/u - diesel (wt. 10 metric tons or more)	14%
other	8%
gas	8%
SPVs, gen.	5%
Car chassis	7%
Other chassis, trucks, buses	14%
Bodies	7%
Engines	6%
Parts	

FRANCE

See European Economic Community.

GERMANY

See European Economic Community.

GREECE

See European Economic Community. As an associate member of EEC, Greece is obligated to harmonize its customs tariff rates with the EEC's Common External Tariff. This harmonization is supposed to commence May 1, 1970.

IRELAND

No concessions for tariff items covered in this Digest.

ITALY

See European Economic Community.

JAPAN

Cars, wheelbase up to and including 270 cm	30.0%
Cars, other (over 270 cm)	17.5%

COUNTRY AND VEHICLE TYPE	CONCESSION RATE OF DUTY (ad val cif)
Buses	15.0%
Trucks over 18 tons (over 254 cm)	13.5%
CVs, other	15.0%
Chassis and bodies	15.0%
SPVs	10.0%
Engines	15.0%
Parts (average)	15.0%

LUXEMBOURG

See European Economic Community.

NORWAY

Cars, CVs, SPVs, chassis	8%
Buses	No concession
Jeeps & CKD - not specified	
Car & bus bodies	15%
Other bodies	10%
Fire engines	Free
Parts, gen.	12.5%
Engines	10.0%

PORTUGAL

Only concession:

Fire engines and ambulances	800 Escudos each (at current rate)

SPAIN

No concessions for tariff items covered in this digest.

SWEDEN

Cars (jeeps not specified)	No concession
Cars, CKD	10%
CVs, b/u and CKD	No concession
Parts and accessories	10%
Engines	5%

SWITZERLAND

	(Duties in Swiss Francs per 100 Kg)
Cars, weighing up to 800 Kg	82
801-1200 Kg	91
1201-1600 Kg	108
over 1600 Kg	120

COUNTRY AND VEHICLE TYPE	CONCESSION RATE OF DUTY (Duties in Swiss Francs per 100 Kg)
CVs, buses weighing	
up to 800 Kg	82
801-1200 Kg	91
1201-1600 Kg	108
1601-2800 Kg	120
over 2800 Kg (gen.)	170
Dumpers, over 2800 Kg (non-road)	60
SPVs. gen.	90
CKD cars: 60-85 Fr. per Kg	
Mobile cranes & snow ploughs	
weighing over 12 tons	10
Bodies for cars, CVs,	
buses	110
dumper bodies	30
Engines for cars (gas)	110
Parts	110

THE NETHERLANDS

See European Economic Community.

UNITED KINGDOM

	CONCESSION RATE OF DUTY (ad val cif)
Cars, S/Ws (gen.)	11%
CVs, buses	11/22%
Dumpers (for construction)	7.5%
SPVs	11%
Chassis, gen.	11/22%
Bodies	11%
Engines, over 250 cc	14%
Parts	7.5-11%

UNITED STATES

Cars	3%
CVs: under $1,000 value	3%
$1,000 or over	25%
Buses	4%
SPVs	5%
Fire engines	8½%
Chassis & bodies for cars, CVs & buses	4%
Chassis, other	3%
Engines	4%
Parts, gen.	Free-4%

Appendix II

WORLDWIDE VEHICLE REGISTRATION
AND LICENSE FEES (PRIVATE USE)

Country	Registration Fee	License Fee	Date
EUROPE			
Austria	Annual Road Use Tax: based on cyl. displacement of engine: (range) up to 2 liters - $28; 2.5-4.5 liters - $46-70; 4.5-5 liters - $92-104.	no annual fee $20-30	
Belgium	approx. 250 Belg. francs per car plus varied circulation tax based on veh. cylinders and weight		1969
Denmark	$8.00 veh. under 600 Kg $5.33 per 100 Kg for veh. over 2,000 Kg		
France	(vignette) 60-200 Fr. Francs per year; or (sp. tax) 25--1,000 Fr. Francs depending on "fiscal horsepower" and/or age of veh.		1969
Germany	(annual road use tax) based on cylinder displacement @ $3.60 per 100 cubic centimeters	(non-recurring); about $25 for all fee, including basic instruction fee	1969
Italy	(annual circulation tax) based on "fiscal horsepower" (FHP) Fee about 5,000-242,000 lire on FHP to 45; over 45 FHP is 8,660 lire per HP	4,000 lire	
Luxembourg		$3.00; lasts10 yrs.	1960
Netherlands	(annual road tax): $3.59 per 220 lbs.	$1.10; lasts 5 yrs.	1965
Greece	One time fee in excess of $500 and increasing with factory or dutiable value, piston displacement, etc.		

Country	Registration Fee	License Fee	Date
Iceland		$2.40 per year	
Norway	900-1900 crowns depending on weight.	50 crowns; (20 for renewal)	
Portugal	$10-15 (one time, paid by dealer)	300 Escudos (gen. renewable every 10 yrs.)	
Spain	$140 (one time)		
Sweden		35 crowns; one time	
United Kingdom	$60 per year		
Yugoslavia	$2		
FAR EAST			
Hong Kong	25% of cif value for non-Commonwealth mfg. cars (10% other)		
Japan	US $0.556		
Malaysia	M $15 plus 25% of cif value		
New Zealand	NZ $16-50 according to engine capacity	NZ $0.50	1967
Singapore	25% of cif for non-Commonwealth; (10-15% for others)		
Thailand	to 1,000 Kg - US $15 1,000-1,250 Kg - US $20 1,250-1,500 Kg - US $25		
NORTH & SOUTH AMERICA			
Bolivia	cars (new) - $80.00 CVs (new) - $40.00	nominal nominal	
Canada	$11-43 (gen.)		
Chile	approx. $100 to $1,000 DVV	65 cents	
Costa Rica	$15-40 DVV	$10.00	1965
El Salvador	$13-38 DVV	$17.25	

Country	Registration Fee	License Fee	Date
Haiti	$12-38 DVV	$11.00	1966
Honduras	$20-55 DVV		1967
Mexico (1969)	car value to $2,800 - $ 24 $2,801-3,600 - $ 40 $3,601-4,800 - $ 60 $4,801-8,000 - $120	$24 1st year (80¢ for renewal) (for U. S. citizen, $3.20 1st year)	
Netherlands Antilles	$9-26	$4.00	1967
Nicaragua	$24	$15.00	
Peru	$11.50		1958
Surinam	$4.70-22.20 DVV	$6.45	1964
Virgin Islands	$12.50-18.75 DVV		

Appendix III

WORLDWIDE RETAIL GASOLINE PRICES

Country	Regular Gas 1/	Premium Gas 1/	Date
EUROPE			
Denmark	77 Fr. centimes	81 Fr. centimes	
Belgium (gen.)	8.6 Bg. Fr.	9.1 Bg. Fr.	Aug. 1967
France	71 centimes/gal.	77 centimes/gal.	1969
Germany	60 centimes/gal.		1968
Italy	110 lire	120 lire	1966
Luxembourg	60 cents/gal.	63 cents/gal.	1968
Netherlands	78 Fr. centimes	82 Fr. centimes	1967
Greece	77 cent/gal.	87 cents/gal.	
Norway	1.2 crown		1969
Portugal	5.6 escudos	6.5 escudos	1965
Spain	76 Fr. centimes	82 Fr. centimes	1967
Sweden	82 Fr. centimes	85 Fr. centimes	1967
Yugoslavia	35 cents/gal.	40 cents/gal.	

1/ cost per liter unless otherwise specified.

FAR EAST			
Hong Kong	HK $2.67/US gal.	HK $2.92/US gal.	1968
Indonesia	25-30 rupiah/liter	35 rupiah/liter	Jan. 1, 1970
New Zealand		NZ $0.15/gal.	
Thailand	US $0.99/liter	US $0.105/liter	
NEAR EAST & SOUTH ASIA			
India	est. 69 cents per 1.32 US gal		
NORTH & SOUTH AMERICA	2/	2/	
Argentina	40 pesos	45 pesos	June 1969
Bolivia	comparable to U. S.		
Chile	65-85 cents liter		
Colombia	2.36 pesos	3.25 pesos	Sept. 1969
Costa Rica	40 cents	49 cents	1967
Ecuador	22-30 cents		
El Salvador	52 cents	58 cents	1965
Guatemala	48 cents	56 cents	
Haiti	60-67 cents		1966
Honduras	48-56 cents		
Mexico	26-32 cents	38 cents	1969
Netherlands Antilles	40 cents	47 cents	1968
Nicaragua	42 cents	49 cents	1962
Panama	32.3 cents	35.3 cents	1965
Peru	21 cents	35 cents	1969
Surinam	43 cents	49 cents	
U. S. A. (gen.)	35 cents	39 cents	1970
Virgin Islands (US)	33 cents	35 cents	
Venezuela	13 cents	21 cents	

2/ cost per gallon unless otherwise specified.

1968 U.S. Motor Vehicle Exports

(In Thousands)

AFRICA	Cars*	Trucks & Buses*	Engines & Parts
Algeria	$ 35	$ 300	$ 36
Angola	26	567	26
Burundi & Rwanda	—	401	—
Congo	167	3,504	—
Egypt	45	542	22
Ethiopia	79	451	—
Gambia	—	61	—
Ghana	121	186	—
Guinea	—	59	—
Ivory Coast	106	855	17
Kenya	—	268	—
Liberia	452	644	71
Libya	127	2,374	14
Malagasy	—	104	—
Mauritania	—	115	—
Morocco	84	368	—
Mozambique	—	399	—
Nigeria	—	426	—
Other West Africa	—	242	—
Rep. of S. Africa	23,871	10,090	406
Sierra Leone	—	93	—
Sudan	—	536	—
Tanzania	—	1,465	—
Tunisia	13	2,330	29
Zambia	847	38	—
Other	—	93	—
Total	$ 25,973	$ 26,511	$ 621
NORTH-CENTRAL AMERICAS			
Bahamas	$ 3,671	$ 2,018	$ 23
British Honduras	—	358	—
Canada	703,478	154,267	921,761
Costa Rica	405	2,109	43
Dominican Republic	1,328	2,039	—
El Salvador	661	1,992	—
French West Indies	—	88	—
Guatemala	1,446	3,920	—
Haiti	211	340	—
Honduras	490	2,736	—
Jamaica	858	578	—
Leeward/Windward Islands	54	120	—
Mexico	78,299	33,078	48,307
Neth. Antilles	2,715	798	—
Nicaragua	507	2,288	—
Panama	3,060	3,306	—
Other	34	33	—
Total	$797,217	$210,068	$ 970,134
SOUTH AMERICA			
Argentina	$ 451	$ 4,084	$ 8,977
Bolivia	437	4,479	—
Brazil	2,523	1,228	1,191
Chile	5,097	16,159	1,473
Colombia	485	19,239	262
Ecuador	326	6,555	—
Guyana	—	391	—
Paraguay	314	727	—
Peru	2,893	4,611	695
Surinam	442	351	—
Uruguay	244	54	—
Venezuela	21,767	20,949	3,579
Total	$ 34,979	$ 78,827	$ 16,177

ASIA	Cars*	Trucks & Buses*	Engines & Parts
Afghanistan	$ 21	$ 147	$ —
Arabia	2,115	3,202	—
Bahrain	622	219	—
Burma	13	208	—
Cambodia	38	69	—
Ceylon	22	827	—
China T.	375	649	20
Hong Kong	61	229	—
India	1,028	1,204	659
Indonesia	153	5,487	215
Iran	12,931	9,386	1,008
Iraq	41	439	—
Israel	1,857	7,845	232
Japan	13,450	1,318	1,016
Jordan	201	460	—
Korea, Republic of	374	3,473	15
Kuwait	11,239	1,974	—
Laos	56	638	—
Lebanon	3,738	1,681	—
Malaysia	14	288	—
Nansei Island	262	110	21
Pakistan	389	2,026	73
Philippines	2,648	12,919	1,304
Saudi Arabia	4,572	9,022	98
Singapore	34	304	19
Syria	—	79	—
Thailand	619	7,508	74
Turkey	1,216	2,428	6,461
Vietnam, South	828	2,737	41
Total	$ 58,917	$ 76,876	$ 11,256
EUROPE			
Austria	$ 319	$ 128	$ 14
Belg'm/Luxemb'g	9,308	1,051	4,370
Denmark	271	1,006	59
Finland	360	226	170
France	1,757	2,492	2,461
Germany, West	6,383	1,298	5,914
Greece	400	303	13
Iceland	141	168	—
Ireland	—	94	91
Italy	585	1,005	2,431
Netherlands	5,281	1,948	1,793
Norway	420	211	13
Portugal	124	212	39
Rumania	—	118	—
Spain	672	309	94
Sweden	3,169	1,012	7,413
Switzerland	7,767	1,893	46
United Kingdom	1,265	2,697	12,756
Yugoslavia	—	362	19
Other	—	14	—
Total	$ 38,222	$ 16,547	$ 37,696
OCEANIA			
Australia	$ 16,351	$ 13,378	$ 22,885
French Pacific Isls.	101	203	—
Trust Terr. Pacific Island	—	397	—
New Zealand	91	361	192
Total	$ 16,543	$ 14,339	$ 23,077
WORLD TOTAL.**	$972,355	$424,747	$1059,460

*Includes both assembled and unassembled vehicles.

**Includes $504,000 Passenger Cars, $1,579,000 Trucks and Buses and $498,000 Engines and Parts not assigned to continents.

NOTE: "Engines and Parts" includes only those exports identified "For Assembly." It is likely that other automotive parts exported, not included in this tabulation, are also used as original equipment for new vehicles.

The above data does not necessarily reflect the final destination of the exports since some are transhipped to other countries.

SOURCE: U.S. Department of Commerce, Bureau of the Census (FT 410).

Appendix IV

1968 U. S. MOTOR VEHICLE IMPORTS

Country	Passenger Cars Used Number	Passenger Cars Used Value (000)	Passenger Cars Number	Passenger Cars Value (000)	Trucks & Buses Number	Trucks & Buses Value (000)	Automotive Parts Value (000)
Belgium	18,816	$ 28,319	18	$ 25	267	$ 10,746	$ 2,186
Canada	500,881	1,348,620	113	155	113,333	266,287	903,789
France	39,551	39,840	50	69	30	120	3,230
Italy	33,843	50,437	228	1,034	105	118	3,493
Japan	169,849	193,875	123	135	12,937	11,922	58,701
Netherlands	156	164	116	166	-	-	682
Sweden	52,515	92,034	8	15	158	270	4,178
United Kingdom	96,787	124,581	334	462	167	701	17,907
West Germany	707,972	903,838	8,627	11,868	2,134	3,675	73,836
Other	82	137	17	22	8	38	6,042
TOTAL	1,620,452	$2,781,845	9,634	$13,951	129,139	$293,878	$1,074,043

Source: Compiled by the Automobile Manufacturers Association from U. S. Department of Commerce data.

Mr. BURKE. Mr. Conable.

Mr. CONABLE. I would like to ask Mr. Townsend a little something about this investment abroad.

Am I correct, have your negotiations with the Japanese for a joint venture in Japan involving equity investment by the Chrysler Corp. being called off, or is that still a possibility?

Mr. TOWNSEND. That is a very definite possibility. The contract, our contract, between Chrysler and Mitsubishi has been executed between the two companies, and it will ultimately call for the investment by Chrysler Corp. in the Mitsubishi car company of a 35-percent equity interest.

The contract itself has not yet been given to their Ministry of International Trade and Industry for approval. Until this happens, we don't know what the result might be.

Mr. CONABLE. You still consider it a strong possibility?

Mr. TOWNSEND. Absolutely.

Mr. CONABLE. May I ask you what our Government's role has been in this? Has this been entirely between private parties, or has there been any relationship between the Governments of Japan and the United States affecting this possibility of a major American investment in Japan?

Mr. TOWNSEND. I would say that the original contract and the original negotiations started about 2 years ago, and, of course, were private negotiations between Chrysler Corp. and Mitsubishi. As it developed and became closer to fruition, it became a contract of interest between our own government and also the Government of Japan.

I guess it has become one of the interesting contracts that has been talked about at this point. It has come into negotiations between or conversations between other ECAT members, such as Don, and government people in the Japanese Government.

When we get to the point that the contract is actually submitted to their Ministry of International Trade and Industry for approva, then it will be the first time we will see if we can get direct Government action on it.

Mr. CONABLE. I am interested in this because we have talked about nontariff barriers and this committee has previously concerned itself with whether our Government was sufficiently aggressive with respect to trying to negotiate some mutual withdrawal from these nontariff barriers.

ASP is symbolic, of course, but there is no reason why everything needs to rise and fall on ASP. There is some question about whether the Government has been sufficiently aggressive in this respect or in respect to helping our business invest abroad.

I am wondering if you gentlemen have any suggestions of types of authority that perhaps should be granted, legislatively, to the Government to take initiatives in this field.

I am wondering also if you, as a group, are satisfied with the aggressiveness of our foreign economic policy in this respect, and if you feel that the role of the Government of the future is going to be more active than it has been in the past.

I am concerned, for instance, particularly with how we go about negotiating withdrawal of nontariff barriers. We can't even agree on what a nontariff barrier is at this point.

I am sure that the United States has many nontariff barriers other than ASP related to sanitation, related to voluntary quota agreements, and so forth.

In other words, as a panel I wonder how you gentlemen view the role of the Government in this field in the future, and whether the Congress should be concerning itself with the ways in which we can direct the executive branch, the Secretary of Commerce, and others to initiate a more aggressive policy in this area.

Mr. KENDALL. Mr. Congressman, I will comment briefly on it. First of all, I think that the President's new trade bill answers some of the questions that you have raised about negotiating authority.

I think our Government should be encouraged to be more aggressive in some areas of our negotiations. I don't think there is any question about that. I would cite one example which has been on the front page a great deal of late, and that, of course, is the textile issue in Japan. Japan is probably in violation of more agreements under the GATT than any other industrialized nation in the world.

Mr. CONABLE. It is the most closed market in the free world, too.

Mr. KENDALL. Yes; it is. But Japan has an economy that is one of the fastest growing in the world and I think it will continue. They have done an absolutely remarkable job in Japan. We have many economic problems with them, however.

It is not only the automobile industry; it is in the electronics industry; it is in the computer industry. We have spent a year discussing nothing but textiles. We should be discussing the entire range of problems instead of just the one. To me, I have made the statement, it is like playing in a sandlot instead of in a major ball park. We have to get talking to the Japanese about the whole trade problem, not just one segment of it.

Mr. CONABLE. You feel that there is sufficient authority in the administration's proposed bill, then, to take care of the nontariff barrier as well as for future negotiations on tariffs?

You don't have any concrete suggestions as to ways in which we could formalize our desire to have the U.S. Government take a more aggressive view of these nontariff barriers which have assumed relatively a greater importance since we have had a reduction of tariffs?

Mr. KENDALL. It will go part way. I am not saying it is going to solve all the problems, no.

Mr. CONABLE. Do any of you other gentlemen have any comments on that?

Mr. MCNEILL. Mr. Conable, I think on nontariff barriers the President in his message, rather than in his legislative request, is asking the Congress for a sense of the Congress, that he, the Executive, should negotiate nontariff barriers without suggesting the technical way in which this might be done.

One way that it could be done, in the thoughts of some of us, is that the President could be authorized to negotiate, say, in respect of Government procurement of Government sanitation, or Government valuation, or other nontariff practices, and that the sense of the Congress so authorizing him to do so would have implicit in it an understanding that if the negotiation in the judgment of the Congress is reciprocal, the Congress would pass the necessary implementing legislation.

In most instances, U.S. nontariff barriers are legislative and not administrative. Therefore, they are under the authority and jurisdiction of the Congress. I think what the Congress would have to do is authorize the President to negotiate nontariff barriers with the understanding that a reciprocal result would receive the favorable consideration of this committee and both Houses of the Congress.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I would like to ask but one point.

In your statement on page 11, it is set forth that you would oppose quotas. I would like to ask, does that apply to the oil import quotas? What has your organization done about taking a real stand on that issue?

Mr. MCNEILL. Mr. Vanik, the position, I think, of this committee on quotas generally would be that they would not be objectionable if they were put into effect under due process of the laws of the Congress.

In the case of oil import quotas, they are based on the national security clause legislated in the Congress. The industry some years ago demonstrated to the President of the United States that the national security clause was applicable to the situation then facing that industry.

Mr. VANIK. You are satisfied with that, are you?

Mr. MCNEILL. I think we are satisfied that due process of law is there.

Mr. VANIK. The very things you complain about, the assignment of quotas and all that is inherent in this whole issue.

It seems to me if you are opposed to quotas, you are opposed to quotas across the board and no special thing should be exempted.

I note how aggressive you have been on that issue.

Mr. KENDALL. There are many quotas, even voluntary quotas, that we don't particularly like, but in some cases they are necessary. For example, in textiles, I don't think there is any question but that some areas of the textile industry have been hurt and they need some help.

The oil issue is one that I don't think this committee is prepared to discuss because it is a defense issue.

Mr. VANIK. Are you convinced of that?

Mr. KENDALL. Many people have studied that problem and are a great deal more familiar with it than we are. There are many of these areas that I think will have to be looked into. I don't think the oil issue is completely settled at this point.

It is my understanding it is still being investigated.

Mr. VANIK. I, for one, feel it is time for us to have some philosophical concept for trade. We just can't have it in some things and not in others, quotas right here and wrong there. We have to have some tenets that go across the board and establish a clear-cut American philosophy as to what our attitude is toward this entire problem.

What have you done about the Ford–Soviet situation? Are you silent about that? It seems to me that your emergency organization has an emergency problem. Have you said anything about that? Apparently

the Defense Department position, or at least Secretary Laird's position, is scaring Ford out of negotiation with the Soviets on the truck deal. You are certainly aware of that.

I have been reading about it and hearing a great deal about it.

Is your organization silent when a member organization is instructed on further negotiations on this issue?

Mr. KENDALL. Mr. Vanik, I believe we should do all we can to open trade between our country and any of the Eastern European countries. In fact, I believe that we should even find a way to open trade with China. I don't think it will amount to much, but I think we might be able to have a thread into China that we might eventually be able to build a cable on. I think this is a possibility.

But I don't think any member of this committee is going to get into an argument for or against anything that the Defense Department or the State Department says is a defense matter, because we don't have all the facts that they have and it would be impossible to comment on anything that our Defense Secretary said. I think he should be asked that question.

Mr. VANIK. It seems to me that all of us have to be in a position to make a judgment about whether the Defense Department is right. I don't agree with them. I must do what I can to develop an independent judgment. That is what has gotten this country into a great deal of problem, not questioning but taking these statements at face value.

If your organization, representing, I think, 50 of the largest companies in the United States, is not capable of making an independent assessment, who is?

How can I do it as a Member of Congress if the largest corporations of this country can't help guide me and provide me with some independent judgment on something?

Mr. KENDALL. I think the Ford Motor Co., is perfectly capable of making a judgment on this matter, and if they feel they haven't been properly handled I am sure you will hear from them.

To date, we have heard no complaint from the Ford Motor Co.

Mr. VANIK. Let me ask you this: Has your organization taken any commitment on this? You talk about DISC. Does the DISC proposition mean anything to you? The Secretary of the Treasury made a strong statement in support of it and then left the room before I could ask him questions about it.

Are you in support of the DISC concept? Do you need it? Is it meaningful to you? Is it meaningful to your organization and your member corporations?

Mr. KENDALL. Mr. Vanik, I think we should do everything we can to encourage exporters in this country. On the particular item you are referring to, we haven't studied this, frankly, enough to take a position on it yet.

But if it is going to encourage exports, I think we would probably be for it.

Mr. VANIK. That is a very difficult bit of advice for me. "If it is going to encourage exports, I am definitely for it."

You haven't told me whether you believe it will or not.

Mr. KENDALL. I don't know yet. I said we haven't studied it.

Mr. VANIK. Here, again, I find myself lacking advice and information that I would like to have. We have to make a judgment.

Mr. KENDALL. If you would like some advice and information on it, I will see that you get it.

Mr. VANIK. All right.

(The information was not available at time of printing.)

Mr. VANIK. Let me ask you this: As American businessmen whose taxes must contribute rather substantially to the support of the defense of other governments, and in particular I think of West Germany and Japan, would you agree with me that the economic miracles of these countries is somewhat related to the fact that they haven't been forced to carry on a burden of national defense that has been rather an overwhelming thing for not only American businessmen but for the American worker, the American citizen?

Do you agree with me that there is some relationship between the economic miracle of these countries and the fact that they haven't been forced or compelled, or haven't carried on a tremendous cost of their defense structure?

Mr. KENDALL. Mr. Vanik, I don't believe that we are here to discuss the issue that you have raised.

Mr. VANIK. It relates to trade and competition.

Mr. KENDALL. However, I will comment on it as an individual, not as ECAT, because you are getting into an area that I have feelings on.

In taking the case of Japan, I don't think there is any question but that part of the tremendous success they have had is due to the fact that they have minimium defense expenditures.

I think Japan has to be encouraged to either spend more in their own defense or to spend more money in the less-developed countries—probably both.

For example, I think they should go into Vietnam and spend money in helping in education. I think they should go into Thailand and Indonesia, the Philippines, and help them in their infrastructure. These are things they must do.

In the case of West Germany, I don't think anyone can argue with your statement. If you look at their defense budget and at ours, the relationship is not there.

Mr. VANIK. Either we should be spending less there or they should be assuming their own costs.

What about an excise tax? Maybe in order to provide some fairness among countries we ought to have an excise tax, a defense excise tax to cover the extra burdens we have to carry for the defense of these countries. That might be one way of getting our people out of these problems.

Mr. KENDALL. I think you would probably have greater difficulty negotiating that than the last round of the Kennedy round.

Mr. VANIK. We don't have to negotiate that. We can pass an excise tax. I don't think there is any question about the power of Congress.

Let me ask you something else. Do you favor all of the adjustment provisions that are set forth in the proposal that is before the committee, such as investment relief?

Mr. KENDALL. Yes, sir.

Mr. VANIK. You are satisfied that they won't be an undue burden on the Treasury, and that they will take care of most of the inconvenience and unemployment that will result through expanded foreign trade?

Mr. KENDALL. To the best of our judgment; yes, sir.

Mr. VANIK. Let me ask you this: I have your membership bulletin. You know when it was published. Are there any additions to this? Are there any new members to your organization that do not appear on this publication that I have? It is undated.

It seems to me that everything that is printed ought to be dated.

Mr. KENDALL. I think that is a very good suggestion.

Mr. VANIK. It ought to be Federal law.

Mr. KENDALL. I think there have probably been one or two members since that was printed. If you would like, we will give you their names.

Mr. VANIK. I would raise this issue because I want to be up to date and fully advised as to the full membership of organizations that are testifying before the committee.

Mr. Chairman, I have no further questions.

Mr. BURKE. Mr. Chamberlain.

Mr. CHAMBERLAIN. I would like to direct a couple of questions to Mr. Townsend.

I refer to page 2 of your statement, Mr. Townsend, the sentence:

> In the period from 1947 to 1969, for example, exports of automotive products totaled $38 billion and imports of automotive products totaled $19 billion.

On its face, that is quite an impressive statement. We have a 2-to-1 balance in our favor. But I am sure you wouldn't want to leave the committee with the thought that this is indicative of the current trend.

Mr. TOWNSEND. Yes; this is not indicative of the result within the last year because of the import of automobiles into this country. But as I commented later, we do have new small cars, as you know, being placed into this country by our domestic manufacturers starting this fall.

In fact, the first one is in the marketplace now. We would expect that this would help our trade situation substantially.

Mr. CHAMBERLAIN. Mr. Townsend, a few years ago I well recall when we had a 2-to-1 balance in our favor that was helping our overall situation, considering automobiles and trucks as well as parts. That was not too long ago.

Mr. TOWNSEND. That is right.

Mr. CHAMBERLAIN. When did that trend reach the even point and when did it start going against us in terms of time? Not until the last year, is that what you are telling us?

Mr. TOWNSEND. Yes; that is right. I think it was only the last year that it actually turned. I don't have the figures here in front of me. I can get them for you.

Mr. CHAMBERLAIN. I would be grateful——

Mr. TOWNSEND. It is of recent origin.

Mr. CHAMBERLAIN. I would be grateful if you could supply for our record a table showing the yearly increments of this total figure, the breakdown of what you have in this one sentence. I think it would be helpful.

Mr. TOWNSEND. I will be glad to do that.

(The information referred to follows:)

TABLE A.—VALUE OF U.S. AUTOMOTIVE EXPORTS AND IMPORTS, 1947–67

[In millions of dollars]

Years	Exports	Imports	Export surplus
1947	$1,279	$2	$1,277
1948	1,006	31	975
1949	842	10	832
1950	794	28	766
1951	1,306	38	1,268
1952	1,124	57	1,067
1953	1,082	58	1,024
1954	1,157	53	1,104
1955	1,367	85	1,282
1956	1,516	144	1,372
1957	1,467	335	1,132
1958	1,227	551	676
1959	1,281	844	437
1960	1,411	626	785
1961	1,300	378	922
1962	1,401	515	886
1963	1,567	564	1,003
1964	1,900	719	1,181
1965	2,198	826	1,372
1966	2,474	1,825	649
1967	2,888	2,565	323
1968	3,579	4,164	(585)
1969	4,066	5,160	(1,094)
Total	38,232	19,578	18,654

Source: Compiled by AMA from U.S. Department of Commerce reports.

Mr. CHAMBERLAIN. Secondly, Mr. Townsend, I would like to add a footnote to Mr. Gibbons' request with reference to the discriminatory acts of various countries against our automotive industry. I, too, would be grateful if you would furnish me with a copy of the same information you are providing to Mr. Gibbons.

Mr. TOWNSEND. Certainly.

Mr. CHAMBERLAIN. Finally, Mr. Townsend, on page 4 of your statement, at the bottom of the page, you mention that Belgium, France, and Italy have agreed that upon elimination of ASP to modify their internal automobile tax system to eliminate the discrimination against U.S. cars.

I am wondering if you could be a bit more specific than this general statement and tell us, if you can, what it is that Belgium, France, and Italy have agreed to do upon elimination of the ASP so we can have some idea of the quid pro quo.

Mr. TOWNSEND. It has been quite common in the countries in Europe, and certain other countries, to tax motor vehicles either on their weight or on the cubic displacement of their engines, the size of their engines. The tax is graduated. The larger the car or the larger the engine, the larger the tax.

We have maintained for years that these should be equitable across the board irrespective of the size of the car.

This, as I understand it, is the agreement with these three countries, to eliminate this type of a graduated tax based on the size of the car or the cubic displacement of the engine.

You understand, our cars are bigger than theirs.

Mr. CHAMBERLAIN. Indeed.

Can you tell the committee, if you have reviewed these commitments on their part, if you are fully and totally satisfied with their undertaking to eliminate their discrimination against our vehicles?

Mr. TOWNSEND. I would have to look at that in detail, in the detail that you ask about.

Mr. CHAMBERLAIN. Thank you very much, Mr. Chairman.

Mr. BURKE. Mr. Corman.

Mr. CORMAN. Thank you, Mr. Chairman.

Gentlemen, I wonder if any of you are familiar with the kinds of nontariff barriers used in the filmmaking industry to get American filmmakers to make their films in foreign countries. Probably the most noted one is the system in Great Britain.

Are any of you familiar with that? Have any of you ever taken any interest in the problems of the American filmmaking industry?

Mr. MCNEILL. We are aware that there are quotas in effect applied abroad against American motion pictures and also American television films.

During the context of the Kennedy round that I had the privilege of participating in as a civil servant, we discussed with Great Britain and other countries maintaining these restrictions, the possibility of either their modification or elimination.

I would think this an important area in which there could be future nontariff barrier discussion with a view to stimulating not only American exports of these products abroad, but also, perhaps, removing some of the limitations in terms of where production of films take place.

Mr. CORMAN. Is there represented on your committee anyone who is concerned about the American filmmaking industry?

Mr. MCNEILL. We have no member from that industry as such, Mr. Congressman; no, sir. We have an interest, however, in the problem.

Mr. CORMAN. It seems to me the difficulty there is that so far as the producer is concerned, the foreign subsidy is to this advantage. He isn't going to be joining committees and worrying about stopping these barriers that I assume are, in some instances, in violation of GATT.

Is there anyone in the Motion Picture Producers Association or any large producers who have any relationship with your committee at all?

Mr. MCNEILL. Griff Johnson, sir, who you probaby know, works in the Motion Picture Association of America and is in charge of its foreign activities, is a good friend and we talk occasionally about the problem that you have raised here today.

So we do have a liaison or relationship with the Motion Picture Association.

Mr. CORMAN. What about with the unions in the filmmaking industry? Do you ever hear from them or have any contact with them?

Mr. MCNEILL. Only as the conversation would be brought up through the MPAA, sir.

Mr. CORMAN. Thank you very much.

Mr. BURKE. Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

I would like to address this question to any one of the witnesses who might like to take a shot at answering it.

We had testimony the other day to the effect that in all the areas of American production, really only one had a favorable trade balance and that was the area of high technology, electronics and areas of this kind.

A little while ago I think my colleague, Mr. Vanik, mentioned that one of the reasons that some of these countries are doing maybe a little better in their exporting is because they haven't carried quite the burden in defense that maybe we have.

I think this is true of the Japanese, certainly, and maybe, to some extent, the Europeans. But if it is true that we have this high technology potential, my question is this: What are companies such as the companies you represent doing to really capitalize on this

For example, I read recently a speech by Dr. von Braun or one of the other men associated with the space industry that we have today about 12,000 new patents. These ran the gamut of electronics.

Is American industry really gearing itself to stay ahead in the field of high technology? Are there conversations going on in your industry?

I read an advertisement in the Los Angeles Times the other evening, an advertisement of a large American industry which was begging for other industries to come in and take over some of these patents and produce them commercially because they really didn't fit in with its major mission.

This looks to me like American industry is a little lost, or it can't really adapt to taking hold of products that are in this high technology field, otherwise we wouldn't be carrying advertisements like this in large metropolitan dailies.

Mr. KENDALL. Mr. Pettis, I don't think any criticism you or the committee might launch about American industry not being aggressive enough in export business could be defended because we are not.

I think that is one of the problems that we have in this country. We have such a tremendous market here that many industries in this country don't even look abroad. They don't even travel abroad, much less look for business.

If you look at the Western European countries and their relationship of trade export business to their gross national product, you have Germany at about 15 percent, England at about 17 or 18 percent, Sweden about 22 percent, and we are 3.5 or 4 percent of our GNP being trade, and Japan, I believe, is about 10 percent. That is why I make the statement we are really an underdeveloped country as far as trade is concerned because we have not gone after it.

Our country has been growing at a very rapid rate, and I think the condition we are in now is going to make people start looking around for where they can get more business. Certainly it is in the area of high technology where our greatest opportunities are and are going to continue to be. We must be more aggressive in this area.

I think one thing that we have to do is encourage particularly the small companies to get into international business and take advantage of these opportunities, because they are there.

Mr. PETTIS. Mr. Chairman, in closing, I would just like to make one observation. I hope we do not, in the coming months and years, see the export of our patents and developments which American technology have brought about.

I think this would be not only devastating to the companies represented but certainly to the American laboring man.

Mr. BURKE. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I have two other questions.

We are talking about the high cost of defense as a tariff barrier. What about American taxes? Do they constitute a tariff barrier?

I would like to have your views on this. Is our tax structure a nontariff barrier that we ought to talk about? This is the place to talk about it.

Mr. KENDALL. No; I don't think we could say that.

Mr. VANIK. That is comforting.

What about American labor cost as a nontariff barrier? Would you have a comment on that?

Mr. HAZARD. Can I comment on that, Don?

I think American labor costs are a definite barrier. The productivity, as you know, in Japan, in West Germany, as compared to our own, is I think, a major factor in their tremendous economic growth in the postwar years.

This is a very distinct problem.

Mr. VANIK. Can you give the committee any figures or any estimates as to how extensive a barrier it is?

Mr. KENDALL. I don't think you would say it is a nontariff barrier. It is a competitive factor, really. Obviously, there are some industries that are affected by it more than others, but I certainly wouldn't call it a nontariff barrier.

Mr. VANIK. I know, but we are going to have a cross section of witnesses later on and I want to be able to tell one group what another group has testified to, so that we can get an objective reaction and find out the truth.

I would like to know the extent to which either taxes or defense, cost of labor, cost of material in this country, cost of doing business, are nontariff barriers to expanding trade in this country.

I think these are the basic considerations that are involved in this discussion, I think. I would certainly like to be cleared up on it.

Mr. KENDALL. I don't think that that broad a question we could clear up. I think they all really come under the heading of competitive factors.

We have taxes in this country and so do other people. Taxes are different in Europe than they are here. Our wage rates are different. But we have to find industries in which we can use our labor and be more efficient and more competitive. There are some industries with a high labor content that we are not going to be able to compete with—some industries in Korera, for example. But that doesn't mean we should block Korea from coming into this country.

We have to find areas in which we can compete with Korea.

Mr. VANIK. I am always thrilled to see American products in foreign countries, but I see more Pepsi-Cola and Coca-Cola than I see American automobiles or other things of American high labor input.

Mr. KENDALL. I wouldn't want to say that I was a better salesman than Mr. Townsend.

Mr. VANIK. I think we can almost count on one hand the American-made Chrysler automobiles in foreign countries. They are objects of great interest.

Mr. TOWNSEND. Of course, you have to identify our European name. The Simca cars are Chrysler cars.

Mr. VANIK. Yes. When those things are sold in Europe, there isn't any real gain on the American worker that I know of. I don't know what comes back here by way of any residual benefit to this country.

I would like to see more evidence of what comes back tangibly if we are going to encourage trade, and I believe we must. I am one member of this committee who is in a considerable torment on this issue.

I have every inclination to support a freer movement of trade. I believe in reciprocity. I think this is good for the world for reasons other than any you have mentioned. I think trade leads to communication. It can lead to peace that can give people all over the world things of better quality.

I would like to have no restraints on quality. If anybody does anything better we ought to have the benefit of it. But I find myself at a crossroad. I am in a position right now where I am not sure that I am right about having these concepts.

I might tell you that I am in a position where I might flip to the other side if I am not getting some pretty good convincing evidence. I have to have solid, convincing evidence that what we do here is going to be good for America, too.

As you know, we are all confronted with the protests of many people in labor who complain about the effect of trade.

I would like to have a trade balance sheet for each of your member corporations. I would like to know how you have done, whether your exports have indeed exceeded your imports.

It would be interesting to see what your member corporations could report to us. I have many corporations that are on both sides of this issue. One division will ask me to liberalize trade and remove restraints, and another division, completely separate and apart and apparently without knowledge of the other, asks me to take exactly the opposite position.

I have had this in the matter of machine screws versus wood screws. I have had this problem. I feel that the only real answer to this thing is to have a course which we can understand, which has some basic principles that cut across the whole idea so that it becomes the American trade concept which the world can understand and which Americans understand, instead of the patchwork affair in which we try to hold trade together by patching here and patching there.

I don't think a patchwork approach is a good way to be effective in trade.

Mr. GIBBONS. Will the gentleman yield?

Mr. VANIK. Yes.

Mr. GIBBONS. We have gotten off on some nontariffs and nonstatutory trade problems.

All of you are involved in the international markets. We have barrier problems. But here in the United States we have a measurement problem. Our rather unusual system of weights and measures is what I refer to. To what extent does the fact that we stick to an antiquated set of weights and measures affect a company's ability to compete abroad?

Is it a real problem as far as you are concerned?

I am talking about pounds, inches, feet, yards, and so on.

Mr. KENDALL. I haven't heard of anyone complaining about that.

Mr. GIBBONS. What does Chrysler do when you export a car and you have all those feet, inches, and pounds?

Mr. TOWNSEND. When we export a car to a metric system country it goes out in our system of weights and measures. Our operators

manual handles it in that way. When a car from a European country comes in here the metric system is used completely through the car, in design and so on.

I think within our own company we are probably moving in the direction of the metric system.

Mr. GIBBONS. How about your ounces versus your grams?

Mr. HAZARD. Are you speaking of containers?

Mr. GIBBONS. In exporting problems, is the weights and measurement system we have a real problem or an imaginary problem?

Mr. HAZARD. It is a real problem but I would classify it as a minor problem. We export a good deal of technology. We do the same thing Mr. Townsend alluded to. We send out all of our technical information in, let us call it, the American system.

The engineers and scientists in the foreign countries to which we send this information transcribe it into the metric system.

Mr. GIBBONS. This is just for my own information, but what about nuts and bolts on something like that. Do you have to adjust it to the metric system?

Mr. TOWNSEND. Yes.

Mr. GIBBONS. So it is a technological problem.

Mr. TOWNSEND. That is right. Our nuts and bolts won't fit in their engines and their nuts and bolts won't fit our engines. They are in metrics and we are in inches, or whatever it might be.

Mr. GIBBONS. Do you think it would be one of the wise things that Congress could do, to provide some kind of transition to a standard system of weights and measures?

What do you think as people in the business?

Mr. KENDALL. Mr. Gibbons, we didn't come here to testify on that particular item. I guarantee if you have a hearing on it, I can get some people here. I think the best thing that could happen to this country would be if we could have a transition period and go the same as they have gone to the decimal system.

I think we should go to the metric system.

Mr. GIBBONS. It is too bad Thomas Jefferson didn't get his whole idea across. He got it across in money but not in the other parts.

Mr. KENDALL. I think it would be wonderful if you could start a program in our educational system and gradually start that so that in this area we catch up with the rest of the world as they have with our decimal system.

Mr. GIBBONS. Thank you.

Mr. VANIK. I would like to ask Mr. Townsend this question:

How many American-made Chrysler automobiles did we ship across last year?

Mr. TOWNSEND. The number of exports of assembled passenger cars by Chrysler Corporation in 1969 (not including Canadian shipments) was 11,842 units. Canadian shipments were 86,442.

We export very few automobiles anymore that you would call built-up automobiles. The greatest number of our exports go either knocked down, so that they are assembled at the point they are going to, or they go knocked down less the domestic content required by that particular country.

overseas last year? I would think it would be in the area of 10,000.

Mr. VANIK. What percentage is that of your total production?

Mr. TOWNSEND. It is a very small percent of our total production. Of our total production, of our total worldwide sales, about one-third of them are outside of the United States and Canada. These cars might be of French origin, English origin, or American origin, assembled or produced either substantially so or to a lesser extent in most of the countries of the world.

Mr. VANIK. I just want to say this: I remember several years ago I was in Italy, and I thought Sophia Loren was in town, and it was a new Plymouth on the street. I think there is a tremendous desire, notwithstanding the road problems and the highway problems, for the American automobile. I think it is highly desired by people in the European market. I am sure that applies to all the other markets.

I had a 1960 Chevrolet that found its way over to Indonesia. They wanted a stick shift car. They put a reconstruction overhaul kit in the trunk and they told me they would overhaul it there for $39 and run 129,000 miles with it after they did that.

That was the impression they had of American merchandise. I am sure your equipment falls in the same category.

I am shocked that there is so little actually going abroad as completed units. This doesn't say much for the reciprocity in trade. When you bring a Simca here it is all assembled.

Mr. TOWNSEND. It comes in assembled.

Mr. VANIK. It comes in totally assembled and we have to send your automobile abroad knocked down in pieces. That is where all the trouble comes in an automobile, putting the pieces together. I am still driving a 1965 automobile because I have the thing running. It took me the 2-year warranty period to get it running. Now I have an investment.

It cost me $300 or $400 in time without the car and that sort of thing to get it going. Frankly, I think now that I have it running, after my do-it-yourself effort, I have a fine piece of property and I want to enjoy it.

How can you handle the warranty problem on these things that are partially assembled in one place and then put together in another? Doesn't that create real problems?

Mr. TOWNSEND. Where that is done the company that does the assembly, and in most cases our own subsidiary company has a complete warranty policy—service, parts, maintenance, and so on—for the vehicles that they assemble there.

I think you must remember that the automobile industry is probably one that has been hurt the most by these nontariff barriers, and also by tariff barriers around the world.

As a result of the activity since the end of World War II, all of these American companies have built up substantial investments around the world in plant, equipment, and so on, for really no other purpose than to stay in these markets, major markets, around the world that were closing to us because either of high tariffs or of other nontariff actions.

I think the industry is to be commended for having made this effort to stay in the international automobile business and, as a result, return dividends and moneys to the United States as a result of this international effort.

Without it, we would not have been well represented around the world.

Mr. VANIK. I have always wondered about really how much comes back by way of return of income and dividend because we have so many things in the law that keep it from coming back, such as foreign tax credit, foreign depletion allowances and other things that help keep things from coming back here.

This is something I would like to have more proof on, the real great advantage to this country on the inflow of dividends and protfis on the activities of American investments in foreign countries.

I am not sure, or I am not convinced, that the inflow has been as substantial as you have indicated.

I would like to have more proof on that, but I know you don't have time to present data on that now.

Mr. TOWNSEND. We will supply that for the record.

(The information requested follows:)

INCOME ON U.S. PRIVATE INVESTMENTS ABROAD[1]

[Millions of dollars]

	1968	1969
Direct investments	4,985	5,707
Fees and royalties	1,279	1,341
Total income	6,264	7,048
Less direct overseas private investments	3,025	3,060
Net income	3,239	3,988

[1] Source: Survey of Current Business, issue of March 1970, U.S. Department of Commerce.

Mr. VANIK. What progress are we making in our efforts to export a fully completed automobile among our trading partners?

Mr. TOWNSEND. We continue, of course, to export just as many as we can. As you know, certain of the countries——

Mr. VANIK. The whole export business is probably under 50,000, isn't it?

Mr. TOWNSEND. We can confirm those figures for you, and I think that is maybe what we should do.

It is a small part of our international business. It is a small part of the international business of the major American manufacturers. We have put plants and equipment and investment abroad to participate in the international markets.

Mr. VANIK. Yet, I have received publications and things put out by members of your organization. I will try to dig them out to bring them up in later testimony. I have received publications that point out how difficult it is to export an American automobile under the rules that exist in the world today.

It seems to me that if we are going to make progress we ought to make progress on exporting total items, totally completed things.

Mr. TOWNSEND. Any progress that could be made there would help our country and help our industry substantially.

(The information referred to follows:)

U.S. AUTOMOTIVE EXPORTS—CALENDAR YEAR 1969—COMPILED BY AUTOMOBILE MANUFACTURERS ASSOCIATION, INC.

Attached is a report of automotive exports for the calendar year 1969.

CALENDAR YEAR 1969

Assembled vehicles, new	World		Canada	
	Number	Dollar value	Number	Dollar value
Total, passenger cars	333,453	864,305,143	292,110	748,095,975
732.0120 passenger cars, nonmilitary, assembled not over 6 cylinder new	73,407	146,758,986	54,775	104,598,044
732.0140 passenger cars, nonmilitary, assembled over 6 cylinder, new	260,046	717,646,157	237,335	643,497,931
Total, trucks	101,473	464,065,974	60,968	234,242,969
732.0204 trucks, truck chassis and truck tractors, nonmilitary assembled, gas 6,000 pounds GVW and less, new	47,047	102,207,526	32,498	68,830,687
732.0208 trucks, truck chassis and truck tractors, nonmilitary, assembled, gas, 6001–10,000 pounds GVW, new	15,135	36,708,535	6,749	15,530,305
732-0212 trucks, truck chasis and truck tractors, nonmilitary assembled, gas, 10–001–14,000 pounds GVW, new	682	2,465,591	377	1,332,020
732.0216 trucks, truck chassis and truck tractors, nonmilitary, assembled, gas, 14,001–16,000 pounds GVW, new	771	2,264,740	346	952,135
732-0220 trucks, truck chassis and truck tractors, nonmilitary, assembled, gas, 16,001–19,500 pounds GVW, new	3.670	11,286,173	1,687	5,177,655
732.0224 trucks, truck chassis and truck tractors, nonmilitary, assembled, gas, 19,501–26,000 pounds GVW, new	12,979	53,872,893	8,667	36,288,942
732.0228 trucks, truck chassis and truck tractors, nonmilitary, assembled, gas, 26,001–33,000 pounds GVW, new	3,121	18,578,355	2,726	15,852,206
732.0232 trucks, truck chassis and truck tractors, nonmilitary, assembled, gas, over 33,000 pounds GVW, new	3,544	31,927,597	2,597	23,022,390
732.0236 trucks, truck chassis and truck tractors, nonmilitary, assembled, diesel, 16,000 pounds GVW and less, new	586	7,162,518	409	5,225,065
732.0240 trucks, truck chassis and truck tractors, nonmilitary, assembled, diesel, 16,001–19,500 pounds GVW, new	288	1,210,769	92	253,439
732.0244 trucks, truck chassis and truck tractors, nonmilitary, assembled, diesel, 19,501–26,000 pounds GVW, new	1,934	11,066,236	540	3,120,977
732.0248 trucks, truck chassis and truck tractors, nonmilitary, assembled, diesel, 26,001–33,000 pounds GVW, new	862	7,738,612	400	4,332,853
732.0252 trucks, truck chassis and truck tractors, nonmilitary, assembled diesel, over 33,000 pounds GVW, new	4,404	65,217,130	2,464	32,902,797
732.0256 trucks, truck chassis, and truck tractors, nonmilitary NEC, new	1,543	6,853,910	266	1,592,543
732.0320 trucks and trailers, off-highway, nonmilitary, new	883	49,864,623	231	12,652,226
732.0330 trucks, nonmilitary, with derrick assembly, winches, and similar equipment for drilling, new	155	6,550,785	12	222,674
732.0340 fire department vehicles, nonmilitary	82	2,067,504	6	111,827
732.0346 special purpose nonmilitary vehicles, NEC, new	3,787	47,022,477	901	6,902,319
Total, bus	2,876	14,889,839	119	2,790,163
732.0420 motorbuses, nonmilitary, gasoline, new	2,686	11,001,298	65	213,520
732.0430 motorbuses, nonmilitary, diesel, new	190	3,888,541	54	2,576,643
Total, used vehicles	17,765	26,440,424	968	2,644,989
732.0160 passenger cars, nonmilitary, used	11,043	12,457,684	209	354,958
732.0258 trucks, truck chassis, and truck tractors, nonmilitary, used	5,174	6,888,259	320	733,609
732.0350 special-purpose nonmilitary vehicles, used	1,241	6,389,932	400	1,460,221
732.0440 motorbuses, nonmilitary, used	307	704,549	39	96,201
UNASSEMBLED VEHICLES AND PARTIAL SETS				
Total, passenger cars		146,443,594		371,694
732.0130 passenger cars, nonmilitary unassembled not over 6 cylinders, new		74,322,098		253,054
732.0150 passenger cars, nonmilitary, unassembled, over 6 cylinders, new		72,121,496		118,640

CALENDAR YEAR 1969—Continued

Assembled vehicles, new	World		Canada	
	Number	Dollar value	Number	Dollar value
Total, trucks		88,627,810		4,827,370
732.0206 trucks, truck chassis, and truck tractors, non-military, unassembled, gas, 6,000 pounds GVW, and less new		27,780,214		209,717
732.0210 trucks, truck chassis and truck tractors, non-military, unassembled, gas, 6,001–10,000 pounds GVW, new		11,123,031		
732.0214 trucks, truck chassis and truck tractors, non-military, unassembled, gas, 10,001–14,000 pounds GVW, new		720,358		37,806
732.0218 trucks, truck chassis and truck tractors, non-military, unassembled, gas, 14,001–16,000 pounds GVW, new		56,835		
732.0222 trucks, truck chassis and truck tractors, non-military, unassembled, gas, 16,001–19,500 pounds GVW, new		1,619,338		
732.0226 trucks, truck chassis, and truck tractors, non-military, unassembled, gas, 19,501–26,000 pounds GVW, new		18,708,270		
732.0230 trucks, truck chassis, and truck tractors, non-military, unassembled, gas, 26,001–33,000 pounds GVW, new		444,558		25,816
732.0234 truck, truck chassis and truck tractors, non-military, unassembled, gas, over 33,000 pounds GVW, new		478,059		199,902
732.0238 trucks, truck chassis and truck tractors, non-military, unassembled, diesel, 16,000 pounds GVW, and less new		510,028		53,965
732.0242 trucks, truck chassis and truck tractors, non-military, unassembled, diesel, 16,001–19,500 pounds GVW, new		316,558		26,089
732.0246 trucks, truck chassis, and truck tractors, non-military, unassembled, diesel, 19,501–26,000 pounds GVW, new		5,591,611		
732.0250 trucks, truck chassis and truck tractors, non-military, unassembled, diesel, 26,001–33,000 pounds GVW, new		1,225,583		103,709
732.0254 trucks, truck chassis and truck tractors, non-military, unassembled, diesel, over 33,000 pounds GVW, new		20,053,367		4,170,366
Total, miscellaneous automotive		2,511,145,182		1,800,968,953
629.1010 tires, passenger car and motorcycle pneumatic	1,903,096	23,653,984	1,252,620	14,947,527
629.1020 tires, truck and bus, pneumatic	461,161	19,619,058	136,685	5,636,028
629.1080 inner tubes for vehicles	1,098,152	3,581,563	388,038	869,713
629.4005 automotive V-type transmission belt and belting (lb)	1,133,397	1,944,856	561,138	954,660
663.8202 asbestos clutch facings for automotive use including linings	2,833,561	2,459,037	1,065,212	935,096
663.8215 asbestos brake linings for automotive use (lbs)	6,642,556	4,862,881	3,939,528	2,504,215
664.7020 toughened safety glass (SFT)	9,693,994	8,892,044	8,985,066	8,042,213
664.7040 laminated safety glass (SFT)	13,371,472	16,111,095	10,207,613	11,782,247
664.8015 glass mirrors for automotive use		4,377,366		3,946,006
698.1115 door locks and lock sets of base metal for automotive use	5,610,854	6,478,893	4,976,156	6,010,375
698.1204 automotive hardware, except hinges and butts, of base metal		1,180,670		1,049,009
698.1245 automotive hinges and butts of base metal (dozen packages)	706,773	832,561	671,500	701,600
698.6120 springs and leaves for springs of steel NEC (lb.)	10,171,208	3,011,596	7,909,422	2,007,752
711.5002 diesel engines, automotive for assembly	4,793	14,597,836	2,791	9,352,328
711.5004 diesel engines, automotive for replacement	3,286	10,139,005	588	2,330,697
711.5034 gasoline engines, automotive for assembly	471,469	119,211,966	462,572	115,735,487
711.5036 gasoline engines, automotive for replacement	37,164	7,171,951	5,035	1,388,706
711.5062 parts and accessories, NEC for automobile, truck and bus engines for assembly		62,255,637		46,944,546
711.5064 parts and accessories, NEC for automobile truck and bus engines for replacement		59,531,889		16,927,524
719.1509 air conditioners, automotive	149,825	19,983,612	99,575	14,716,042
719.7010 ball bearings, complete, annular, ground or precision, not thrust		17,640,910		6,388,702
719.7020 ball bearings, complete, NEC		13,161,670		3,143,484
719.7030 roller bearings, complete, cylindrical nut thrust		11,580,556		3,965,709
719.7040 roller bearings, complete, spherical, nut thrust		1,822,196		564,770
719.7050 roller bearings, complete, taper, nut thrust		35,829,234		11,380,501
719.7060 roller bearings, complete, NEC		6,257,259		2,035,775
719.7070 roller for roller bearings		4,432,845		2,268,840

CALENDAR YEAR 1969—Continued

Assembled vehicles, new	World		Canada	
	Number	Dollar value	Number	Dollar value
719.7080 balls for ball bearings		638,560		212,456
719.7090 parts, NEC, for ball and roller bearings		7,210,590		2,756,382
723.1030 ignition harness and cable sets, insulated		16,839,336		15,728,464
724.2030 automobile radios, other than two-way radios	440,968	10,519,704	406,227	9,515,191
729.1210 storage batteries, lead-acid type automotive 6 and 12 volt	729,781	7,840,856	574,067	5,679,423
729.1240 battery boxes of hard rubber	1,488,581	1,704,381	1,191,801	1,311,115
729.1255 parts, NEC, for storage batteries		6,224,719		2,432,786
729.4110 cranking motors complete, electrical for internal combustion engines	1,093,818	13,840,762	966,754	11,244,110
729.4120 spark plugs, complete, automotive type	41,442,436	13,075,319	3,603,181	1,472,044
729.4140 ignition coils ,distributors, magnetos and ignition equipment NEC complete, for internal combustion engine		26,109,287		13,593,038
729.4150 parts, NEC for electrical starting and ignition equipment for internal combustion engines		24,309,711		4,399,598
729.4210 sealed beam lamps for motor vehicles	7,820,310	5,709,351	2,572,721	1,969,288
729.4220 lighting equipment for motor vehicles electric NEC		19,878,491		17,917,525
729.4230 windshield wipers, horns, and defrosters electric for motor vehicles		15,192,012		14,107,204
732.0346 special-purpose nonmilitary vehicles, NEC, new	3,787	47,022,477	901	6,902,319
732.0500 truck and bus bodies	5,898	8,542,543	3,543	3,655,509
732.8010 motor vehicle stampings		322,391,729		313,759,614
732.8032 wheels, new for assembly, for nonmilitary motor vehicles, NEC		17,152,225		15,401,938
732.8036 brakes and parts, new, for assembly for nonmilitary motor vehicles, NEC		56,206,387		48,754,240
732.8038 parts and accessories, NEC, new, for assembly, for nonmilitary motor vehicles, NEC		1,022,806,771		886,677,178
732.8042 mufflers and tailpipes, new, for replacement, for nonmilitary motor vehicles, NEC		3,230,514		1,713,038
732.8043 shock absorbers and parts, NEC, for replacement, for nonmilitary motor vehicles, NEC		5,635,900		702,142
732.8044 brakes and parts, new for replacement for nonmilitary motor vehicles		14,698,703		7,139,007
732.8048 parts and accessories, NEC, new for replacement for nonmilitary motor vehicles NEC		299,190,961		94,269,092
732.8050 parts and accessories, NEC, used for nonmilitary motor vehicles, NEC		5,706,332		2,386,210
733.0040 truck trailers and parts, NEC		20,385,192		5,335,875
733.0060 passenger car trailers, except housing type coaches and parts, NEC		2,303,519		1,901,214
861.9742 instruments, motor vehicle for measuring checking, controlling variables of liquid or gas		4,513,632		3,010,873
861.9748 instruments, motor vehicles (except engine) for measuring checking, controlling variables of liquid or gas		920,104		433,635
861.9950 parts and accessories, NEC for vehicle instruments, NEC		5,202,630		4,374,688
621.0220 tires sundries and repair materials (LB)	3,516,104	3,073,077	856,286	1,081,787
621.0230 tread rubber or camelback (LB)	9,380,955	3,364,414	924,968	350,796
719.5320 lubricating equipment, force-feed pneumatic, hand held, and parts, NEC		11,338,424		3,021,41
719.2155 pumps, measuring and dispensing for liquids	67,840	6,318,609	32,703	708,872
719.3154 automobile lifts	3,161	1,426,240	1,606	521,331
Total, excluding tires and tubes		4,062,625,870		2,771,056,262
Grand total, including tires and tubes		4,115,917,966		2,793,942,113

Source: Compiled by Automobile Manufacturers Association, Inc., from Department of Commerce, U.S. Bureau of the Census Data.

Mr. VANIK. Thank you.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Corman.

Mr. CORMAN. I notice on automobiles that our trade deficit in 1969 reached about $2.3 billion. I am wondering how much of the cause is foreign barriers, either tariff or nontariff, and how much is the failure of American automobile manufacturers to satisfy consumer needs or consumer desires for small, low performance, inexpensive automobiles.

Although our exports are about $1 billion, our imports are more than $3.3 billion. Have you any comments as to that?

Mr. TOWNSEND. I guess the only comments I have to that is as you know, the industry today is responding, I think very well, to the development of new, smaller, cheaper automobiles here in the United States.

We had three of them entered last year. We have the first mini-compact on the market today. We are going to have two more in the fall and one more a year after that.

I would expect to see these cars do quite well in this market. I would expect to see them move overseas in some amount, also.

I think we will all see the result of this effort in a couple of years.

Mr. CORMAN. Will they be able to get around some of these nontariff barriers such as length, horsepower and so forth?

Mr. TOWNSEND. To the extent that they would fall under whatever the particular barrier might be in terms of weight or horsepower they would be benefited

Mr. CORMAN. In designing them and planning them, did you have the nontariff barriers in mind at all, or is it merely a matter of trying to satify American consumer desires?

Mr. TOWNSEND. In our industry, and particularly in our company, products are designed and developed basically for their own country, not for international trade, because of the investment and effort and lead time involved is this kind of an effort. Then any peripheral benefit that might come helps the situation.

This is true in any other country. The French cars are developed for the French, and our cars are developed for Americans.

But I do think in this question a number of these small cars will fall under or outside of more of these barriers than the bigger cars we have had in this country.

Mr. CORMAN. Thank you very much.

Mr. Gibbons was talking a moment ago about the metric system. Nine years ago, the Science and Astronautics Committee was considering the possibility of the transition. One of our witnesses said that the British were inching toward the metric system.

I wonder is they have made much progress.

Thank you, gentlemen.

Mr. BURKE. Thank you, gentlemen. The committee is appreciative of your panel's testimony.

Our next witness is the Honorable Charles P. Taft, and Messrs. John W. Hight, and David Steinberg.

STATEMENT OF HON. CHARLES P. TAFT, CHAIRMAN, COMMITTEE FOR A NATIONAL TRADE POLICY; ACCOMPANIED BY JOHN W. HIGHT, EXECUTIVE DIRECTOR, AND DAVID J. STEINBERG, SECRETARY AND CHIEF ECONOMIST

Mr. BURKE. We welcome you to the committee.

Mr. TAFT. I am Charles P. Taft, of Cincinnati. I am a lawyer and a local politician. For the last year and a half, I am a daily broadcaster. This is the 25th anniversary, almost to the day, that I first appeared before the committee. The Honorable Charles Doughton was chairman at that time. There was a gentleman by the name of Knudsen, from

Minnesota, who was difficult to deal with. Uncle Dan Reed has been chairman of this committee when I have been here, as well as Jere Cooper, and now the Honorable Wilbur Mills who tells me I was here about 3 or 4 years before he was.

Mr. BURKE. You come here highly recommended and with a solid background.

Mr. TAFT. I hope so. I am not sure after some of these questions concerning the President's trade bill, however.

The Committee for a National Trade Policy, of which I am the chairman and general counsel, picked that name because it wished to emphasize the fact that the policy should be national, not local.

The tariff is said to be a local issue. We believe it should be a national issue, and we agree entirely with the suggestion that has been made by Mr. Vanik, I think, that there should be an overall policy stated. That is the nub, really, of what I wish to say today.

For 16 years we have been leading advocates of generally freer trade in the overall public interest, and we support the essentials of H.R. 14870, known as the administration's Trade Act of 1969, as the minimum of the kind of trade legislation which is needed this year.

In our judgment, the bill is not wholly adequate even as an interim device to insure continuity in our vitally important trade agreements program. We therefore propose ways to improve the bill, in order to make it a better vehicle for promoting genuinely and consistently freer trade in the overall national interest. We strongly oppose any effort to encumber the bill with amendments that would restrict imports, and we just as strongly oppose other forms of import control legislation.

We note and understand the concern of many Congressmen with the demands and anxieties of firms, workers, and communities claiming current hardship or anticipating future problems from import competition. But we do not think the manner in which so many of these Congressmen express this concern makes a real contribution to the search for a solution.

Where there are serious situations that call for Government help to those who are adversely affected, the answers must be constructive answers aimed at fostering successful adjustment.

I have on a pair of pants made by my favorite mail-order house in New Jersey, made by the Amalgamated Clothing Workers at a price about as low as any pants I know about. So there are successful pants sellers even though there are many who have had to reduce the making of pants. The U.S. Shoe Co. in Cincinnati reports higher earnings almost every time they come up with a 6-month or annual report.

Those Congressmen currently pushing bills to restrict imports are not really proposing constructive answers to rising foreign competition, only controls over that competition. Such controls may help the weaker members of an industry, but not for long. They neglect the real problems. They deal only with symptoms—and only some symptoms—of the problems of those who need help, and give windfall gains to those who do not.

These controls involve costs that have to be paid for by consumers, by firms and workers producing for export, and by other sectors of our economy. In the manner in which they have been used, and the manner in which the advocates of new controls want them used, these trade

restrictions are counterproductive. They are contrary to the needs and best interest of the Nation.

There has been reference to the fact that there was retaliation when JFK put restrictions on carpets and on glass in the spring of 1962. I don't believe it was stated that the retaliation was on chemicals, not on textiles or on glass. The European Common Market raised the tariffs on certain chemical imports.

Import-control bills are frequently justified by their proponents as levers with which to intensify administration pressures on foreign governments to restrict their exports to the United States. The administration's drive for such controls over noncotton textiles is a notable case in point. It was conceptually wrong as national policy because it was in no way related to a balanced, coherent, and constructive program of Government assistance to the textile industry, based on an objective assessment of the problem and of the best ways to solve it consistent with the best interests of the Nation as a whole. And it was tactically wrong to attempt to threaten foreign governments to negotiate controls on their own export earnings.

The threat posed was the danger of import quota legislation by Congress. A large number of Congressmen are sponsoring quota bills to show that the threat was real (among other reasons). It now turns out that what is being threatened by such proposals and posturing is the enlightened self-interest of our own country.

We have much to complain about in the import controls that seriously restricted U.S. exports to Japan, the Europan Common Market, and other industrialized countries. Constructive ways must be found to get those countries to liberalize their imports. But urging them to impose nontariff barriers on their exports can hardly serve this purpose. The reverse effect is likely. The absence of any credible U.S. determination to lower and remove our own still formidable import controls doesn't help either.

The time has come for the United States to invite the initiatives of the industrialized countries on how all of the advanced countries together might program the removal of their artificial trade barriers and distortions. Three years have passed since the Kennedy round, and the executive branch of Government is still not really prepared to raise the sights of the world to what urgently needs to be done.

The executive branch of Government isn't even adequately concerning itself with the adjustment needs of the American economy—with the real problems of the textile industry, the steel industry, the electronics industry, and others, in the 1970's and beyond.

I should state an exception. Secretary Shultz, I understand, though I have not read his testimony in full, has advocated here that the administration should in advance examine those situations where escape clauses may be demanded, or where there may in the future be need for adjustment, before the crisis comes upon them and they have to take perhaps emergency measures not so well thought out.

These industries want Government help but they myopically seek only one kind—import control. The Department of Commerce should be concerning itself with the real problems of these industries and with constructive answers to these problems, answers that may in some cases have to include trade restrictions but only as temporary, marginal measures of last resort.

Constructive assistance by Government could, for example, rectify inequities in current laws and policies affecting the particular industry. Through tax changes, it could stimulate technological changes.

Through labor policies, it could help retrain workers for new jobs in the same industry or in new industries. Government help to an ailing industry need not wait for a crisis identified in a Tariff Commission finding of serious injury. There, again, we support Mr. Shultz.

Congress should require, literally require, this kind of balanced, constructive Government attention to the problems of American industry and labor. It is not doing so. Bills to establish import controls go in the opposite direction.

Let us not overlook our agricultural import controls and the need to remove them as part of a balanced program of agricultural adjustment that assume eventual free trade and emphasizes domestic policy remedies for problems that require government help. We should be removing controls on meat imports, for example, as an urgently needed anti-inflationary device. Our committee cautions the Congress against the danger of fueling inflationary fires with controls on imports.

The United States has enormous potential under a free market system of agriculture. It stands to gain in every way from sustained trade liberalization in this field at home and abroad.

We are on a collision course in trade policy. Congress can play a vital role in moving our trade policy to the high road of constructive answers to adjustment problems at home and constructive ways to achieve the freest movement of goods and capital across national borders throughout the industrialized areas of the Free World. Congress has been reluctant to play that role. Too many Members, without realizing it, are neglecting the national interest, and, indeed, the enlightened self-interests of their own constituencies. Too many are acting in tandem with the sabre rattling that in too large measure has passed for trade policy down at the Commerce Department halfway up the Avenue.

THE BILL

In addition to opposing trade restriction amendments, we propose the following specific amendments to strengthen the bill. These are technical points but have high significance in the broad thrust of our legislation.

We made similar points in connection with a bill introduced by President Johnson in 1968, and they are still as valid as they were then.

1. In assessing Tariff Commission findings of serious injury in escape clause proceedings, the President should be required by the legislation to include in his evaluation a judgment of the real damage and cost to the Nation—including the effect on exports and consumers—if import restrictions were to be imposed. If he decides to impose restrictions, he should report to Congress on the cost of such restrictions to the national interest, and do so every year until the controls are removed.

2. The President should be required to phase-out such trade restrictions over as short a period as possible. It should be made plain that the intent of Congress is that he replace them with domestic economic

remedies to the extent that Government assistance continues to be necessary.

3. For escape clause purposes, (*a*) import expansion as a "primary cause" of serious injury should be defined as "rapidly rising imports"; (*b*) petitions from an industry should be required to represent at least 50 percent of the industry's production of the affected products; and (*c*) findings of serious injury should be limited to cases where most of the firms producing the affected products are found to have been seriously injured or are threatened with serious injury.

4. Adjudication of adjustment assistance petitions should be the responsibility of the Tariff Commission—not, as the bill proposes, the responsibility of the executive branch. The Tariff Commission is better equipped to act in a nonpolitical way, that is, above political pressures.

5. The escape-clause provisions of the bill should require a meaningful link to a trade agreement concession as a factor accounting for the rise of imports. The administration bill severs this link, thus departing from the purpose of an escape clause under the General Agreement on Tariffs and Trade. If domestic or other causes are primarily responsible for the rise in imports, other vehicles of Government assistance should be invoked. The escape clause should, in any event, be an extraordinary vehicle of assistance to an industry, not the vehicle. The Government should be prepared to concern itself in a constructive manner with the evolving problems of an industry when the industry believes Government help is needed.

I would like to point out that the escape clause should be considered as a remedy for an entire industry or a large part of it. Adjustment assistance should be the remedy for particular companies, or groups of workers. Different producers have different needs.

If the escape clause is invoked those who are doing very well get unjustified profits, whereas the tail-enders are the ones that really need help. Adjustment assistance is tailored to the particular needs of those who are experiencing damage from imports.

6. The section authorizing the President to restrict imports from a country or common market "unfairly" promoting exports to third markets to the detriment of U.S. exports should be deleted. There is some question as to its consistency with GATT, and there are other ways to cope with the "third country" contingency.

7. The President should be required to report to the Congress annually on the Nation's foreign trade and international competitive position, identifying the problems encountered, steps being taken to solve them, and new legislation he considers necessary to facilitate adjustment to imports and promotion of exports.

CONGRESSIONAL MANDATE

The Congress should also require the earliest possible administration program for:

(1) Getting all the economically advanced countries to remove their nontariff barriers, as well as the remaining tariffs. In connection with some of the questions put before, it seems to us this would be much better done on an across-the-board basis rather than item by item. In our own case, those restrictions provided by legislation may have to come back to the Congress, just as the ASP has.

In any event, it seems to us the whole job can be better done on the basis of an across-the-board package, rather than on a barrier-by-barrier basis.

(2) Establishing international rules and equitable competition (dealing with subsidies, adjustment assistance, Government procurement, patents, and so forth).

(3) Helping the developing countries gain the freest access to the world's best markets.

(4) Easing controls over trade with the "Communist bloc" countries. Again, that is not a part of our particular know-how.

(5) Dismantling controls over international capital movements which directly or indirectly restrict U.S. exports and U.S. investment abroad, and otherwise impair a sound balance-of-payments policy to strengthen the dollar at home and abroad. This, we think is most important. I would suggest in answer to an answer given before that, in general, these investments abroad have actually increased exports rather than decreased them.

I am not referring to the dividends, which make one of the largest single assets in our balance of payments. These are dividends from the foreign countries brought back to the United States. They may be held abroad temporarily when capital outflow from here is restricted, as it is now. But in the ordinary course they would unquestionably come back to the United States. The dollars put in there have to be spent in the United States eventually.

Neither the country nor the world can wait the full 3 years which this bill is intended to run before the United States makes a firm declaration as to its trade policy intentions for the longer period.

We know, of course, that the President will shortly announce a Commission on International Trade and Investment which will study all aspects of the question and make a report—presumably charting the course the United States ought to follow in the years ahead.

We would hope that this Commission will begin with a definite bias on the side of freer trade and investments in line with the some 35 years of this policy direction. It seems to us also that the Congress should make some sort of declaration in this general field.

We would hope that the administration will not wait for the specifics of the report but will make it clear to our trading partners as soon as possible that this is the direction we intend to continue, that we will very soon take a real initiative in proposing ways and means by which our goal can be achieved and inviting the initiatives of other governments toward achieving the same goal.

We do not believe that the United States can stand still for 3 years. Too much will happen in the political and economic world during that time. Governments and businesses will make plans; and approved plans in themselves often determine future policy. And the United States should make it perfectly clear to all that the wave of the future must be and will be freer trade and freer investment across national borders.

This does not discount at all the stated intention of the administration to pursue negotiations in the nontariff barrier field, and the work already being done in the GATT along this line. We support the proposal for a congressional resolution using the administration to negotiate in this area, on an ad referendum basis, although we question

whether barrier-by-barrier negotiations will prove to be fruitful. It would be better to deal with all these barriers as a package.

There are many who say the world has changed since Cordell Hull, since the General Agreement on Tariffs and Trade, indeed since the Kennedy trade act was passed and the Kennedy round negotiated. And so it has.

But we take strong exception to the view that this calls for a different direction in trade policy. On the contrary, it calls for a determined effort to complete the process of trade liberalization insofar as the industrialized countries are concerned—achieving the ultimate in reciprocity through the leveling of all artificial barriers and distortions, and the optimum adjustment at home through orderly, constructive answers to whatever domestic problems may follow.

Bicycles and watches are among the many examples of successful adjustments. Bicycles now have some kind of coathanger on the back and for some reason our kids buy them.

Watches were often mentioned as an example of import damage. The industry tried for a long time to get a decision by the Pentagon that watchmakers were necessary for national defense purposes.

The final finding was that they were not necessary. At that time I was a stockholder of U.S. Time. I am not any longer, but U.S. Time demonstrated that a watch company in the United States cannot only make money but can take a large part of the market. Timex is in the drugstores now.

This is a matter of successful adjustment.

Anyone who thinks substantial progress can be made in removing nontariff barriers and dealing effectively with other trade policy issues through anything less extensive than a free-trade program is in for massive disappointment.

We are fully aware that we are in a world of the multinational corporation, that these corporations account for a large percentage of our exports, that they invest abroad when they find they can no longer export directly because of foreign competition. This does not in any sense suggest that we should restrict world trade. Rather, we must make every effort to expand it. And the potentials for expansion are clear and impressive. Any move to inhibit world trade or the development of multinational corporations would be at high cost to economic growth at home and national prestige and influence abroad.

It is shocking commentary on our times to find so much pressure from industry and labor and the Congress itself for trade controls. All we have built in this policy area seems imperiled between the hammer of ill-considered congressional pressures to restrict imports and the anvil of administration shortsightedness and lack of preparation for what urgently needs to be done on both the foreign and domestic sides of trade policy.

COMMENTS ON THE HEARINGS

We are one of the first public witnesses to appear before the Ways and Means Committee on this legislation. We would like to take this opportunity to suggest to the members of the committee that, in their questioning of subsequent witnesses who appear on behalf

of particular industries and seek import restrictions, they ask these questions of these witnesses:

What is your firm or your industry doing for itself to adjust to increased import competition?

What can the Government do to assist in this adjustment, short of restricting imports?

What can you suggest in terms of domestic legislation which might assist you in your adjustment?

Have you exhausted all the means available to you to make a successful adjustment without import controls?

It seems to us that this line of questioning might reveal other remedies for the difficulties particular industries face—remedies which would not slow down or reverse our drive for a freer trading world.

On adjustment assistance, we are strongly attracted by Secretary Shultz' statement to your committee. We hope the bill will be enacted along the lines he proposed, and that the Department of Labor and the Department of Commerce will administer this program in as liberal a way as possible. We urge continuing reassessment of the adequacy of the adjustment assistance benefits. Those now in the bill may themselves not be adequate.

On "American selling price," we are totally persuaded by Ambassador Gilbert's testimony last Thursday—we have always been so persuaded—that this method of customs valuation must be eliminated.

Significant progress cannot realistically be expected in nontariff barrier negotiations unless we ourselves get rid of this particular restriction.

It is hard to imagine the chemical industry, the largest single one, complaining that it is an infant industry. The other infant industries which profit from this are, I believe, canned clams, which get American selling price, and rubber footwear.

If the chemical industry still needs Government help, it ought to explain its needs in great detail so that Government assistance can be directed to the specific problems that require such attention.

In conclusion, our committee urges the Congress to do what it ought to be doing for the good of the country as a whole and every State in the Union, and make sure the administration does likewise.

Mr. BURKE. Thank you, Mr. Taft. Do either one of your associates wish to testify?

Mr. TAFT. Some of them may have to answer specific questions I am not up on.

Mr. John Hight is the executive director of the committee and Mr. David Steinberg is our chief economist and secretary of the corporation. The members of the committee are on the side of the letterhead, on the prepared statement you have there.

(The member list referred to follows:)

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David J. Steinberg, *Secretary & Chief Economist.*

Mr. BURKE. Mr. Betts.

Mr. BETTS. I just want to ask a couple of questions. Did I understand you to say that you favored an across-the-board method of negatiating with nontariff barriers rather than a barrier-by-barrier negotiation?

M. TAFT. Yes; that is our feeling.

Mr. BETTS. I was interested because I had asked some questions of Mr. Townsend because of my concern for the negotiations in the field of ASP. I want to know if you agree with me.

He said that ASP was selected as a symbol. That sort of frightens me because it indicates that only a few barriers were considered.

Do you agree with me?

Mr. TAFT. Yes; I think that is correct. The trouble with ASP is that for some reason, and I don't really know why—perhaps it is in the history of the chemical industry—the Europeans, as it is clear from all the reports of the Kennedy round, made the ASP into a thing. Whether they were justified in it completely I am not at all sure. I don't know enough about it.

But I think, therefore, it came up in those negotiations in such a way that it had to be dealt with or you couldn't make certain other kinds of improvements.

Mr. BETTS. Yes, but there was no reason why we couldn't have included other nontariff barriers in the negotiations; was there?

Mr. TAFT. We did, as a matter of fact, sir. In the Kennedy round, the compensation for getting rid of ASP includes the elimination of certain other nontariff barriers in Europe.

Mr. BETTS. Very few, very few.

Mr. TAFT. But very important ones.

Mr. BETTS. It just seems to me that the whole negotiation, which is an attempt to throw this back on Congress, practically ignores the whole field of nontariff barriers and other trade barriers, such as cost, insurance, and freight, which I think should be included, and what I hoped you meant when you said we should negotiate on an across-the-board basis.

If that is what you mean, I agree with you 100 percent.

Mr. TAFT. Mr. Hight was employed with the OEEC at one stage in Europe over quite a long period in Paris and knows more about this particular end of it, especially those negotiations.

I think perhaps he could answer you better than I can.

Mr. BETTS. I was simply interested in a confirmation from you that you think we ought to proceed on an across-the-board basis of negotiation rather than singling out some little industry—I don't mean little industry but there are a lot of small businesses in the chemical industry—without singling out one industry and using it as a symbol. That is my only thought.

But you do agree with me, don't you, that it should be on an across-the-board basis?

Mr. TAFT. I do; but I would also point out that when I was in the Department in 1945, and I testified here as a member of the State Department, at that stage they didn't, in State, even want to discuss a multinational negotiation like that in the Kennedy round.

I understand, though I was out of the Department then, that in all the winter of 1945 and 1946 they had a terrible time bringing themselves to the point where they recommended having a multinational negotiation.

That was the only way it could be done, but it took a long time to persuade them.

I think this particular case is, again, a sample of the fact that they started on one and now find what I believe to be the fact, that they should try to do a good many more at once.

Mr. BETTS. I think you and I agree on that score.

Mr. TAFT. Mr. Hight wanted to make a comment, if he might.

Mr. HIGHT. I only wanted to say that as far as American selling price is concerned, it became or it has been for some time a problem that is almost pathological, I suppose, in Europe.

This is the one so-called nontariff barrier which the United States maintains which they object to most. This even includes countries who have no particular interest in organic chemicals, countries who really are not even interested in the chemical industry. They have seized upon this as an important thing.

I just wanted to add that many people, many lawyers, felt that the 1962 act was somewhat ambiguous on the question of whether nontariff barriers could be negotiated. I think because, in Geneva, American selling price on chemicals was so important to the others, we did discuss this subject to referral back to the Congress because it has been established by statute.

It was not a tariff in the sense that we normally negotiated tariffs. I think American selling price was something different for us than other nontariff barriers.

What Mr. Taft, I think, is saying that, on the whole range of nontariff barriers, this means border taxes, special taxation, buy American or other buy national practices and various agricultural restrictions, perhaps sanitary restrictions, food and drug restrictions; it may be best to attempt to negotiate a package rather than attempt item by item to get a balance.

Mr. BETTS. I agree with you that that is true, but it seems to me it should be tied in with something that you say is as important as ASP is to the Europeans to use as a lever.

If it is as important as you say it is to the Europeans, it seems to me that our negotiators should have included the elimination of more foreign trade nontariff barriers than just in the limited area they did. That is my thought.

Mr. HIGHT. I merely want to say that I think the ASP agreement that was reached, subject to the approval of Congress, was entirely on our side. I am an outsider. I was not part of the negotiations. I think what we got for ASP more than compensates us for giving it up. I don't think at this point in history we can any further negotiate ASP. That is my opinion.

Mr. BETTS. I understand your position.

Mr. TAFT. I wonder if Mr. Hight would mention what the others are. I suppose they are in the total documents.

Mr. HIGHT. They are primarily the automobile road tax issues and something on British tobacco, too, that helps our tobacco exports.

Mr. BETTS. Mr. Watts, coming from a tobacco-raising community, says it doesn't help us at all. That is something that reasonable minds can disagree on.

Mr. HIGHT. The British did give something on this in the area of tobacco.

Perhaps Mr. Steinberg knows the details of this. In any case, they had a problem. The straight Virginia, which they use in their cigarettes, competed to some extent with the Rhodesian-Virginia-type tobacco. This, as I understand it, is part of the agreement on ASP, and it was to liberalize the treatment of straight Virginia.

When I say Virginia, I mean mostly North Carolina or Kentucky or other States. But that type of tobacco for cigarettes was liberalized.

Mr. BURKE. Mr. Watts will be interested in that testimony when he reads it.

Mr. HIGHT. I am not expert in this field.

Mr. BETTS. I have one other question. I refer to your fourth comment on page 5.

Do you think adjudication of these adjustment petitions should be left to the Tariff Commission? Is that what you say?

It seems to me that the Tariff Commission are experts. As you say, they can make the decisions. They are in a better position to adjudicate. Don't you think it would be best to leave the final judgment there rather than go through a lot of other processes which bring in, as you say, political pressures? Usually a petition lanquishes up at the White House for many months. Not only political but diplomatic pressures arise clearly outside of the question of whether or not it is hurting American industry.

If you meant we should leave the final decision with the Tariff Commission, I would like to go along with you.

Mr. HIGHT. I think, sir, the point we made deals with the adjustment assistance, not with the escape clause which would lead to import restrictions for an entire industry.

What you are suggesting, as I understand it, is that if the Tariff Commission makes a recommendation in the escape clause which would raise the tariff or impose other restrictions, that ought to be final.

I think this is not consistent with the escape clause through the entire history of our trade agreements, going back to 1934.

Mr. BETTS. I know it is not.

Mr. HIGHT. I have to go along with the idea that the final decision ought to be a Presidential decision rather than an independent commission which makes recommendations. We find it entirely proper and tenable that adjustment assistance recommendation be made by the Tariff Commission, and the President and the executive would make the final decision.

Our principal objection is that in the administration bill the Tariff Commission would not make recommendations in adjustment assistance cases.

Mr. STEINBERG. Our position would be that in the case of adjustment assistance, the Tariff Commission should adjudicate a case, which means that the Tariff Commission would not only do the research but make the finding as to wether the petitioner is eligible for adjustment assistance. Then it is up to the executive branch of Government to determine what kind of adjustment assistance should be provided.

We feel that the process of adjudication should continue to be in the Tariff Commission rather than removed from the Tariff Commission as the administration bill would do. The administration bill would leave to the Tariff Commission only the responsibility of determining the facts but not give it the responsibility of making a finding.

Mr. BETTS. But the Tariff Commission should make a finding that can be confirmed or reverse it by the executive branch; is that it?

Mr. STEINBERG. Not in the case of adjustment assistance. The eligibility of the petitioner for adjustment assistance would be determined, in our view, by the Tariff Commission. The kind of adjustment assistance would be determined by the executive branch of Government. That is the way it is now and that is the way it ought to be. There are those who say that the adjustment assistance program has not worked in the past.

I think the reason really is that the criteria have been too rigidly interpreted. So if the Congress in its wisdom accepts the proposal of the administration to change the criteria, then I think that should go very far toward making the adjustment assistance program a viable program.

Mr. BETTS. I have one other question. You said that foreign investments in a great many cases result in greater exports——

Mr. TAFT. I cannot quite hear you, sir.

Mr. BETTS. I understand you to say that in your opinion foreign investments by our industries result in many cases in greater exports from our country rather than imports into our country.

Mr. TAFT. I can't do the comparison on imports because it is difficult to get the statistics.

I don't know what the present status is. But U.S. companies that invest abroad increase exports because those companies supply many parts, many kinds of services in connection with what is actually produced in the foreign country.

Mr. BETTS. But you are not sure as to how it affects imports?

Mr. TAFT. The relationship with imports I am not sure because that varies greatly.

Mr. BETTS. Have you any figures you can get for us on that?

Mr. TAFT. We can try to get them.

Mr. BETTS. I think they would be helpful for the record.

Mr. TAFT. Yes; we will try to get them for you.

(For the information requested, see Survey of Current Business, U.S. Department of Commerce, vol. 49, No. 5, May 1969, pp. 34–51.)

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. Mr. Taft, you state on page 3 the absence of any credible U.S. determination to lower and remove our still formidable import controls does not help either.

Do you have a list of what you consider our formidable import controls? I am new on this committee and I am not really familiar with all of these. I would like a little education.

Mr. TAFT. The largest are probably in agriculture. Mr. Steinberg can perhaps specify a little further.

Mr. GIBBONS. Rather than take a lot of time, would it be possible for you to prepare a list of what you think are large and formidable in this area and submit it to me? I would like to have it.

Mr. STEINBERG. We will get a copy of this for you, Congressman, and save your office the trouble of doing so. The Tariff Commission several years ago, I think 1965, and updated in 1968, prepared a very useful document on the extent of the quantitative import restrictions that we have.

I will see to it that a copy of that document is sent to your office.

In addition to that, there are some quantitative controls on steel, not intergovernmenal but with the approval and encouragement of the State Department.

Mr. GIBBONS. I am familiar with those. They adversely affected the steel fabricating industry in my own district.

I look with a great deal of disfavor on those voluntary quotas that somebody got put on.

Mr. STEINBERG. We do, too. That is not the way, in our view, sir, to really try to solve the problems of the steel industry. It is a gimmicky approach which is really not part of a coherent, constructive policy.

Mr. GIBBONS. It almost solved the problem of the steel industry in my area. It almost eliminated it.

Mr. Taft, apparently you oppose the elimination of tariff concessions as a factor necessary for the finding of injury under the escape-clause procedure.

What specific remedies would you suggest for industries that are obviously being injured by imports but for one reason or another do not meet the tariff concessions test?

What do you think we ought to do in that case?

Mr. TAFT. I have testified before on the subject of the steel industry very sketchily. I think it is quite clear that the reason steel began to switch toward import controls was because they had not modernized their plants sufficiently. A few years back that the report of the Iron and Steel Institute, which they are kind enough to send me every 3 months, or whenever they put them out, indicate that the oxygen process was only taking up 15 percent of the total productive capacity in this country. Some of the foreign plants have now moved over to the electrical process, which is the new one.

I am not at all sure how much of that has begun in here. Clearly, the modernization of methods is one of the clear ways in which to adjust. What we have said is that any kind of import restriction which is put on should be limited in time, used only to give that kind of modernization a chance to take effect.

Mr. GIBBONS. Would you favor the Congress doing this by separate legislation?

Mr. TAFT. I think we suggested here, sir, that the President should be required to make a report annually on this general, overall situation, the kind of remedies that should be made in various industries, taking a broad look at it, obviously broader than any single company could, and that the administration should be working on this kind of problem constantly.

Mr. GIBBONS. Thank you, sir.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Collier.

Mr. COLLIER. You are very critical of some of the efforts Members of Congress have made to cope with what are serious problems, serious economic problems, that have developed as a result of foreign competition in some industries.

You say that these are not constructive answers. I submit to you, sir, that Members of Congress cannot enjoy the luxury of sitting back in an ivory tower and setting up a national policy while industry is being destroyed right under their eyes, when statistics shows that in such areas as the field of electronics, and so on, that the imbalance exists.

We can't sweep this problem under the carpet. It is a fact of life. If we pursue policies that only tend to make the situation worse, it seems to me that we are pursuing destructive rather than constructive policies.

To be specific, with the disparity in labor costs, how do you suggest that we establish a policy under the general format that your committee suggests that would take care of this disparity and provide the free competition that you say is so necessary, and which I think is laudable if practical?

Mr. TAFT. I would say to begin with that you have to find out what the facts are.

Mr. COLLIER. Let us take a specific item manufactured in Japan where the same number of work hours goes into it, where the labor costs in this country are $17 to produce this unit as compared to $5 in Japan. Now we have something concrete.

How do we establish a policy that permits the American-produced item to compete with the other item, with a difference of approximately $15 in the production cost?

Mr. TAFT. I would say the first thing you have to do is to find out whether that comparison is correct. There are many other ways of paying wages than those paid by the company, itself.

The Government may require various kinds of benefits which go to those particular workmen which they don't get here. It is a very complicated process.

I would only add that getting the information at all has proven in the past, to very good investigators, to be almost impossible.

The National Industrial Conference Board went into the question some years back and they were only able to find six companies in Europe from which they could get any information, and their judgment was that it was not particularly valid for more than two or three of them, out of rather a broad industry.

This information is not given out by the companies in most of the competing countries, and it is not collected by the Government. So when you say it is $17 and $5, I am sorry, sir. I would have to have better information than that coming from a company attempting to get an import quota.

Mr. COLLIER. Incidentally, this doesn't happen to be a company trying to get an import quota.

Mr. TAFT. Maybe it is the union. The union in Chicago on the question of electronics has come up with a good many kinds of figures in the past that were not exactly supportable.

Mr. COLLIER. Let me ask you this question, to be specific: What does the average automotive worker in Japan receive as an hourly rate, together with whatever government benefits you speak of, at the present time?

Mr. TAFT. I haven't the faintest idea, sir. I would add one thing that I forgot before. That is that in Japan, up until very recently, and I suspect it still continues pretty broadly, the Japanese companies are not in a position to fire anybody, to reduce employment at all, which means that their costs are far above what they may pay by the hour if you do it on an hourly basis. This gets into some very technical questions, but I can't tell you what the hourly rate is.

Mr. COLLIER. You don't think there is any disparity in the labor cost in terms of the number of work hours that go into the production of an automobile in Detroit which would be comparable to the same automobile in Japan?

Mr. TAFT. I wish you would talk to the Japanese Government about it, because they still maintain very substantial import restrictions on the shipping of American automobiles into Japan. They evidently thing they are competitive.

Mr. COLLIER. With the layoffs in the automotive industry, I assure you any conclusion I come to in that regard will not be based upon any distorted figures, when it is very obvious that there is a wide disparity between the hourly rate of the Japanese automotive worker and that of an American.

Mr. TAFT. This is a very old argument, sir. The wage rate per hour is not the basis of a solid comparison as to the cost per unit, which is the basis on which any company has to decide whether it can make it profitably or not make it profitably.

Mr. COLLIER. I rest in disagreement, that the type of disparity that exists is not a factor and could be overlooked. You say it isn't. I think we have a rather firm and honest area of disagreement in that regard.

Recognizing, as I am sure you gentlemen do, that there are problems that are unique to one industry which would not necessarily be applicable to the problems in another industry, isn't it somewhat of an oversimplification to say that we can establish a national policy that recognizes the problem areas within certain industries in this country and turn our back upon the fact that in some areas they are of such tremendous economic importance to that area, as well as to the worker?

I tend to think that this is kind of a gross oversimplification. I would appreciate your comment as to how you can establish a national policy recognizing these problems. And they do exist. All we have to do is look at the record of what has happened in the plywood industry and a dozen more industries.

We can't say it is because of poor management in every case, I don't believe.

Mr. TAFT. I would like Mr. Steinberg to tell you something about the plywood industry.

Mr. STEINBERG. Not about the plywood industry, per se, but the same objection, with due respect, Congressman, can be applied to the advocacy of import quotas. Problems differ within an industry from company to company. If an industry needs Government help and can prove that it needs Government help in an objective proceeding, then it seems to us that Government should be considering not only adjustment assistance on a company-to-company basis to deal with the unique problems of each company, but there may also be areas of Government assistance, tax policy, for instance, that may be of assistance to an entire industry, such as the changes in the amortization of equipment.

We ought to be reassessing, for example, our tax policies with respect to a whole host of industries. Are those tax policies fair? Are they adequately stimulating research and development? Are they adequately stimulating technological advancement?

In many of these policy areas there are problems that concern the industry as a whole. But whatever is done for the industry as a whole should by no means leave out a program to deal with individual company problems.

That is the merit of adjustment assistance itself.

The point Mr. Taft was making in his testimony is that if you pass legislation, for example, that establishes import quotas on a given range of products that affect an entire industry——

Mr. COLLIER. I don't think anyone is suggesting it is necessary to impose import quotas on all products.

Mr. STEINBERG. I didn't mean all products. I said with respect to a particular industry, textile quotas, shoe quotas or steel quotas.

There are certain firms in the industry, the affected industry, that don't need any Government help at all, and yet they will be given windfall gains by a trade policy of import quotas that is not discriminating in terms of the unique requirements of individual firms in the industry. So the very objection you make with respect to a policy that affects an entire industry I think may also be applied to the advocacy of import quotas as such.

Mr. COLLIER. You keep falling back on the fact that Uncle Sam can step in where these economic cavities are created and subsidize. You subsidize the worker and you subsidize the industry.

I know you have to do this at times in order to establish an orderly transition where there has been a direct impact in one area. But to

suggest, it seems to me, that we are going to proceed or pursue a trade policy that is going to require the constant and consistent subsidization by the Federal Government of the worker in the industry itself flies in the face of the so-called free enterprise which I would assume should, to some degree, be symbolic of free trade.

Mr. TAFT. Are you suggesting, sir, that import quotas or tariffs are not subsidies?

Mr. COLLIER. I am suggesting that import quotas are not subsidies in the sense that they can be regulated on a reciprocal basis, on a basis of eliminating, so that when we speak of free trade we are talking about free trade, and not a one-way street or a one-and-a-half-way street arrangement.

Mr. TAFT. Did you say since 1962?

Mr. COLLIER. Yes. There have been very, very few nontariff barriers that have been eliminated.

Mr. TAFT. Nontariff barriers were not in general covered by the Kennedy round negotiations.

Mr. COLLIER. I understand that, sir, but we had an opportunity to negotiate as part of the negotiations. There was no restriction against this, even though it was not provided. One of the reasons it wasn't, in my opinion, was because it was necessary to get sufficient support to get that bill passed in 1962 under the guise of a Trade Expansion Act.

I think if you called it the Trade Act of 1962 and removed the word "Expansion" it would, after this experience, be more appropriate.

Mr. TAFT. There are two kinds of Government lawyers. There is one who tries to find out if you can do something, and the other one who says, "No, you can't, why should you?" I suspect some of the latter were involved in saying you can't negotiate nontariff barriers.

We recommended it constantly, but it has not been done.

Mr. COLLIER. Can anyone show me in the act which was passed by Congress any prohibition in the authority vested in the negotiation of these tariffs in Geneva against including whatever problems existed that were associated to the problem of trading and reducing tariffs?

Mr. TAFT. We have a different view from a good many of the Government lawyers that were involved.

Mr. COLLIER. Should we write in this bill specific instructions that under no circumstances should we negotiate or do anything in these areas unless the nontariff barriers become a specific factor in the negotiation? Would you suggest that?

Mr. TAFT. I would like to think about that a little, but it sounds good.

Mr. HIGHT. Mr. Collier, could I add one word to this? There was considerable controversy among the lawyers in the Government as to whether the 1962 act authorized the negotiation of nontariff barriers affirmatively.

I think the conclusion of the lawyers was that they were not so authorized. Our view, as independent outside people, was that the bill was broad enough so that these nontariff barriers could be negotiated.

The difficulty with nontariff barriers, of course, is that most of them are embedded in domestic legislation and require a change in domestic legislation.

Mr. COLLIER. In other words, the lawyers didn't think that there was authority to deal with the nontariff barriers. Apparently they didn't spend any time reviewing the legislative record.

I don't think it was the intent of any member of this committee in coming forward with a Trade Expansion Act in 1962 to foreclose or exempt the discussion of one of the major problems that exists in trying to develop free trade. I don't know on what basis these lawyers drew this conclusion; I certainly am going to go back and re-read the bill and try to find out if I can see anything in there that could possibly have been construed as an intent of Congress not to permit, or to foreclose, this.

I think as long as nontariff barriers exist, and we don't deal realistically with them, we can spin our wheels forever in trying to get a free trade program.

Mr. TAFT. I would only add this, which has not been mentioned, and I think perhaps it showed up a little bit in Mr. Gibbons questioning of the president of Chrysler.

There was an effort made within the last 5 years, or perhaps longer, to get from business people doing business in foreign countries even a listing of the nontariff barriers which they were up against.

I want to tell you they are very, very reluctant to list them because of what they think may well be the repercussions on their operations in that particular country.

I was interested to hear Mr. Gibbons ask the president of Chrysler to give him a list.

I hope you get the list. That is all I will tell you.

Mr. COLLIER. Section 252 of the 1962 act says, "Whenever unjust and viable foreign import restrictions," and I believe those would be nontariff barriers, "impair the value of tariff commitments made by the United States, oppress commerce of the United States, or permit the exchange of trade on a mutually advantageous basis, the President shall," and then it goes on to say that the President has the authority, or those agents of the authority have the authority, meaning the negotiating team.

It seems to me there should be no question for these lawyers.

Mr. TAFT. Let me suggest one that may not come within that definition. I haven't looked at that for some time. The variable levies in the Common Market, as you probably know, are a tax which is placed on an import from the United States that will make its sale value in the market the same as that of the same product in France, or whatever.

I suppose that would apply to others in the Common Market. It would apply to almost any other kind of product. I am not at all sure that that would come within the definition.

Mr. HIGHT. May I add something to this? In dealing with nontariff barriers, I think the Government's position was that they had a grant of authority to reduce tariffs on a reciprocal basis, a clear grant. This was a delegation of authority from the Congress to the President.

On the nontariff barriers, in almost every case it would require coming back to the Congress. It did not have such a grant of outright authority. Any completion of a negotiation would change some domestic law. That was certainly true in ASP. They have to come back to the Congress to repeal the ASP method of valuation.

I think what the Government was doing, and I was not in the Government so I can't speak for them, I think they were dealing strictly with the authority that had been delegated to them and it was in the tariff field. That does not mean that the President at any time cannot talk about nontariff barriers or negotiate any he pleases. He may do so, but if he changes any law, if it conflicts with any law, he must come back to the Congress.

Mr. STEINBERG. You also have to consider the negotiating situation at the time. I am not privy to the details of that negotiating position, but it is possible that we might have had some difficulty injecting a large number of nontariff barriers into the Kennedy round.

Therefore, it is conceivable that certain nontariff barriers were manageable, that is to say, the negotiation of certain nontariff barriers was manageabble, ASP for one, antidumping regulations for another, and there were others where negotiations were consummated.

So you have to consider what the possibilities were in the negotiating situation of the Kennedy round. I cannot help you along those lines.

Mr. COLLIER. I would make one observation with regard to the American selling price.

As you know, we—and I am talking about Members of Congress generally—have been unsuccessful in getting a copy of the report of the special Commission back in 1965, I believe it was, made on the American selling price.

As recently as 3 or 4 months ago, I attempted to get a copy of this report and I was told that it is not available. Even realizing as I do that there might be confidential information but suggesting that this confidential information be removed, deleted in a manner that it would not infringe upon the information of any company, it still has not been permitted.

I just want to make this observation, Mr. Chairman: If my line of questioning has left any impression that I am for multiple quotas or higher and higher tariffs, that is not so, but I do feel that we have to take a good, hard look at what has happened in the last few years, and what is still happening, and go on from there.

I repeat, I don't think we can sit back and permit industries to be destroyed by foreign competition if there is a way that we can establish a strictly reciprocal type of trade policy. That may be a difficult thing to do when one considers that it took, I don't know how many hours, for the Common Market to agree on tariffs on cabbages.

But, nevertheless, I think we have to be more cognizant today than ever before as to the course we are pursuing in our trade policy lest we wake up some morning, after watching our present balance-of-payments problem, and find more industries that have been fatally wounded by the policy we have pursued for the last few years.

I thank the Chair.

Mr. BURKE. I just want to make one observation.

Mr. Taft, you mentioned the watch industry and how well they are doing.

Mr. TAFT. No, I said U.S. Time, sir.

Mr. BURKE. I think we only have Bulova and U.S. Time producing watches today in this country. In New England, where we are being hard hit by imports of footwear and in the textile industry, we formerly

had the Waltham watch. I think thousands of employees who were working in that firm who lost their jobs, and those who held stock in that company, would disagree with your views.

They felt it real hard when they lost their jobs, and the people who held stock in that company, of course, were wiped out. I think they used their stock for wallpaper.

It is nice for you to come in here and mention how well the watch industry is doing, but I think if Bulova and Timex go out of business, then we will find the prices of watches accelerating because there will be no U.S. competition. They will be able to set higher prices.

I would like to ask you one question.

Mr. TAFT. May I comment on that briefly?

Mr. BURKE. If you want to; yes.

Mr. TAFT. There are two kinds of operations. One is the so-called jewel watch industry, Waltham, Hamilton, and Elgin, and the other so-called pin lever, though they have begun to move over a little bit back and forth.

The Waterbury Clock Co., which became U.S. Time, competed very successfully in the pin lever area. The others did not do so well.

I don't think you paint a good sample in Waltham because the general recorded history on it is that a couple of crooks got hold of it and ran it into the ground.

Elgin and Hamilton are much better samples of what happened. They have diversified. They have diversified into various kinds of operations that made use of their own employees and in some cases have been fairly successful. They are still in existence. Hamilton is mostly in Government work now at this time, I think, and Elgin perhaps has closed up. Those watches have had great difficulty because they do compete directly with Swiss watches.

Mr. BURKE. I don't know about your allegations about a couple of crooks getting hold of Waltham Watch. All I would like to point out is that the people who did take over Waltham Watch at that time were people who have seemed to benefit on bankrupt industries, such as the New Haven Railroad and the Boston & Maine Railroad, the Waltham Watch.

But usually when they stepped in it was after the industry had been mortally wounded, as was true in the Amosskeeg Mills case, and true in the Waltham Watch, mortally wounded as a result of imports.

I don't want to get into a quarrel with you. I like you very much. But what do you do when you represent a district that is losing thousands of jobs every year and there are no new jobs coming in to replace them?

The only jobs we have right now are the defense jobs. Of course, President Nixon says he is going to end this war in Vietnam. If he does, where are the domestic industries going to be? They destroyed the watch industry, with the exception of Timex and Bulova. Sure, they do a little work. They have destroyed the shoe industry. They are taking about 35 percent of the domestic market.

The textile industry is in there with over 20 percent of the domestic market. Now we have the electronic industry moving in there. We lost the granite industry in New England. Everyone was looking forward very hopefully about the electronic industry, but now we are getting complaints up there.

In New England, one of the oldest areas of the country, what do they do when we get into a peacetime economy and they have lost over 50,000 jobs in the textile, shoe, electronic, and watch industry—you name it—and sporting goods?

Where do they get the jobs and where will the jobs be for the population that happens to live there? Or do you think we should transfer all that population to California or some other section?

Mr. TAFT. I can only say that United Aircraft had a chance to make—by putting a new plant in Texas after they had had the plant in Dallas. They changed their minds. They put it in Stratford.

Mr. STEINBERG. May I comment?

Mr. BURKE. Yes. I would like to have answers for the people of New England. Maybe I am not bright; maybe it is all getting over my head. I am looking forward to a peacetime economy.

I am wondering just how an area like New England can stand up with all these jobs—55 shoe factories in America wiped out in the last 18 months.

I appreciate your statements, but I am amazed at the confidence that you express. You don't seem to give us any specific recommendations about where these jobs are going to be found.

Do you think we should put everybody on welfare who lose their jobs? Is that the answer? For a person who loses his job, 55 years of age, too old to be retrained, does the Government pick up the tab for him until he leaves this world and goes into his grave? What are the answers?

Mr. TAFT. I started broadcasting at 71, sir. I don't accept the age of 55.

Mr. BURKE. You are an exception.

Mr. STEINBERG. He is, indeed, an exceptional man.

I don't have the answers this morning. I wish I did. To get the answers, and this sounds trite to people who are and ought to be very impatient about the need for the answers, we have to find out really what the problems are. We have to find out what can be done with various types of workers. Early retirement, for example. Nobody ought to sacrifice pension rights. Nobody ought to sacrifice anything in the interest of a trade policy that serves the interest of the Nation as a whole.

This sounds like rhetoric, I am sure, sir, but I mean it very deeply, and I speak as a native New Englander. Boston is still the hub of at least my universe and I have very deep roots in the Boston area, including deep roots in the Congressman's own district.

I am concerned, and I have spoken in New England many times about this. I don't think New England is doing a good enough job to find out really how New England can adjust successfully and quickly to, indeed, a free trade contingency and all the other challenges of change in the remaining decades of this century.

The closing of a Navy yard, the closing of defense plants, automation, increased import competition—you name it, Congressman, and I don't see that New England at the government level, at the business level, at the labor level, at the level of civic association is adequately concerning itself.

In fact, sir, there is no area in the country, there is no State in the Union, that is adequately concerning itself with these issues, and

a basic reason is that the Federal Government is not adequately concerning itself with these issues.

We need not just a fee trade policy in foreign economic policy. We need a very vigorous and viable domestic economic policy to backstop steady progress toward freer trade.

We have never in the entire history of the trade agreements program ever had this kind of policy. I think the executive branch of Government is today, as Mr. Taft said in his statement, woefully unprepared in this area for what really needs to be done.

I wish I had the answers, sir, but I just don't because I haven't studied the needs of Haverhill, Quincy, Boston, and all the other areas that I am sure concern the Congressman from Massachusetts.

Mr. BURKE. I am concerned about places like Fall River, Nashua, New Hampshire, Brockton, Lowell—all those cities that were hit so hard during the depression years.

Now it is the shoe industry, which is the main economy of the small towns of New England, and God knows what will happen to those communities. Somebody the other day pointed out what a remarkable recovery the city of Nashua made. I pointed out it took them 20 years to get off their back.

I was wondering whether or not we could wait 20 or 30 years in all these areas to make this recovery that is going to be necessary. I think basically what we are concerned with is the exploitation of labor on the part of very greedy individuals who have invested their money and who are reaching an unconscienable profit.

I am not so much concerned about Japan as some of the people on this committee are. I think the method of living there is rising every day. I think labor is making some increases. I think conditions are improving there.

I am concerned about places like Korea, Taiwan, Hong Kong. As the Secretary of Commerce pointed out, the payment to a man working in the shoe industry in Korea is 10 cents an hour and 7 cents for a woman. Then I understand that a child gets 6 cents an hour. These are the most unconscienable conditions that can exist in the world.

I can't understand why men like you, Mr. Taft, and your associates here, can justify this exploitation of human beings, where they take a little child 10 years of age, work them 10 hours a day, squeeze the very life out of them, where they don't live beyond the age of 35, and if they reach 35 they reach a long life—how can you justify such inhumanity?

How can we as Americans stand up and say, "We want this type of trade to continue because it helps the undeveloped countries?"

In reality it helps the individual who is reaping the big profit from that industry, and it isn't helping the undeveloped human being who is suffering from tuberculosis, who is suffering from all the diseases caused by exploitation of labor 100 years ago in this country.

I think you people have to come up with some answers for humanity, and not come up and try to tell us there is no competition where people exploit these human beings and then come along and say, "This is helping underveloped countries."

I don't think we in good conscience can continue to allow this condition to exist. We are just taking these human beings who are being squeezed dry and taking the last vestige of life out of them, and then

going along our happy way and pontificating upon the great help we are giving to the undeveloped countries.

We are contributing to continuing this undeveloped human being, and contributing to a short life for this person. Unless we can raise the working conditions of those people, and I know we can't raise them up to our levels, and I know we can't reduce our working conditions down to their level, but there has to be some meeting ground, possibly something written into the tariff laws containing a minimum wage law throughout the world, something along those lines—something has to be done and you people will have to come up with some better answers than you are coming up with.

Mr. TAFT. I don't think it is qiute fair, sir, to charge us with advocating or supporting anything of that kind. I am Chairman of the U.S. Advisory Committee on Voluntary Foreign Aid in AID, which supervises, in a way, the expenditure of a good many billions of dollars a year by all the private agencies, many of them working in Korea.

So I have no defense for that at all.

Mr. BURKE. I don't want to interrupt you, but these are the products that are coming into this country as a result of a 10-cent-an-hour, a 7-cent-an-hour or 6-cent-an-hour wage scale they have over there, taking care of child labor.

Mr. TAFT. I think I would want to get some facts about it, sir, that go into considerable detail in the whole operation.

There have been many efforts in the United Nations, and treaties have been worked on, at least. And I am not sure that the United States has supported all of them in the sense of getting them carried through in the first place, and getting them finally approved by the Senate, as they would have to be if we are going to be in it.

This is a problem which has been discussed at great length with the national labor organizations, and their effort has turned now to the attempt to organize labor in those countries in order to secure the kind of regulation there which is desirable. That certainly I would buy completely.

Mr. BURKE. That completes your testimony; does it?

Mr. TAFT. I think it does, sir.

Mr. BURKE. Thank you very much, Mr. Taft. I am sorry to disagree with you on some of the things. We do appreciate your testimony.

(The following was received by the committee:)

UNITED STATES ON A COLLISION COURSE IN TRADE POLICY—AN ADDRESS BY DAVID J. STEINBERG, SECRETARY AND CHIEF ECONOMIST, COMMITTEE FOR A NATIONAL TRADE POLICY, BEFORE THE MILWAUKEE WORLD TRADE CLUB, MILWAUKEE, WIS., OCTOBER 2, 1969

Fifty years ago the United States began its new role as the world's most powerful nation by erecting new trade barriers and contributing to a new round of destructive economic nationalism. This followed logically and disastrously our rejection of the League of Nations and the responsibilities of world leadership. A decade later (some 40 years ago) we compounded this egregious error with the most abominable tariff law ever enacted here or anywhere. This deepened the breakdown that had already begun in our own economy and in the world at large. It reflected a more general breakdown, indeed bankruptcy, that afflicted government policy across the board.

A decade later (some 30 years ago) we had begun to reverse these protectionist policies—a beginning which World War II temporarily brought to a halt. A decade after that (some 20 years ago) we took the lead in picking up the pieces

of a badly broken (indeed broke) world economy. We inspired not only a monumental program of world reconstruction and development, but the world's first comprehensive commercial-policy charter, recognizing freer world trade as vital to the rebuilding of the world economy and to sound and rapid economic progress in the decades beyond. The United States took a policy route after World War II that it should have taken after World War I. The trauma of another and more devastating world war, the much publicized awareness of past errors of omission and commission, the unique responsibility that had befallen us when the war ended—all these helped produce the better, more mature policy judgments of the late 1940's.

A decade later (some 10 years ago) the fruits of our better, more mature judgments were obvious, at times somewhat uncomfortably obvious. Postwar reconstruction had been a dramatic success. Even more, it turned out to be the first phase of an economic rocket that has propelled the economies of the industrialized countries of Europe and Asia to heights that were only idealistic dreams in the early postwar years. The economic indexes in Western Europe and Japan signified a greatly changed world economy—one in which the United States could not afford to rest on its laurels. Those were the days of the Soviet sputnik, which shook our thinking in science and education. And those were the days when the old ideas about international trade and international politics got a good shaking, too. If, a half-century before, Thomas Hardy could see his world as "a time of the breaking of nations", then this was a time, not only of the breaking of empires, but of the coming together of nations into regional economic communities or free-trade associations. The most significant examples, the trail blazers, were in Western Europe. What those countries were doing to the time-honored (more accurately, dishonored) system of nation-states seemed only a few years earlier the most visionary fancies of academics. Economic nationalism (in the very birthplace of the nation-state, making the change all the more dramatic) was being drastically transformed. But was it at long last being disciplined, to be replaced by a determined effort to remove the economic barriers that had too often been barriers to international understanding and cooperation? Or was a new nationalism taking its place—regional nationalism or nationalist regionalism—and what was to be done about it? The need for adequate U.S. leverage to lessen the discriminatory effect of European regionalism on U.S. exports became obvious. This was the main impetus behind the Trade Expansion Act of 1962, although this need for economic leverage got tangled with grandiose geopolitical ambitions, and the trade leverage enacted fell short of what was needed.

Today, a decade later, the EEC is a tariff-free common market internally, with a common tariff schedule externally. Now that General DeGaulle has retired, the prospects for extending the Common Market to all of Western Europe, or at least linking the EEC with the rest of Western Europe in a free trade area, seem brighter than at any time since the General openly said "no" nearly seven years ago. But let us not harbor any illusions about the consequences of such possibilities for the cause of freer world trade. The prospects for a greater European free trade area of one kind or another becoming nationalist regionalism rather than a powerful building block for a progressively freer world market hinge in major degree on our own dedication to genuinely freer trade and our determination to spark new initiatives in that direction.

A decade ago we were concerned over whether the Common Market would be "inward looking" or "outward looking". We tried in our own trade policy to induce the outward look. We were prepared to tolerate some EEC discrimination against outside suppliers. This was a price we felt it wise to pay for the political unity and economy vitality we were confident would result and that Europe so badly needed. We hoped to negotiate downward the discriminations our goods would confront in competition with EEC producers. This we have done in many products, but not as far or on as many products as we had hoped when the Trade Expansion Act of 1962 was enacted.

Because Britain did not join the EEC, the special free-trade authority enacted in 1962 for use in negotiations with the EEC, and contingent on British membership in the Community, because virtually inoperative. The EEC's highly protectionist agricultural policy has become the barrier we all along were afraid it might be. Both its import restrictions and export subsidies pose serious handicaps to our farm exports. The high support prices for internal agricultural products are protected at the border by special import taxes to prevent imports from undercutting those prices. The prices in turn generate heavy surpluses that involve costly storage Efforts have to be made to reduce these costly surpluses. Produc-

tion control is one way, but not the way the EEC has chosen. Instead of seeking solutions through domestic adjustment programs, it asks foreign producers and its own consumers to pay the bill. This is the old economic nationalism, that we thought and hoped was a point of no return. What we ourselves are still doing in trade policy offer a number of examples the EEC could have followed along this unfortunate route. It invented some techniques of its own.

It resorted to export subsidies, such as those on chickens, lard, dairy products and wheat. It is seriously considering high taxes on consumption of soybeans and soybean products (nearly all of which are imported) to give its huge surplus of butter a special advantage in the market for fats and oils and its surplus of wheat a special advantage over soybean meal in the market for animal feed.

The Common Market is not a fledgling just getting its walking legs. Its protectionist tendencies no longer merit leniency from those who are directly, materially, and adversely affected. It is a giant in the world market place—a major market for U.S. exports, a major competitor in our own country, and a formidable force in competition elsewhere. Its policies have a major effect on world trade, and consequently on the trade policies of other countries. The Common Market has applied to maximum advantage what the General Agreement on Tariffs and Trade allows it to do—from creating a multinational regional free market to rebating certain indirect taxes when goods are exported and imposing equivalent taxes on competing imports. These tax provisions of the General Agreement, and other provisions reflecting the special trade situation of the early postwar years and our interest in speeding economic reconstruction, should be reassessed to make sure that the General Agreement adequately and fairly meets today's needs. In the meantime, the EEC is free to avail itself of these prerogatives. But the United States is not without legitimate recourse to import and export devices with which to counter unfair trade practices by other governments. We should not be afraid to use them against other countries strong enough to correct machinations that may pose serious and unfair burdens on U.S. exports, and mature enough to expect the United States to leave no legitimate stone unturned to protect its enlightened self-interest.

We are not shying away from such retaliatory measures, although they by no means constitute a trade policy. Countervailing duties are being imposed against exports subsidized by foreign governments. Anti-dumping duties are imposed against injurious foreign dumping. And we are counteracting foreign government subsidies of exports to our own export markets. One example is our new chicken war with the Europeans—indeed a game of "chicken". In the early 1960's, when the EEC withdrew a freezing of its own tariffs on poultry and imposed variable import taxes to protect its support prices in these products, we withdrew "duty bindings" on a variety of products important to those countries (including certain minibuses and some categories of cognac). When the EEC began subsidizing poultry exports, Denmark—hindered as we are by the Community's restrictions against poultry imports, and exports being the main market for its poultry—resorted to export subsidies to move its mounting surpluses. To protect its own lucrative poultry market in Switzerland (where it was the major foreign supplier), the United States reacted in kind, subsidizing poultry exports to the Swiss in the hope of persuading the Common Market (the basic culprit) and Denmark to stop their own subsidies. It's a new chicken war and, being a test of nerve and will, it's a game of "chicken" as well.

There are other causes of U.S. irritation with the EEC. We are concerned over the shape of the Community's common tobacco policy may take—the possibility that it will establish new restrictions against imports. We are concerned about EEC export rebates to its producers of canned fruits for the sugar content of such shipments, and about proposals for minimum import prices of canned fruits. And high on the list of policy irritants is the "border tax", the effect on international trade of the EEC's border taxes, and the effect of its rebate of tax-on-value-added to exporters and its levying of an equivalent tax on competing imports.

The EEC has its own list of gripes against the United States. These include irritation at our quota restrictions on imports of agricultural products; the failure of the United States to implement the offer we made in the Kennedy Round to discontinue the "American selling price" method of customs valuation on imports of benzenoid chemicals; and continuing U.S. pressures on several European governments to restrict their exports of synthetic and wool textiles.

The Trade Expansion Act gives the President special authority to retaliate against unreasonable and burdensome foreign restrictions against U.S. exports. Retaliation is mandatory and the authority more extensive when such a finding

is made with respect to agricultural products. There is considerable support in and out of Congress for extending this provision to industrial products as well. And there is also considerable support for enacting import quota legislation on textiles and shoes if the major supplying countries refuse to negotiate "voluntary" export controls. Similar issues and threats mark our trade-policy confrontation with Japan.

Retaliate, restrict. These are the calls to action so often heard, too often heard. They are a sure-fire way to escalate a trade policy dispute into trade warfare. No country has a monopoly of ingenuity in the use of such devices. There have always been differences and disputes between governments concerning trade issues; we should expect their always will. But today we are not only at odds with the European Common Market and Japan and others regarding trade policy. We are on a collision course.

What makes it a collision course is the absence of dramatic new initiatives toward genuinely freer trade, requiring extensive reforms not only in trade policy but also in domestic economic policies—those that today spill over into protectionist trade policies and those needed to effectively backstop sustained progress toward freer trade.

Because of our place in the world, like it or not, the initiative must come from the United States. It would have to start with an announced U.S. determination to seek genuinely and consistently freer trade, and to seek through domestic policies the prime instruments of government assistance to industries unable on their own to cope with drastic changes in world competition. The time for such a start is now. And, as soon as possible, the objective to which the sights of the entire Free World should be raised is free trade on the part of the economically advanced countries in accordance with a negotiated timetable. The other advanced countries should be invited to come forward with their own proposals on how best to achieve this goal.

Different phasings could and should apply to countries at significantly different levels of economic development, and to different product categories presenting significantly different problems of adjustment. The timetable should be economically and politically reasonable and realistic. What more reasonable, realistic and dramatic a target date than *the end of the century, the year 2000.* We have come a third of a century from the start of the trade agreements program that won immortality for Hull and ignominy for Hawley-Smoot in the roll call of those whose ideas have materially affected the course and progress of the American economy. The advanced countries should devote the next three decades of trade policy to phasing out the remaining artificial barriers and distortions and establishing codes of fair competition to make the free-trade commitment meaningful, impervious to circumvention. Once the target has been set, there is every reason to expect the timetable to be accelerated by the successful adjustments that will be made.

This is the trade policy which businessmen should today be plugging into their decision-making on investments, designs, product innovation, pricing, and promotion. This is the trade policy which the labor movement should be plugging into its own policy thinking on what the private enterprise system and government must do to generate new and better jobs at the required rate. And it is only a policy goal this far-reaching and this dramatic that will (a) ensure *consistent* progress toward freer trade, (b) spark the kind of domestic adjustment programs indispensable for the agricultural and other reforms urgently needed if today's well-entrenched trade barriers and distortions here and abroad are to be phased out, and (c) stimulate negotiation of codes of fair competition (including goals, however abstract, in the area of fair labor standards).

Basic to such a policy course is the need for new and better ways to adjust to international trade commitments, not new ways to escape from them via escape clauses with easier tests of injury and with import control government's prime vehicle of assistance to those industries that can meet the injury criteria. Government should concern itself constructively with the evolving problems of American industry and agriculture in an increasingly competitive world, not wait until the flashing red light of "serious injury" sets off government proceedings and political pressures that could lead to trade controls for some indefinite period. Trade restriction should be an emergency, temporary measure of last resort, employed only to buy time for the constructive domestic-policy remedies to take effect.

If government help to the steel industry is necessary, we need the best kind of assistance government can offer. We need a steel policy (a textiles policy for textiles, a shoe policy for shoes, an oil policy for oil, et cetera)—in each case

a well-balanced package that emphasizes domestic policy remedies. Whatever import restrictions are necessary should be a temporary, marginal part of the policy package. This is the kind of policy example we should set for other governments coping with their own adjustment problems and their own protectionist pressures.

This is not U.S. policy today. With the sole exception of my Committee, it is not what the so-called "free traders" are advocating. In the interim trade bill soon to be introduced, the Administration will seek easier adjustment assistance criteria. This has merit. It does not involve import controls as a possible remedy. Less meritorious is the likelihood that the Administration will ask for a new escape clause featuring a much easier test of injury and consequently easier recourse to import restrictions. This idea has extensive endorsement in Congress, even among legislators who have in the past been pillars of strength on the side of truly freer trade. It is widely endorsed even among so-called "free traders". They are fighting a rear-guard action against protectionist pressures, when they should also be pointing the way to new goals and to the policy reforms which those goals ought to inspire at home and abroad. You cannot get the Europeans, the Japanese and other industrialized countries to phase out their industrial and agricultural protectionism just by defeating import quota bills in Congress, or by easing the injury test in the escape clause as a means of defusing those bills. If such proposals become law, trade warfare would follow. But positive measures toward free trade, not just negative measures against protectionist bills, are urgently needed to reverse the protectionist tendencies so clearly and painfully evident in countries where we have a major export stake. The initiatives should be so orchestrated that every industrialized country will consider participation in the free trade charter essential to its enlighted self-interest.

It is time for the so-called "free traders" to be for free trade. Nearly all of them, however, make meticulously sure that there is an "R" tacked on to F-R-E-E. The term has become increasingly meaningless. There is hardly a protectionist alive who isn't for "freer trade". And by advocating a significant loosening of the escape clause rather than *positive* programs to *solve* the problems of complaining industries, many of the so-called "free traders" are practically in bed with those who mouth "freer trade" but with different objectives in mind.

We are on a collision course because, with rare exceptions, the "free traders" are not offering an alternative. But we are on a collision course primarily because our Government has not adequately planned ahead in this policy area. It has no means of raising the sights of the European Economic Community and the other major trading nations. The rules of GATT permit a wide range of import barriers and export distortions. There is no effort to establish the additional guidelines already so urgently needed to phase out old barriers and discourage new ones. The current concern with nontariff barriers is a huge sham. The barriers are real, but the attention they are getting is not realistic. A real effort to remove them must be linked with an effort to remove remaining tariffs, and with an effort to negotiate codes of fair competition. Add to this the need for the industrialized countries to open their markets to all kinds of goods, without restriction, from the developing countries. And it all adds up to nothing less than a free-trade timetable.

Consider the practicality of negotiating on nontariff barriers. It is the conventional wisdom in Washington and among many so-called "free traders" that the United States will have to negotiate on an ad referendum basis—that is, ask for Congressional implementation of concessions where the nontariff barrier is rooted in legislation. This route leads to a dead end. Congressional implementation cannot be taken for granted. Negotiations will founder in this uncertainty. What is needed is the broadest delegation of Congressional authority to the President to negotiate trade agreements in the national interest, with a mandate to substitute, where required, domestic remedies (seeking new legislation if necessary) for trade barriers that are negotiated away.

We shall remain on a collision course in our trade relations with the industrialized countries and the developing areas so long as the Executive Branch of government lacks the ability and the determination to break away from the constraints of the conventional wisdom, and from the cat-and-mouse game it prefers to play with Congress in this policy area. Our foreign policy is ill-served by the Administration's failure to think ahead and plan ahead in the trade field and to seek positive, problem-solving programs and to deal with alleged problems of international competition. Our efforts to combat inflation are similarly ill-served, as is our interest in stimulating the private enterprise system to generate the

number and kinds of jobs needed by an expanding labor force with ever rising expectations.

Our trade policy lost momentum two years ago when the Kennedy Round was completed. With the passing of time and the lack of a clear sense of direction to which all governments should be adjusting, the condition got progressively worse. We have been drifting, flying flags that read "freer trade" and "open table" discussions of nontariff barriers. There is no definitive policy course, no clear message to foreign governments as they go their separate ways making decisions that have an important bearing on their trade with the United States and the rest of the world. There is no dependable message to the American business community, which has to take account of future prospects for import competiton and export opportunity. There is no way of knowing the extent to which foreign producers will be given greater access to our market and the extent to which we shall be accorded freer access to markets abroad. Business decisions are made nonetheless, and vested interests develop behind those decisions.

Our trade policy is in a state of virtual bankruptcy:

> Government is not ready to articulate clearly and resolutely what the objective is, how quickly it should be sought, and how best to achieve it.
>
> Government decides to take a breather (for a year or two or maybe more) to evaluate and digest our past achievements and assess the policy terrain ahead. It hopes to make some progress toward freer trade here and there (obviously a patchwork approach), while seeking new trade controls as its only response to pressures from the textile industry and who knows how many more.
>
> Government shows little if any appreciation of the importance of a definitive U.S. policy in this area to sound decision-making by business, labor, and government; and it appears unaware, or at least not too much concerned, that the loss of policy momentum will give heart and opportunity to interests that have opposed past policy in this field and seem bent on going back to what we thought and hoped were points of no return.

This is a bankrupt trade policy, a casualty of myopic mismanagement. When the nation is on a collision course, what is needed is not the "normalcy" of five decades ago or the blindness of four decades ago, but the vision of three decades, two decades, and nearly one decade back, up-dated by the unprecedented challenges of here and now.

"I find the great thing in this world," Dr. Oliver Wendell Holmes wrote about a century ago, "is not so much where we stand as in what direction we are moving. . . . We must sail sometimes with the wind and sometimes against it, but we must sail, and not drift, nor lie at anchor." Today, advocating free trade in the face of powerful pressures for more trade restrictions is indeed sailing against the wind. I do not for a moment underestimate the political obstacles to such a course. But I gain encouragement from the thought that reaching for the moon is not the impossibility it once was.

WANTED FOR U.S. TRADE POLICY: A SINGLE BATON AND A CERTAIN TRUMPET—AN ADDRESS BY DAVIL J. STEINBERG, SECRETARY AND CHIEF ECONOMIST, COMMITTEE FOR A NATIONAL TRADE POLICY BEFORE THE NEWARK ROTARY CLUB, NEWARK, N.J., JUNE 2, 1970

It will take much more than this to correct the trade-policy discord currently jarriing the atmosphere in Washington and jamming policy communication across the Atlantic, across the Pacific and between the northern and southern hemispheres. U.S. trade policy also needs careful, technically competent composition and orchestration—harmonious and stimulating to an alert, critical, heterogeneous domestic audience and an equally attentive audience around the world. It needs a steady beat, featuring drums that signal resolute determination to achieve truly freer trade, not drums beating the tom-tom of trade warfare. And since effective trade policy requires harmonious cooperation with other governments, every effort must be made to induce the best out of the trade-policy instrumentation of other countries, particularly the Free World's most advanced economies.

We are a long way from the constructive, forward-looking and forward-moving trade policy so urgently needed. We are only a short distance from highly destructive trade warfare. Instead of being on the high road of building the kind of world economy best calculated to foster maximum benefits for peoples everywhere, we are on a collision course with the very countries whose policies can make or break this kind of world economic system.

We extol "freer trade" and deplore the non-tariff barriers that block our access to foreign markets. But we have no continuing, effective program to achieve genuinely, consistently and significantly freer trade. We in fact demand that foreign countries impose new nontariff barriers on their exports to our market, and show no readiness to negotiate the removal of our most restrictive import controls in exchange for reciprocal action abroad.

We agonize over inflation, yet there are powerful pressures in business, labor, Congress and the Administration to restrict imports, adding new fuel to inflationary fires.

We are concerned with the need to protect jobs, generate new ones at a rapid clip and spur the raising of labor standards in countries that offer us increasing competition as well as highly attractive export opportunities. Yet powerful interests supposedly eager to protect the jobs with which they are most concerned advocate trade policies that would sacrifice other jobs, current and potential, by incurring foreign retaliation. Blaming import competition for problems that are usually rooted in more basic and more complex causes, they seek government help—not to help find constructive, durable answers, but to control the foreign competition. These simplistic reactions to symptoms are misguided and myopic. They are counter-productive.

We extol the consumer and bemoan his fate as the forgotten man in a highly organized society of highly vocal and influential special interests. Yet we have no program to give the consumer the freest access to the world market place—to the supplies, styles and prices that attract his fancy. On the contrary, strong pressures for new trade restrictions would obstruct him even more. Consumers are themselves deplorably deficient in their awareness of such threats to their freedom and their pocketbooks, and their determination to do something about it.

We show concern over the competitiveness of our economy in an increasingly competitive world. Yet we deny American industry freest access to the raw materials and sources of energy freely available to our industrial competitors. In this connection, we lament that our production of petroleum is much higher priced than that of other major oil producing countries. Yet we allow state governments to control production in a way that restricts the ability of our more efficient producers to maximize their efficiencies. We control petroleum imports supposedly to safeguard our national security stake in a viable petroleum industry and adequate exploration for new reserves. Yet we have no balanced petroleum policy designed, on the one hand, to foster efficiency and strength in this essential and strategic industry, and on the other hand to foster efficiency and strength in the oil-consuming sectors of our economy, also vital to our national security.

We pride ourselves on having the most efficient agricultural economy ever devised. Yet we impose quota restrictions on imports of many agricultural products because our excellence apparently does not extend to agricultural policy. We need an agricultural policy that equitably and effectively helps the marginal producers shift into other means of making a living, and ensures a stable agricultural economy without recourse to price supports that hurt consumers and make import controls necessary to protect the Treasury. One marginal result of present policies, as my friend Alfred McCauley has provocatively suggested, is that we live in a country where a youngster may confidently aspire to become President of the United States but not a cheese importer.

We concern ourselves with the need to maintain and enhance the strength of the dollar at home and around the world. Yet, in our failure to commit ourselves to a dependable policy of genuinely and consistently freer trade, we foment doubts and anxieties around the world over the degree of our concern with the value of our money and with the world's confidence, not only in our money, but also our judgment.

We emphasize the need to expand our exports. Yet, in a panicky, short-sighted response to the need to improve our balance-of-payments position, we restrict the outflow of investment capital and in doing so restrict the exports that so impressively accompany such investments.

We concern ourselves with the inclination of the European Economic Community to replace the discredited nation-state nationalism of its member countries with a kind of regional nationalism no less capable of distorting the world economic map and blocking world economic progress. Yet we have no strategy to divert these new eocnomic forces from new forms of inward-looking economic

nationalism to the required degree of outward-looking international responsibility. The question demands our serious concern, whether or not Britain becomes a member of the Common Market.

We hope Britain is successful in its continuing quest for EEC membership. One reason is our stake in a strong, efficient British economy and in a strong pound sterling as one of the world's major currencies. Yet we have no trade-policy strategy that could offer the United Kingdom and other members of the European Free Trade Association an alternative route to a broader free market if negotiations for membership in the EEC are again frustrated. Nor do we have a trade-policy strategy through which Canada and other countries not likely to become members of a regional free-trade zone might gain greatly needed free access to foreign markets via a multilateral free trade area. We complain about certain Mediterranean countries gaining preferential access to the European Common Market; yet we have no strategy that might in other ways gain them the freer access they need, not only to the EEC but to the other sophisticated markets of the Free World as well.

We express great concern with the problems and needs of the developing countries, and the urgency of helping them gain freer access to the world's best markets for manufactured goods as well as raw materials. Yet we have advanced only to the point of advocating tariff preferences to these countries, and even then the Administration's proposal (contingent on comparable action by the other industrialized countries and on Congressional enactment of the necessary legislation) starts off with three immediate and unalterable exceptions: textiles, shoes and petroleum. Congress may be inclined to add a few or several more to this list. And hovering over the success the developing countries may have in capitalizing on these tariff preferences is a sword of Damocles in the form of an escape clause whose criteria for trade restriction the Administration wants eased. The Administration, like its predecessors, has no coherent domestic-adjustment policy to help facilitate *orderly* adjustment to the evolving problems industries and workers may face from rising foreign competition (among other causes). Without such a domestic policy, there is virtuaally no likelihood the Congress will authorize tariff preferences of sufficient scope and depth to be truly meaningful to the developing countries.

The kind of domestic adjustment policy needed is the same kind necessary to facilitate adjustment to problems associated with competition from the world's most advanced countries. The Congress is not likely to concern itself with the already clear and present need for such policies until they are seen as urgent backstopping for a far-reaching initiative to achieve free trade itself.

A free-trade charter is, in turn, much more than a theoretical goal, an ideal to be sought but too much to expect or to expend much effort to achieve.

How else can we and the other advanced countries adopt and stay the course of genuinely and consistently freer trade?

How else can we make significant progress toward dismantling non-tariff trade barriers and distortions, negotiating rules of fair competition covering such things as subsidies, electronic standards and government procurement criteria, and getting labor standards raised throughout the trading world?

How else can we effectively raise the sights of Japan, the European Common Market and other industrialized countries from the collision course to which we have all sunk to the high road of building the kind of world economy in which all can prosper?

Rapidly approaching free trade is the trade-policy premise that ought to be plugged into government and business decision-making right now. The Federal government, the custodian of our national trade policy, should be rallying the entire economy to this standard. The President should himself launch two initiatives: (1) invite the attention of governors and mayors, and all sectors of the economy including the academic community, to the challenges and opportunities of such a policy goal and the adjustments that will be necessary, and (2) invite the initiatives of the other industrialized countries on how all of us together can program the dismantling of all our artificial trade barriers and distortions.

You don't need a blueprint to launch these initiatives. You don't need legislation to set them in motion. Secretary Marshall had neither when, in his epic address at the Harvard commencement of 1947, he invited European initiatives for European reconstruction, and pledged American cooperation. The result was the Marshall Plan, one of the most exciting and laudable chapters in modern history.

The free-trade timetable should be realistic. The schedule might extend over the remaining decades of this century—possibly setting the year 2000 as the target for phasing-out the last barrier on the last product. Resolute adjustment will tend to accelerate the timetable. The developing countries, given all the benefits of this charter without having to offer reciprocal concessions until some distant millenium, should be asked to commit themselves in principle to the lowering of import barriers on goods and capital to the best of their ability, as well as the raising of labor standards.

This is the trade-policy goal that should be adopted now—the motif for which the most careful and competent orchestration must be prepared in both foreign and domestic policy. The basic commitment cannot wait for the recently appointed Presidential Commission on International Trade and Investment Policy to complete its deliberations and make its proposals on U.S. foreign trade and investment policies for the 1970's. The White House seems in no hurry to get these recommendations. Its announcement states that the Commission will report to the President "in about a year". This reflects little appreciation of the urgency of a resolute free-trade initiative—one that makes clear our resolve to cooperate fully with countries and regional communities prepared to negotiate such a charter, and our resolve not to be deterred by economically advanced areas that do not wish to go this route.

The special Commission on trade and investment policy has not been properly commissioned. For what it has been asked to do, its timetable should be cut from the vague specification of "about a year" to not more than six months. Its mandate, however, is most inadequate. The President should already have decided what the policy is going to be. The Commission's job should be to advise on adjustment problems that might emerge and how best to solve them.

Those who understand the nation's huge stake in genuinely consistently and significantly freer trade should recognize the need for a free-trade strategy and lose no time in raising the sights of the Administration and Congress to this objective. They should not be disuaded and deterred by those who say that advocacy of free trade is not realistic, not politically pragmatic, only a text-book ideal but not for this world. Nor by those who claim that in the 1970's America's goals in foreign policy must be modest and the American profile low. Nor by those who say that the world has changed since Cordell Hull, since the postwar decade, since the enactment of John Kennedy's trade act, and the negotiation of the Kennedy Round, and that therefore a redirection of trade policy is needed. The world economy has indeed changed and is still changing. The multinational corporation is a formidable economic personality. Corporate managers are aivailing themselves of supplies from around the world to get the production mix they need to compete effectively in an increasingly competitive world. These and other formidable changes in the world economy call, not for a redirection of trade policy, but for better performance in furthering the ideals of the old policy. Among other advantages, this is the way to protect our best jobs, generate more and better ones, and improve our overall economic performance.

In the immediate, enlightened self-interest of our own countryt—aking into account all the imperatives and ideals of our country's purpose at home and abroad—our trade policy priority for the 1970's (for 1970 itself) should be the first stage of a free-trade strategy for the rest of this century. This means, not a Southern strategy or any other manifestation of parochial politics, but a national strategy of the highest statesmanship, including a nationwide straegy of orderly, effective adjustment at home. Every level of government and every type of industry and agriculture should already be adapting its planning to a free-trade contingency. This will tend to generate the best, the soundest decisions in both the short and long run.

As the barest minimum, those who understand the nation's stake in truly freer world trade should urge Congress to reject proposals of import controls and enact nothing less oriented toward freer trade than the Administration's modest, interim trade bill. They should do more. They should insist that the Administration address itself to the adjustment needs of the economy in general, and in particular the needs of those industries seeking government help against import competition.

They should insist on *one trade policy, indivisible, with benefits and justice for all.* They should insist that the orchestration of a free-trade strategy—and a coherent, constructive and credible balance-of-payments strategy—begin immediately. And they should insist that even in the interlude before this orchestration is completed and performed, the President should assert single, complete command over the Administration's execution of the current policy score. There

is too much discord, too many batons, too little sense of purpose and direction.

Urgently needed is a single, authoritative baton wielded by a President capable of impressing his players and his audience with his authority and vision. The music of this interlude will not be stimulating, but it should at least feature harmony, and steady progress on the theme of truly freer trade. The uncertain trumpet and the tomtom drum in the present instrumentation should be replaced without delay. And orchestration of a trade policy in the national interest should be elevated to a much higher place in the nation's priorities and the President's repertoire.

Mr. BURKE. The committee will recess now until 2 p.m.

(Whereupon, at 12:55 p.m. the committee recessed, to reconvene at 2 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. James A. Burke presiding.)

Mr. BURKE. The committee will resume hearings.

Our first witness is Mr. Strackbein.

Mr. BURKE. We welcome you to the committee.

STATEMENT OF O. R. STRACKBEIN, PRESIDENT, NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY

Mr. STRACKBEIN. Mr. Chairman, my name is O. R. Strackbein. I am president of the Nation-Wide Committee on Import-Export Policy. This organization is composed of industries, companies, associations, agricultural growers, and some labor organizations that have in common the problem of import competition.

I wish to offer a very brief review of the trade program as the basis for the proposals I shall offer later in this statement.

REVIEW OF TRADE AND TARIFFS SINCE 1934

Thirty-six years ago, the United States embarked on a radical new departure from our predominant tariff policy of the preceding 125 years. The Hawley-Smoot tariff of 1930 had been charged with high economic crimes, including the precipitation and prolongation of the great depression. It was condemned as the sire of virtually all our woes in the mid-thirties.

A veritable antitariff crusade was launched, lasting 30 years, ending with the Kennedy round only 3 years ago. We gutted our tariff and should, according to the prescription, be dwelling in paradise now. Unfortunately, as I look about and around I do not see many elements of paradise on the landscape. We asked little and received little from our trading partners in return for our tariff cuts, except what they were willing to grant us without injury to themselves.

We have reduced the protective effect of our tariff upward of 80 percent, so that our average duty on dutiable items is about 11 percent on the foreign value of imported goods. I may add parenthetically that we started with an average rate of about 50 percent. This now being down to about 11 percent means that there is about an 80-percent reduction. This leaves the tariff burden on our total imports at about 7 percent. This will drop some more as the remainder of the Kennedy round reductions take effect.

Beyond that, we have a handful of import quotas, mostly on agricultural products: raw cotton, wheat, wheat flour, dairy products,

sugar, peanuts. We have one quota on mineral products, namely, petroleum. Then we have what comes in effect to a quota on cotton textiles and steel. We have placed a ceiling in lieu of an import quota on imported meat.

We employ only a few of the other nontariff devices used extensively by other countries, such as exchange controls, import permits, special taxes, and so forth, to protect their industries and promote their exports. We have the Buy American and the Anti-Dumping Acts.

Moreover, unlike most other countries we have not devalued our currency during the tariff-cutting era, something that some countries have done more than once. This is a device that often impairs or even nullifies the effects of tariff reductions by making it easier to export and harder to import. Other countries have resorted at will to this device, and continue to do so.

During the 1962–67 period alone—and that is the period that the Kennedy round was under negotiation, or immediately thereafter—over 20 devaluations took place.

TRANSFORMATION OF OUR TRADE—TECHNOLOGY DEVELOPMENTS

Meantime, the whole complexion of our world trade has changed since the trade program was launched. The postwar world trading community has undergone a veritable transformation. We are no longer in the world of the 1930's or even the 1950's. American technology and methods of production have been widely adopted by foreign countries. Natural advantages enjoyed by some other countries have virtually vanished, evicted by technology and chemical advancement.

The most common among such natural advantages that come to mind are plantation rubber and silk. Many other items have been affected profoundly. The law of comparative advantage, the free-trade cornerstone, is hardly recognizable today because of technological incursions that have become international in scope, and, further, because the world is full of controlled economies that have little regard for theory.

Since World War II, foreign productivity has been greatly boosted while foreign wages, though moving sharply upward, have lagged behind our own levels.

In response to these and other changes, the composition or mix of our imports has shifted heavily to a preponderance of fully manufactured goods. This could have been expected since finished goods contain more man-hours of cheap labor than do raw products. Therefore, there is more saving in buying them and a greater competitive advantage in selling them within this country. About two-thirds of our imports consist of finished goods today.

FOREIGN COMPETITIVE ADVANTAGE RESIDING IN LOW WAGES

Because of the rise in foreign productivity and the lag in foreign wages our industries find it ever more difficult to compete. While we still lead the world in output per man-hour in our plants, our lead in many instances is no longer wide enough to overcome the foreign labor-cost advantage. If we are 50 percent or 100 percent more productive per man-hour but pay wages that are 2½ to 5 times as high or even higher than our competitors, our higher efficiency can no longer be relied on to even the score. We are at a competitive disadvantage.

Little wonder that our private commerce in merchandise is in a serious adverse state of balance. The cry, therefore, is for greater efficiency. Unfortunately, greater efficiency means more output per man-hour or fewer workers in terms of output. The danger of cumulative unemployment stares the imperative of greater efficiency in the face; but there is another obstacle: foreign producers can also increase their man-hour output, as they have demonstrated quite well in recent years by actual performances. Therefore, if we increase our output per man-hour while our foreign competitors do the same we will be left with a net dividend of added unemployment.

With the transformation in our trade just mentioned we might expect many of our industries to fall behind in the import-export operations; and they have indeed fallen behind and the end is not yet.

OUR NARROW EXPORT SURPLUS

With the exception of machinery, including aircraft, computers, and special purpose machine tools, plus chemicals—principally raw materials or semimanufactured—our exports of other manufactured products are nearly all in a serious deficit position, a deficit that has been growing rapidly. This is true even under the present method of computing our trade balance, wherein we value imports at their foreign value instead of what they cost us, landed in our ports of entry, or c.i.f. The exports also include AID and governmentally assisted exports.

Therefore, the export deficit in "other manufactures," which in census classification means manufactured goods other than machinery and transport equipment, would be even greater than they appear in our official statistics if we corrected our statistics.

EXTENT OF TRADE DEFICITS

When our deficit in competitive minerals, such as petroleum and lead and zinc are included, plus imports of competing agricultural products, such as fruits and vegetables, fishery products, meats, and so forth, the surplus that we enjoy in the export of machinery and chemicals is swamped.

An imporant factor in this equation is that employment in the deficit manufacturing industries is approximately 2 million higher than in the combined machinery and chemical complex.

Also, in the machinery group our surplus has been narrowing alarmingly. For example, from 1965–69, our exports of machinery, exclusive of transport equipment rose only 46.2 percent while imports rose 154 percent or more than three times as rapidly.

We do enjoy an export balance in coal in the magnitude of half a billion dollars; but, unfortunately, this competitive status was achieved by such strides in efficiency that the industry's employment dropped by two-thirds or some 350,000 workers, and left us with the problem of Appalachia. Should all our industries that suffer from import competition displace workers in proportion to the experience in coal, we would be swamped with unemployment to the point of a national disaster.

Our rising machinery exports have, of course, been a side effect of our booming foreign direct investment in plants and other installations abroad. This growth cannot be expected to continue because the needed machinery for these purposes is becoming more readily available abroad.

EFFECT OF DIRECT FOREIGN INVESTMENTS

Beyond that, as we produce more and more abroad, we will be supplying more and more of the foreign markets from within. Also, our companies will use our foreign production as sources of exports to third markets rather than from the United States.

In some instances our companies sell in our own market products they are producing in ever greater volume abroad.

OUR IMPORT-VULNERABLE INDUSTRIES

The products in which we are lagging in our trade are numerous, and they will no doubt be joined by others. We hear of textiles and footwear, household electronics, steel, and apparel, but numerous other products are suffering to an equal or higher degree: fishery products, fruits and vegetables, such as tomatoes, strawberries, mushrooms, olives, citrus fruits, potatoes; lamb, dairy products—saved by import quotas—honey, mink, oysters, crabmeat, flowers, glass, glassware, pottery, bicycles, clocks and watches, typewriters, sewing machines, toys, athletic goods, rubber and plastic manufactures, handbags, umbrellas, nails, screws, nuts and bolts, handtools, optical goods, plywood, cameras, musical instruments, photograph records and players, sound records, and so forth.

FAILURE OF A REMEDY FOR INJURY

It was long a favorite response to say that if our industries suffered serious injury there was a sure and prompt remedy in recourse to the escape clause. That was not only not the case; the very words were cynical. From 1962 to 1969, not a single remedy was granted in a list of over 20 applications to the Tariff Commission. (At the end of 1969, three unions were granted adjustment assistance.) Before that only about 10 percent of those applying for a remedy were granted some relief.

It is now recognized that the 1962 Trade Expansion Act was too stringently drawn. The administration bill provides some relaxation but not enough. It places too much emphasis on adjustment assistance. This represents a surrender to the view that imports should be awarded a priority over domestic industry and workers. It was based on the untenable ground that inability of American industry to compete with imports resulted from relative inefficiency.

NEED OF A NEW APPROACH

Import Ceilings and Import Quotas

Over 20 years of experience with the escape clause approach as a remedy for injury from imports and 8 years with adjustment assistance leaves us totally unconvinced that a mere relaxation of the criteria of injury as embodied in the administration bill (H.R. 14870)

or the Mills bill (H.R. 16920) as it stands, would be of much help in slowing the rapid capture of our market by imports, particularly in consumer goods.

Several industries are in danger of virtual extinction from imports, and others are coming into the danger zone. Footwear, vegetables and fruits (tomatoes, strawberries, and so forth), bicycle parts, athletic goods, are examples of products that are very hard pressed.

Already watches, typewriters, sewing machines, radio receivers, binoculars, fishery products are quite far gone and can hardly be restored to a healthy state—and certainly not under the present tariff levels.

A few industries have been saved from destruction by quotas, such as petroleum, cotton textiles, dairying, sugar, possibly steel; wheat and cotton growing.

Merchant Marine as an Example

Our merchant shipping and shipbuilding have barely survived under the Federal subsidy granted them, which is designed to equalize the cost of production and operation here and abroad. Without the subsidy, American ships would be off the seas entirely except under foreign flags. There would be no employment of American merchant seamen and except for naval vessel construction, our shipyards would be idle. It had been thought quite erroneously that the expansion of trade under the freer trade program would stimulate our merchant marine; instead, while our trade expanded several times over, American flag ships carried a smaller and smaller share. Such an example should have some real meaning for our trade policy.

ASP (American Selling Price)

The chemical industry, which is the principal beneficiary of ASP is held up as a horrible example, apparently because the industry has had a remarkable growth and enjoys a handsome export surplus. Instead of crediting ASP with a welcome assist to one industry it is to be condemned for having produced such handsome fruit.

In view of the state of the other manufacturing industries, other than machinery, perhaps an extension of ASP to some of them would work wonders.

This recalls to mind the reported reply of President Lincoln to those who complained of General Grant's drinking. The President replied he would like to know what brand of whisky General Grant favored, so that he could prescribe the same brand to his other generals.

Share of market

Experience of our trade with import competition has demontsrated conclusively that with our tariff reduced to a mere stubble, our industries are exposed to more than gradual erosion from imports; they are exposed to loss of participation in market growth and then to progressive loss of their customary share of the market. We cannot accept this style of retreat before the import invasion without consenting to disaster.

Other countries can and will understand our acts of self-preservation if these are explained in understandable terms instead of our spokesmen's bemoaning our reversal of a policy that has more than exhausted such good as it initially contained.

Other countries will understand our doing what is necessary to avoid the cumulative unemployment that will come from unimpeded imports because, for appreciation of our actions, they need only look at themselves for examples in their own actions of the past, such as devaluation of currencies, imposition of emergency duties, laying of special taxes, rebates for exports, and so forth.

Tariff substitutes

The tariff may be regarded as beyond resurrection these days, practically speaking. However, the problem to which it was addressed has not gone away. Therefore, a substitute is needed.

We feel that ceilings on imports of products offer the most suitable device (1) to prevent imports from galloping roughshod through our market and disrupting production and employment; and (2) to offer imports a fair share of our market without creating a straitjacket. If imports are allowed to grow in proportion to our domestic consumption, and if they have already penetrated 10 percent or more, in some instances considerably more, it is not unreasonable to keep them from exploiting their low-cost advantage beyond the already achieved share of our market, which in some cases is over 25 percent or even more than 40 or 50 percent.

In order to bring the sharing-of-the-market principle into practice we would suggest adding the import-ceiling proposal as contained in the fair international trade bill which has been introduced by upward of 65 House Members, to H.R. 16920, the Mills bill.

We feel that manmade and woolen textiles and footwear are entitled to a restriction of imports as proposed in the Mills bill but we feel strongly that it would be discriminatory to single out these products for special attention while there are other products that are equally or more sorely afflicted.

We feel further that the general provisions of H.R. 16920 would not provide these other products with a remedy on a par with the special treatment of textiles and footwear, unless the ceiling features of the fair international trade bill were incorporated into H.R. 16920. This procedure would provide an alternate third remedy equally to all industries that could qualify beyond the two remedies now in existence and retained in the Mills bill which is to say adjustment assistance and the escape clause.

The ceiling provision could be meshed with H.R. 16920 without causing a distortion of its provisions. It would merely offer the industries other than textiles and footwear an alternative choice of remedy, not mandatory, but optional.

Such an integration of the two bills would represent the best defense against the destruction of additional industries by low-cost imports and would have our full support. We urge that this third remedy, the ceiling approach with its market-sharing feature, be adopted by the committee.

ITEMS 806.30 AND 807.00

We support the repeal of these items of the Tariff Schedules of the United States, as proposed in H.R. 14188 with respect to item 807.00. Item 806.30 should be included.

Once more we have an example in our merchant marine. American-owned ships can escape the American wage standards by registering under foreign flags. How far, it may be asked, has this escape hatch been utilized? The answer is, "Very far indeed."

Today, the tonnage of American-owned foreign-flag tonnage exceeds that of all the merchant ships operating under the American flag. The latter carry less than 6 percent of our total foreign trade, whereas, 50 percent would be an equitable share. The experience with the severe loss of shipping should provide us with an idea of how far foreign manufacturing activities might be carried under the special benefits of items 806.30 and 807.00.

The establishment of plants in foreign countries with the specific purpose of gaining the advantage of low wages and tariff relief is to outflank our minimum wage laws, and can only lead to unemployment, just as foreign-flag vessels kill jobs for our merchant marine.

If the practice expands it can only embitter our international relations in time. The longer it continues, the greater will become the vested interests and the greater the friction produced by inevitable corrective efforts.

Mr. Chairman, that ends my statement.

I do have something on the trade balances based on the f.o.b. system that we follow in the United States and the c.i.f. system as followed by most other trading nations.

Instead of reading it, I would like to introduce it into the record.

Mr. FULTON (presiding). Without objection, that may be done.

Mr. STRACKBEIN. I merely want to say that what the paper does is to take the instances of our trade with Italy, Japan, and the United Kingdom.

For example, our exports to Italy, according to our official statistics, was $1,261 million in 1969. That is the imports on the Italian side according to our official statistics.

This $1,261 million of our exports became $1,411 million as Italian imports from us. The difference, of course, is in ocean freight, marine insurance and handling charges, and it amounted, in 1969, to 12 percent.

In the case of Japan, our exports to Japan were $3.49 billion in 1969. Japan recorded that at $4.09 billion, an increase of 17.2 percent which, again, covers the marine insurance, freight, and handling charges.

In the case of England, the difference was 15.6 percent.

(The document referred to follows:)

TRADE BALANCES: F.O.B. VERSUS C.I.F. BY O. R. STRACKBEIN, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY

The trade balance of this country varies with the basis of its computation. Most of the leading trading nations cast their trade balance by comparing their f.o.b. exports with their c.i.f. imports. The United States is one of the few exceptions.

By computing our imports on a c.i.f. basis, as do most other countries, we arrive at a substantially different result compared with the result obtained by treating our imports on an f.o.b. basis, foreign port of shipment.

It is possible to determine the difference by converting our exports into imports of given foreign countries as reported by them.

ITALY

Thus in 1969 we exported according to our official statistics, $1,261 billion to Italy. Italy in turn records these exports from us, not at $1.261 billion, f.o.b. U.S. port of shipment, but at $1.411, c.i.f. Italian port of importation.

The difference will be seen to be $150 million. This is 12% higher than our exports and represents ocean freight, insurance and handling charges.

According to official Italian statistics Italy exported $1.278 billion to this country in 1969 while her imports were $1.411 billion, leaving Italy with a deficit of $133 million.

Our 1969 exports to Italy were $1.261 billion, as already noted. Our imports from Italy (both official U.S. statistics) were $1.203 billion, giving us a surplus of $58 million.

Should we, however, value our imports on a c.i.f. basis as does Italy, and should we use the same conversion factor of 12% (as calculated from the c.i.f. value of Italian imports from us above our f.o.b. exports to Italy) our imports from Italy would show an increase from $1.203 billion to $1.431 billion (i.e., $1.203 billion plus 12%).

The result would be to convert our apparent surplus of $58 million into a deficit of $86 million.

How could both countries have a deficit?

The cost of insurance, freight and handling charges which are involved in shipping the goods across the ocean accounts for the difference. By including these charges as the cost of her imports Italy came up with a deficit. By not including the same charges as a part of the cost of our imports from Italy to the United States we came up with a surplus. If we use the same basis of calculation as Italy our surplus is converted into a deficit. Should Italy value her imports from us at f.o.b. New York or other ports her imports would have cost 12% less than Italy shows, and her imports from us would have been, not $1.411 billion, but $1.242 billion, and she would have had a surplus of $36 million.

If we should both use c.i.f. imports, so nearly in balance was our trade, the carrying charges (insurance and freight) would put us both in a deficit position. As to who got the difference depends on who collected the freight and insurance charges. American flag vessels carry so little of our import and export trade that most of the charges went to foreign vessels and therefore into the deficit side of our *balance of payments* account, which is something different from the balance of trade.

JAPAN, 1969

If we use the same approach toward our trade with Japan, we encounter a still greater difference (1) because our trade was of a higher volume and (2) because of the greater distance to Japan. Here the difference between f.o.b. and c.i.f. was 17.2% for 1969, based on the difference between our f.o.b. exports to Japan and her valuation of these same goods on a c.i.f. base as they reached Japan.

Our exports to Japan (f.o.b., our ports of shipment) were $3.49 billion (U.S. statistics). Our imports, f.o.b. Japanese ports (also U.S. statistics) were $4.89 billion. The U.S. deficit was therefore $1.39 billion.

The Japanese official statistics show imports from the United States at $4.09 billion. This is to say, our exports of $3.49 billion show up on a c.i.f. basis at Japanese ports with a value of $600 million higher than our exports. The difference, as already noted, was 17.2%, representing insurance, freight, etc.

If we add 17.2% to the value of our imports from Japan to bring them to a c.i.f. basis they rise from $4.888 billion for 1969 by another $840 million, to $5.73 billion. This would give us a deficit of $2.24 billion instead of $1.39 billion.

UNITED KINGDOM

With respect to the United Kingdom we showed a merchandise trade surplus of $215 million in 1969. Exports were $2.335 billion; imports, $2.120 billion.

According to British statistics their 1969 imports from us (i.e., our exports) were $2.700 billion. This was, of course, on a c.i.f. basis. Thus our exports f.o.b. of $2.335 became $2.700 billion in ci.f. imports to the United Kingdom. The difference of $365 million represented a difference of 15.6% between f.o.b. and c.i.f.

If we use this 15.6% increment to bring our imports from the United Kingdom to a c.i.f. basis we simply add 15.6% to our 1969 imports from that country to our official statistic of $2.120 billion. This would bring our imports to $2.450 billion ($2.120 plus $330 million).

We would then have a deficit of $115 million with the United Kingdom instead of a surplus of $215 million.

WORLD TRADE

If we wish to strike a trade balance on a c.i.f. basis for our total trade with the world as a whole we must keep in mind that Canada, our principal trading partner, lies only across the border; and so does Mexico, also a substantial trading partner. Therefore conversion from f.o.b. to c.i.f. would require relatively little addition for insurance and freight charges to our imports as officially given.

The International Monetary Fund uses a 10% conversion factor in presenting our total imports on a basis comparable with that of other countries. Therefore our 1969 imports of $36 billion became $39.6 billion, against exports of $37.2 billion, leaving a deficit of $2.4 billion for the year.

It is a practice of the Department of Commerce to include AID, Food for Peace and other governmentally assisted exports as exports in casting a balance of trade. Whatever may be said of this practice it does not reflect our world competitive capability. If these shipments are left out (some $2½ billion) we are left with a deficit of over $4 billion. This reflects much more faithfully our true competitive standing in world markets than the official statistics issued by the Department of Commerce.

Mr. STRACKBEIN. We, in our official trade statistics, use the foreign value as the value of our imports. In this case, with these three nations, there would be an average difference of about 15 percent.

They levy their duties on these added charges of ocean freight, marine insurance and so on, and we do not. We levy our duty on the f.o.b. value at the foreign point of shipment.

So they have about a 15-percent higher base on which to levy their duties than we do. Our official tabulation of import statistics treat our imports at their foreign cost rather than their landed cost here.

These goods cost us more than the f.o.b. value abroad. They cost us what it takes to lay them down at our ports of entry.

So there is a distortion. It makes our exports look better and our imports look smaller than they are.

Let me change that. In our export figures we include AID, Food for Peace shipments, Public Law 480, and so on, so our exports are swelled by that amount.

On our import side we tabulate our imports on the basis of their cost abroad and not what they actually cost us. So we come out with an export surplus which is not justified by the actual facts of the transactions.

If we want to determine what is the competitive status of the United States in foreign markets and in this country, we cannot very well include our AID exports and similar exports that consist of giveaway products, and products that are highly subsidized in order to export them, and then count our imports not on what they cost us but what we got them for on the other side of the waters.

So instead of having an import surplus, such as is reported today, we actually have a deficit of some $4 billion or $5 billion if we want to determine what our actual competitive status is in private international trade.

Mr. FULTON. Thank you for a very fine statement.

(The document referred to follows:)

Trade Statistics—A Continuing Distortion

(By O. R. Strackbein, President, The Nation-Wide Committee on Import-Export Policy)

The Department of Commerce continues to issue trade statistics that give the public a false impression of this country's standing in foreign trade. According to the official statistics issued by that Department a few days ago we continue to enjoy an export surplus, although it is a mere shadow of its former dimensions.

The Department of Commerce does the public no favor by clinging to its misleading form of trade-balance reporting.

The fact is that in point of competitive trade we are running a serious deficit. For years we have incurred balance of payments deficits but have looked to our trade balance to offset in great part our debits in the other transactions. Now the bleak facts must be faced. We lost our trade surplus position several years ago. This fact has yet to be officially recognized.

The stubbornness exhibited by the Department of Commerce can be attributed principally to a desperate desire to prevent the facts of our trade policy from becoming public knowledge.

Public officials, virtually all the media of public communication, and those charged with the conduct of our foreign relations, have become so accustomed to singing the praises of the so-called reciprocal trade program that anything to the contrary is not acceptable to them. Therefore the truth must at all costs be suppressed, as it has been these past several years.

The chickens, however, are coming to roost in such great flocks that the reality of our very weak competitive position in the world will break through one day soon; and we will pay heavily for our refusal to face the facts in time.

A brief review of how our self-deception has been practiced will not of itself open the door to a correction but it may make it more difficult henceforth for the Department of Commerce to continue the scandalous and indefensible policy of using statistical reports to conceal and obfuscate the facts rather than serving the public with the true trade balance, however unpalatable this may be.

It has been the official practice of the Department of Commerce to issue monthly, quarterly and annual reports on foreign trade sunny side up. By including in our exports the shipments made under Foreign Assistance, Food for Peace, and subsidized shipments of cotton and wheat, our total exports are made to look better than they should by $2½ to $3 billion per year. Yet such shipments did not reflect an ability to compete in foreign markets, nor did they represent trade in the true sense of the word. Private foreign trade flows only into markets in which we are competitive. Governmentally subsidized or financed sales are made regardless of our ability to compete. It is not a matter of trade at all, but of world politics.

Our import statistics, on their part, do not show what the imported goods actually cost us. Rather, they show what they cost on the other side of the water, leaving out ocean freight and insurance. Nearly all the leading trading nations of the world publish their import statistics on the basis of landed cost.

By clinging to our antiquated system of reporting imports our official statistics show our present annual level of imports at about $3 billion less than their landed cost.

Add the overvaluation of our exports to the undervaluation of our imports and we have a discrepancy in the magnitude of some $5 to $6 billion per year at our present trading level.

What has been and continues to be the purpose of such distorted trade statistics? One purpose has already been mentioned. It was to make our trade position look good, so that cheerful reports could be issued to the public.

What then was the genesis of that desire? It was to sustain the freer-trade philosophy that has so long beguiled our State Department and other blind folowers of Adam Smith, and which serves the interests of importers and exporters. If our competitive position could be made to look good, the cry for further tariff reductions could be justified. Otherwise it would fall on deaf ears and would be questioned, as it should be.

Last but not least, our professional economists, nearly all of whom were spoon-fed the pap of free trade in our colleges and universities, could never admit that they had uncritically accepted ideas expounded by the British economists of the eighteenth and nineteeth centuries when free trade was good economic gospel for England. Nearly all our professional economists are old-style, that is nowhere actually practiced, least of all in our domestic economy. The free

market, which is the basis of free trade, was discarded in this country after the 1930 Depression beyond resurrection. Very inconsistently the supporters of regulation and control of the domestic economy support freer trade internationally. It is in such an atmosphere that the false trade statistics are condoned and defended.

In 1966 S.J. Res. 115 was introduced in the Senate with the purpose of bringing about a corrective modification in the manner of reporting our exports and imports, to the end that the true competitive status of this country in world markets would be reflected in at least one version of our balance-of-trade reports.

Hearings on the Resolution were held on August 31 and September 1, 1966 by the Committee on Finance of the Senate. As a result of the hearings and the appearance of representatives of the Department of Commerce the Resolution was not pursued upon assurances received by the Committee from that Department to the effect that the intent of the Resolution would be carried out voluntarily.

Now, nearly three years later, the Department continues to issue its trade statistics as before the hearings on the Resolution. Its regular monthly, quarterly and annual press releases on the balance of trade continue exactly as before. The only concession made in fulfillment of its promise is contained in a quarterly publication of a special set of tables in a monthly report known as FT 990 published by the Department of Commerce.

One of these two tables shows separately the exports of goods shipped under the Foreign Assistance Act and Public Law 480. So grudging, however, is this publication of the bare bones of the statistics that the resulting total for "commercial exports," i.e., stripped of these governmentally-originated shipments, is not shown. The user of the report, if he wishes to determine the net exports, must make his own calculations.

The other table purports to show imports enhanced by a multiplier described as bringing the f.o.b. imports to a c.i.f. basis. In order to provide this additional information a sampling test of imports was made. This resulted in a multiplier of 108.3 applied to bring the imports to a c.i.f. level. A separate column in the table in FT 990 does show the enlarged 1968 import total, rising from $33.114 billion to $35.86 billion, i.e., up 8.3%. (FT 990, Dec. '68) However, this 8.3% is itself a low factor, as will be shown later. Nevertheless later this low percentage was reduced to 6.9%.

The response of the Department has thus been deficient in three respects:

(1) The Report (FT 990) is not distributed to the public with benefit of a press release, such as regularly accompanies the issuance of the monthly, quarterly and annual trade balances on the old basis. It is simply a report distributed to a small number of subscribers. So far as publicity on the trade balance calculable on the new basis is concerned, FT 990 might as well not exist.

(2) Another deficiency lies in the manner of the presentation in FT 990. To repeat, no new trade balance is shown to reflect the result of stripping exports down to private commercial transactions, and valuing imports on their landed value. Only the "makings" are shown. Users of the Report must make their own calculations if they wish to arrive at a trade balance that would really reflect the competitive performance of this country. By contrast, under the old method of reporting the purported surplus is regularly set forth in the press releases.

(3) The third objectionable feature of the report lies in the use of the low multipliers of 8.3% or 6.9%, as already related. The 8.3% enhancement factor, as already noted, was itself very low if it is compared with other measures. Now a 6.9% factor is substituted.

The Tariff Commission had already found a factor of 10% to bring the f.o.b. values to a c.i.f. basis. In its report of February 7, 1967, it made a comment indicating that the difference between c.i.f. and f.o.b. imports was indeed appreciably broader than the 10% found from its sampling of some 13,000 shipments for the year 1965. The report said (p. 1, third paragraph):

"The value used by most foreign countries for duty and statistical purposes includes not only freight and insurance charges, but additional costs (such as buying commissions), which are not ordinarily included in U.S. values. It is not feasible to collect reliable statistics on these additional costs on imports into the United States, *but they are known to range from an insignificant amount to as much as the charges for freight and insurance, or even more.*" (Emphasis added).

The low percentage used by the Department of Commerce (i.e., either 8.3% or, now, 6.9%) is therefore a questionable validity toward bringing the c.i.f. and f.o.b. to a comparable basis with the statistics of other countries. Quite surely even the 10% found by the Tariff Commission is low in view of the "other charges" that its survey did not take into account, as stated in its report.

The 1968 trade balance would be affected appreciably (1) if the Department of Commerce's own statistics were used in casting a balance, and (2) still more if the Tariff Commission's 10% were applied and (3) yet more if the other charges indicated by the Tariff Commission were included.

(1) Using the Department's statistics as shown in unfinished form in FT 990 for March 1969, pp. IV and VII, the following trade balance would be obtained for the year 1968:

	Billion
Total exports, as officially reported	$34.661
Less: Military aid	.573
Less: AID shipments	[1] 1.200
Less: Public Law 480	1.178

[1] Not given in FT 990 on the grounds of its not yet being available. Assuming AID to be at a level of the average of the 3 preceding years, a fair enough assumption, it would have been slightly over $1.200 billion in 1968.

If we assume that AID was at the level of $1.200 billion in 1969, we arrive at competitive commercial exports in that year of $31.710 billion or $2.951 billion less than the $34.661 billion publicized by the Department of Commerce.

1968 imports were estimated on a c.i.f. basis by the Department at $35.546 billion (FT 990, Mar. '69). This level was achieved by multiplying the official imports ($32.251 billion) by 106.9%. The enhancement was $2.294 billion.

Even on the basis of the Commerce Department's own calculations the surplus that was publicized to the country and to the world, i.e., one of $1.410 billion, would have become a deficit of *$3.83* billion if net exports were matched against c.i.f. imports (i.e., net exports of $31.710 billion compared with c.i.f. imports of $35.546 billion).

The discrepancy between the Department's publicized statistics and the present calculations based on FT 990 was therefore $5.246 billion (the $3.83 billion deficit plus the $1.410 billion surplus.)

(2) If the Tariff Commission's 10% factor were used, c.i.f. imports in 1968 would have been $36.576 billion. The deficit would then be found to be $4.866 billion in place of $3.83 billion as it was when the 6.9% factor was used. The difference between such a deficit and the surplus of $1.410 reported by the Department of Commerce would have been $6.276 billion.

Summarizing the foregoing for 1968:

	Billion
Surplus as shown by Department of Commerce	$1.410
Deficit if c.i.f. imports enhanced by 6.9% are compared with "net exports"	3.836
Deficit if c.i.f. imports enhanced by 10% are compared with "net exports"	4.866

With a deficit in competitive commercial trade at a magnitude of some $4 billion, compared with an officially reported surplus of $1.410 billion, the Department of Commerce's stance brings into question the quality of the Department's honesty.

The importance of the difference in the two sets of balances to considerations of foreign trade policy can hardly be exaggerated. If the United States is in a weak competitive position in international trade our trade policy should be determined by that fact rather than basing it on the assumption, as it has been, that we are in a strong competitive position in the world.

Mr. FULTON. Mr. Betts.

Mr. BETTS. I am always happy to have your views, because I think they give us an insight into the other side, which we should take into consideration when we work on any trade bill.

You omitted any discussion of the ASP. Would you have any comments about the negotiation we have had which requires repeal of the ASP in return for a few concessions on the part of our trading partners?

Mr. STRACKBEIN. I would merely like to make the observation that the position of the other countries, particularly the Common Market countries, of making a symbol out of our retention of ASP, is really hardly justified.

ASP is nothing more than a basis of valuing our imports for duty purposes. That is all it is. It is not a tariff. It does say that duty will

be based on the American price rather than on the foreign price. But this does not make it a nontariff trade barrier.

It is no different from the other countries levying their duties on a c.i.f. basis, whereas we levy our duty on the f.o.b. basis at the foreign point of shipment.

So if ASP is a nontariff barrier, then we would be justified in saying that the c.i.f. practices of other countries, which is the cost, insurance, and freight, is also a nontariff trade barrier, and of much more weight than the ASP, because the ASP only applies to two or three products, particularly benzenoid chemicals.

The imports are very much less than 1 percent of our total imports. The c.i.f. valuation used by other countries applies to all of their imports.

Surely, if ASP is a nontariff trade barrier and should be negotiated away, then it seems to me that the representatives of the United States in dealing with the other countries should insist that they do away with c.i.f. for evaluating their imports. Either that or have us go to the same basis rather than using the f.o.b. basis.

As I say, in the three countries studied, Japan, Italy, and the United Kingdom, the difference is about 15 percent.

For the world as a whole, it is something in the neighborhood of 10 percent. That is the figure used by the International Monetary Fund. They enhance our imports by 10 percent presumably to put them on the basis of the c.i.f. practice used by other countries.

Mr. FULTON. I appreciate your comments. I have sort of felt along those lines, although I understand Ambassador Gilbert will say c.i.f. is not a nontariff barrier.

Mr. STRACKBEIN. Is not a nontariff barrier?

Mr. FULTON. I understood him to say it wasn't. And, therefore, it wasn't within the scope of negotiations. I appreciate your statements.

Mr. STRACKBEIN. I would be inclined to agree that c.i.f. is not a nontariff barrier, but, by the same token, ASP is not a nontariff barrier.

Mr. FULTON. I meant c.i.f.

What I was getting at was that it seemed to me from your discussion, I believe, that it might have been well if c.i.f. had been included in negotiations.

Mr. STRACKBEIN. Certainly if the other countries want to speak of the ASP practice as being symbolic of our protectionism, it seems to me we would have much the better part of the case, the better part of the argument, if we said, "Okay, if ASP is a nontariff barrier that should be negotiated away, then we should do the same thing with c.i.f."

Mr. FULTON. That is what I was thinking. I am pleased to have your views on that.

Thank you.

Mr. CORMAN (presiding). Mr. Collier.

Mr. COLLIER. You say on page eight that new industries have been saved from destruction "such as petroleum, cotton textiles, dairying, sugar, possibly steel, wheat and cotton growing."

Are you suggesting that were it not for quotas on petroleum, dairying, and sugar that these industries would have been destroyed?

Mr. STRACKBEIN. Yes. I don't think there can be much question about it.

Mr. COLLIER. I thought the sugar quotas worked quite in the reverse, as far as we were concerned.

Mr. STRACKBEIN. The sugar quota has permitted the production of beet sugar in this country which I am sure could never have gotten even started if there had not been a quota, or at least a high enough tariff on cane sugar.

Mr. COLLIER. Actually, the coffee agreement really is a limitation, but that was basically a foreign aid program, per se.

Mr. STRACKBEIN. In the case of coffee, we don't produce any coffee in this country and we have no tariff on coffee. So our participation in the International Coffee Agreement is really on behalf of the developing countries.

Mr. COLLIER. The point I am making is we have never attempted to use the International Coffee Agreements as a basis for trade or in terms of reciprocity, recognizing that some of the countries we would have no reciprocal business of any consequence with them.

We have never used the International Coffee Agreements as a means of providing a reciprocal trade operation.

Mr. STRACKBEIN. No, we have not. But we have entered into the International Coffee Agreement almost entirely to accommodate the developing countries where the coffee is grown.

We have no industry to protect in this country. We don't produce coffee. Also, we have no duty on coffee.

Mr. COLLIER. I have just one other question, and it is akin to one that I asked Mr. Taft this morning. It is in connection with the disparity between the labor cost in many industries, particularly the automotive industry.

How, in your opinion, could we establish a policy that would tend to create a competitive situation despite the great disparity in the labor cost involved in the production of an automobile in this country as one produced abroad of the same basic type of automobile?

Mr. STRACKBEIN. I don't think it is possible to bring about parity of cost. That is precisely why we propose the ceiling approach.

That is to say the establishment of ceilings on the share of the market that can be supplied by imports. In other words, if imports have already taken 10 percent of our market, let us say, we say that is a fair share of the market to be supplied by imports.

In many instances, it is a great deal higher. It might be 15, 20, 25, 40 or 50 percent. We say that is as much of a market as we can reasonably be expected to relinquish to imports.

Therefore, we say, let us establish a ceiling at this level of the attained level of imports, and then say, "You are entitled to this share," that is, imports, "and also imports can grow as domestic consumption of the same product grows."

In that instance, it wouldn't make any difference whether foreign wages were far below ours or not, or whether foreign unit costs were far below ours or not.

It would be a matter of indifference. Imports could come in and disrupt this market and run wild, so to speak, as they can if there are no such limitations, and as they have done and are doing now.

Mr. COLLIER. My last question: This morning, again, Mr. Taft suggested that the Congress and this as well as the previous administration was—I don't think he used the word "derelict"—derelict in establishing a program that would backstop the type of free trade program that they are recommending.

I presume by backstop he means subsidies across the spectrum, including tax incentives, direct subsidies to workers, subsidies to industries that have been injured, as well as cost of extensive job training and replacement.

What do you think, in light of what has transpired in recent years, the aggregate cost of this type of backstop program could be to the Federal Government?

Mr. STRACKBEIN. Of course, that is a highly speculative question, as you know. We have had so little experience with adjustment assistance that it would be just taking a flyer to try to estimate.

It could possibly run into a very considerable amount of money, all depending on whether or not the adjustment assistance applications were generally granted.

If they were, I could see that this could become quite a drain on the Treasury. Many industries have been hurt and many workers have been thrown out of employment.

If all of these would have access, as is proposed, so that virtually all of them or a great many of them, where serious injury is evident, would be entitled to adjustment assistance, I think we would have quite a bill on our hands.

Mr. COLLIER. And could have had a sizable bill up to this time had it not been for the fact that the Tariff Commission chose not to pursue the intent of the Congress and, therefore, despite the fact that industries have been hurt, failed to assist them.

Mr. STRACKBEIN. That is right.

At this point, Mr. Chairman, in my statement I mentioned the fair international trade bill which provides for ceilings on imports.

I have made the suggestion that this bill, which really represents a third style of remedy available for injury be considered.

We have adjustment assistance. We have the escape clause where the tariff may be increased.

I have made the suggestion that this, which represents the ceiling on imports, might be made a third style of remedy for industries that are severely injured or threatened with injury.

I also made the suggestion that this bill, the fair international trade bill, which has been introduced by upward of 65 Members of the House, could be integrated into H.R. 19620, which is your bill, as a third style of remedy.

This would be optional, in addition to the adjustment assistance or an increase in the tariff.

I would like to have a copy of the bill introduced at this point in the record so that it would be known what I was talking about.

The CHAIRMAN. Without objection, a copy of the bill will be included in the record at this point.

(The document referred to follows:)

A BILL

To encourage the growth of international trade on a fair and equitable basis.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Fair International Trade
4 Act of 1969".

5 PURPOSE

6 SEC. 2. It is the purpose of this Act to prevent or remedy
7 the injurious effects of an undue increase of imports on the
8 domestic economy and to provide equitable safeguards
9 against serious injury or a threat of serious injury caused
10 by a substantial loss of the domestic market by any industry
11 or agricultural operation to imports, while providing for

1 the orderly expansion of imports in equal proportion to the
2 growth of the domestic market for the products concerned.

3 TARIFF COMMISSION INVESTIGATION

4 SEC. 3. (a) (1) Upon the request of the President,
5 upon resolution of either the Committee on Finance of the
6 Senate or the Committee on Ways and Means of the House
7 of Representatives, upon its own motion, or upon a filing
8 of a petition by a trade association, a national labor union,
9 or other interested party, alleging serious injury or a threat
10 thereof caused by an undue increase of imports of any article,
11 the Tariff Commission shall promptly make an investigation
12 of the competitive position of the domestic industry produc-
13 ing a like or directly competitive article to ascertain the
14 level of imports of the article in relation to the domestic
15 consumption supplied by the imports during the most recent
16 ten-year period since the proclamation of a trade agreement
17 concession or concessions on the article under the provisions
18 of Public Law 73-316, approved June 12, 1934, as
19 amended, or under the provisions of Public Law 87-794,
20 approved October 12, 1962, known as the Trade Expansion
21 Act of 1962; or since 1960, whichever period is shorter.

22 (2) Should the share of domestic consumption supplied
23 by imports of the article not be ascertainable to the satis-
24 faction of a majority of the members of the Commission par-
25 ticipating in the proceedings, as determined by a preliminary

1 survey, the Commission shall make a finding with respect
2 to the presence of serious injury or threat thereof to the
3 domestic industry concerned on the basis of facts produced
4 in the course of its public hearing and investigation. The
5 Commission in reaching its conclusion under this paragraph
6 shall take into account the probable adverse effects of in-
7 creased imports of the article on the growth of the domestic
8 industry or appropriate segment thereof as provided under
9 subsection (b) of this section, on employment, on the trend
10 of sales and profits, including evidence of the idling of pro-
11 duction facilities, retardation of investment, underemploy-
12 ment and similar adverse economic effects. In examining
13 such effects the Commission shall so far as available infor-
14 mation permits take into account relative wage and produc-
15 tivity levels prevailing in the domestic industry and in the
16 principal countries of origin of the imports.

17 DEFINITION OF "DOMESTIC INDUSTRY"

18 (b) The term "domestic industry" shall be interpreted
19 as the productive operations in the United States devoted
20 to the production of the article or articles that are the sub-
21 ject of the petition and may be confined to a single category
22 of article or a group of closely related categories of articles
23 if the competitive impact of the imports is concentrated on
24 the single category or closely related categories of the article.

1 SHARE OF MARKET

2 (c) The share of domestic consumption supplied by
3 imports for the purpose of subsection (a) paragraph (1) of
4 this section shall be in terms of quantity unless quantitative
5 measures are not available, in which event dollar value of
6 imports shall be used, reflecting the foreign value as defined
7 in the Tariff Act of 1930, plus the estimated charges incurred
8 for freight and marine insurance in bringing the goods
9 to the port of entry: *Provided,* That in the absence of defini-
10 tive official statistics on either quantity or value of imports
11 of any article the Commission shall use the best available
12 evidence and estimates in establishing the share of domestic
13 consumption supplied by imports. Should neither the quanti-
14 tative nor the value measure alone provide a fair economic
15 indication or index of the share of the market supplied by
16 imports, the Commission shall use such a combination of
17 both measures as in its judgment will most truly reflect such
18 share: *Provided further,* That if a quantitative measure is
19 used, increased unit values of the imports not attributable in
20 major part to an increase in price, are to be treated as a
21 quantitative increase in imports in proportion to the increase
22 in unit value in determining the share of domestic consump-
23 tion supplied by imports; while if a value measure is used,
24 an increase in the total value of the imports attributable in
25 major part to a price increase shall not be treated as an

1 increase in imports in determining the share of domestic
2 consumption supplied by imports.
3 The value of imports of articles as used in this Act shall
4 be the dutiable value.

5 DEFINITION OF "DOMESTIC CONSUMPTION"

6 (d) The term "domestic consumption" as used in this
7 Act shall be understood to mean domestic production of the
8 article in question, plus imports thereof, less exports or re-
9 exports of the same article during the same period, making
10 proper allowance for carryovers at the beginning or end of
11 any year.

12 PUBLIC HEARING

13 (e) In the course of the investigation a public hearing
14 shall, after reasonable notice, be held by the Tariff Commis-
15 sion. Interested parties shall be given an opportunity to
16 appear and to be heard.

17 FINDING OF SERIOUS INJURY OR THREAT THEREOF

18 SEC. 4. (a) If the Tariff Commission finds as a result
19 of the facts found in the course of its investigation and hear-
20 ings under section 3 (a), paragraph (1), of this Act that an
21 increase in the share of the domestic market supplied by
22 imports has caused or threatens to cause serious injury to the
23 domestic industry producing the like or directly competitive
24 article or group of closely related articles that produce or
25 tend to produce a combined competitive impact, it shall re-

1 port affirmatively to the President, setting forth the principal
2 facts that support its findings. Should the Commission find
3 that the facts do not sustain the allegation of serious injury
4 or a threat thereof it shall issue a report to the public setting
5 forth the essential facts leading to the negative finding.

6 (b) Serious injury shall be found under section 3 (a),
7 paragraph (1), by the Commission—

8 (1) if the share of domestic consumption supplied
9 by imports has during the most recent calendar year
10 reached a level not less than 10 per centum of domestic
11 consumption of the article in question: *Provided,* That
12 absolute annual imports have increased not less than 100
13 per centum since 1960, or since the beginning of the
14 most recent ten-year period, whichever is shorter;

15 (2) if imports had already supplied at least 10 per
16 centum but less than 15 per centum of domestic con-
17 sumption in any one of the two years before the filing of
18 the petition: *Provided,* That absolute imports increased
19 not less than 50 per centum since 1960, or since the be-
20 ginning of the most recent ten-year period, whichever is
21 shorter; or

22 (3) if imports had already supplied 15 per centum
23 or more of domestic consumption in any one of the three
24 years before the filing of the petition: *Provided,* That
25 absolute imports increased not less than 33⅓ per centum

1 since 1960, or since the beginning of the most recent
2 ten-year period, whichever is shorter.

3 THREAT OF INJURY

4 (c) A threat of serious injury shall be found under sec-
5 tion 3 (a), paragraph (1), by the Commission to exist if im-
6 ports during any year during the most recent five-year
7 period supplied not less than 7½ per centum of domestic con-
8 sumption and the upward trend of such share during the
9 most recent three-year period, would, if continued, reach
10 not less than 10 per centum of domestic consumption within
11 two years after the end of the most recent three-year period.

12 RECOMMENDATION OF THE TARIFF COMMISSION

13 SEC. 5. (a) If the Commission finds either serious in-
14 jury or threat thereof under section 4 (b) or (c) of this Act
15 it shall send its report to the President within one hundred
16 and twenty days from the filing of the petition or institution of
17 the proceedings, recommending a ceiling over the share of
18 domestic market that may be supplied by imports during any
19 calender year or specified part thereof without invoking the
20 imposition of a quantitative limitation.

21 RECOMMENDATION OF AN INCREASE IN DUTY

22 (b) If the Commission proceeds under section 3 (a)
23 paragraph (2) of this Act it shall find serious injury or a
24 threat thereof if in its judgment the adverse effects resulting
25 from increased imports are seriously impairing the expansion

1 of production, the level of profits or of employment in the do-
2 mestic industry, or threatening to produce such a result. It
3 shall report to the President within one hundred and fifty
4 days from the filing of the petition or institution of the pro-
5 ceedings, recommending an increase in the duty to a level
6 that in its judgment will prevent or remedy the injury, but in
7 no case to exceed by more than 25 per centum the rate in
8 effect under the Tariff Act of 1930; or the establishment of
9 a quantitative limitation which shall not reduce imports to a
10 level less than the average annual imports during the two
11 most recent years. Should the Commission find that the
12 facts do not sustain a finding of serious injury or a threat
13 thereof it shall issue a report to the public setting forth the
14 essential facts leading to the negative finding.

15 ESTABLISHMENT OF IMPORT CEILING

16 SEC. 6. (a) If the finding under section 4 (b) is one of
17 serious injury the ceiling recommended under section 5 (a)
18 shall be the share of domestic consumption supplied by im-
19 ports of the pertinent article during the most recent calendar
20 year, but not more than 10 per centum above the average
21 annual imports of the three most recent years: *Provided,* That
22 if imports during any one calendar year during such three-
23 year period exceeded the imports during the immediately pre-
24 ceding year by more than 15 per centum, the imports for
25 such year shall be calculated for purposes of this paragraph at

1 not more than 15 per centum above the imports of such pre-
2 ceding year.
3 (b) If the finding under section 4 (c) is one of a threat
4 of serious injury the ceiling recommended under section
5 5 (a) shall be the share of domestic consumption supplied by
6 imports during the most recent calendar year.
7 PROCLAMATION OF QUANTITATIVE LIMITATIONS
8 SEC. 7. (a) The President shall within thirty days after
9 the Commission's report to him proclaim the ceiling at the
10 level recommended by the Tariff Commission under section
11 6 (a) or (b), but shall proclaim a quantitative limitation of
12 the imports only when imports exceed 50 per centum of the
13 proclaimed ceiling during any subsequent consecutive six-
14 month period. The quantitative limitation, which shall be set
15 at the same level as the proclaimed ceiling, shall be imposed
16 by the President immediately upon notification by the Com-
17 mission to the effect that imports have exceeded the ceiling
18 during a six-month period as specified in this subsection.
19 (b) The President shall proclaim a new ceiling annu-
20 ally, adjusted to maintain the same proportionate share of
21 imports to domestic consumption as represented by the ini-
22 tial ceiling. If imports for any calendar year after the procla-
23 mation of a quantitative limitation should fall below the ceil-
24 ing, the President shall rescind the quantitative limitation. If

1 imports during any six-month period thereafter should again
2 exceed 50 per centum of the ceiling the President shall re-
3 store the quantitative limitation at the adjusted ceiling level.
4 (c) No quantitative limitation proclaimed by the Presi-
5 dent under subsection (a) of this section after a finding of
6 serious injury as defined in section 4 (b) of this Act shall
7 continue in effect for a period exceeding five consecutive
8 years; or for a period exceeding three years if the quantita-
9 tive limitation was proclaimed by the President under sub-
10 section (a) of this section after a finding of a threat of seri-
11 ous injury as defined in section 4 (c) hereof; but after the
12 interval of at least one year after the removal of any such
13 quantitative limitation the industry may petition the Tariff
14 Commission anew under the provisions of this Act.

15 TARIFF INCREASE

16 SEC. 8. Should the Commission recommend an increase
17 in duty or a quantitative limitation on imports under section
18 5 (b) of this Act the President shall proclaim the recom-
19 mended rate of duty or quantitative limitation unless upon
20 recommendation and representation made by him to both
21 Houses of the Congress promptly after receipt of the Com-
22 mission's recommendation, that it be set aside, he is sus-
23 tained by a majority vote of those present and voting in

1 either House within ninety calendar days of the date of his
2 recommendation.

3 MINERALS AND METALS

4 SEC. 9. (a) No import ceiling or quantitative limitation
5 shall be recommended or proclaimed under this Act for any
6 mineral or metal (including ores or concentrates) until the
7 Secretary of the Interior certifies to the Tariff Commission
8 the capacity of the domestic industry to produce and market
9 such article at a reasonable price. To the extent that domestic
10 productive capacity so certified falls below the normal de-
11 mand the import ceiling or quantitative limitation shall be
12 correspondingly increased. While any ceiling or limitation
13 is in effect for any such mineral article, the Secretary of the
14 Interior shall on each anniversary date of such ceiling or
15 limitation certify anew domestic capacity and demand, and
16 such ceiling or limitation shall be adjusted accordingly.

17 (b) Should domestic production of any mineral or
18 metal with respect to which an import ceiling or quantita-
19 tive limitation is in effect be substantially impaired, such
20 ceiling or limitation shall be suspended by the President, and
21 shall remain suspended until the Secretary of Commerce ad-
22 vises the President that domestic production has been sub-
23 stantially resumed and that the restoration of such ceiling

1 or limitation would cause no adverse effect on the orderly
2 marketing of such article.

3 SEASONAL OR PERISHABLE ARTICLES

4 SEC. 10. (a) If the article which is the subject of a
5 petition to the Tariff Commission under this Act is character-
6 ized by distinct seasonality with respect to imports, the Com-
7 mission shall take the seasonality into account and establish
8 seasonal factors calculated over the preceding ten-year period,
9 so far as practicable. If the imports during any half year or
10 quarter year period although showing an increase, should not
11 exceed the average seasonal increment, they shall not be
12 regarded as representing an increase in the share of domestic
13 consumption supplied during that period for the purposes of
14 this Act.

15 AGRICULTURAL PRODUCTS

16 (b) If the article is a seasonal or perishable agricul-
17 tural product, ceilings may be established by the quarter or
18 half year and the period selected treated in the same man-
19 ner under this Act as if it were a whole year. The share of
20 domestic consumption supplied by imports shall be calcu-
21 lated separately for each quarter or half year and a finding
22 made for each quarter- or half-year period to the effect that
23 the domestic industry is or is not being seriously injured or
24 threatened with serious injury in any one or more quarters
25 or during a half-year period in the year. If the Commission

1 finds either serious injury or a threat of serious injury to the
2 domestic industry under section 4 of this Act with respect
3 to any one or more quarter years or half-year period, it shall
4 so report to the President and he shall proceed promptly to
5 proclaim a quarterly or half-year ceiling for each quarter- or
6 half-year period recommended to him by the Commission,
7 as provided under section 5 (a). He shall proclaim an im-
8 port quota for each quarter or half year under the same con-
9 ditions set forth in section 6; and shall withdraw limitation
10 under the same conditions as govern its withdrawal with re-
11 spect to nonperishable and nonseasonal products. Imports
12 during any quarter years or half-year periods found by the
13 Commission not to cause or threaten serious injury to the
14 domestic industry shall not be subject to a ceiling or a
15 quantitative limitation. A new petition may be filed by the
16 industry or other interested party after the lapse of one year
17 from the date of the Commission's previous report to the
18 President.

19 REGIONAL DIVISIONS

20 (c) (1) If imports of the article are concentrated in
21 one or more regional areas of the United States, the Com-
22 mission shall calculate the share of domestic consumption
23 supplied by such imports on a regional basis. The region or
24 regions absorbing the preponderance of the imports shall
25 be defined by State boundaries according to the market pat-

1 tern, and the region or regions so defined shall be treated
2 as consumers of the article in question in the same propor-
3 tion of total national consumption as the population of the
4 region bears to the total population of the United States. The
5 share of domestic consumption supplied by imports shall
6 then be calculated by each region by alloting imports among
7 the regions according to the marketing pattern, as estab-
8 lished by investigation of the Commission and the testi-
9 mony of competent witnesses.

10 (2) If the share of domestic consumption within any
11 such region supplied by imports meets one or more of the
12 criteria set forth in section 4 of this Act, or if the Commis-
13 sion finds serious injury or a threat thereof under section
14 5(b) of this Act, the Commission shall report accordingly
15 to the President in the regular order of procedure as estab-
16 lished in this Act. The President shall treat regional ceil-
17 ings as if they were national in scope and proclaim the
18 ceilings and any quantitative import limitations or any in-
19 crease in the duty in the same manner as set forth in
20 section 7 or 8 of this Act, whichever is applicable.

21 STATISTICAL ASSISTANCE FROM SECRETARY OF
22 COMMERCE

23 SEC. 11. The Secretary of Commerce shall upon the
24 request of the Tariff Commission supply such import statistics
25 as the Commission may need in order to carry out the provi-

1 sions of this Act. He shall maintain current statistics on the
2 importation of any articles for which import ceilings or quan-
3 titative limitations may be established under this Act, and on
4 the domestic production of such articles. The Tariff Commis-
5 sion shall be guided by such statistics in carrying out the
6 provisions of sections 4 and 7 of this Act, supplemented as
7 may be necessary by statistics from other governmental de-
8 partments or agencies.

9 SEC. 12. The Tariff Commission shall inform the Presi-
10 dent of import trends of the articles for which import ceilings
11 have been established under this Act. It shall notify the
12 President of any such changes in the share of domestic con-
13 sumption supplied by such imports as will enable the Presi-
14 dent to impose or remove quantitative limitations under sec-
15 tion 7 of this Act.

16 CATEGORIES OF RELATED ARTICLES

17 SEC. 13. Any ceilings or quantitative limitations estab-
18 lished under this Act may be divided into categories of
19 closely related articles and allotted by country of origin on a
20 representative historical basis during the most recent ten-
21 year period: *Provided,* That the imports of the combined
22 categories do not exceed the import quota limitation pro-
23 claimed by the President, and that they may be divided into
24 quarter- or half-year periods. If separate categories are not
25 pertinent to the safeguarding of the domestic industry con-

1 cerned, total imports of the article may be allotted by country
2 of origin on a representative historical basis during the most
3 recent ten-year period: *Provided further,* That 5 per centum
4 of the total quantity may be reserved for allocation to such
5 countries as were not significant exporters of the article to
6 this country during the historical period, if application for
7 allocation of the reserve is made by one or more of such
8 countries, and that such allocation shall be made in the
9 calendar year after the application is received but in no
10 case sooner than six months after its receipt. Only such part
11 of the total quota, not to exceed 5 per centum thereof, shall
12 be allotted to the applicant country or countries as they may
13 reasonably be expected to fill. The remainder or unallocated
14 portion of the 5 per centum reserve, if any, shall be prorated
15 among the existing supplying countries.

16 ADMINISTRATION OF THE ACT

17 SEC. 14. This Act shall be administered by the Tariff
18 Commission. In discharging its obligation the Commission
19 is authorized to seek asistance from other departments and
20 agencies of the Government and they shall furnish the Com-
21 mission such relevant and pertinent statistical data as it may
22 request, having regard for the time limitation placed on the
23 Commission by this Act.

The CHAIRMAN. I apologize for not being here when you and others have been testifying. I had to go to the Rules Committee on behalf of a rule on the social committee bill. I do appreciate your being here.

Mr. STRACKBEIN. I have a comment on the ASP which I would like to place in the record, if I may.

The CHAIRMAN. Without objection, it will appear in the record at this point.

(The document referred to follows:)

ASP (AMERICAN SELLING PRICE) AS A NONTARIFF TRADE BARRIER

The American selling price as a basis for customs valuation has come under fire by the European Economic Community as a nontariff trade barrier. The European countries regard ASP as a symbol of protectionism, and have appaently converted its retention by the United States as evidence of abandonment of our liberal trade policy.

ASP applies to less than 1 percent of our total imports.

The complaining countries without exception base their duty assessment on a c.i.f. basis on all goods, not only on a fraction of their chemical imports.

The United States bases its duty assessment on the f.o.b. base, foreign point of shipment.

The European countries levy a duty on the freight, marine insurance and handling charges. We do not. The European practice enhances the value of the goods we ship them some 15 percent.

In the aggregate the amount of duty thus collected on our exports to the complaining countries greatly exceeds the higher amount of duty we collect on the American selling price basis of assessing duty on benzenoid chemicals we import from them.

If ASP is a nontariff trade barrier to our imports from Europe their c.i.f. treatment of our exports to them is a much greater nontariff barrier to trade.

The CHAIRMAN. Thank you very much.

Mr. STRACKBEIN. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is the former Ambassador, the Honorable William M. Roth, still actively in the vineyard working, not now the Chief Ambassador.

We know you quite well, but for purposes of this record, we would like for you to identify yourself and your colleague.

STATEMENT OF HON. WILLIAM M. ROTH, VICE CHAIRMAN, INTERNATIONAL ECONOMIC STUDIES, RESEARCH AND POLICY COMMITTEE, COMMITTEE FOR ECONOMIC DEVELOPMENT; ACCOMPANIED BY ALFRED C. NEAL, PRESIDENT

Mr. ROTH. I am William M. Roth. I am here as a trustee for the Committee for Economic Development, and vice chairman of its International Economic Studies Program.

With me is Mr. Alfred Neal who, as you know, is president of CED.

The CHAIRMAN. We appreciate having you with us, too, Mr. Neal. You are recognized.

Mr. ROTH. It is strange to be here in this new role as a businessman.

As a trustee of the Committee for Economic Development, I greatly appreciate the opportunity to make a statement on behalf of CED's Research and Policy Committee. The subject you are considering—tariff and trade proposals—is, in our view, an extremely critical one.

In a long series of statements beginning in 1945, the CED has supported trade liberalization as an important method of advancing the economic welfare of the United States. I might add that the committee

also have a continuing interest in trade policy as it relates to other aspects of U.S. international economic policy, such as foreign investment and the balance of payments.

The United States, as we know, has played a leading role in the progressive liberalization of international trade for some 35 years, culminating in the Trade Expansion Act of 1962 and in the Kennedy round. Regrettably, today, the United States, for the first time in 30 years, has forfeited its leadership in trade except, perhaps, in the area of preferences for the less developed countries. There has been no major trade legislation for 8 years and for the first time in our post-war period there has been a lapse of presidential tariff authority for almost two. Without a strong American thrust, to give only one example, GATT is lagging in dealing with the increasingly serious problem of nontariff barriers to trade. The danger is that without a contnuing movement toward trade liberalization and faced by a growing regionalism, this country and other leading trading nations will inevitably slip back into economic nationalism. This could have the same disastrous consequences as it had in the 1920's and 1930's.

I am not suggesting that the United States should launch a further major initiative at this time to reduce tariffs among the industrial nations. Such a move is neither necessary nor feasible in the near future. Since the tariff reductions agreed upon in the Kennedy round have not become fully effective, their impact on production, competition, and the volume of trade cannot as yet be assessed.

However, there are important trade policy measures this country should adopt at the present time, and equally other trade policy moves that it should not take. Above all, faced by an expanding Common Market, by stubborn restrictiveness by Japan and a crying need by developing countries for foreign earnings, the United States must again take a strong initiative in the GATT.

With expiration of the negotiating authority of the Trade Expansion Act, which occurred on June 30, 1967, the President clearly needs the means to conduct the Nation's normal international trade relations within the GATT framework. In November 1969, President Nixon asked the Congress for legislation to give him such authority as well as other powers in handling trade policy, repeating in some essential respects the request President Johnson made more than a year earlier.

Before, however, directing my remarks to the issues immediately before your committee, I would like also to outline the general principles CED's research and policy committee has followed on international trade, principles which have been developed over 20 years.

U.S. foreign trade, like our domestic commerce, promotes specialization of production. When an import competes successfully on its own merits in our domestic market, foreign trade offers us the economic advantage of permitting our resources to be used in other industries where they are more productive. Our people as a whole, therefore, enjoy higher real wage levels and living standards than would be possible if we had to rely solely on supplies and markets within our own borders.

The most basic problem of the United States in the field of trade policy derives from the fact that although the national interest is severed when our captial, management, and workers are engaged in

the most productive and efficient industries, a continuous process of industrial restructuring is required to meet the changes produced by competition. The restructuring process results in many business casualties. The most important changes of this kind are continuously taking place among firms and industries within the United States as a result of technological advance and economic growth. However, we are concerned here with the comparable changes that affect international competitiveness, which for many industries is the lesser problem. Such changes are perennial, but in recent years they seem to have been increased by the great expansion in the number and scope of multinational corporations.

In case the foreign competitive advantage in the product stems from interference by business cartels or Government rather than from superior productive efficiency, the resulting unfair competition should not be permitted to destroy the domestic industry. The most desirable approach in such a case is to negotiate with the foreign countries involved in the removal of the nontariff measures which are distorting trade. In such negotiations the United States must be prepared to include its own nontariff barriers. If earnest efforts to achieve the removal of the injurious distortions are not successful, the United States may have no acceptable alternative but to impose compensatory restrictions, with provisions for their elimination when the appropriate international agreement can be reached.

In case the shift to foreign advantage is one based on economic productivity, whether due to industrial changes or to removal of a preexisting U.S. trade barrier, the national interest requires that U.S. consumers and industrial users receive the advantages of lower cost imported goods. It is important however, in the event that the volume of imports expands very rapidly and seriously disrupts the U.S. market, that there exist appropriate relief for a transitional period. This period would provide time for the industries, companies, regions, and workers involved either to increase their efficiency so as to restore their competitive position, or to transfer resources into another industry in which more successful competition was possible. It was supposed to be the function of the adjustment assistance provisions of the Trade Expansion Act of 1962 as well as the proposed Trade Act of 1969 to provide such help to get through this transition period. In practice, the 1962 provisions have not been successful in providing the needed adjustment assistance. It is essential therefore that the new provisions operate more effectively.

I believe the most desirable program would be to have adjustment assistance for import competition made a part of a comprehensive assistance program to deal also with adjustments necessitated by domestic developments. These have proved to be far more numerous and important than the adjustments necessitated by import competition. But if providing an adequate general adjustment assistance program is for some reason not politically or economically feasible, it seems clear that the best course would be to relax the existing import adjustment assistance provisions along the lines proposed by the administration.

If the market disruption caused by import competition is sudden and massive, adjustment assistance may operate too slowly to insure an orderly and optimal transition to the new pattern of production.

In that case, it would be appropriate for the escape clause of the tariff laws to be applied. However, both the escape clause and the adjustment assistance provisions should be designed to effect a genuine transition, that is, to phase out the relief over a reasonable period of years while the industry makes the necessary adjustments. The changes proposed in the escape clause section of the administration's bill should strengthen its effectiveness and make it potentially applicable to many industries currently seeking quota protection. Personally, however, I would be deeply concerned if the escape clause section were made substantially weaker than the administration's bill recommends. The Congress would be offering industries a permanent crutch. It would not only exclude more imports, it would deliver a lethal blow to the effectiveness, strength, and virility of our Nation's industry.

Now turning to a few of the specific issues before this body, we support the President's request for a grant of limited negotiating authority with respect to tariffs, believing that this is necessary if the United States is to meet its GATT obligations and at the same time protect its own interests. This negotiating authority becomes all the more essential in view of the new escape clause provisions of the proposed Trade Act of 1969, which would make relief from increased imports more readily available on an industrywide basis.

In what the President calls a first step toward a sustained effort to reduce nontariff barriers to trade, the 1969 act provides for the elimination of the American selling price system of customs valuation as it applies to benzenoid chemicals and one or two other products. As long ago as 1964 CED took a stand against such protective devices as customs valuations not reflectig the actual value of imported merchandise, a position which the committee reported in a 1969 statement on nontariff distortions of trade. In a 1967 statement, we pointed out that the ASP system tends to conceal the actual level of protection from public awareness, and thus may result in higher duties than would otherwise be imposed. Indeed, these duties have sometimes ranged up to more than 100 percent of the import cost of the product. Perhaps an even more important objection to ASP is that the foreign producer and the American importer often do not know at the time the merchandise is shipped to the United States what the import duty will be.

It should be remembered also that under a conditional agreement reached in the Kennedy round the removal of ASP will bring reciprocal reductions in foreign tariffs on U.S. chemical exports as well as a reduction in important foreign nontariff barriers. These have been mentioned this morning by a number of speakers. I think it has been forgotten that in addition to removing discrimination against American automobiles abroad and preferential treatment on Commonwealth tobacco, there are substantial benefits in the European chemical tariffs we will receive as well.

Removal of the most important applications of the ASP system would confirm the general commitment of the United States to trade expansion and provide specific evidence of its interest in a general reduction of nontariff barriers. Furthermore, by acting on one of its own nontariff barriers, the United States would put itself in a much better position to take the initiative in negotiations to bring a general

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reduction in such trade barriers—barriers, which on balance undoubtedly affect U.S. producers more adversely than they do producers in competing industrial countries.

In view of the new stress the administration has put on the reduction of nontariff barriers, it would be most unfortunate if new quota restrictions had to be imposed on imports to the United States. Quotas, including "voluntary quotas," are a prime example of a nontariff type of trade restriction which is by its very nature far more protectionist than tariffs, since quotas almost always either totally prohibit or set an absolute limit at any given time on imports of the product or the products involved.

We note, however, that the President in his message to the Congress accompanying the Trade Act of 1969, cited "the textile import problem" as a "special circumstance that requires special measures." The "special measures" referred to clearly encompass the recent U.S. effort to get Japan and other Asian countries to agree to voluntary quotas on manmade fibers and woolen and manmade textiles. A number of bills before the Congress would go further than this and, on the grounds of market disruption, would simply impose outright quota restrictions on these and other products. One such bill would authorize the imposition of such quotas on imports of all textile articles and all leather footwear unless the President is able to make international arrangements which would achieve essentially the same purpose. Generally, however, unilateral restrictions not only open the door to a flood of restrictive measures, but invite substantial rataliation abroad.

It is true that large number of countries in Western Europe discriminate against imports of textiles as well as other products from Japan. Although Japan was admitted to GATT in 1955, many of the European trading nations in 1969 still were imposing discriminatory restrictions or bilateral "voluntary" restraints on Japanese textiles and there has been no appreciable change in this situation. A result of this could well be that Japan is concentrating greater sales efforts on the United States than would otherwise be the case.

Speaking personally, therefore, I believe that the United States should propose a GATT conference on manmade and woolen textiles and apparel with the objective of arriving at multinational rules. Such negotiations would attempt to substitute tariffs for quotas wherever they presently exist; arrange for certain preferences for developing countries; and develop mutual criteria for the definition of market disruption.

On the other hand, it is far from clear that textile and apparel imports have reached the point where they have caused substantial market disruption in the United States. In 1969 such imports amounted to some 8.5 percent by weight of U.S. consumption of these products, and 4.2 percent in dollar value. Imports of synthetic textiles and clothing made from synthetics amounted to 5.5 percent of U.S. consumption by weight and not quite 3 percent in dollar value.

This is not to say, Mr. Chairman, that there are not examples of product distress, particularly in the apparel industry which do need the help of the Government.

The CED recognizes that trade policy, as well as investment policy and foreign aid policy, have an important influence on the balance of payments and should be closely coordinated with one another and

with international monetary and payments policy. However, the CED strongly opposes the use of import quotas as a method of reducing or eliminating balance-of-payments deficits, despite the fact that such deficits are the only justification recognized in the articles of agreement of the GATT for the imposition of new quotas on imports. Yet Japan, for instance, still illegally holds to a series of residual quotas although her balance of payments shows a comfortable surplus. This also should not be tolerated and the administration should vigorously prosecute this matter in the GATT.

One of the defects common to quotas, the escape clause, and adjustment assistance as they have been applied is that they do not become matters of national or sometimes even industry attention until import competition has become an acute problem. By that time matters have reached a critical stage and the action that is taken is likely to be crisis action. In Britain the Lancashire region was eventually converted entirely from textiles to engineering products but only after a long period of depression. A similar adjustment was made in part by industry in the New England States by the shift of most textile production to the South. The need for restructuring of this kind is bound to continue recurringly.

We have long considered the need for adjustment assistance in areas and industries facing the kind of competition just mentioned, and have argued that the need should be anticipated and attacked in advance. To wait until the industry is in serious difficulties—to act only when the crisis has risen—is both costly and unnecessarily disruptive. We believe that Government should use an agency of Government to coordinate and bring to bear on an industry or region likely to meet adjustment problems, as well as those already facing such problems, a comprehensive program of assistance uniting and adding to the numerous elements already available from other agencies in the Federal, State, and local governments. We have further recommended that a special financial agency should be established to round out this program.

In concluding, Mr. Chairman, I would emphasize the sense of urgency we feel at this time. American industry and agriculture is basically strong and will continue to profitably expand. The future is very bright indeed, if inflation is checked. But, like it or not, the United States must still take the lead not only in the private sector, but in international trade negotiations as well. I do not see such an initiative in Europe today. They are concerned with the problems of an expanding Common Market; and, in particular, with the negotiations with England. Japan, the third industrial power in the world, is barely shuffling off its old fearful protective policies. The developing countries, particularly in Latin America, are in economic turmoil. And above all, the GATT itself—the international entity upon which the structure of trade is based, needs our support. The bill before you is a small step in that direction, the quota bills are not.

Looking further ahead, however, it is clear that a total new approach to foreign economic policy must be developed. Questions of trade cannot be separated from a wide range of monetary, fiscal and social problems. It is no longer acceptable to consider these areas as separate and distinct. The work on border taxes and the adjustment process over the last several years makes abundantly clear the critical need for a more complex version of their interrelatedness. Within the

U.S. Government, indeed between international economic agencies, administrative means must be developed to attack these policies on a comprehensive basis. This will not be easy and the negotiations to get at the deeply imbedded restrictions that hide in taxes, government procurement, administrative fiat, subsidies, and so forth, will be long and arduous. These restrictions cannot be removed quickly but an energetic and comprehensive beginning must now be made.

The CHAIRMAN. Thank you very much for a very interesting statement.

Are there any questions of Ambassador Roth?

Mr. CONABLE. Mr. Chairman.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Ambassador, we were talking this morning a little about ASP. I wonder if I could get from you a brief summary this afternoon, of whether or not the removal of ASP was considered to be a complete quid pro quo for the other chemical reductions that would be triggered by the removal of ASP plus the changes in the handling of automotive products that were also part of the package?

Wasn't this package supposed to stand on its own feet? I find the sentiment here in Congress that it was understood that ASP was part of a package and therefore if Congress was not satisfied with it it would be entirely appropriate to go back and do further negotiating. There are some people here who feel that the ASP package is not sufficiently favorable, and so they don't look at it as something that we are morally obliged to go ahead with. I do not know of anybody who would know more about what the real intention of the parties was than you on this.

Mr. ROTH. Mr. Conable, you speak to one of the most dramatic parts of the Kennedy round because we did take a position in the negotiation. We had no authority to negotiate in this area, that whatever was negotiated would have to be taken back to the Congress. It was made very clear, and this was really perhaps the key issue in the last 60 days of the 4-year long negotiation, we insisted that there be no relationship between the ASP package and the Kennedy round package. It had to stand on its own feet. If the Congress looked at it and said, "This is not a good deal for this country," and refused to move on it, that morally, legally in no way would it have affected the Kennedy round per se.

Having said that, we tried very hard to negotiate what we thought was a fair and adequate package from both sides. I still feel that.

I think one other thing that perhaps has not been stressed enough this morning is that I think we also feel, I know CED does, that the system itself is wrong, that it is a particularly invideous type of nontariff barrier that does not even do American industry that much good. But to answer your question, it has to stand on its own feet.

Mr. CONABLE. In other words, there is not necessarily any moral obligation, but you would feel, would you not, that European countries looking at what we do to ASP would judge from that what our real intentions are in the nontariff barrier field regardless of whether or not the moral obligation is present to carry through what it was apparently hoped would be approved by the Congress?

Mr. ROTH. I think this is true. In a few areas in the Kennedy round, and rather important ones, we tackled the problem of nontariff barriers. Perhaps most significant was the antidumping agreement, that we negotiated, set out general rules which would apply to all countries. I think if that had been overturned, for instance, the Europeans would have said, "How can we negotiate with you on nontariff barriers when you do not wish to fit into an international system?"

Mr. CONABLE. In striking the balance that is involved in the ASP package, was there any consideration that England might come into the Common Market? And if this were not considered at that time—it did not seem like a real possibility, I guess, at that time—then what would be the effect of England's entry? Would it give us a bonus in terms of the other chemical tariff reductions triggered by elimination of ASP, or would what you made in apples equal what you lost in the bananas?

Mr. ROTH. At that time it semed much less likely than now that England would get in. I really have not seen sufficiently recently an analysis of the effect of British entry on these structures to give you a good answer.

Mr. CONABLE. Britain does not deal in benzenoid chemicals as much as Germany does.

Mr. ROTH. That is right.

Mr. CONABLE. Germany does have a substantial chemical trade.

Mr. ROTH. Very substantial.

Mr. CONABLE. Therefore the further tariff reductions triggered by elimination of ASP would present a somewhat positive factor in terms of Britain's entry into the Common Market; would it not?

Mr. ROTH. Of course, it is forgotten we have a large export surplus in terms of chemicals too. This is a very important ingredient in our trade.

Mr. CONABLE. Thank you very much, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

If not, again we thank you so much, Mr. Ambassador, for coming back to us.

Mr. ROTH. Thank you, it is a pleasure, Mr. Chairman.

The CHAIRMAN. Without objection, Mr. Strackbein may be permitted to include an additional paper with his statement.

The next witness is Dr. Gardner Ackley, better known as the President's former economic adviser during a period of turbulence in one respect.

We are glad to have you with us. We appreciate your coming. If you will identify yourself, although we know you quite well, we will appreciate it.

STATEMENT OF HON. GARDNER ACKLEY, ON BEHALF OF AMERICAN RETAIL FEDERATION; ACCOMPANIED BY EUGENE KEENEY, PRESIDENT

Dr. ACKLEY. Thank you, Mr. Chairman.

My name is Gardner Ackley. I have recently returned to the University of Michigan after having served, as you mentioned, as U.S.

Ambassador to Italy and before that as a member and later chairman of the U.S. Council of Economic Advisers.

With me this morning is Mr. Eugene Keeney, president of the American Retail Federation, on whose behalf I am appearing here today. This organization, as you know, is a federation of 28 national retail associations and 50 statewide associations of retailers. It is the only organization which speaks for retailing as a whole, an industry which employs 8½ million persons.

I very much welcomed the invitation of the American Retail Federation to appear on its behalf before this distinguished committee, because my views on the legislation you are considering appear to be identical in all major respects with those of the federation. That this is so is not surprising: as the businessman closest to the consumer, the retailer tends to identify his interests with those of consumers. As social scientists concerned with the economic welfare of the Nation, economists tend also to identify with the consumer interest. The economist, however, sees no contradiction between a producer interest and a consumer interest. For all producers are also consumers. Their economic welfare is maximized when they direct their productive activities in the way which will earn them the highest possible real incomes—that is, when they produce that set of goods and services with the largest total real value to themselves as consumers.

It is a basic postulate of economic analysis that the economic welfare of the producer-consumer is maximized by the freest possible trade, both domestic and international. There are, of course, certain well-recognized, although limited, exceptions to this general presumption. But apart from these trade permits each producer to maximize his real earning by producing those goods and services in which his efficiency is greatest, measured in terms of their value to consumers. Indeed, not only does trade permit each producer so to allocate his effort, it encourages him to do so, because, if he allocates it otherwise, competition forces him to earn less than is available to him elsewhere. This is no less true of international specialization and trade—through which the citizens of all participating nations benefit—than it is of the domestic specialization and trade which maximizes real income domestically.

Members of this committee have proved that they are well aware of these benefits of trade, through the constructive leadership they have given to the evolution of U.S. trade policy from that crucial turning point in 1934 through the Trade Expansion Act of 1962. Under the legislation you have guided through the Congress over these years, the United States has been able to take the leadership in the steady and accelerating progress of mutual trade liberalization which culminated in the Kennedy round of 1967. In significant part as a result of this mutual liberalization, there has been an extraordinary expansion of world trade, which has quadrupled since 1950. In turn, as a result of this amazing expansion of trade—and of other factors—the rate of world economic growth—as well as the rate of growth in almost every major trading nation—has been faster since 1950 than in any earlier period for which we have reliable data.

H.R. 14870 provides the necessary authority to maintain and continue that progress. In part, it does this by eliminating the American

selling price system of customs valuation, thereby triggerring a further reciprocal liberalization of trade, already negotiated. The President has also said that he would welcome, in connection with this legislation, a statement of congressional intent with respect to nontariff barriers to trade, in order to strengthen the U.S. negotiating position in a planned effort to negotiate the reciprocal reduction of such barriers.

Further, H.R. 14870 permits the maintenance and continuation of progress in trade liberalization by improving our ability to deal effectively with the troublesome problems of hardship to specific industries, firms, or workers, which inevitably arise in a rapidly changing world in which trade has already been considerably liberalized. I refer here, of course, to the proposed changes in the escape clause and in adjustment assistance. (I may add that speedier administration of the escape clause and adjustment assistance are of almost equal importance). In the absence of this improved ability to mitigate hardships, we might conclude that the only way to deal with problems as they arise would be to reverse the direction of the long and overwhelmingly fruitful movement toward liberalization.

Finally, the bill would improve our ability to engage in international bargaining to defend our trade interests: first, through giving the President new negotiating authority on tariffs—intended primarily to permit the United States to provide compensation when we are forced to withdraw trade concessions in order to deal with hardship cases; and, second, through strengthening our ability to retaliate against unfair competition from abroad, thereby, hopefully, tending to deter such unfair competition.

The American Retail Federation favors H.R. 14870 in its present form, and urges the committee to approve it without significant amendment. Therefore, it opposes several features of title II of H.R. 16920. In particular, it urges the committee to accept the "primary cause" description embodied in H.R. 14870 (rather than the "substantial cause" description embodied in H.R. 16920) for the relationship between increased imports and serious injury in "escape clause" actions. In this way it would maintain, as is surely appropriate, a somewhat more rigorous standard for escape clause actions than for adjustment assistance. Moreover, we feel it is vital that escape clause actions be temporary and subject to periodic review, rather than permanent. Finally, we oppose the definition of "domestic industry" proposed in H.R. 16920, which would permit application of the escape clause to any arbitrarily defined portion of an industry to which injury could be shown, quite independently of the health of the industry as a whole.

I turn now to title I of H.R. 16920, which would impose highly restrictive import quotas on textiles, apparel, and footwear.

The American Retail Federation strongly opposes this proposal, for a number of reasons. The most basic reason is because it would interfere drastically and, in our view, unnecessarily, with an international trade in textiles, apparel, and footwear which benefits the overwhelming majority of Americans in their role as consumers. The reverse of the coin is less obvious but equally significant: the bill would provide an artificial incentive for too many productive resources to be directed toward industries in which U.S. productive

efficiency—and therefore our ability to earn incomes—is relatively low. It would do this by restricting export markets for those American goods in which our productivity—and therefore the ability of U.S. nationals to earn incomes—is relatively high. We would lose both as consumers and producers.

Put this way, as the economist prefers to put it, it all seems very abstract. It can easily be made more concrete. The bill would directly raise prices for shoes and for textiles, both domestic and imported, in four different ways.

First, it would reduce the supplies of imported items which are relatively lower in price than their domestic counterparts, forcing consumers to purchase instead more of the latter. Exhibit A, attached to this statement, compares the prices of selected imported and domestic items of apparel, of essentially identical quality. These comparisons were supplied to the American Retail Federation by buyers for a number of retail establishments, and represent their best judgments of prevailing market conditions. The difference, especially when expressed as percentages, are striking.

Second, it would cut off some imports—especially of "low-end" goods—which have no domestic counterparts. They are not and would not be produced domestically even if there were no imports. For instance, about half of all footwear imports retail at prices less than $3 a pair. Imports of such low-end goods would not merely be reduced in the same proportion as all imports; with limited quotas, there would be strong incentive to export to the United States merchandise with maximum unit value. This form of price increase would, of course, bear most heavily on those Americans least able to pay higher prices. These include Americans with whose circumstances this committee has been concerned very recently—the recipients of public welfare and social security.

Third, it would raise the prices of the goods that continued to be imported. Price competition among foreign producers for entry into our markets would be materially lessened once they were unable to expand their sales by lower export prices.

Fourth, it would raise the prices of domestically produced goods. No longer needing to fear that higher prices would lose them markets beyond the quotas, American producers could and would raise prices directly. Moreover, with a lessened spur of foreign competition, the pressure on them to become more efficient would be reduced, so that their costs, and then their prices, would tend to drift up even more.

It is clear that these consequences fly directly in the face of the enlarged interest in consumer protection recently evidenced both by the administration and by the Congress.

The direct cost of quotas would thus be paid by consumers. But, it is argued, this may be a cost worth paying because:

(*a*) It will create, or at least protect, American jobs; and

(*b*) It will improve, or at least avoid a further deterioration of, the U.S. balance of payments.

I believe that neither of these advantages will ensue, and for the same reason: any reduction of U.S. imports as a result of quotas will be fully offset by a reduction of U.S. exports.

Reduced imports of textiles, apparel, and footwear would reduce the number of dollars flowing to foreigners. To some extent, this would

directly reduce our exports, as well. But the main reason is that other nations whose exports would be hurt by our quotas would—as they have every right to do—impose equivalent barriers on U.S. exports. As a result, our balance of payments would not be improved and we would export as many jobs as we protected, and, on the whole they would be higher-paying jobs. Many of these jobs would almost surely be in agriculture.

If a nation suffers from a chronic general shortage of jobs—that is, from chronically excessive unemployment—it cannot ordinarily expect to find the remedy in exporting its unemployment; the intended recipients will simply reexport it—if possible, back where it came from. The remedy for excessive unemployment, we know, lies in another direction completely—in monetary and fiscal policy.

If a nation suffers from a serious and persistent balance-of-payments deficit that threatens to exhaust its international reserves, the remedy again must be found elsewhere—in basic structural changes in its economy; or, failing these, in uniform and temporary emergency surcharges on all imports or a uniform export subsidy; or, failing all else, in a realinement of exchange rates.

In the case of the U.S. deficit, the most important structural change we need to accomplish is to halt domestic inflation. We will not help to halt inflation by unnecessarily and substantially raising the prices of goods that make a significant contribution to the cost of living. We would thereby tend, as well, to enlarge wage increases, and thus give an extra lift to the prices of everything we produce, including, of course, our exports and our goods that compete with imports.

So far, however, I have not come directly to grips with the most immediate reason advanced for quotas: that they are the only remaining remedy available to redress or to prevent serious injury to two important American industries. Now, I have no doubt that there are segments of both industries which could demonstrate serious injury or the threat thereof. This is not demonstrated, however, merely by reciting phenomenal percentage increases in the imports of certain categories or classes of goods of which imports had previously been exceedingly small.

Serious injury is not demonstrated by showing that profits or wages or both in these industries are lower than in other industries or have recently declined. They have been chronically lower, long before any recent events which have created or threatened to create an alleged crisis. Nor should we expect profits or wages to move always in the same percentage in all industries. During most of the 160's, for example, textile profits increased substantially faster than manufacturing profits generally, and I believe that textile wages also increased faster than all manufacturing wages.

Nor do we demonstrate serious injury merely by showing that employment has declined—as it has, slowly, in shoes, but not in textiles until 1969—or that sales or production have risen less or fallen more than in industry on the average. There are always many industries in which employment or sales or production have declined or risen less than the average.

If serious injury can be shown, relief should be granted—either through the liberalized escape clause or adjustment assistance, or, possibly, by some kind of voluntary limitation on exports to the United

States. But, fundamental to any solution should be the proof of injury. The figures I have seen for the textile, apparel, and footwear industries do not demonstrate that injury has occurred to any of those industries, overall.

I was much impressed by the emphasis in Ambassador Gilbert's testimony before your committee last Monday on the concept that a nation can take measures of the sort here being considered only when injury occurs or is threatened—a concept which he called the keystone of the GATT international trading system.

With this concept, he said, "there could be no rule of law in trade, no reasonable expectation of certainty so necessary for economic activity, no means of policing or enforcing binding obligations . . . It would not be difficult to envision the results if we were to cease to respect this concept or to embark on a unilateral course affecting the vital interests of others."

It is very easy to argue that the world trading system is already far from perfect, and that we here propose to do only what others are already doing even more than ourselves.

It is surely true that some important exporters to the United States of textiles, apparel, and footwear—Japan, in particular—have trading arrangements less liberal than ours. In the case of Japan, there can be no valid excuse for the slow progress it is making in removing its quotas and other restrictions. U.S. policy has been and must continue to be directed aggressively toward persuading Japan to liberalize more rapidly. Yet, we can hardly take a completely "holier-than-thou" attitude toward Japan's restrictions. The data in table I show that some $6.2 billion of U.S. imports in 1969—17 percent of our total imports—were of products on which the United States maintains import quotas.

Moreover, Japanese import barriers have not prevented a 3-percent increase in our nonagricultural exports to Japan over the 11 years 1958 to 1969, a 335-percent increase in our nonagricultural exports. They have not prevented an increase of our exports at an average annual rate of 18.8 percent a year over the years 1965 to 1969. This must be the highest of our export increases to any major trading nation.

I suggest that our only chance to persuade Japan—or other nations—to move more rapidly down the road toward more liberal trade would be destroyed were we to enact H.R. 16920. Some may take a certain gruesome satisfaction in pulling the house down on our heads because we find it is so imperfect. I do not. I would rather try to improve it.

In my view, the most dangerous of all consequences of the passage of H.R. 16920 is the danger that such action could set off a new chain reaction of protectionism and economic nationalism. During the great depression, nearly 40 years ago, we learned something of the disastrous effects—not only economic, but political, and ultimately perhaps military—of that kind of economic warfare. I hope you are aware that there is tinder lying around that would not be difficult to ignite. Protectionism and economic nationalism are sentiments found in every country. I should not want the United States to be the Nation that lit the match.

Consequently, the American Retail Federation urges that this committee vote down H.R. 16920. Even in the event that the administration is unable to negotiate some appropriate voluntary restriction of

textile imports, and even if the administration's promised proposals on footwear should fail to meet any legitimate problems of serious injury in that industry, the action proposed in H.R. 16920, in our view, is worse than no solution at all.

Thank you, Mr. Chairman.

The CHAIRMAN. Dr. Ackley, if you desire to do so, we will include exhibit A and the table to which you referred as part of your remarks.

Dr. ACKLEY. Thank you, Mr. Chairman.

(The information referred to follows:)

EXHIBIT A—RETAIL PRICE SAVINGS ON COMPARABLE KEY CONSUMER ITEMS [1]

	Retail price for imported item	Retail price for domestic item	Percentage saved
1. Men's dress shirts	$3	$4 to $5	25
2. Boy's dress shirts	$2	$3	33⅓
3. Men's knitted cotton sport shirt	$2	$3	33⅓
4. Boy's knitted cotton sport shirt	$1.50	$2.50	40
5. Women's tailored blouse	$2	$3	33⅓
6. Women's walk shorts	$2.50	$4	37
7. Men's walk shorts	$3	$5	40
8. Men's zipper jacket	$5	$6 to $7	16⅔
9. Boy's zipper jacket	$4 to $6	$5 to $9	25
10. Men's ziplined raincoat	$18	$23	21
11. Women's raincoat	$17	$20	15
12. Boy's ziplined raincoat	$14	$16 to $17	12½
13. Girls' play shorts	$2	$3	33⅓
14. Umbrellas	$4 to $6	$6 to $9	33⅓
15. Women's acrylic sweater	$8	$10	20
16. Men's acrylic sweater	$7	$10	30
17. Boy's acrylic sweater	$4	$6	33⅓
18. Girl's acrylic sweater	$4	$6	33⅓
19. Men's cashmere sweater (English)	$25	$35	27
20. Men's V-neck lamb's wool sweater (English)	$17	$21	18
21. Women's cashmere sweater (English)	$20	$30	33⅓
22. Men's worsted wool suit	$70	$100	30

[1] The term "comparable" means like items equal in terms of quality, style, size, fabric, workmanship, and customer acceptance.

TABLE 1.—*U.S. imports subject to quotas, 1969*

[In millions of dollars]

Category:	*1969 U.S. imports*
Petroleum and petroleum products	$2,560
Steel products	1,742
Sugar	709
Meat	516
Cotton textiles	504
Certain dairy products	73
Wheat and milled wheat products	38
Others [1]	10
Imports subject to quota	6,152
Total U.S. imports	36,490

[1] Cotton, cotton waste, and certain cotton products; peanuts; hard fiber cordage; certain feathers; and natural gas.

The CHAIRMAN. I apologize that there have been so many absences this afternoon, but we are having a series of bills under the suspension rules. We now have a vote on the third one. However, I am sure all of the members will read with great interest the statement that you made to us, because we all have great respect for your viewpoint.

Are there any questions?

Thanks again for coming to the committee. We appreciate your bringing along the president of the organization as well.

Dr. ACKLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Walker, if you will identify yourself for the record, you will be recognized.

STATEMENT OF MELVILLE H. WALKER, EXECUTIVE VICE PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL; ACCOMPANIED BY ROBERT T. SCOTT, VICE PRESIDENT

Mr. WALKER. Thank you, Mr. Chairman.

My name is Melville H. Walker and I am the executive vice president of the National Foreign Trade Council, Inc. I am accompanied by Mr. Robert T. Scott, vice president of the council. Mr. Chairman, I am sure most of the members of your committee know that the membership of the council comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment, including manufacturers, exporters, importers, bankers, insurance underwriters, and companies engaged in rail, sea, and air transportation.

We appreciate the opportunity to present views on behalf of the National Foreign Trade Council at these hearings. I am doing so for Mr. Robert M. Norris, president of the council, whose previous commitment prevents his being here today. Our testimony will relate to the recommendations in H.R. 14870, "The Trade Act of 1969"; the proposals contained in H.R. 16920, referred to as "A bill to provide for the orderly trade of textile articles and articles of leather footwear and for other purposes"; and to the proposal to authorize the creation of the Domestic International Sales Corp., to stimulate U.S. exports.

Mr. Chairman, we prepared our testimony today to fall within the 20-minute limit. I would like to request permission, should we wish, to supplement our testimony by further written statements to the committee.

The CHAIRMAN. Without objection, you may have that permission.

(The supplemental testimony referred to will be found in pt. 9, p. 2601.)

Mr. WALKER. Thank you.

SUMMARY OF RECOMMENDATIONS

H.R. 14870, "THE TRADE ACT OF 1969"

The Council supports the legislative recommendations contained therein, with certain amendments or qualifications in respect of the criteria for "escape clause" relief and adjustment assistance, and with respect to the elimination of the American Selling Price system of customs valuation.

H.R. 16920, "A BILL TO PROVIDE FOR THE ORDERLY TRADE OF TEXTILE ARTICLES AND ARTICLES OF LEATHER FOOTWEAR AND FOR OTHER PURPOSES"

The Council's position in regard to compensatory tariff adjustment is in support of the proposal in H.R. 14870, as indicated above. The Council's qualifications in its support for more liberal criteria in regard to "escape clause" relief and adjustment assistance apply to H.R. 16920 as they do to H.R. 14870.

In regard to mandatory orderly marketing measures for textile articles and articles of leather footwear, the Council expresses its hope that by voluntary agreements with supplying nations, or other measures, including more effective use of the safeguards afforded in our laws and the GATT, the imposition of such mandatory orderly marketing measures can be avoided. It urges that such restrictive measures be appraised in terms of their cost to the economy as a whole.

DOMESTIC INTERNATIONAL SALES CORPORATION

The DISC proposals represent a prudent step which should be taken towards developing a more meaningful policy to maintain and improve our current export position, and the Council recommends the enactment thereof.

H.R. 14870

Mr. WALKER. With certain amendments or qualifications, the Council strongly supports the legislative recommendations contained in H.R. 14870, the Trade Act of 1969. We believe that its enactment with these amendments will serve to promote the economic welfare of our Nation. It will help us to move forward with renewed leadership in preserving and strengthening the internationally agreed upon policies which are essential for continuing expansion in world trade and economic growth.

Specifically, the Council endorses granting to the President, as proposed in H.R. 14870, the authority through June 30, 1973, to make the limited tariff reductions which are called for by international agreements in compensation for an increase in duty on an article under "escape clause" action, or when a statutory change is made in tariff classification. The Council also endorses the proposed amendment of section 252 of the Trade Expansion Act of 1962 to extend the authority of the President to impose duties or other import restrictions on the products of any nation that places unjustifiable restriction against U.S. products, and to provide new authority to take appropriate action against nations that practice what amounts to subsidized competition in third-country markets, when that subsidized competition unfairly affects U.S. exports.

The Council also favors specific authorization for the funding of U.S. participation in the General Agreement on Tariffs and Trade (GATT), as proposed in H.R. 14870

With respect to the provision relating to nontariff barriers, the elimination of the American selling price (ASP) system of customs valuation, and the liberalization of criteria for "escape clause" relief for industries and adjustment assistance for firms and groups of workers, the more fully stated position of the National Foreign Trade Council is as follows:

NONTARIFF BARRIERS

The Council strongly supports the recommendation in the President's message to the Congress of November 18, 1969, that the time has come for a serious and sustained effort to reduce nontariff barriers to trade. The highly restrictive effects of such devices as quantitative restrictions, "buy national" laws and practices, discriminatory internal taxes, arbitrary systems of customs valuation, and State trading and marketing regulations are now adversely affecting trade among many countries more than tariffs per se. More than 800 such impediments to trade have been identified in the work which has gone forward under the GATT during the last year. The Council reaffirms its endorsement, as expressed in the declarations of the 55th and 56th national foreign trade conventions, of the work now going forward under the GATT, and urges even stronger efforts under GATT auspices on the part of the major industrial nations, to draft rules of procedure to guide efforts to remove or reduce such barriers.

The inherent difficulties and complexities which confront the United States and other nations in finding a basis for equating concessions to be offered with those to be received in any negotiations to reduce or remove nontariff barriers are fully appreciated. Recognizing also that in many instances legislative action would be required for the reduction or removal of such barriers, the Council emphasizes the paramount need for prior agreement between the legislative and executive branches of Government as to the scope and nature of the negotiations to be undertaken. We emphasize also the need for continuing liaison with the industries concerned, and that their views be sought and used.

International negotiations for trade expansion through removal of nontariff barriers, in the Council's view, must call for sound bargaining, based on the principle of enlightened national interest. Any agreement involving concessions by the United States to reduce or remove nontariff barriers should contain compensatory foreign reductions which will be of real advantage for expanding markets for U.S. products, with the interest and well-being of agriculture as well as industry fully comprehended.

Within the contexts of the foregoing stated principles and procedures, the Council recommends that the Congress act to eliminate the American selling price system of customs valuation, and that such elimination be effective at a time and under such conditions as, in the view of the Congress, will demonstrate support for continuing initiatives by the United States and other countries to achieve trade expansion through international agreements for the reciprocal reduction or removal of nontariff barriers.

ESCAPE CLAUSE RELIEF AND ADJUSTMENT ASSISTANCE

The Council reaffirms its earlier positions, as reflected in the recommendations of the 55th and 56th national foreign trade conventions, that the Trade Expansion Act of 1962 be amended to provide on a selective basis more readily available recourse to "escape clause" relief and to adjustment assistance than has proved possible under the test of eligibility set forth in that act. More liberal criteria for such relief and assistance are likely to be warranted as individual U.S. industries and firms adjust their operations to changing markets resulting from tariff reductions negotiated under the Kennedy round and as progress is made in eliminating and reducing nontariff barriers to trade.

The Council does not fully endorse, however, the specific proposals regarding "escape clause" relief and adjustment assistance which are contained in the proposed Trade Act of 1969. We hold that for "escape clause" relief to be granted to industries and adjustment assistance provided to firms and groups of workers, there should be shown, in addition to a determination that an increase in imports has been a substantial cause of serious injury, that such increase in imports resulted in a direct and substantial way either from a tariff concession granted or from other U.S. governmental action in reduction or removal of a nontariff restriction on trade.

The Council does not agree that an increase in imports is in itself justification either for "escape clause" relief or adjustment assistance.

If, for example, an acceleration of imports causing or threatening serious injury is due to unchecked inflation in our economy, the basic responsibility calls for appropriate action in the fields of fiscal and monetary policy. By the same token, if the increased imports causing or threatening serious injury to American industries, firms, or groups of workers, result from a growth of imports which stems from actions of other governments in providing export subsidies or which otherwise reflect unfair trade practices, the Council holds that an appropriate remedy is for the U.S. Government to utilize fully the countervailing duties, antidumping or other safeguards to U.S. production and employment afforded in our laws and in the GATT.

H.R. 16920

The Council's views with respect to certain subjects covered in H.R. 16920; namely, authority for compensatory tariff adjustment and liberalization of the criteria for "escape clause" relief to industries and adjustment assistance to firms and groups of workers, are the same as those which we have expressed concerning these subjects as they were covered in H.R. 14870. With regard to the proposals in H.R. 16920 for orderly trade in textile articles and articles of leather footwear, we recognize the problems which are posed for these industries—and other industries as well—because of increased imports. In finding ways to meet these problems, we would earnestly hope that by voluntary agreements with supplying nations, or other measures, the imposition of mandatory orderly marketing measures can be avoided. A proliferation of such restrictive measures can threaten the whole climate both here and abroad for maintaining sound international trade and investment policies. We seriously urge that any such restrictive measures be appraised, not only as they would affect the particular industry concerned, but in terms of their costs to the economy as a whole. Unfair competition and nontariff barriers, which in contravention of the GATT adversely affect our commerce, should be opposed and offset by utilizing fully the countervailing duty, antidumping, and other safeguards, including voluntary agreements, temporary quotas and tariff adjustments, which are afforded in our laws and in the GATT.

DOMESTIC INTERNATIONAL SALES CORPORATION

Recognizing the problems faced by the United States with respect to its balance-of-payments deficits in general, and its diminishing export surplus in particular, the National Foreign Trade Council commends the Treasury Department for developing the constructive approach embodied in the concept of the Domestic International Sales Corporation (DISC) and recommends enactment thereof to this committee.

Any evaluation of the DISC must be made in the light of both stimulating new exports and preserving existing exports which might otherwise be lost to foreign competition. The Council stresses that insofar as the U.S. export problem is concerned, the preservation of existing export markets in the face of intense foreign competition is equally as important as creating or increasing exports. Thus, any proposal which would enable a U.S. company to either retain or increase its export business by being able to grant more favorable terms on exports is desirable.

In considering the merits of the DISC, the committee is well aware of the problems faced by the U.S. exporter. Along with overcoming the effects of domestic inflation, the U.S. exporter is faced with tariff barriers of substantial magnitude. Moreover, the U.S. company exporting abroad is faced with a host of nontariff barriers which militate against maintaining or increasing our current export position.

Many countries, such as Japan, which compete with U.S. exports in third-country markets, provide their exporters with a variety of export tax incentives. Through one device or another, many countries tax export sales income at lower effective rates than other income. The European Economic Community and other countries imposing turnover or other indirect taxes are permitted under GATT rules to refund such taxes on exports and therefore give a competitive advantage to their exporters over exporters from countries, such as the United States, which rely more heavily on direct taxes. Further, it is common for foreign governments, directly or indirectly, to assist in finance ing exports—including working capital and receivables—at rates considerably lower than available to the U.S. exporter.

Considering the variety of tariff and nontariff barriers, transportation and labor costs which the U.S. exporter must overcome in order to sell successfully in the country of destination, and being cognizant of the various tax and nontax incentives given to foreign companies competing with U.S. companies in third-country markets, the Council believes that immediate action must be taken to offset these obstacles if our export surplus is to increase and not further deteriorate. In our view, the best approach to restoring a healthy trade surplus is to utilize fully the capabilities of private business, to provide adequate and competitive private financing and to adopt meaningful tax incentives for export. The National Foreign Trade Council endorses the DISC concept as consistent therewith.

The DISC represents a practical, constructive, yet relatively simple concept. Deferral of tax on profits from export sales through loans to domestic manufacturers is sound. Qualifying exports for favorable tax treatment through the DISC, regardless of where title to such exports has formally passed, is of great significance. Moreover, to a limited extent the vargaries of the section 482 regulations will not be applicable to sales between the manufacturer and the DISC. This will provide some certainty to the businessman.

It is impossible for the Council to predict with any degree of precision the effect that the DISC would have on increasing U.S. exports. The DISC should be a constructive step in the direction of assisting the U.S. exporter in overcoming the present substantial barriers to foreign trade. It could not only assist the United States to retain present exports, but also to increase such exports over existing levels.

In the final analysis, the export results of DISC will depend upon the amount of income allocated to the DISC and the reasonableness of the governing regulations and the administration thereof. We understand that budget considerations at this time may not permit a more liberal pricing policy between the parent manufacturer and the DISC. A more liberal pricing policy is to be desired; if not now, at some later time in order that the DISC may make the maximum contribution to the reversal in our export picture which we all desire. In addition, it would also seem appropriate to include private financing and insurance

of U.S. exports within the DISC framework. The DISC proposals represent a prudent step which should be taken toward developing a more meaningful policy to maintain and improve our current export position.

Mr. BURKE. Thank you. Does that complete your testimony?

Mr. WALKER. That completes my testimony.

Mr. BURKE. Are there any questions?

On behalf of the committee, we appreciate your testimony.

Mr. WALKER. Thank you very much.

Mr. BURKE. Our next witness is Mr. Ralph Cutler, Jr.

STATEMENT OF RALPH H. CUTLER, JR., CHAIRMAN, TRADE POLICY COMMITTEE, AMERICAN IMPORTERS ASSOCIATION; ACCOMPANIED BY GERALD O'BRIEN, EXECUTIVE VICE PRESIDENT

Mr. CUTLER. Mr. Chairman, members of the Ways and Means Committee, I am Ralph H. Cutler, Jr., vice president of C. Tennant, Sons & Co. of New York, and chairman of the trade policy committee of the American Importers Association. With me today is Mr. Gerald O'Brien, executive vice president of the American Importers Association.

Mr. BURKE. We welcome both of you to the committee.

Mr. CUTLER. My company was founded in 1825, and today has annual sales of over $300 million in industrial raw materials. I appear today on behalf of the American Importers Association, which was organized in 1921 and is the only trade association representing importers on a national basis. Since 1934, we have supported the trade agreements initiated by successive administrations since 1934.

We are deeply concerned that legislation to establish quotas and other types of restrictions on imports will be harmful to the consumer, the American economy, and the import business. Bear in mind that there are millions of Americans whose jobs are dependent on international trade. Based on Bureau of Labor statistics for 1969, we estimate that over 5 million persons today are partially or wholly dependent for their livelihood on foreign trade activities, including over 3.3 million engaged in the production and transportation of merchandise for export. Comparable figures for imports do not exist for 1966, but using 1962 data, we estimate about 2.2 million people are employed in the transportation and distribution of imported items or the processing of imported materials.

Experience has shown that a limitation of imports tends to raise prices in the domestic market. The most recent example is the "voluntary" agreements on steel. Since these have been effected, American steel producers have steadily increased prices because of shortages both in the United States and abroad.

Quotas of whatever nature are bound not only to limit the consumers' freedom of choice, but also to restrict this choice in the market place to more expensive goods. Any limitation on imports will very soon affect American export sales. This will come at a most unfortunate time both as regards our balance of payments and the American economy as a whole. If the United States imposes unilateral quotas, we can expect retaliation against American exports, or the need to compensate the countries affected.

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For many years, we have emphasized that trade is a two-way street. We feel that a liberal import policy is the only way to increase U.S. exports. We also believe that if world trade is to increase in the future as it has in the past 20 years, it will be necessary that our trading partners substantially relax their restrictions against American imports. We strongly urge the administration to maintain its efforts to secure such relaxation.

The American Importers Association opposes restraints on trade by any country. We deplore those of other countries, but at the same time we must point out that the United States is far from blameless. At the present time, more than 15 percent of total imports in 1969 are subject to mandatory or "voluntary" quotas, covering cotton textiles, steel, oil, dairy products, brooms, wheat flour, peanuts, and others.

We recognize that world conditions and domestic inflation have reduced the substantial trade balance our country enjoyed until recently. We submit that a modest trade balance is a more normal situation. In our view, protectionist legislation should not be enacted in a misguided attempt to create a large trade surplus. On the contrary, if enacted, we could surely expect a chain reaction of trade restrictions throughout the free world.

The American Importers Association is strongly opposed to H.R. 16920 and all others like it. We support H.R. 14870 introduced by Chairman Mills and Mr. Byrnes on behalf of the administration. It maintains the liberal trade policy of the past 35 years, and is consistent with the realities of international trade under today's conditions. However, we believe the bill can be strengthened in several areas.

Section 201: We support the proposed amendments to the Trade Expansion Act of 1962 which would give the President very limited authority to reduce duties existing as of July 1, 1967, up to 20 percent in order to carry out any trade agreement subsequent to June 30, 1967. This authority is absolutely necessary to compensate for any escape clause actions. Without this power to compensate, the President would be faced with a choice of denying relief to an industry found eligible by the Tariff Commission, or of granting relief with the knowledge that the other country would retaliate against some American exports.

Section 202: We support this new section, which provides for the appropriation annually by the Congress of such sums as may be necessary for the United States to pay its share of the expenses of the General Agreement on Tariffs and Trade (GATT). This provision is long overdue. For too many years our share of GATT expenses has been acknowledged only as a part of the budget of the Department of State and not as a separate item.

Section 203: We support amendment of section 252 of the Trade Expansion Act of 1962 which would extend the President's retaliatory powers to industrial products as well as agricultural products. This amendment also covers subsidies paid on foreign sales to third markets where such sales unfairly affect the sale of U.S. products to those markets. We would have preferred not to broaden this section of the act. However, we recognize that it has been forced on the administration by the extension of subsidies on a number of agricultural items by other countries.

We point out that if the United States uses section 252 to retaliate against another country (country A), the American importer of the

goods affected is an innocent bystander. This American importer is in no way involved in a controversy between the United States and country A regarding sales in a third country B, yet his importation of goods from country A may suddenly be subjected by Presidential action to outright embargo, limitation by a quota, or a higher tariff.

We urge that section 252(a)(3) and 252(b) be amended to include the following statement at the close of the indicated subparagraphs: "Such action shall be consistent with the international obligations of the United States and in conformity with the General Agreement on Tariffs and Trade."

Title III: We are basically in favor of the administration's proposals to modify the requirements for tariff adjustment and adjustment assistance. We recognize that changes are needed in the Trade Act of 1962, but we are fearful that as presently drafted, the bill could be the basis for unwarranted protection.

Section 301(a)(2): We are apposed to the amendment which repeals the present authority of the Tariff Commission to make recommendations to the President with respect to adjustment assistance to firms or workers. While the final authority to grant adjustment assistance should remain the prerogative of the President, we feel that he is in a better position to make his decision if he has the additional assistance of a Tariff Commission investigation and recommendation.

Section 301(b)(1): We propose that the new criteria in this section be amended to read as follows (new language is in italic):

"(1) Upon the request of the President, upon resolution of either the Committee on Finance of the Senate or the Committee on Ways and Means of the House of Representatives, upon its own motion, or upon the filing of a petition under subsection (a)(1), the Tariff Commission shall promptly make an investigation to determine whether *in the recent past significantly* increased quantities of imports of an article directly competitive with an article produced by a domestic industry, *consisting of all the domestic establishments producing such article*, have been the primary cause of serious injury, or the *imminent* threat thereof, to the *establishments* in such industry *accounting for the preponderance of the production of such article.*"

We have made these suggestions for the following reasons:

1. We believe the increase in imports should have occurred in the recent past.

2. We believe such an increase should be significant in quantity.

3. We believe a "domestic industry" should consist of all of the domestic establishments producing a competitive article and that relief should not be available because of an impact on a limited number of establishments in a localized area. This is one of the situations for which the adjustment assistance provisions are designed.

4. We believe that any escape clause finding based on the threat of serious injury should establish that the threat is imminent.

5. We believe that if serious injury is found, it should be with respect to the establishments accounting for the greater portion of the production of the domestic article. Otherwise, there could be an affirmative finding even though most of the industry was not hurt by imports.

Section 301(b): We also propose that the following new subsection (subsection 4) should be added:

"This subsection shall not apply to any imported article that is subject to quantitative restrictions imposed by or pursuant to any provision of law."

This amendment is designed to establish the principle that there is no justification for the imposition of higher tariffs if an imported article is already subject to quantitative restrictions.

In addition, we strongly urge the adoption of a new subsection (h) in section 301, which would require a public demonstration of the fact that a price must be paid for every escape clause action, and that a number of disadvantages must be taken into account in deciding whether or not to take such action, for example, the probable increases in prices to U.S. consumers, and the potential loss of export volume to U.S. firms. It is essential that the consumer's interest be specifically and effectively considered. We recommend language as follows:

"(h) The special representative for trade negotiations shall, within 15 days from the date of the receipt by the President of an affirmative finding under subsection (b), prepare and cause to be published in the Federal Register a report to the President setting out the principal supplying nations or instrumentalities of the article in question, the value of imports of such articles from such nations or instrumentalities, the principal United States exports to such nations or instrumentalities, the international obligations that the United States would assume if the tariff adjustment found to be necessary by the Tariff Commission were provided under section 351, and the judgment of the special representative as to the probable effect such tariff adjustment would have on the price and availability of the article in question."

Title IV: We strongly support section 401, which would authorize the President to modify the tariff schedules by eliminating the American selling price system of valuation. In doing so, the United States would carry out the supplementary agreement to GATT in 1967, and make clear to the world that the United States is sincere in its desire to eliminate nontariff barriers to American exports. At a later date, the organic chemicals group of our association will appear to give you in detail the reasons why ASP should be eliminated.

Finally, in support of H.R. 14870, we believe the President is right when he said in his trade message last November:

> For the past 35 years, the U.S. has steadfastly pursued a policy of freer world trade . . . (recognizing) that competition cannot tsop at the ocean's edge. . . . This Administration has reviewed that policy, and we find that its continuation is in our national interest. In fact, the need to restore our trade surplus heightens the need for further movement toward freer trade. It requires us to persuade other nations to lower barriers which deny us fair access to their markets. An environment of freer trade will permit the widest possible scope for the genius of American industry and agriculture to respond to the competitive challenge of the 1970s.

Now, I wish to explain our reasons for opposing H.R. 16920.

Title I: The establishment of restrictions on the imports of all textile products and nonrubber footwear is unwarranted and dangerous. It has not been established by the Tariff Commission or by any independent investigating committee that increased imports of these items have injured the domestic American industry. There is a provision in the Tariff Act by which the domestic industries involved can present their case to the Tariff Commission, if they feel they are injured. We believe that these industries have avoided this road to relief because

they cannot prove injury. We believe that using poltical means to gain their ends will undermine the safeguards established by the Congress over many years. Furthermore, we feel sure that other countries would retaliate, and the United States would have no chance to soften the blow through compensatory negotiations.

Title II: H.R. 16920 seeks to change the criteria of increased imports for escape clause relief from "major cause" to "substantial cause." This is weaker than the criteria proposed in the Administration bill, and a lower standard than is appropriate to make the escape clause an effective and workable mechanism. It would eliminate those provisions of the present Trade Act which limit the duration of an escape clause action to 4 years, and require an industry to justify an extension beyond that time. It would seriously change the definition of "domestic industry," and permit unlimited segmentation of an industry and an arbitrary carving out of a single company or even part of a company which might be injured by imports.

The Textile and Apparel Group and Footwear Group of our Association will present much more detailed arguments against this legislation when they appear before you later in these hearings.

In conclusion, our opposition to quota legislation is based on our conviction that of all trade barriers, quotas are the most onerous and the most self-defeating. They tend to carve sections of the market into exclusive preserves both for domestic industry and for some importers.

The importing business is a bastion of strength in the free enterprise system. Thousands of independent American businessmen are scouring the world for products which the American consumer wants at a price that he is willing and able to pay. This is free competition at its very best, and it should be the policy of our Government to give it the maximum encouragement.

Many thousands of people, including importers, shipping companies, customs brokers, and lawyers, in almost all the 50 States are rendering this service to their community.

We think that H.R. 16920 will be self-defeating, and will inevitably bring retaliation.

For those domestic producers who feel injured, we suggest that the remedies provided by existing law and the changes provided in H.R. 14870 will be adequate. They include the following:

1. Recourse under the Anti-Dumping Act;
2. Relief under escape clause provisions of the Trade Acts;
3. Relief under adjustment assistance;
4. Remedies under contervailing duties which can be applied in the appropriate instance.

We therefore urge the passage of H.R. 14870, with the changes suggested above to section 301(b)(1).

I thank you for the opportunity of appearing before you and presenting our views, and would ask to include in the testimony a brochure prepared a couple of years ago, entitled, "Here's What's Wrong With Import Quotas."

Mr. BURKE. Without objection, it is so ordered.

(The brochure referred to follows:)

HERE'S WHAT'S WRONG WITH IMPORT QUOTAS

WHAT IS AN IMPORT QUOTA?

There are various kinds of import quotas, but they all have a single purpose — to restrict imports. They limit, up to a certain quantity, the amount of a commodity that may be imported during a given year. After the quota for the year has been filled, no more of the commodity may be imported until the quota is reopened the next year.

They differ from tariffs which only set the amount of duty (i.e. tax), assessed on imports. If an American businessman pays this duty he may import as much as the market can absorb. But in the case of quotas, no amount of ingenuity will help him sell more than the quota permits. It is, therefore, the perfect tool to restrict trade and limit competition.

Special interest groups are now pressuring Congress to pass legislation imposing quotas on a wide range of imported products.

Here are the reasons why such actions would damage the American economy and lower our standard of living.

QUOTAS INCREASE INFLATIONARY PRESSURES

The imposition of quotas on imports guarantees increased inflation. By restricting competition from imports, quotas eliminate one of the most important restraints on the pricing policies of domestic suppliers. Eventually the higher prices originating in quota-protected industries will spread throughout the economy and trigger a new round of inflation.

Quotas on imports at this time would be disastrous. At present the American public is heavily burdened by rapidly rising prices and government officials are greatly concerned with containing domestic prices in order to prevent devaluation of the dollar. So long as imports are readily available, domestic producers are obliged to keep their prices competitive. With import competition restricted, an important brake on inflation is removed.

RESTRICT TRADE

SPUR INFLATION

QUOTAS WEAKEN THE AMERICAN BALANCE OF PAYMENTS

The U.S. balance of payments deficit would be considerably worse if there had not been a favorable *balance of trade* (i.e. exports exceed imports) ever since the current problem developed. For many years, the balance of trade surplus has been the most important item offsetting the deficit in the balance of payments.

Quotas on imports would drastically shrink or even wipe out that trade surplus. They would immediately reduce the capacity of U.S. overseas customers to buy U.S. exports. It is a fundamental economic law that the businessman must sell in order to buy. If quotas reduce the U.S. market for exports from other countries, the ability of these countries to purchase U.S. goods will also diminish.

More importantly, quotas would hurt the trade balance by creating inflationary pressures that would eventually destroy our ability to compete in world markets. If U.S. prices get out of line, the demand for American merchandise abroad will decline drastically and the trade surplus could easily disappear. Imports help maintain price discipline; quotas would eliminate this important price restraint.

AGGRAVATE BALANCE OF PAYMENTS DEFICIT

QUOTAS LIMIT THE CONSUMER'S CHOICE

Because of imports, the American consumer today enjoys the benefits of a global market-place. Whether he is in the market for gourmet foods, apparel, furniture, jewelry, tape recorders, cameras or cars, the variety and choice at his disposal have been widened immeasurably by imported products. Imports thus add another dimension to free enterprise by greatly increasing the consumer's freedom of choice.

Quotas, by setting an absolute limit on imports in any one year, greatly restrict the consumer's freedom of choice in the marketplace. Once a quota on an import is filled the consumer cannot buy anymore at any price.

Quotas limit consumer demand in other ways as well. Most quota levels would be on an historical base period. In other words, the quantity of goods permitted to be brought into the United States would be restricted to a percentage of the volume imported in past years. As a result, no adjustment can be made to any significant shifts in consumer demand for an import under quota restrictions.

Equally significant, imports have often provided new products for American consumers. European sports and economy cars, Japanese motorcycles, and Italian fashions — to name only some obvious examples — have created new tastes and styles and design trends. Quotas could deny the U.S. consumer the full benefit of these trends.

LIMIT CONSUMER'S CHOICE

QUOTAS RESTRICT AMERICAN MANUFACTURERS' SOURCES OF SUPPLY

American manufacturers also will be handicapped by arbitrary limitations on the range of items they can purchase for processing or assembly. Many imports are superior in quality and lower in price than comparable domestic products.

For example, American furniture makers and home builders have turned increasingly to foreign-made plywood and veneer, which offer both unique quality (many of them are made with tropical hardwoods) and very competitive price. Many U.S. radio producers now import a sizable proportion of the transistors they use in their assembly lines.

Smaller American manufacturers in particular are helped by the availability of overseas supplies. The existence of alternative sources of supply strengthens their bargaining position in dealing with the huge domestic suppliers who are also their competitors. For example, the modest-sized metal fabricator or supplier of building materials can turn to imports of metals or other basic materials when deliveries become undependable, when domestic prices rise or when prices are discriminatory.

QUOTAS DISRUPT SUPPLY AND DEMAND

Quotas allow little freedom for adjustment to shifting conditions of supply and demand. They limit competition from foreign sources, often reducing supply and practically guaranteeing price increases. For example, as a result of quotas on lead and zinc imports the surplus of many years standing changed quite unexpectedly to a shortage. Smelters were eventually unable to obtain sufficient quantities of ore of the grades necessary for their operations.

In the case of sugar imports, on the other hand, quotas have kept prices artificially high at the expense of consumers, instead of permitting adjustment of supply and demand through the market mechanism. For that reason the U.S. price of sugar is now 3½ times more than the world market price.

HANDICAP DOMESTIC MANUFACTURERS

DISRUPT SUPPLY AND DEMAND

QUOTAS FAVOR SPECIAL INTERESTS

If quotas are imposed on imports, special interests would achieve a victory at the expense of the national interest. Quotas would shield certain domestic industries from overseas competition and guarantee them a protected market. By assuring domestic producers a protected market, quotas bring all the ills associated with cartels and monopolies — higher prices, declining research and development efforts and reduced efficiency.

Monopoly conditions created by quotas would cost the American public and the nation heavily. Prices would inevitably rise, sapping the American consumer's purchasing power. Inflation would also further weaken the U.S. balance of payments, and, at an extremely critical moment. Small and medium-sized manufacturers would be denied cost-cutting sources of supply which enable them to compete against larger industries. The consumer would lose much of the great freedom of choice he now enjoys.

In short, the national interest would be sacrificed to protect narrow, special interests.

QUOTAS INJECT MORE POLITICS AND GOVERNMENT CONTROL INTO THE ECONOMY

Quotas on imports would shift decision-making in this sector of the economy from the marketplace to Washington. Under a quota system, supply and demand are shackled by government control and political maneuvering. Market levels are determined by Washington government agencies and lobbyists for the interests concerned.

The introduction of controls over imports is simply one more unnecessary and dangerous move down the road to large-scale government intervention in the national economy. John C. Lobb, President of Crucible Steel Company, recognized this fact in his vigorous dissent from the steel industry's drive for protection.

He charged that any attempt to govern trade "through quotas, tariffs or other legislation is an invitation to government control of prices and wages." "In fact," he said, "to ask for government assistance in solving our own competitive problems is just one more step toward nationalization of the American steel industry."

Mr. Lobb's fears of the consequences of import quotas for the economy and the steel industry are clearly justified. If import quotas are imposed, what is to prevent the same logic from being employed to justify other kinds of unwanted government intrusion into the normal workings of commerce and industry?

FAVOR SPECIAL INTERESTS

INCREASE GOVERNMENT CONTROL

QUOTAS REQUIRE MORE GOVERNMENT ADMINISTRATORS

If quotas are imposed, more people must be hired to administer them. A costly apparatus already exists to handle the mountains of paper work required in connection with the few quotas now in force. For instance, many officials in the Bureau of Customs headquarters in Washington, and in the regional and district offices of the Bureau throughout the country spend much of their time supervising and enforcing certain quotas.

Other Government agencies are also involved. The Department of Agriculture handles quotas on sugar, wheat and wheat flour, raw cotton and cotton waste, and certain types of cheese and other dairy products.

The Department of the Interior has an "Oil Import Administration" to supervise the quotas on imported petroleum and petroleum products, and an "Oil Import Appeals Board" to consider petitions by persons affected by these quotas. And finally there is the most recent group concerned with quotas — the Interagency Textile Administrative Committee — which controls the "levels of restraint" (another name for quotas) on the amount of cotton textiles and cotton textile products that may be imported into the United States from specified countries.

We can easily imagine to what size this government machinery will grow if Congress accedes to demands for more quotas.

QUOTAS PROLIFERATE AND ENDURE

If any industry succeeds in obtaining quota protection against imports, other domestic industries that fear competition from imported products will sooner or later press Congress for similar special treatment. Historically, the success of one industry has spurred the demand of others.

Once a quota has been imposed its subsequent removal becomes very difficult. Industries sheltered behind quota walls will band together to fight for continued protection as they grow weaker through lack of competition.

The agencies and employees created to administer quotas could become a vested interest. If so, the chances are they will be interested in the perpetuation of quotas. Both employees and quota-protected industries acquire an interest in maintaining the status quo.

RAISE GOVERNMENT COSTS

PROLIFERATE AND ENDURE

QUOTAS ARE ARBITRARY AND DISCRIMINATORY

Import quotas by their very nature are arbitrary. They discriminate against some importers in favor of others, and against some supplying countries in favor of their rivals. Importers inevitably feel the quotas are set too low; domestic producers claim they are too high.

Quotas are usually determined as percentages of the volume of goods entering the country in an arbitrarily chosen base period. If licenses are issued, importers and supplying countries active in the U.S. market during the base period are guaranteed a share of the annual quota. But American businessmen, who would like to begin importing, have difficulty securing a share of the quota even if they can offer better quality products and favorable prices and deliveries.

If, on the other hand, licenses are not issued to individual importers, and there is no allocation to specific countries, the U.S. market is divided on a first-come first-served basis and a free-for-all develops. Under these circumstances style and seasonal merchandise often cannot be delivered before the quota is filled; the distant supplier who must take longer to deliver his goods is at a disadvantage; and the smaller importer is less able to compete during the frenzied period of entering goods before the quota limit is reached.

QUOTAS WILL HURT AMERICAN RELATIONS ABROAD AND COULD START A WORLD-WIDE TRADE WAR

Since 1934 the United States has led the world in seeking to increase commerce among nations through reciprocal reduction of tariff rates. The resulting expansion of international trade has been a major contributing force in the unprecedented growth of world prosperity.

A reversal of this long-standing policy by unilateral imposition of extensive import quotas would immediately hurt the economies of U.S. trading partners and allies. Retaliation against American exports would be inevitable and follow swiftly. The result: a world trade war which would throw the world economy into chaos, create dangerous political and diplomatic frictions, and cause considerable damage to the U.S. economy.

Under the rules of the General Agreement on Tariffs and Trade (GATT), which governs world commerce, retaliation is clearly permitted. Any American export can be selected by a foreign government for retaliation. During the so-called "Chicken War" several years ago when the European Common Market decided to protect its producers against American chicken exports, the U.S. in turn raised tariffs on French cognac and West German trucks.

While some domestic industries may achieve "protection" through quotas against import competition, at the same time they jeopardize the export business of many other American industries. No company or industry can insulate its exports against retaliation.

DISCRIMINATE AMONG IMPORTERS

PROVOKE TRADE WAR

SUMMARY

This brief pamphlet calls the American public's attention to a crucial issue and explains what is at stake. It points out that import quotas are the worst form of trade restriction; that they stifle competition; that they limit the consumer's choice; and that, in general, they violate the principles of free enterprise.

These facts are recognized by most government officials, elected representatives, businessmen and economists. Many U.S. industries such as General Motors, Ford, IBM, Deere & Co., Xerox, Chas. Pfizer & Co., Boeing, Litton Industries, to name but a few, have strongly criticized the proposals for import quotas. Major financial and banking institutions (Chase Manhattan Bank, First National City Bank, the Bank of America, Lehman Brothers International, among others) have voiced strong opposition to import quotas.

Leading magazines (Time, Newsweek, Life, Fortune, Barrons) and nearly every major daily newspaper in the country (The New York Times, The Washington Post, The Wall Street Journal, The Boston Globe, The Chicago Sun-Times, The Journal of Commerce, The Los Angeles Times, The Seattle Times) have editorialized against import quotas.

Every Cabinet officer directly or indirectly concerned with the U.S. economy has made public his opposition to import quotas. President Johnson himself has repeatedly, and in strong terms, criticized the protectionist's demands for import quotas. In his economic report to Congress, issued February 1, 1968, the President again spoke out against import quotas. In the report he stated:

> "Some would throw away the gains from three decades of liberal trade policy, retreating into shortsighted protectionism. Mandatory quotas on American imports would meet prompt retaliation abroad. All Americans would pay a high price for the benefit of a few. Protectionism is no answer to our balance-of-payments problem. Its solution depends on expanding world trade."

Those domestic industries seeking import quotas have not been deterred by the strong criticism of their demands. They have deluged the public, which would suffer most from quotas on imports, with propaganda urging it to support their demands. The American Importers Association believes the public has the right to hear the other side of the story.

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VIOLATE THE PRINCIPLES OF FREE ENTERPRISE

Mr. CUTLER. I thank you for the opportunity.

Mr. BURKE. Are there any questions?

Mr. CONABLE. No questions.

Mr. BURKE. Thank you for your appearance before the committee.

Our next witness is Mr. Danielian. We welcome you to the committee. Please identify yourself for the record.

STATEMENT OF N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. DANIELIAN. I have a statement which, with your permission I would like to put in the record. It consists of a statement, some tabulations on trade, balance of payments, and also a copy of our recommendations to the Treasury Department concerning taxes on exports.

Then I will proceed to make oral comments summarizing the paper.

Mr. BURKE. Your entire statement will appear in the record.

Mr. DANIELIAN. For the record I would like to show that I have had the cooperation in the preparation of this statement of Mr. George Gray, consultant; Mr. Charles Kerester, our tax counsel; and also Mr. Ronald Danielian, associate economist.

Mr. Chairman, first briefly summarizing our trade and balance of payments position today I believe we stand on the threshold. We have been going through a transition period during the past 10 years, unrecognized, unfortunately, the result of which has been that we have accumulated a large balance of payments deficit over these years.

The 1969 figures show that we ran a $7.1 billion balance-of-payment deficit on a liquidity basis. We have accumulated current liabilities which stand as of today at around $44 billion. Our military and other governmental expenditures abroad, which the private sector was not able to make up, have continued to record in the neighborhood of $3½ to $5 billion of deficits.

In the last 3 years there has arisen a new factor in our international relations, namely, the deterioration of our trade situation to the extent that as of 1969, if you exclude the figures concerning Government-financed exports, we ran probably a balance-of-trade deficit of about $2.4-billion, not taking into account the adjustments that some people would like to make with respect to the difference between f.o.b. and c.i.f. prices.

Therefore we are now, we might say, importing goods on borrowed money as we are fighting wars on borrowed money, money borrowed not only at home but abroad.

Now what does this mean with respect to trade policy?

To comment briefly on the bill that is before you, our organization has studied it carefully and we come to the following conclusions.

First, we have no objections to reviving the President's authority to make tariff reductions only to the extent that they are necessary for housekeeping purposes.

Second, we do not see much hurry in eliminating the ASP. It seems to me that in trade negotiations we are going to need all the bargaining leverage that we have with the Common Market as well as with other countries.

Third, congressional intent with regard to nontariff barriers. The President in his message requested that the Congress express its will as to what they would like to do on nontariff barriers.

Well, we have tried to think about the implications of this and what we would like other countries to do in this area and what other countries may expect us to do in the United States. If you really look at the list of nontariff barriers that other countries complain about, you will find the following. These are not necessarily in the order of importance, and I am mentioning only a few of them.

First, European and other countries would like to eliminate our buy-American requirements in government and foreign aid procurement. This is a multibillion dollar opportunity. They have never liked it, and they would like to see it dismantled. This has been in the offing now for the last 10 years, since buy American was interjected into the operations of the foreign aid program and of course even before that they were opposed to it in U.S. Government procurement.

Then of course, in the second place, they are opposed to quotas, prospective and present, on oil imports, dairy products, and textiles.

Third, they want to eliminate the American selling price.

Fourth, they want to eliminate or revise certain safety requirements, Food and Drug Administration standards and, generally, health requirements on imported products at the Federal, State, and local levels.

Fifth, we have heard that the Western Hemisphere Trade Corporation with the special tax treatment is displeasing to them. They consider this a tax advantage in our trade with the Western Hemisphere and they would like it modified.

Sixth, American restrictions on foreign travelers, such as visas, investigations, et cetera; they would like to have those eliminated although I don't believe they consider this in the tariff context. But I think that there is some justification for their position on this.

One would think perhaps that there might be some in other countries who might consider the Congress of the United States one of the nontariff barriers.

Now on our side we would like them to eliminate quotas against our exports as in the case of Japan, the variable levies on agricultural products by EEC, "buy domestic" programs whether administratively or legally imposed by any country.

Standard specifications which exclude American made products.

Rebate of taxes on exports (or allowing the United States to rebate direct taxes.)

Internal taxes which mainly affect imported products such as automobiles, and oil, seed, and cake.

I think your committee is confronted with the task of defining in your mind as to how many of these items you would like to have negotiated. I don't think it will do to give blanket authority and then wake up one of these mornings to find that you have given up something that is of very substantial importance to either our balance of payments or balance of trade. As in past tariff negotiations, we may be caught in a bear trap unless we have a clear conception of the relative economic values and balance-of-trade impact on each one of these items.

Heretofore some major elements on both sides have been considered nonnegotiable. If so, is there enough value in the remaining negotiable items to make much of a case for a major thrust towards trade negotiations through multilateral negotiations in the field of nontariff barriers? Are not these issues better resolved by bilateral negotiations?

Then there is a new factor which this committee must consider in connection with this legislation. That is the implications that Common Market membership of the United Kingdom will have on our trade. The proliferation of bilateral agreements in the Common Market has created real serious questions as to the effect it will have upon our trade interests in the future.

The decision on the accession of the United Kingdom to the European countries are so far reaching that it is of interest to this commit- by Great Britain as a sovereign power. Our position regarding the creation of the EEC, as well as our hopes for United Kingdom, accession, were expressed long ago. Our expectations were that the economic union would result in political and military advantages. I wonder if a reassessment of our attitude is not in order now. This is a subject which properly falls within the conduct of our foreign affairs, but the trade effects which will be produced by the expansion of the EEC through the accession of the United Kingdom and other European countries are so far reaching that it is of interest to this committee as well. The problem is aggravated by the recent proliferation of preference agreements by the EEC with almost all of free Europe, the Mediterranean littoral, former European colonies in Africa, and even some of their neighbors.

The point is that the snowballing effect of the expansion of the EEC by accessions and reciprocal agreements for preferences is not a matter exclusively of interest to the varying opinions of members of the executive branch which permits no public examination of the factors involved. The British Government recently issued a white paper on the possible effects the accession of the United Kingdom into the EEC will have on the British public. It was a quantitative, dollar and cents assessment. It was a courageous act, as much of the factual evidence did not support the official policy of the Government with respect to entering the Common Market. The President has said and Chancellor Brandt likes to repeat on all occasions, that the United States is prepared to accept sacrifices for the expansion and unity of Western Europe. What sacrifices? Who is going to make them? What will be the return? What assurances can we have, in a rapidly changing political environment, that the resulting customs union will be friendly and cooperative across the Atlantic? I believe this committee, the U.S. Congress and the American people are entitled to a frank and open discussion regarding the effects on the United States of the expansion of the EEC.

New discriminations will arise out of the aggrandisement of the EEC. With all of Western Europe, the Mediterranean and Africa, plus Caribbean islands and sundry other territories absorbed into its economic orbit, it will no longer be the European Economic Community, but in fact it might justly be called the European Economic Empire. It is hard to believe that this was contemplated when GATT was originated in 1948.

It is now proposed that we for the first time recognize GATT by legislation by direct authorization of funding by Congress.

We do not support a separate authorization for the funding of the GATT. The U.S. Congress has never approved the specific language contained in the GATT agreement.

If you are going to authorize it, then I think we should hold hearings on the provisions of the GATT agreement and see whether we like them as they are today.

Since there are limitations which the GATT places on U.S. action in trade matters, we just cannot go ahead and approve it without really understanding what the implications will be.

We would view a separate authorization as congressional approval of all GATT provisions, without any discussion of how they affect the United States. GATT, in fact, needs to be revised before it is sanctified by legislation.

Now, there is authority requested to extend the retaliatory authority of the President under section 252, which applied to agriculture, to include industrial products.

We would approve this, but I don't think it will be credible in other countries, simply because it has not been applied in the field of agriculture, in spite of all the discrimination that our agricultural products have faced.

With regard to export incentives, this is an area in which our organization has worked for a long time. We welcome the movement in the direction of export incentives which has emerged from the deliberations of the Treasury Department.

We would like to see a much bigger program than contemplated by the DISC proposal. It fails to include one of the major areas of exports, namely, services. Total services bring in between $8 and $9 billion a year to the United States, and tourism alone brings $2.3 billion a year, and this is an area where demand elasticity is much greater than in our product lines.

But speaking personally, I would like to make a comment—I hope this is not going to be considered discouraging—I say this with some hesitancy.

I know how hard, diligently and faithfully, they worked on this proposal in the Treasury Department. I know also that a great deal of hope rides on it.

We are at the cross roads, however, and we cannot afford to take half measures which will fail to accomplish the desired results.

To achieve much improvement in foreign competitiveness, we must either reduce prices, including credit terms, or provide the business community strong motivation to beat the bushes of the world markets, or give them some extra cash for promotional expenses.

Can DISC, as put before this committee, do any of these things?

As I understand it, the DISC proposal would "defer" taxes on approximately $500 million of tax liability resulting from, say, $35 billion of export commodity sales, beginning in fiscal year 1972. The expectation is that, as a result of this, exports may be encouraged by an increment of $1 billion.

First, let me clear one possible misunderstanding. The deferral is not a tax reduction. It will be carried on the books of the exporter as a contingent tax liability. It cannot be passed on as dividends, nor wisely spent on current promotional expenses. It must be invested in export-related activities, broadly defined. It must not be considered a "tax windfall" to business.

The net advantage business would get from it is an interest-free advance. Interest on $500 million would be, at 8 percent, $40 million.

This is the net gain, an infinitesimal amount spread over $35 billion of exports, especially if you consider that it will be shared by thousands of exporters, each one getting but a smidgen of interest-free capital.

There is not going to be much objection to this from foreign countries, simply because there is little in this to fear from their point of view. It provides neither price competitiveness nor strong motivation for business to concentrate on an export effort.

Why have we come up with so little (and one might add so late)? Simply because of two factors. This deferral scheme in lieu of tax reduction, has been adopted primarily because of insistence by elements in the executive departments that we must not be in violation of article XVI of the GATT, which prohibits subsidies; and income tax concessions are considered subsidies under an interpretation to which the United States agreed in 1960.

Mr. Chairman, you will recall that all through 1967, 1968, and 1969 the question of revision and amendment of article XVI was a matter of interest to this committee. The administration then in power promised fervently that this question would be negotiated in Geneva in the hope of securing a revision or redefinition of article XVI.

We have checked on the progress they have made, and I can define it simply as "zero."

Having failed to achieve revision of article XVI, the administration has been compelled to come up with a device which would not be considered in violation of the GATT. In the process, we have ended up with a proposition of little practical impact.

The budgetary objection addresses itself to the quantity of revenue sacrificed. The validity of this depends upon the assumption of priorities.

I happen to believe that the rectification of our international trade and balance of payments position is, next to the physical security of the United States, one of the highest priorities. However, there are ways of using Treasury resources, or forsaking receipts, which may be of more immediate impact upon both trade and balance of payments. If the U.S. Treasury will give up $500 million, why not make it immediately available as tax reductions or tax credits, including such promising fields as encouragement of tourism to the United States?

It is important to remember that the GATT does not apply to services. Therefore, the United States is free to devise any tax incentives for services, especially in the area of tourism. If we are willing to sacrifice some revenue for immediate effect, why not grant an amnesty of taxes, for a limited period, on repatriation of funds, or grant tax forgiveness for incremental achievements in exports in spite of the GATT?

Mr. Chairman, what I am trying to say is that this area, so important to the international position of the United States, deserves a higher priority consideration, and it seems to me this committee and the staff of the Joint Committee on Internal Revenue Taxation now have a great opportunity to come up with some new ideas and programs of a bold and farsighted nature.

To stimulate this discussion and contribute to a bolder approach to promotion of exports of goods as well as services, we have attached as an appendix a copy of our submission to the Treasury Department on tax incentives for the export of goods and services.

Now I come to some specific recommendations that we would like to make for long-range trade policy.

I have followed this discussion on trade policy, Mr. Chairman, ever since 1945. I somehow have the feeling that we are really, as the saying is in military affairs, fighting the last war.

There are major changes in the world today. One of the most important is that the world is being divided into trading blocs. Our own administrative machinery here in the United States is not geared to deal with this situation.

1. Council on International Economic Policy.

First and foremost, therefore, we recommend by legislation the establishment of a Council on International Economic Policy.

For some time now, I have advocated the establishment of a Council on International Economic Policy. Just as we now have an Urban Affairs Council, an Environmental Council, and a Council of Economic Advisers which mainly deals with U.S. internal economic problems, we should also have a Council on International Economic Policy.

The Council would advise the President and the Congress on all aspects of U.S. international economic and financial relations. It would develop programs and strategies for achieving economic objectives in the external relations of the United States. It would have final responsibility, subject to the approval of the President, in defining the content of the negotiating posture with other trading blocs.

The Department of State, of course, would still carry on international negotiations, within the guidelines and programs defined by the Council, as approved by the President.

2. Foreign Exchange Budget.

One of the first tasks of this Council should be to submit to the Congress an annual foreign exchange budget for the United States.

We often hear the argument that since U.S. exports of goods are only 4 percent of gross national product (GNP) and U.S. exports of goods and services are about 6 percent of GNP, any imbalance in our international payments is of little significance. This, gentlemen, is an erroneous assumption.

The proper comparison is not between our foreign exchange earnings and GNP, but between what we earn abroad and what we spend abroad.

For more than a decade, the United States has continuously run high balance-of-payments deficits. This means that many of the things we do abroad are done with money borrowed abroad. To bring our payments in balance, we must either earn more or spend less, and within this context, it is vitally important that we plan for the future by means of a proposed foreign exchange budget.

We should include all estimated foreign exchange earnings and all estimated foreign exchange costs, and the Council on International Economic Policy should develop programs for bringing them into balance. In this way the United States will be able to determine its priorities, given the foreign exchange available, without continual increases in U.S. liquid liabilities abroad.

3. Bilateral negotiations between major blocs.

In the economic relations with other countries, including our trade relationships, the United States should strive for bilateral negotiations between major blocs: The European Economic Community (EEC),

the European Free Trade Association (EFTA), the British Commonwealth, Japan, the infant Latin American Free Trade Area (LAFTA), and the Central American Common Market (CACM).

The significance of trading blocs is that, for trade negotiating purposes, the concept of nation-state has lost its importance. In its most vital aspect, the unconditional most-favored-nation principle, GATT is being violated by the expansion of these blocs. And the national treatment principle is being constantly modified in all parts of the world.

If practical results are to be achieved, negotiations must be on a bilateral basis between these blocs.

4. Negotiations should include all pending economic and financial issues.

In any negotiations that the United States undertakes with major trading blocs, we should include all pending economic and financial issues such as trade, mutual security expenditures, foreign aid, investments, balance of payments adjustments, freedom to travel, landing rights, et cetera. To limit any negotiations with trading blocs to a commodity-by-commodity or factor-by-factor approach will only lead to future maladjustments.

5. Reciprocity as a condition of most-favored-nation treatment.

In any bloc negotiations, we should strive for reciprocity as a condition of most-favored-nation (MFN) treatment. This reciprocity procity to include sharing of foreign aid and security costs, national treatment of investments, freedom of movement of travelers, sharing of foreign aid, fair and equal treatment of travelers and industrial property rights.

If I were to make one single recommendation, it would be this: Recognize the existence of trading blocs, make the most favored nation treatment conditional on reciprocity, and broaden the concept of reciprocity to include sharing of foreign aid and security costs, national treatment of investments and taxation, mutual protection of industrial property rights, and the fulfillment of obligations undertaken by Treaties of Friendship, Commerce, and Navigation.

A moment's thought about the implications of this, Mr. Chairman, will persuade one that with this kind of policy approved by legislation, many of the issues which other countries refuse to negotiate will soon become negotiable.

Thank you very much.

Mr. BURKE. Does that conclude your testimony?

All these charts and everything will be included in the record.

(Mr. Danielian's prepared statement follows:)

PREPARED STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

INTRODUCTION

Mr. Chairman, for a number of years the International Economic Policy Association has been greatly concerned about the continuing deficit in the U.S. balance of payments, and the steady downward trend of our trade surplus and of the U.S. share of world trade.

The United States has been suffering from serious basic imbalances in our expenditures and receipts abroad since 1958. In 1969, the deficit was $7.1 billion and the first quarter of 1970 has recorded a preliminary $1.9 billion deficit. In the last 10 years the United States has more than doubled its liquid liabilities, from $21 billion in 1960 to $44 billion in 1970. Even if you net out the circular

flow of up to $4 billion to the Euro-dollar market in 1968 and 1969, our liquid liabilities in 1970 would be $40 billion.

We have, on many occasions, stated the fact that a large part of our payments deficits resulted from government sector expenditures for the military abroad, foreign aid and other purposes. The private sector was in surplus, but not enough to offset the public expenditures abroad. This situation has changed with respect to trade.

The traditional surplus in the U.S. balance of trade has disappeared. Our 1964 trade surplus of $6.6 billion declined so that last year it was one-tenth of that amount. While our dollar volume in imports has increased since 1964 by 92 percent, the dollar volume of our exports has increased by only 43.2 percent. Our share of world trade, measured by our exports, has decreased from 17.5 percent in 1964 to 15.3 percent in 1969.

As shown in the attached Table 1, our nonagricultural trade has been increasingly in deficit: in 1968, with Japan (—$2,033 million), with Canada (—$1,454 million), the Common Market (—$953 million), and the United Kingdom (—$69 million). There was no apreciable improvement in 1969.

Agriculture has always been one of our greatest sources of export earnings because of our relative advantage in this field. The European Community's common agricultural policy, with its price supports without production controls (a direct violation of their GATT commitments) and their variable levies, encourages uneconomic production. This is giving the EEC many headaches, but it also is disrupting U.S. and world agricultural trade. The attached Table 2 gives the story of our dwindling agricultural exports. Our commercial agricultural trade balance in 1968 showed a deficit of $4 million if P. L. 480 shipments are excluded, and the preliminary figure for 1969 is —$62 million.

I have attached to this testimony some additional tables (numbered 3–11) which show our share of world exports, our agricultural exports to the EEC and the United Kingdom and our trade balance in various major product groupings.

President Nixon in his trade messages to the Congress of November 18, 1969 and May 11, 1970, referred to the disappearance of our trade surplus and the rising competition of foreign countries.

There are various initiatives which can be taken. After commenting on the points raised in the President's trade message, I would like to present some specific recommendations for trade incentives for the consideration of this Committee.

COMMENTS ON THE PRESIDENT'S TRADE MESSAGE

1. *Revival of President's authority to make tariff reductions.*—We have no objection to the revival of the President's authority, which expired three years ago, to make minor, housekeeping tariff reductions. It appears that this authority is necessary to make minor adjustments to offset the raising of the duties on imports as the result of an "escape clause" action or when a statutory change is made in tariff classifications.

2. *Elimination of ASP.*—During the Kennedy Round negotiations, it was proposed that the United States repeal the American Selling Price legislation in return for European promises of reciprocal reductions in tariffs on U.S. chemical exports, some revision of European road taxes which discriminate against larger automobiles, and changes in the preferential treatments on tobacco extended by the United Kingdom to Commonwealth countries. None of the European countries have taken steps to implement their side of the proposal. The pressure is on the United States, as usual, to deliver first. We should not be in such a hurry. There are so many trade barriers which other countries can eliminate, such as quotas by Japan and variable levies on agricultural products by the EEC, that we can afford to take our time. In dealing with the growing proliferation of nontariff barriers and competitive devices of our trading partners, we need every resource we can find in our bargaining.

3. *Congressional intent with regard to nontariff barriers.*—The Association fully supports the President's request for a clear statement of Congressional intent with regard to nontariff barriers. While the United States, since World War II, has steadily taken steps to discourage obstacles to foreign trade, we now have reached a stage where we must meet the competitive barriers, preferences and other devices which are resorted to by Japan, the EEC and other industrial nations. At the beginning of this year, the Director General of GATT proposed that a standstill from January 1, 1970, be agreed to in the field of nontariff

barriers, but this proposal was rejected by the European nations at the last meeting of GATT.

I understand that "exploratory discussions" regarding nontariff barriers are being conducted by working groups of GATT, and that these are expected to continue into the next year before any actual negotiations on the subject can be expected to begin.

You have been asked by the President to express your views on negotiations regarding nontariff barriers. I have tried to give some thought as to what we would like to obtain from other countries in this area and what our trading partners may have in mind as to negotiations and concessions on our part.

Just confining ourselves to the major issues, it seems to me that other countries would like to break through the following conditions or difficulties they encounter in our markets:

a. "Buy American" requirements under government and foreign aid procurement. Other countries have never liked it. This is a multibillion dollar business, and a prime target for dismantling.

b. Quotas, present and prospective, on oil imports, dairy products and textiles.

c. The American Selling Price.

d. Safety requirements, Food and Drug Administration standards and, generally, health requirements on imported products, at the federal, state and local levels.

e. The Western Hemisphere Trade Corporation with its special tax treatment.

f. American restrictions on foreign travelers such as visas, investigations, etc.

How much of this are we willing to put onto the bargaining table? What would we want in exchange from other countries? Just for example, we could ask for the elimination of the following barriers:

a. Quotas against our exports, i.e., by Japan.

b. The variable levies on agricultural products, by EEC.

c. "Buy Domestic" programs, whether administratively or legally imposed, by any country.

d. Standard specifications which exclude American made products (such as the tri-partite electronics agreement proposed in Europe.)

e. The rebate of taxes on exports (or allowing the United States to rebate direct taxes.)

f. Internal taxes which mainly affect imported products such as automobiles and oil seed and cake.

How many of these are our trading partners willing to put on the table for negotiations?

As in past tariff negotiations we may be caught in a beartrap unless we have a clear conception of the relative economic values and trade and balance of payments impact on each one of these items. Heretofore, some major elements on both sides have been considered non-negotiable. If so, is there enough value in the remaining negotiable items to make much of a case for a major thrust towards trade liberalization through multilateral negotiations. Are these not issues better resolved by bilateral negotiations?

There is one area in which international negotiations may be in order. That is the national treatment of investments in various countries of the world. We have an open society here in the United States and we welcome investments and competition by foreign-owned enterprises. It is simple justice for us to insist that others give us equal treatment.

4. *U.S. attitude on the accession of the United Kingdom and other countries to the European Common Market.*—The decision on the accession of the United Kingdom to the European Common Market is a matter exclusively for the determination by Great Britain as a sovereign power. Our position regarding the creation of the EEC, as well as our hopes for U.K. accession, was expressed long ago. Our expectations were that the economic union would result in political and military advantages. I wonder if a reassessment of our attitude is not in order now. This is a subject which properly falls within the conduct of our foreign affairs, but the trade effects which will be produced by the expansion of the EEC through the accession of the United Kingdom and other European countries are so far-reaching that it is of interest to this Committee as well. The problem is aggravated by the recent proliferation of preference agreements by the EEC with almost all of Free Europe, the Mediterranean littoral, former European colonies in Africa and even some of their neighbors.

The point is that the snowballing effect of the expansion of the EEC by accessions and reciprocal agreements for preferences is not a matter exclusively of interest to the varying opinions of members of the Executive Branch which

permits no public examination of the factors involved. The British Government recently issued a white paper on the possible effects the accession of the United Kingdom into the EEC will have on the British public. It was a quantitative, dollars and cents assessment. It was a courageous act, as much of the factual evidence did not support the official policy of the government with respect to entering the Common Market. The President has said, and Chancellor Brandt likes to repeat on all occasions, that the United States is prepared to accept sacrifices for the expansion and unity of Western Europe. What sacrifices? Who is going to make them? What will be the return? What assurances can we have, in a rapidly changing political environment, that the resulting customs union will be friendly and cooperative across the Atlantic? I believe this Committee, the U.S. Congress and the American people are entitled to a frank and open discussion regarding the effects on the United States of the expansion of the EEC.

New discriminations will arise out of the aggrandisement of the EEC. With all of Western Europe, the Mediterranean and Africa, plus Caribbean islands and sundry other territories absorbed into its economic orbit, it will no longer be The European Economic Community, but in fact it might justly be called The European Economic Empire. It is hard to believe that this was contemplated when GATT was originated in 1948.

5. *Specific authorization for the funding of GATT.*—We do not support a separate authorization for the funding of the General Agreement on Tariffs and Trade (GATT). The U.S. Congress has never approved the specific language contained in the GATT, even though there are limitations which the GATT places on U.S. action in trade matters. We would view a separate authorization as congressional approval of all GATT provisions without any discussion of how they affect the United States. GATT needs to be revised before it is sanctified.

6. *Extension of retaliatory authority on agricultural products and application to industrial products.*—We support extension of existing retaliatory authority to the President to be used against unfair actions on U.S. agricultural and nonagricultural products, especially in third country trade. Through the years, various unfair subsidies have been granted by countries in Europe for third country exports. One particular incident comes to mind in relation to a French government subsidy of wheat exports to traditional U.S. export markets. This practice should not be allowed and the President should have authority to react quickly to any unfair situation that arises. The authority to retaliate for unfair actions against agricultural products has been used only once since its inception in 1962. It is to be hoped that greater use will be made of this authority in the future. Otherwise its extension to include industrial products will not be credible abroad.

7. *Export incentives.*—We support increased export incentives for U.S. goods and *Services.* Tax incentives in the form of reduced rates on goods exported (such as is the case with the Western Hemisphere Trade Corporation) is preferable to a tax deferral. However, if the U.S. government chooses either rate reduction or tax deferral, service should be included. Service receipts, including international tourism, amount to $8,126 billion or 16 percent of all U.S. receipts from exports of goods and services in 1969. There is no better way to close the travel gap, for instance, than by positive means to encourage more tourism to the United States. Tourism alone earned in excess of $2.3 billion of the $8.126 billion in our Service Account. I hope that in any proposal passed by this Committee for the promotion of exports, 16 percent of our export earnings in the form of services are not left out. Attached as an Appendix to this testimony is a paper analyzing the Association's position with regard to various tax incentives for exports.

Mr. Chairman, in all honesty, I must make a personal comment on the DISC proposal submitted by the Treasury. I say this with some hesitancy. I know how hard, diligently and faithfully they worked on the proposal. I know also that a great deal of hope rides on it. We are at the crossroads, however, and we cannot afford to take half measures which will fail to accomplish the desired results. To achieve much improvement in foreign competitiveness we must either reduce prices, including credit terms, or provide the business community a strong motivation to beat the bushes of world markets, or give them some extra cash for promotional expenses. Can DISC as put before this Committee do any of these things?

As I understand it the DISC proposal would "defer" taxes on approximately $500 million of tax liability resulting from, say, $35 billion of export commodity sales, beginning in Fscal year 1972. The expectation is that, as a result of this, exports may be encouraged by an increment of $1 billion.

First, let me clear one possible misunderstanding. The deferral is not a tax reduction. It will be carried on the books of the exporter as a contingent tax liability. It cannot be passed on as dividends, nor wisely spent on current promotional expenses. It must be invested in export related activities, broadly defined. It must not be considered a "tax windfall" to business.

The net advantage business would get from it is an interest free advance. Interest on $500 million would be, at 8 percent, $40 million. This is the net gain, an infinitesimal amount, spread over $35 billion of exports, especially if you consider that it will be shared by thousands of exporters, each one getting but a smidgen of interest-free capital.

There is not going to be much objection to this from foreign countries simply because there is little in this to fear from their point of view. It provides neither price competitiveness nor strong motivation for business to concentrate on an export effort.

Why have we come up with so little (and one might add so late)? Simply because of two factors. This deferral scheme, in lieu of tax reduction, has been adopted primarily because of insistence by elements in the Executive Departments that we must not be in violation of Article XVI of GATT (which prohibits subsidies, and income tax concessions are considered subsidies under an interpretation to which the United States agreed in 1960.)

Mr. Chairman, you will recall that all through 1967, 1968, and 1969 the question of revision and amendment of Article XVI was a matter of interest to this Committee. The Administration then in power promised fervently that this question would be negotiated in Geneva in the hope of securing a revision or redefinition of Article XVI. We have checked on the progress they have made and I can define it simply as "zero." Having failed to achieve revision of Article XVI, the Administration has been compelled to come up with a device which would not be considered in violation of GATT. In the process we have ended up with a proposition of little practical impact.

The budgetary objection addresses itself to the quantity of revenue sacrificed. The validity of this depends upon the assumption of priorities. I happen to believe that the rectification of our international trade and balance of payments position is, next to the physical security of the United States, one of the highest priorities. However, there are ways of using Treasury resources, or forsaking receipts, which may be of more immediate impact upon both trade and balance of payments. If the U.S. Treasury will give up $500 million, why not make it immediately available as tax reductions or tax credits, including such promising fields as encouragement of tourism to the United States? It is important to remember that GATT does not apply to services. Therefore the United States is free to devise any tax incentive in the area of tourism. If we are willing to sacrifice some revenue for immediate effect, why not grant an amnesty of taxes, for a limited period, on repatriation of funds, or grant tax forgiveness for incremental achievements in exports in spite of GATT?

Mr. Chairman, what I am trying to say is that this area, so important to the international position of the United States, deserves a higher priority consideration; and it seems to me this Committee and the staff of the Joint Committee on Taxation now have a great opportunity to come up with some new ideas and programs. To stimulate this discussion and contribute to a bolder approach to promotion of exports of goods as well as services, we have attached the Appendix mentioned above which is a copy of our submission to the Treasury Department.

SPECIFIC RECOMMENDATIONS FOR FUTURE TRADE POLICY

I would like now to touch briefly upon four areas for U.S. future trade policy which are of paramount importance. If the United States is to maintain its economic position in the world, we will sooner or later have to address ourselves to these items.

1. *Establishment of a Council on International Economic Policy.*—For some time now, I have advocated the establishment of a Council on International Economic Policy. Just as we now have a Domestic Council, an Urban Affairs Council, an Environmental Council, and a Council of Economic Advisors which mainly deals with U.S. internal economic problems, we should also have a Council on International Economic Policy.

The Council would advise the President and the Congress on all aspects of U.S. international economic and financial relations. It would develop programs and strategies for achieving economic objectives in the external relations of the United States. It would have final responsibility, subject to the approval of the

President, in defining the content of the negotiating posture with other trading blocs. The Department of State, of course, would still carry on international negotiations, within the guidelines and programs defined by the Council, as approved by the President.

2. *Foreign Economic Budget.*—One of the first tasks of this Council should be to submit to the Congress an annual foreign exchange budget for the United States. We often hear the argument that since U.S. exports of goods are only 4 percent of gross national product (GNP) and U.S. exports of goods and services are about 6 percent of GNP, any imbalance in our international payment if of little significance. This, Gentlemen, is an erroneous assumption.

The proper comparison is not between our foreign exchange earnings and GNP, but between what we earn abroad and what we spend abroad. For more than a decade, the United States has continuously run high balance of payments deficits. This means that many of the things we do abroad are done with money borrowed abroad. To bring our payments in balance we must either earn more or spend less, and within this context, it is vitally important that we plan for the future by means of a proposed foreign exchange budget. We should include all estimated foreign exchange earnings and all estimated foreign exchange costs, and the Council on International Economic Policy should develop programs for bringing them into balance. In this way the United States will be able to determine its priorities given the foreign exchange available, without continual increases in U.S. liquid liabilities abroad.

3. *Bilateral negotiations between major blocs.*—In the economic relations with other countries, including our trade relationships, the United States should strive for bilateral negotiations between major blocs: The European Economic Community (EEC), the European Free Trade Association (EFTA), the British Commonwealth, Japan, the Latin American Free Trade Area (LAFTA), and the Centeral American Common Market (CACM).

The significance of trading blocs is that, for trade negotiating purposes, the concept of nation-state has lost its importance. In its most vital aspect, the unconditional-most-favored-nation principle, GATT is being violated by the expansion of these blocs. And the *national* treatment principle is being constantly modified in all part of the world. If practical results are to be achieved, negotiations must be on a bilateral basis between these blocs.

4. *Negotiations should include all pending economic and financial issues.*—In any negotiations that the United States undertakes with major trading blocs, we should include all pending economic and financial issues such as trade, mutual security expenditures, foreign aid, investments, balance of payments adjustments, freedom to travel, landing rights, etc. To limit any negotiations with trading blocs to a commodity-by-commodity or factor-by-factor approach, will only lead to future maladjustments.

5. *Reciprocity as a condition of most-favored-nation treatment.*—In any bloc negotiations we should strive for reciprocity as a condition of most favored nation (MFN) treatment. This reciprocity should cover not only trade but also mutual security costs, national treatment of investments, freedom of movement of travelers, sharing of foreign aid, fair and equal treatment of travelers and industrial property rights.

If I were to make one single recommendation, it would be this: Recognize the existence of trading blocs, make the most favored nation treatment *conditional* on reciprocity, and broaden the concept of reciprocity to include sharing of foreign aid and security costs, national treatment of investments and taxation, mutual protection of industrial property rights and the fulfillment of obligations undertaken by Treaties of Friendship, Commerce and Navigation.

A moment's thought about the implications of this, Mr. Chairman, will persuade that with this kind of policy approved by legislation, many of the issues which other countries refuse to negotiate will soon become negotiable.

INTRODUCTION

With U.S. balance of payments deficits in the $7 billion annual range, the challenge that confronts the United States is, first, how to maximize foreign earnings of U.S. citizens and residents, individual and corporate, and second, how to encourage them to repatriate those earnings back to this country. It is a deep conviction of the International Economic Policy Association that any proposals sent by the Executive to the Congress should be comprehensive and not merely confined to one aspect, such as incentives to promote export of goods by a single instrumentality, a domestic international sales corporation. Admittedly,

in quantity and in percentage of total foreign earnings, export of goods at $36.5 billion in 1969 (less foreign aid-induced exports) is the largest single factor. Export of services, however, accounts for over $8 billion of receipts from abroad, and income on investments, direct and others, are close to $8 billion. Of these three factors, the latter two probably promise greater prospects of expansion, because we have much capital, unique technological know-how, managerial services, and tourist attractions to sell competitively; whereas in the area of commodities we are up against very stiff competition from other developed countries.

This may be a singular opportunity for the Treasury Department, therefore, to make comprehensive recommendations which in their totality would have a better chance of contributing materially to the reduction of our balance of payments deficits than confining them to incentives on export of goods. We feel also that such an inclusive set of recommendations to deal with this problem might have a better chance of acceptance because of the broad spectrum of support it would generate in the national constituency and in Congress.

In the past ten years the U.S. government has been slow to realize the importance and the chronic nature of U.S. balance of payments deficits. As a result, proposals to deal with it have been piecemeal and ineffective. In the main, they have tended to be restrictive and punitive. Portfolio investments abroad have been taxed, direct investments have been curtailed under the penalties of the Trading with the Enemy Act, bank credits have been restricted, forced repatriation of earnings and liquid assets have been required, resulting in possible tax liabilities. These measures have had the effect of restraining corporate and financial managements from utilizing resources to maximize earnings. There is no evidence of any material contribution these measures have made to reduction of payments deficits.

The International Economic Policy Association feels that the Administration must make a major policy choice and propose to Congress a comprehensive set of recommendations, doing away with existing restrictions and punitive acts, including the direct foreign investment controls, and substituting therefor an inclusive program of incentives which will encourage greater export earnings, investment income, and repatriation. We submit the following recommendations and revisions in the provisions in the Internal Revenue Code and Regulations relating to foreign source income as one of the important elements in such an all-encompassing program.

The accompanying statement discusses:

I. The Treasury Department's proposal for deferral of U.S. taxes on the income of U.S. domestic international sales corporations.

II. The association's proposals to encourage U.S. exports of goods and services, U.S. overseas operations and the repatriation of funds from abroad.

Appendices A and B explain the points in I and II, respectively, in greater detail.

I. The Treasury Department's proposal for deferral of U.S. taxes on the income of U.S. domestic international sales corporations

A. *Proposal under consideration*

Under date of November 19, 1969 the Honorable Edwin S. Cohen, Assistant Secretary of the Treasury for Tax Policy, in an address delivered before the Tax Session of the Fifty-Sixth National Foreign Trade Convention in New York City indicated that the Treasury Department was considering the deferral of U.S. tax on the income of a domestic international sales corporation as long as its income is used in the corporation's export business or invested in export-related assets and not distributed to shareholders. Under the proposal being considered, the income from investments in export-related assets would be similarly deferred. He advised that it was the intention of the Treasury Department to avoid the excessive limitations on qualifying export assets that are presently found in the existing Export Trade Corporation provisions of the Code. The proposal as described contemplated that a domestic international sales corporation's status would be available for the sale of goods produced in the United States by related and unrelated manufacturers and regardless of whether the income was earned by purchase and resale or through sales commissions. Further, it was contemplated that intercompany pricing between such a domestic corporation and a related supplier would be subject to specific rules intended to assure an appropriate division of profit, but the rules would not necessarily be limited to the application of the present Section 482 provisions.

Under the proposal described, in order to qualify as a domestic international sales corporation, a corporation would be required to have, perhaps, 95 percent of its gross receipts from the sale of goods manufactured, extracted or produced in the United States for use, consumption or distribution abroad. Ancillary services related to exports would give rise to qualifying income, as would income from leasing and subleasing of export goods and interest on trade receivables and working capital deposits. Qualifying income would also include income of foreign sales and service branches and dividends from foreign sales subsidiaries which, except for their foreign situs of incorporation, would themselves qualify as domestic international sales corporations.

Under the proposal, to the extent that income is invested in assets that produce qualifying export trade income, including reasonably adequate working capital, such income need not be distributed. Further, the proposal contemplated some limitation on the proportion of income that could be earned from investment in export related assets, other than on trade accounts, in relation to total income in order to preserve the sales character of the corporation. A qualifying domestic international sales corporation would not itself be subject to the provisions of Subpart F.

B. Summary of IEPA's comments on Treasury Department's proposals for deferral of taxes on income of domestic international sales corporations

The following constitutes a summary of the Association's comments on the Treasury Department's proposal for deferral of taxes on income of domestic international sales corporations. Attached as Appendix A is a discussion of the points contained in the summary.

1. A rate reduction for qualifying export income would be preferable as an alternate to deferral of tax. Tax reduction provides greater motivation to export efforts. It is much less complex in statutory definition and enforcement than deferral.

2. In this connection, the United States should be prepared to renegotiate the provisions of GATT if, by interpretation of a GATT committee in 1960, the United States is precluded from any rate reduction on income derived from exports. If necessary, Congress could be urged to require such renegotiation of GATT as a condition to Congressional approval of GATT in the proposed trade legislation.

3. GATT would not preclude a reduction in the rate of U.S. tax on qualifying income derived from the export of services, rather than from the export of products. Therefore, even if it is concluded that at present the United States is precluded from proposing a tax rate reduction on income derived from the export of goods, a separate and distinct provision should be included proposing a tax rate reduction for income derived from the export of services.

4. We suggest specific consideration to promotion of travel by foreigners to the United States. We suggest tax reduction, tax deferral, or tax credits of limited amounts, as applicable to specified activities and expenditures devoted to the promotion of travel to the United States, for encouraging visits by foreigners to the United States, for advertising expenditures, and for grants to nonprofit organizations active in the same effort. This tax reduction should be available to service industries connected with tourism to the United States such as hotels, motels, car rental, etc., located in the United States in proportion to their foreign source income in relation to their gross revenues.

5. While the use of a separate domestic corporation should be permitted, it should not be a requisite to qualification for the tax incentive. The tax incentive, whether in the form of a rate reduction or a deferral, should be available to the qualifying export income of goods and services, of any domestic corporation.

6. However, if rate reduction is not feasible, the Treasury Department should recommend deferral of U.S. tax on qualifying export income.

7. If a contingent period of deferral is recommended by the Treasury Department, with the period of deferral dependent upon the use made of the funds derived from the qualifying export income, regulations regarding qualifying investments ("export trade assets") should be less restrictive than the existing provisions of Subpart G.

8. Tracing and earmarking of funds to determine whether funds are invested in qualifying "export trade assets" should not be required. There is a practical limit to the amount of funds which may be appropriately expended in the promotion of export activities and in an expansion of export distribution facilities and in inventory for export. The proposal should permit investment of funds in production facilities and research, etc., even though not used exclusively in the production of products for export, since, typically, production facilities and

research are not used exclusively for production for export. Considerable simplicity might be achieved if there were a statutory presumption that all funds derived from qualifying export income were treated as invested in export trade assets to the extent of the latter.

9. IEPA recommends that, in lieu of a contingent deferral, favorable consideration be given to a noncontingent deferral for a minimum period of fifteen (15) years. If, however, the Treasury Department still feels that deferral should be contingent on investments in qualifying "export trade assets", then the minimum period of deferral should still be 15 years. The objective of the plan is achieved at the time the export income is earned. The incentive for that achievement, deferral of taxes, should be available for a long enough period to make the effort worthwhile. In case of disqualification the tax on the deferred export income of any one taxable year could be made payable fifteen years after the close of such taxable year. This is necessary to obviate hardship through sudden accruals of accumulated tax liability.

10. The provisions of Sections 861–863 inclusive should be revised to accommodate the objective of the proposed legislation. In this connection consideration should be given to a change in the Treasury regulations under Section 1.861–8. More realistic rules should be adopted for determining the amount of expenses and other deductions to be allocated to gross income derived from export activities. Those expenses and other deductions which might be considered to be only remotely connected with such activities should not be taken into account.

11. The test for determining foreign source income for the purpose of determining the amount of qualifying export income should be changed, from the present system of determining where title passes, to a destination test. This test should be applied exclusively to exports and not to imports. Similarly, fees for services should be assessed as to foreign source income they generate without regard to the place the services are performed. Generally, qualifying export income should be broadly defined to include all income necessary to, or an integral part of, the creation of export income, whether of a United States or foreign source.

12. The regulations under Section 482, as applied to the allocation of income between a domestic international sales corporation and related parties, should be simplified and liberalized. The IEPA suggests that considerable simplicty might be achieved in this respect if the Code provided for a definite fixed percentage for the allocation between the domestic international sales corporation and the related companies selling to it products for export. IEPA recommends that such percentage be fixed with an allocation of at least 60% of the aggregate profit to the domestic international sales corporation. An annual election to use a different allocation should be allowed to companies which can establish that it is appropriate under allocation regulations issued by the Treasury Department for this purpose.

13. In order that taxpayers which now have foreign international sales corporations may reorganize their respective affairs to utilize a domestic international sales corporation, tax free reorganizations should be premitted in order to permit the transfer of the functions and assets of the foreign international sales corporation to a domestic international sales corporation.

14. A tax reduction or deferral on exports raises a question of the origin of components of the exported items. On the assumption that imported components enhance the salability of products either in quality or in price (there is no other conceivable motivation on the part of manufacturers or traders to route products, in whole or in part, through the jurisdiction of the United States and thus make themselves subject to U.S. tax liability), we suggest that no content requirements be placed upon qualifying export income. This will also avoid the complexities of accounting and reporting.

15. A controlled foreign corporation may derive income from the sale of United States products or United States services. The provisions of Subpart F should therefore be amended to the extent inconsistent with the objectives of encouraging the export of United States products or services. Further, any OFDI restrictions which are inconsistent with the objectives of the proposals discussed herein should be removed to the extent of any such inconsistency.

II. Summary of proposals of IEPA to encourage U.S. exports of goods and services, U.S. overseas operations and the repatriation of funds from abroad

The International Economic Policy Association has made a number of recommendations to encourage U.S. exports of goods and services, U.S. overseas operations and the repatriation of funds. Many of these recommendations were

presented to the Senate Finance Committee on October 3, 1969, and on October 8, 1969, a copy of the recommendations were sent to the Honorable John S. Nolan, Deputy Assistant Secretary of the Treasury for Tax Policy. There is presented below a summary of these recommendations and a discussion of the proposals is attached as Appendix B. The Association respectfully urges the Treasury Department to give careful consideration to these recommendations. They are designed primarily (1) to make U.S. controlled business abroad more efficient and competitive, and (2) to encourage them to repatriate their earnings to the United States.

1. Reasonable means should be established whereby U.S. companies could repatriate funds from abroad to improve our balance of payments account without incurring tax liability. This may be done initially for an experimental period, say one or two years, to observe the results on balance of payments and Treasury revenues.

2. As an incentive for improvement in our balance of payments, Section 956 should be repealed, or at least amended so that bona fide loans to or a bona fide investment in a U.S. direct investor by its foreign affiliate would not be considered constructive dividends and subject to U.S. taxes.

3. Arms length loans of funds between foreign affiliates should be encouraged by making clear that such transfers are not constructive dividends to the U.S. parent. This would reduce the need to transfer funds from the United States to meet such needs.

4. Some concepts similar to the Western Hemisphere Trade Corporation's special tax deduction should be applied to dividends paid by a controlled foreign corporation doing business in less developed countries. This might encourage more private investments and reduce the direct drain on the Treasury for foreign aid.

5. Section 902 should be amended so that the 10 percent ownership requirement in first-tier foreign corporations should be reduced to 5 percent, and the tax credit should be extended to cases where there is an indirect ownership of 5 percent or more in the second-tier as well as third-tier and subsequent-tier foreign affiliates.

6. Section 904 of the Code should be amended to permit unused excess foreign tax credits to be carried forward for a ten-year period instead of only a five-year period.

7. The provisions of Section 903, which now permits a credit for foreign taxes paid "in lieu of a tax paid on income," should be amended so that other foreign taxes may be creditable against U.S. income taxes where they are bona fide taxes.

8. The Code should permit a deduction for partially worthless securities rather than only for those securities which are completely worthless.

Appendix A

Discussion of IEPA's Comments on Treasury Department Proposal for Deferral of Taxes on Income of Domestic International Sales Corporations

This memorandum sets forth the comments of IEPA relating to the November 19, 1969 proposal of the Honorable Edwin S. Cohen, Assistant Secretary of the Treasury for Tax Policy, with respect to domestic international sales corporations.

Objective

The IEPA believes that at the outset it would be useful to define the principal objective of the proposal. It appears that the principal objective is to assist the United States in its battle against an adverse balance of payments by stimulating the flow of funds into the United States. The proposal is an explicit recognition that an increase in U.S. exports would aid in this battle. Proceeding on the assumption that this is the principal objective of the proposal under consideration, the following comments are submitted:

1. Rate reduction should be favorably considered as an alternative to deferral

The IEPA believes that favorable consideration should be given to a reduction in the rate of United States tax on qualifying export income as an alternative to deferral of U.S. tax on such income. The reason for this position is as follows. There are three factors that would help promote exports, excluding in this discussion trade barriers put up by other countries: (1) price competitiveness,

(2) motivations of businessmen and, (3) availability of resources for promotional expenditures. Tax reduction on export income would supply in part the first two factors. Tax deferral only touches the last factor by making resources available temporarily in export-oriented activities. In the view of the Association, deferral alone is only a partial and possibly inadequate remedy. The accumulated deferred tax would be a Damoclean sword over the export-oriented businesses. The fear of disqualification would be ever present, and there would be little motivation to undertake these risks without positive contribution to profit and loss statements. The accounting profession would insist upon carrying such deferred taxes as a liability.

If tax reduction is considered to be in conflict with GATT provisions, then the deferral period should be long enough to be equivalent to an effective tax reduction in the amount of current interest rates saved. It is for this reason that we strongly urge that in the absence of a tax reduction, a minimum of fifteen years of tax deferral be allowed for qualified export income.

One advantage that immediate rate reduction for qualifying export income would have over any contingent deferral of tax on such income would be the difference in the complexity involved in the latter relative to the former in setting forth, implementing and enforcing the provisions. In both cases it would be necessary to determine by some means or formula the amount of income that should be treated as qualifying export income (whether such income includes only income from the export of products and income from services ancillary to such exports, or whether such income also includes income from services which are not ancillary to the export of U.S. products, so long as such services produce a flow of funds from abroad to this country.) In both cases, the income that qualifies for the special treatment would have to be ascertained.

In the case of a rate reduction, however, the benefit would be determined currently by applying the reduced rate of tax to the qualifying export income (less applicable deductions.) Further record keeping in the future with respect to such income (beyond the normal period of audit), in general, would not be required. However, if the incentive were in the form of a contingent deferral of U.S. tax, it would require more elaborate record keeping in order to determine the circumstances under which and to what extent the deferral privilege should terminate.

A contingent deferral necessarily contemplates that the period of contingent deferral should come to an end when the purpose for which the deferral was granted is no longer served. This requires provisions delineating the extent to which the funds qualify for the contingent deferral privilege, an elaborate mechanism for defining those assets, and on audit for ascertaining whether the funds previously qualifying were used in qualifying or nonqualifying investments. It would appear that, of necessity, more elaborate provisions and record keeping would be required, for longer periods of time, with elaborate enforcement activities to assure that the period of deferral did not extend beyond that permitted. The existing provisions for a foreign export trade corporation, in Subpart G, Sections 970–972, and the regulations thereunder illustrate the complexities that are involved. This, for example, is in contrast to the provisions relating to Western Hemisphere trade corporations (Sections 921 and 922) which by comparison are considerably less complex than those relating to foreign export trade corporations.

2. GATT

IEPA understands that a GATT committee's interpretation in 1960 of relevant provisions (Article XVI) of the GATT (General Agreement on Tariffs and Trade) may prohibit the United States from granting a rate reduction for the purpose of stimulating exports. In this connection, IEPA believes that a review should be made to determine whether in fact that conclusion is necessarily the only valid conclusion, whether an exemption may exist if the purpose of the rate reduction is the stimulation of exports because of the balance of payments situation in the United States. Even if no such exemption presently exists the appropriate committee of GATT could be persuaded to recognize such an exemption under existing circumstances.

Further, IEPA believes that the United States should be prepared to renegotiate the provisions of GATT if, by an interpretation of the GATT committee, the United States is in fact precluded from any rate reduction on income derived from exports of goods and that committee's conclusions cannot be reversed for the circumstances described. IEPA understands that Congressional authorization for appropriations to GATT is to be sought. If so, the Congress could be urged to require such renegotiation of GATT as a condition to such approval.

3. Export of services should also be encouraged

IEPA understands that in any event, the provisions of GATT would not preclude a reduction in the rate of U.S. tax on qualifying income derived from the export of services as distinguished from the export of products.

The proposal for a domestic international sales corporation contemplates tax advantages for qualifying export income derived from the export of U.S. products and ancillary income. (The U.S. products, the exports of which are eligible for whatever tax incentives are proposed, should of course not be limited to finished products, but should extend to raw materials as well.) IEPA believes that the provisions should be extended to include qualifying export income derived from the sale of services, *whether or not* the services are ancillary to the export of U.S. products. The United States should not forego any opportunity to stimulate the flow of funds into this country by stimulating the export of services. U.S. firms are engaged in providing engineering and other technical services that are not always ancillary to the export of U.S. products. The expansion of the concept to include qualifying export service income should embrace income derived from technical and other services which generates funds from abroad.

Even if it is concluded that at present the United States is precluded from proposing a tax rate reduction on income derived from the export of goods, a separate and distinct provision should be included proposing a tax rate reduction for income derived from the export of services.

In this connection, whether or not the proposal is that of a deferral or that of a rate reduction, the source of income rules should be changed to accommodate the objective of the proposal. Under the current source of income rules, income from the rendition of services in this country would be considered as income having a source in this country. IEPA believes that such rules would be inappropriate in the context described. If the objective is to stimulate the flow of funds from abroad to this country, the place wherein the services are rendered should be irrelevant and the test should be that of whether or not the funds derived or generated by the rendition of services are derived from abroad. For example, technical services performed in the United States for a British, French, German, Italian or other foreign firm should qualify for this purpose.

Further, the test for determining foreign source income for purposes of determining the amount of qualifying export income from the sale of United States products should be changed from the present system of determining where title passes to a destination test. This test, however, should be applied exclusively to exports and not to imports.

4. Promotion of tourism to United States

The most likely category for improvement in our continuing balance of payments deficits is the tourism feature of our U.S. service account, which now has an annual net deficit of $2 billion. Tax credits, reductions or deferrals, as appropriate, for services contributing to tourism in the United States could do much to eliminate this deficit for (1) sums spent in actual promotion of tourism to the United States; (2) for advertising expenses; (3) for U.S. corporations engaged in earning foreign exchange in the service sector or in fostering travel to the United States; (4) for contributions to nonprofit institutions that are promoting cultural educational and scientific travel to the United States; (5) for the foreign source income earned by U.S. hotels and motels which cater to foreign tourists, and (6) the proportion of income by U.S. flag airlines generated abroad.

The principal problem in the encouragement of tourism to the United States is the high cost of service facilities in the United States for visiting foreigners. Tax concessions, perhaps contingent upon a commitment to make rooms or other facilities available at a discount price to foreign visitors, will be necessary to bring down the costs of these facilities within the means of large numbers of foreigners. The same tax concessions should be permitted to increase the activities of package tour organizers who must be able to offer lower cost programs in competition with other countries which are increasing their efforts to attract tourists.

5. A separate domestic corporation should not be required

IEPA believes that any proposal providing tax incentives for qualifying export income should not require the incorporation of a separate domestic international sales corporation, but should accommodate qualifying export income of any domestic organization, *whether or not the export function giving rise to the qualifying export income is separately incorporated.*

In some cases a domestic corporation may be unable to incorporate separately those of its functions that would produce qualifying export income. The services that would produce qualifying export income in many cases would necessarily be rendered by engineers and other skilled personnel of the domestic parent corporation. In many cases it would not be feasible for the domestic parent corporation to transfer the relevant personnel to a separate subsidiary. The expertise, knowhow and experience often is that accumulated by personnel of the parent corporation. Consequently any requirement that qualifying export service income be limited to such income of a domestic international sales corporation would necessarily preclude the export service income generated by the parent company which, for one reason or another, did not find it feasible to transfer personnel to a separate incorporation.

This is particularly true of those cases where for reasons of management efficiency export activities have been reorganized by product lines and the direction and coordination has been made a staff function by the parent company management. This is a growing trend in modern management.

Further, if qualifying export income included export service income, a domestic corporation in some cases may not be able to qualify because various agreements are frequently and necessarily those of the parent organization. In such circumstances, certain functions may not be assignable to subsidiaries qualifying as domestic international sales corporations. To illustrate: A domestic international airline is a party to various agreements relating to landing privileges in various countries. It owns or leases its planes. If the concept included service income, those agreements to which it is a party and such planes could not, practically speaking, be assigned to a newly organized subsidiary qualifying as a domestic international sales subsidiary.

One factor to be taken into account in this connection is that if a separate corporation were required in order to take advantage of any incentive so offered, it would aggravate the strains imposed on the administration of Section 482 and the regulations thereunder or any corresponding provisions enacted or promulgated specifically with reference to export income.

A further consideration militating against the requirement of a separate corporation is the expense incurred in maintaining a separate corporation. Such expense may discourage smaller U.S. firms from attempting the efforts necessary to generate exports and export income. It seems inappropriate to limit the benefits of the tax incentive, whether it be a reduction in the tax rate or a deferral of the tax on qualifying export income, to those firms which find it economically feasible to incur the expense of maintaining a separate domestic international sales corporation. If the objective is to stimulate exports, whether such exports consist of products alone or products and services, the objective ought to include the stimulation of such exports by all U.S. firms, large, small and all sizes in between, including those which at present are not exporting and those which may be exporting only to a very limited extent.

The combination of (i) a requirement of a separately incorporated "domestic international sales corporation" with (ii) a contingent deferral of U.S. tax on qualifying income may (depending on the exact statutory provisions enacted) lead to the possibility that if the corporation in any future year should cease to qualify as a domestic international sales corporation for any reason, the entire amount of the tax previously deferred on qualifying export income would suddenly become due and payable in a single taxable year (unless special provisions were proposed to preclude such a result.) This risk increases if the continued qualification of a corporation as a domestic international sales corporation depends in part on a specified percentage, such as 95 percent of its gross receipts, in each taxable year or over a three-year period or other period, consisting of qualifying receipts. If the relative proportion of its qualifying and nonqualifying receipts changes adversely in such measuring period, because of any reason, including circumstances over which it may have no control, such as an extended recession abroad, or a change in the character of its market abroad, the sudden disqualification of the corporation in a single taxable year as a domestic international sales corporation may require paying all of the taxes theretofore deferred, unles, of course, certain exceptions were provided. This very possibility may discourage some firms from utilizing the provisions, or at least unduly influence business decisions of those who utilize such provisions.

IEPA suggests therefore that the Treasury Department make the tax incentives available for qualifying income from export of goods and services regardless of the form of organization, keeping in mind that the objective is to maximize foreign exchange earnings.

6. If tax rate reduction is not feasible, deferral of U.S. tax on qualifying export income should be recommended by the Treasury Department

IEPA recognizes, however, that because of the provisions of GATT or otherwise (including the possibility that rate reduction may have less chance of Congressional acceptance) it may not be feasible for the Treasury Department to recommend a rate reduction for qualifying export income, and that the choice may be limited to deferral of U.S. tax on such income.

IEPA recognizes that deferral could be a very valuable incentive, but that the extent of the value would depend in part on the amount of tax which is deferred and the period of the deferment.

Whether the tax incentive is in the form of a rate reduction, or is in the form of a deferral of U.S. tax on qualifying export income, IEPA believes that the tax incentive should be extended to all export and service income which produces funds flowing to this country, whether or not such income is ancillary to the export of U.S. products, and that the proposal should not require a separate incorporation of the functions producing the qualifying export income.

7. Qualifying investments for income, the tax on which has been deferred

If the Treasury Department recommends a contingent period of deferral, with the period of deferral dependent upon the use made of the funds derived from the qualifying export income, the requirements relating to qualifying investments ("export trade assets") should be less restrictive than the existing provisions of Subpart G. The existing provisions of Subpart G and the regulations issued thereunder are so elaborate that few companies qualify, so that the provisions have not fulfilled the declared purpose of the Senate Finance Committee in recommending their enactment.

Deferral of taxes should be allowed where funds generated are invested in assets, activities and research that are used in the production of qualifying export income whether by the separately incorporated domestic international sales corporation or the parent or related organization which is engaged in the production of good or services which earn foreign source income.

8. Tracing and earmarking of funds should not be required

There is a practical limit to the amounts of funds which may be appropriately used in promotion activities and invested in an expansion of the *distribution* facilities (whether they be the distribution facilities of a separately incorporated domestic international sales corporation or the distribution facilities of the organization which is engaged in the manufacturing of the product which is sold abroad) and in inventory of products to be exported. Accordingly, IEPA recommends that appropriate recognition be given to that fact if any proposal for a contingent deferral is to accomplish its objective.

Firms engaged in the production of products for export typically are not engaged *exclusively* in production for export, but are engaged in the production of products to be sold domestically as well as for export, and the qualifying funds that may be invested in an expansion of production facilities could not feasibly be earmarked as funds spent for production facilities to be used *exclusively* for production for export. The deferral privilege should be granted in its entirety where the funds are so invested in such production facilities. For the same reasons, the use of funds generated from export activities as an addition to the working capital of the taxpayer to be used by it in *all* of its activities, including export activities, should be allowed. The same consideration should be given to expenditures for research and development.

9. IEPA recommends a minimum period of deferral for 15 years

One possibility that would reflect the use of the deferral route of providing a tax incentive and at the same time avoid some of the complexities that necessarily result from a requirement that the funds be invested in "export trade assets", or otherwise be subject to taxation, might be a period of deferral of the U.S. tax on qualifying export income for a minimum period of fifteen years. The objective of increasing exports would be achieved at the time the export income is earned. The incentive for that achievement, deferral of taxes, should be available for a long enough period to make the effort worthwhile. Such a period of deferment would assure the goal to be accomplished—an increase in the flow of funds into the United States through the export of goods and services and the earning of foreign income. In case of disqualification the tax on the deferred export income of any one taxable year could be made payable fifteen

years after the close of such taxable year. This is necessary to obviate hardship through sudden accruals of accumulated tax liability.

10. Modification of provisions relating to allocation of deductions

Some determination will necessarily have to be made of the extent to which various deductions are allocable against gross income from qualifying export activities to determine the amount of "taxable" income derived from such activities. For this purpose IEPA suggests that the provisions of Sections 861–863, inclusive, be revised and that, in that connection, consideration be given to a change in the Treasury regulations under Section 861.8 to propose more realistic rules for determining the amount of expenses and other deductions to be allocated to gross income derived from export trade activities. Those expenses and other deductions which might be considered to be only remotely connected with such activities should not be taken into account. This may become increasingly important if the deferral privilege extends to any domestic corporation and is not limited to a domestic international sales corporation.

11. Transfer of title: source of income

The existing concept of transfer of title to determine source of income should be changed. A simple method of providing tax incentives for exports and service fees is to change the source of income rules under the Internal Revenue Code to provide that where goods are shipped from a U.S. manufacturer to a foreign country, the income is foreign source regardless of whether title passes outside the United States or not. Similarly the United States should encourage the export of services by gauging the foreign proceeds they generate without regard to the place where the services are performed. A change in the existing Internal Revenue Regulations relating to transfer of title would be of considerable value, improving the trade and service income components of our balance of payments. This change should be applied only to exports and not to imports.

12. Less complex, more liberal rules under Section 482

Less complex, more liberal rules than those in the regulations under Section 482, providing for the allocation of income between a domestic international sales corporation and related parties, should be issued to implement the Treasury Department proposal for granting tax incentives to qualifying income of a domestic international sales corporation.

More specifically, the IEPA suggests that considerable simplicity might be achieved in this respect if the Code provided for a definite fixed percentage for the allocation between the domestic international sales corporation and the related companies selling to it products for export, of the aggregate profits derived from the export of United States products. It is recommended that such percentage be fixed with an allocation of at least 60% of the aggregate profit to the domestic international sales corporation. Preferably, there should be an annual election to such companies to use a different allocation if they can establish that a different allocation is appropriate under regulations issued by the Treasury Department for this purpose.

13. DISC reorganizations should be tax free

In order that taxpayers which now have foreign international sales corporations may reorganize their respective affairs to utilize a domestic international sales corporation, tax free reorganizations should be allowed to permit the transfer of the functions and assets of the foreign international sales corporation to a domestic international sales corporation.

14. United States products with some foreign made components

IEPA calls attention to the fact that some of the components of products exported from the United States may be foreign, originally imported into the United States for inclusion in the final product. In order to avoid the complexities of ascertaining the relative contributions of each classification of components, United States components and foreign components, IEPA suggests that there be no "content" test or allocation required. If the objective of granting tax benefits is to maximize foreign earnings of domestic companies and to encourage the repatriation of such earnings to alleviate the balance of payments deficit, the presence of earnings derived by a domestic corporation from the sale of United States products containing some foreign made components should not require the denial of the tax benefits to earnings derived by such domestic corporation from the sale of such product, or require the allocation of some of the earnings to the foreign components.

15. Provisions of Subpart F and OFDI Regulations inconsistent with objectives of proposal should be removed

A controlled foreign corporation may derive income from the sale of United States products or United States services. IEPA also recommends that the provisions of Subpart F should be amended to the extent consistent with the objectives of encouraging the export of United States products or services. Further, any OFDI restrictions which are inconsistent with the objectives of the proposals discussed herein should be removed to the extent of any such inconsistency.

APPENDIX B

DISCUSSION OF IEPA'S PROPOSALS TO ENCOURAGE U.S. EXPORTS OF GOODS AND SERVICES, U.S. OVERSEAS OPERATIONS AND THE REPATRIATION OF FUNDS FROM ABROAD

This memorandum presents a discussion of proposals of the International Economic Policy Association to encourage U.S. exports of goods and services, U.S. overseas operations and the repatriation of funds which were submitted to the Senate Finance Committee on October 3, 1969.

1. Repatriation of foreign earnings: Impact of OFDI controls

The current program of controls on direct investments are designed to compel U.S. companies to limit their investments abroad and to repatriate funds to help our balance of payments position. In addition to the serious problems confronting U.S. companies in complying with the controls, there is no evidence that it has had any material effect on U.S. balance of payments deficits. The program also has subjected U.S. companies to possible tax liability on amounts repatriated under compulsion, a process of taxation without constitutional legislative sanction.

Transfers of funds to a U.S. company from an affiliated foreign corporation in compliance with the direct investment controls may be treated in future audits as taxable dividends. There is no provision in the Internal Revenue Code which would allow an exemption from tax even if these amounts are segregated into special accounts.

It seems highly unfair that U.S. companies with investments abroad, because of their efforts to comply with the onerous requirements imposed by the OFDI regulations, should be liable to taxation on the funds which they repatriate under the program. Reasonable means should be established whereby they could repatriate funds to improve our balance of payment account without incurring tax liability.

2. Removal of deterrents to investment in the United States by a foreign affiliate

Section 956 of the Internal Revenue Code provides that loans to a U.S. parent company and most investments in U.S. property by a U.S. controlled foreign corporation, with limited exceptions, are subject to a tax on the U.S. shareholder of the foreign corporation as though a dividend had been distributed.

Section 956 effectively militates against bona fide transactions that could improve our balance of payments. Under the mandatory program for the control of foreign investments, the results impose special difficulties on American companies operating abroad.

Our balance of payments problems have been with us for a long time and it does not seem likely that they will disappear very soon. We believe that this disincentive to investment in U.S. securities by foreign affiliates should be removed. The Association recommends that serious consideration be given to repealing Section 956, or at least revising the section to take into account the realities of our present difficulties resulting from mandatory regulations under the Foreign Direct Investment Controls, by amending the section in such a fashion that bona fide loans to or a bona fide investment in a U.S. direct investor by its foreign affiliate would not be considered constructive dividends and subject to U.S. taxes.

3. Arms length transfers of funds

Also, U.S. direct investors may find it necessary to transfer funds from one foreign affiliate to another to meet investment and working capital needs, thereby obviating the need for transfer of funds from the United States. The law should make clear that such transfers from one foreign affiliate to another, under terms and conditions similar to those prevailing between independent third parties,

should not be considered as failing to meet the test of an arms length transaction, resulting in a constructive dividend to the U.S. direct investor, merely because the transfer is between related parties.

4. Adoption of incentives for investments in less developed countries

Some concept similar to the Western Hemisphere Trade Corporation's special tax reduction should be applied to dividends paid by controlled foreign corporations doing business in less developed countries. Such a reduction for earnings from less developed countries would provide an incentive to U.S. companies to establish and expand business operations in those areas, thereby providing the means for improving local economies. We suggest that this approach may be more preferable than outright financial grants now being made by the U.S. government, and more productive than the Schedule A classification under OFDI.

5. Extension of deemed-paid foreign tax credit (Section 902)

Under the present law, credit for foreign taxes paid by a foreign corporation can be had by a U.S. corporation only if at least 10 percent of the stock of the first-tier foreign corporation is owned by a U.S. taxpayer, and in the case of a second-tier foreign corporation, if at least 50 percent of the stock of the foreign subsidiary is owned by the first-tier foreign corporation. Under present law, the credit is not available for foreign taxes paid by third-tier or subsequent-tier foreign affiliates.

Many foreign countries are insisting that alien ownership be limited to a minority interest. A revision of the section would encourage U.S. minority participation in additional ventures, attract local participation in joint ventures and stimulate the development of private enterprise in many less developed counries. Joint ownership is often required by local law or foreign government policy, and U.S. corporations cannot always maintain the degree of ownership required for such foreign tax credit under present U.S. law.

It is recommended that Section 902 be amended so that the 10 percent ownership requirement for first-tier foreign corporations should be reduced to 5 percent, and that the tax credit should be extended to cases where there is an indirect ownership of 5 percent or more in second-tier, as well as in third- and subsequent-tier foreign subsidiaries.

6. Extension of existing five-year carry-over period for unused foreign tax credits to ten years

Section 904 of the Internal Revenue Code now permits a two-year carry-back and five-year carry-over period for unusued tax credits. It is recommended that this carry-over period for unused tax credits be extend to ten years. U.S. foreign investors, especially in less developed countries, can anticipate extreme fluctuations in their losses and earnings and the resulting tax base. Congress has recognized the difficulties of foreign investments in adopting the carry-back and carry-over period. An extension of this five-year carry-over period to ten years would give added stimulus to investments in less developed countries especially by small investors with limited financial resources.

7. Liberalization of definition of creditable taxes

Section 903 of the Internal Revenue Code now permits a credit for any foreign tax paid "in lieu of a tax on income. . . ." Treasury regulations and administrative practice have so restricted this that an "in lieu tax" can only be creditable if (1) the foreign country has an income tax in force, (2) the taxpayer would be subject to such income tax absent some special provision and (3) he pays a substituted tax in lieu thereof.

It is recommended that the "in lieu" provision be broadened to give recognition to the realities resulting from the reliance of other countries on other than income taxes. Consideration should be given to permitting other foreign taxes to be creditable against the U.S. income tax, where the foreign tax is a bona fide tax.

8. Worthless securities in foreign corporations

If a foreign subsidiary becomes worthless or is destroyed through expropriation, insurrection or other disaster, section 165(g) recognizes this loss and allows a deduction, either capital or ordinary.

The section as it is now applied, however, involves only complete abandonment or destruction and does not extend to depreciation, deterioration, or other

extreme changes in value short of worthlessness. The section should be revised to give some relief in cases other than complete worthlessness. (The Code presently gives recognition to partially worthless debts).

At the present time, a number of factors are causing concern on the part of potential investors in developing countries. It is in those countries where economic development and private enterprise are most needed. Adoption of the above revision in Section 165(g) and a ten-year carry-over period for the utilization of excess foreign tax credits would aid in our declared government policy of encouraging investment in those countries.

TABLE 1—U.S. TOTAL[1] AND COMMERCIAL[2] NONAGRICULTURAL TRADE BY AREA EXCLUDING MILITARY

[In millions of dollars—census basis 1963–68]

	Total		Canada		European Economic Community		Other Western Europe		United Kingdom		Japan		Africa and Near East		East and South Asia		Oceania		19 Latin American Republics	
	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial
Exports:																				
1963	16,491	15,406	3,571	(3)	3,279	(3)	1,255	1,138	784	(3)	1,161	(3)	1,079	971	1,723	1,043	515	(3)	2,747	2,670
1964	18,999	17,936	4,186	(3)	3,485	(3)	1,472	1,352	1,127	(3)	1,271	(3)	1,325	1,203	1,755	1,091	742	(3)	3,212	3,035
1965	19,721	18,630	4,879	(3)	3,433	(3)	1,510	1,402	1,165	(3)	1,169	(3)	1,453	1,331	1,620	969	793	(3)	3,257	3,055
1966	21,879	20,742	5,880	(3)	3,723	(3)	1,620	1,525	1,220	(3)	1,373	(3)	1,501	1,411	1,687	1,098	714	(3)	3,645	3,305
1967	23,756	22,484	6,480	(3)	3,951	(3)	1,709	1,618	1,401	(3)	1,774	(3)	1,516	1,438	1,925	1,076	864	(3)	3,555	3,307
1968	26,881	25,893	7,325	(3)	4,565	(3)	1,991	1,920	1,554	(3)	1,987	(3)	1,748	1,694	2,034	1,448	949	(3)	4,104	3,837
Imports:[4]																				
1963	13,049	--------	3,67[illegible]	--------	2,278	--------	855	--------	1,044	--------	1,448	--------	918	--------	712	--------	68	--------	1,764	--------
1964	14,582	--------	4,074	--------	2,573	--------	559	--------	1,111	--------	1,723	--------	707	--------	829	--------	73	--------	1,871	--------
1965	17,258	--------	4,605	--------	3,046	--------	1,161	--------	1,379	--------	2,364	--------	771	--------	1,099	--------	105	--------	2,017	--------
1966	20,944	--------	5,893	--------	3,793	--------	1,374	--------	1,731	--------	2,909	--------	869	--------	1,212	--------	135	--------	2,208	--------
1967	22,418	--------	6,939	--------	4,124	--------	1,460	--------	1,683	--------	2,967	--------	715	--------	1,375	--------	146	--------	2,149	--------
1968	28,195	--------	8,781	--------	5,518	--------	1,747	--------	2,023	--------	4,020	--------	883	--------	1,757	--------	209	--------	2,306	--------
Balance:																				
1963	3,442	2,357	−104	(3)	1,001	(3)	400	283	−260	(3)	−287	(3)	161	53	1,011	331	447	(3)	983	906
1964	4,417	3,354	112	(3)	912	(3)	513	393	16	(3)	−452	(3)	618	496	926	262	669	(3)	1,341	1,164
1965	2,463	1,372	274	(3)	387	(3)	349	241	−213	(3)	−1,195	(3)	682	560	571	−80	688	(3)	1,240	1,038
1966	935	−202	−13	(3)	−70	(3)	246	151	−511	(3)	−1,536	(3)	632	542	475	−114	579	(3)	1,437	1,097
1967	1,338	66	−459	(3)	−173	(3)	249	158	−282	(3)	−1,193	(3)	801	723	550	−299	718	(3)	1,406	1,155
1968	−1,314	−2,302	−1,454	(3)	−953	(3)	244	173	−469	(3)	−2,033	(3)	865	811	277	−309	740	(3)	1,798	1,531

[1] Total trade excludes certain exports of military equipment and other "special category" items but includes Public Law 480 and AID financed shipments.

[2] Commercial trade excludes Public Law 480, AID financed exports, and exports of military equipment.

[3] Same, since there are little or no shipments of Public Law 480 or AID goods to these areas commercial trade is the same as total trade.

[4] Certain DOD military imports are included in imports. These have amounted to between $200,000,000 and $300,000,000 annually and are difficult to break out by separate areas.

Source: U.S. Department of Commerce, Overseas Business Report No. 69, May 11, 1969.

TABLE 2—U.S. TOTAL[1] AND COMMERCIAL[2] AGRICULTURAL TRADE EXCLUDING MILITARY

[In millions of dollars—census basis 1963–68]

Agricultural	Total		Canada		European Economic Community		Other Western Europe		United Kingdom		Japan		Africa and Near East		East and South Asia		Oceania		19 Latin American Republics	
	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial
Exports:																				
1963	5,584	4,111	597	(3)	1,173	1,158	622	429	408	(3)	651	638	494	199	956	201	44	(3)	423	276
1964	6,348	4,764	615	(3)	1,417	1,412	585	434	440	(3)	720	710	556	247	1,064	239	47	(3)	531	319
1965	6,229	4,907	620	(3)	1,477	1,471	633	490	398	(3)	876	(3)	502	266	1,057	240	52	(3)	434	339
1966	6,875	5,618	626	(3)	1,559	1,557	740	608	471	(3)	943	(3)	620	399	1,154	358	50	(3)	487	399
1967	6,380	5,190	556	(3)	1,460	(3)	566	532	424	(3)	865	(3)	404	273	1,373	471	45	(3)	482	378
1968	6,228	5,053	595	(3)	1,367	(3)	490	471	374	(3)	933	(4)	391	229	1,297	463	52	(3)	500	361
Imports:																				
1963	4,017	--------	174	--------	238	--------	258	--------	27	--------	46	--------	437	--------	650	--------	432	--------	1,652	--------
1964	4,082	--------	176	--------	258	--------	252	--------	23	--------	40	--------	561	--------	689	--------	361	--------	1,633	--------
1965	4,088	--------	234	--------	270	--------	292	--------	24	--------	37	--------	501	--------	666	--------	344	--------	1,628	--------
1966	4,492	--------	240	--------	306	--------	361	--------	30	--------	37	--------	521	--------	674	--------	455	--------	1,767	--------
1967	4,472	--------	201	--------	330	--------	427	--------	28	--------	32	--------	498	--------	679	--------	437	--------	1,729	--------
1968	5,057	--------	226	--------	368	--------	454	--------	32	--------	37	--------	595	--------	742	--------	487	--------	2,002	--------
Trade balance:																				
1963	1,567	94	423	(3)	935	230	364	171	381	(3)	605	592	57	−238	306	−449	−338	(3)	−1,229	−1,376
1964	2,266	682	439	(3)	1,159	1,154	333	182	417	(3)	680	670	−5	−314	375	−450	−314	(3)	−1,102	−1,314
1965	2,141	819	386	(3)	1,207	1,201	341	198	374	(3)	839	839	1	−235	391	−426	−292	(3)	−1,194	−1,289
1966	2,383	1,126	386	(3)	1,253	1,251	379	247	441	(3)	906	906	99	−122	480	−316	−405	(3)	−1,280	−1,368
1967	1,908	718	355	(3)	1,130	1,130	139	105	396	(3)	833	833	−94	−225	694	−208	−392	(3)	−1,247	−1,351
1968	1,171	−4	369	(3)	999	999	36	17	342	(3)	896	896	−204	−366	555	−279	−435	(3)	−1,502	−1,641

[1] Total agricultural trade includes Public Law 480 shipments.
[2] Commercial trade excludes Public Law 480 financed shipments.
[3] Same, since there are little or no shipments of Public Law 480 or AID goods to these areas, commercial trade is the same as total trade.

Note: For the purposes of this table, barter food shipments have been included in commercial figures. Barter arrangements are a transfer of food for something of like value. The total amounts involved are: 1963, $74,000,000; 1964, $123,000,000; 1965, $188,000,000; 1966, $260,000,000; 1967 $314,000,000 and 1968, $285,000,000. In addition, the small amounts of Export-Import Bank financed shipments and mutual security (AID) disposals are included in the commercial figures. These amounts are difficult to break down by area. The totals were: 1963, $11,000,000; 1964, $23,000,000; 1965, $26,000,000; 1966, $90,000,000; 1967, $99,000,000 and 1968, $81,000,000.

Source: U.S. Department of Commerce, Overseas Business Report No. 69, May 11, 1969.

TABLE 3.—TOTAL WORLD EXPORTS WITH SHARE OF WORLD EXPORTS FOR SELECTED COUNTRIES AND AREAS, 1959–69[1]

[In percent]

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
1. Industrial Europe	31.8	33.2	34.4	34.7	34.9	35.2	36.4	36.3	36.9	37.4	38.8
E.E.C.	24.9	26.2	27.2	27.4	27.6	27.9	29.0	29.0	29.5	30.2	31.3
Belgium-Luxembourg	3.2	3.3	3.3	3.5	3.6	3.7	3.9	3.8	3.7	3.8	4.1
France	5.5	6.1	6.1	5.9	5.9	5.9	6.1	6.0	6.0	6.0	6.2
Germany	9.7	10.1	10.7	10.6	10.7	10.6	10.8	11.1	11.4	11.7	12.0
Italy	2.9	3.2	3.5	3.7	3.7	3.9	4.4	4.4	4.6	4.8	4.9
Netherlands	3.6	3.6	3.6	3.7	3.6	3.8	3.9	3.7	3.8	3.9	4.1
Austria	1.0	1.0	1.0	1.0	1.0	.9	1.0	.9	.9	.9	1.0
Denmark	1.4	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.3	1.2	1.2
Norway	.8	.8	.8	.8	.8	.8	.9	.9	.9	.9	1.0
Switzerland	1.7	1.7	1.7	1.8	1.8	1.7	1.8	1.8	1.8	1.9	1.9
Sweden	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.3
2. United States[2]	17.4	18.2	17.7	17.4	17.2	17.5	16.6	16.8	16.6	16.3	15.3
3. United Kingdom	9.8	9.4	9.3	9.1	9.0	8.4	8.3	8.1	7.5	7.2	7.2
4. Japan	3.4	3.6	3.6	3.9	4.0	4.4	5.1	5.4	5.5	6.1	6.6
5. Latin America[3]	7.5	7.0	6.8	6.9	6.7	6.5	6.3	6.1	5.8	5.4	5.3
Total world exports (billions of dollars)	101.5	113.4	118.6	124.7	136.1	152.7	165.4	181.3	190.6	212.9	243.0

[1] Preliminary.
[2] The figures used to calculate this percentage represent U.S. exports, census basis including government-financed exports and military exports. This assures comparison with the other countries listed.
[3] 1969 percentage is based on 1st half at an annual rate.

Source: International Financial Statistics, International Monetary Fund, March, April 1970.

TABLE 4.—U.S. AGRICULTURAL EXPORTS TO THE UNITED KINGDOM AND EUROPEAN ECONOMIC COMMUNITY TOTAL AND BY SELECTED COMMODITIES

[In thousands of dollars]

	Fiscal year—					
	1964	1965	1966	1967	1968	1969
UNITED KINGDOM						
Total exports	448,293	417,227	434,982	453,997	397,333	329,033
1. Wheat and flour	31,410	7,862	41,881	41,205	16,222	5,209
2. Rice, milled	6,681	5,670	6,305	10,006	10,421	10,194
3. Feed grains including corn, oats, and barley	90,225	97,021	116,812	92,066	81,493	66,884
4. Oilseeds	16,288	20,297	23,788	12,061	11,019	12,405
5. Oil cake and meal	195	2,398	8,384	8,572	10,333	4,055
EUROPEAN ECONOMIC COMMUNITY						
Total exports	1,332,906	1,370,946	1,593,589	1,509,889	1,402,883	1,300,223
1. Wheat and flour	98,961	40,557	105,396	99,131	87,854	86,001
2. Rice, milled	15,569	9,817	14,910	22,255	25,545	27,554
3. Feed grains including corn, oats, and barley	278,161	377,741	538,016	368,547	391,693	268,896
4. Oilseeds	204,674	219,573	278,111	318,038	278,356	299,244
5. Oil cake and meal	55,379	101,865	129,473	151,399	169,650	173,435

Source: U.S. Department of Agriculture, "Foreign Agricultural Trade of the United States," November 1969.

TABLE 5.—U.S. TRADE IN MINERAL FUELS AND RELATED MATERIALS, 1960–69

[In millions of dollars]

	Total exports	Exports of petroleum and products	Exports of other mineral fuels including coal	Total imports	Imports of petroleum and products	Imports of other minerals including natural gas	Total balance	Balance on petroleum and products	Balance on other minerals including coal and natural gas
1960	842	468	374	1,574	1,537	37	−732	−1,069	337
1961	797	433	365	1,725	1,672	53	−928	−1,239	312
1962	828	430	398	1,874	1,778	96	−1,046	−1,348	302
1963	978	474	504	1,924	1,814	110	−946	−1,340	394
1964	953	457	496	2,030	1,907	123	−1,077	−1,450	373
1965	947	418	529	2,221	2,092	129	−1,274	−1,674	400
1966	976	434	542	2,262	2,127	135	−1,286	−1,693	407
1967	1,104	539	565	2,248	2,086	162	−1,144	−1,547	403
1968	1,050	454	596	2,527	2,343	184	−1,477	−1,889	412
1969 [1]	1,131	434	697	2,794	2,560	234	−1,663	−2,126	445

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports No. 67–43, No. 69–2, and No. 69–59, 70–3.

TABLE 6.—U.S. TRADE IN AUTOMOBILES AND TRANSPORT EQUIPMENT, 1960–69 [1]

[In millions of dollars]

	Automobiles and parts [2]			Transport equipment		
	Exports	Imports	Balance	Exports	Imports	Balance
1960	761	627	134	1,756	115	1,641
1961	757	378	379	1,589	197	1,392
1962	901	515	386	1,678	205	1,473
1963	1,012	527	485	1,528	237	1,291
1964	1,195	649	546	1,649	253	1,396
1965	1,268	757	511	1,946	391	1,555
1966	1,587	1,435	152	1,891	700	1,191
1967	1,922	1,960	−38	2,372	735	1,637
1968	2,501	3,218	−717	3,102	997	2,105
1969	2,766	3,887	−1,121	3,476	1,311	2,165

[1] Preliminary.

[2] Excludes engines and parts which are included in census data under machinery but includes all other auto parts and accessories. Imports of auto engines and parts were about $373,000,000 in 1968 and $440,000,000 in 1969. Exports of auto engines were $245,000,000 in 1968 and $341,000,000 in 1969.

Source: U.S. Department of Commerce, Overseas Business Reports Nos. 67–43; 70–3.

TABLE 7.—U.S. TRADE IN OTHER MANUFACTURED GOODS INCLUDING STEEL-MILL PRODUCTS, TEXTILES FOOTWEAR, CLOTHING AND PAPER PRODUCTS—1960–61 [1]

[In millions of dollars]

	Exports	Imports	Balance
1960	3,791	4,559	−768
1961	3,646	4,921	−775
1962	3,753	5,180	−1,427
1963	4,046	5,546	−1,500
1964	4,795	6,188	−1,393
1965	4,890	7,528	−2,638
1966	5,388	8,668	−3,280
1967	5,468	9,004	−3,536
1968	6,084	11,508	−5,424
1969	7,001	12,021	−5,020

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports No. 67–43; No. 69–2 and 70–3.

TABLE 8.—U.S. TRADE IN CRUDE MATERIALS INEDIBLE EXCEPT FUELS 1960-69 [1]
[In millions of dollars]

	Exports	Imports	Balance
1960	2,805	2,711	94
1961	2,794	2,485	309
1962	2,226	2,668	−442
1963	2,495	2,726	−231
1964	2,970	2,880	90
1965	2,856	3,103	−247
1966	3,070	3,310	−240
1967	3,284	2,997	287
1968	3,541	3,346	195
969 [1]	3,570	3,460	110
1			

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports, No. 67-43; 69-2 and 70-3.

TABLE 9.—U.S. TRADE IN MACHINERY 1960-69 [1]
[In millions of dollars]

	Exports	Imports	Balance
1960	4,476	724	3,752
1961	4,968	789	4,179
1962	5,447	954	4,493
1963	5,702	1,054	4,648
1964	6,525	1,314	5,211
1965	6,934	1,800	5,134
1966	7,678	2,688	4,990
1967	8,280	3,099	5,181
1968	8,844	3,772	5,072
1969 [1]	10,138	4,571	5,567

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports, No. 67-43: 69-2 and 70-3.

TABLE 10.—U.S. TRADE IN CHEMICALS, 1960-68 [1]

[In millions of dollars]

	Exports	Imports	Balance
1960	1,776	821	955
1961	1,789	738	1,051
1962	1,876	772	1,104
1963	2,009	701	1,308
1964	2,364	702	1,662
1965	2,402	769	1,633
1966	2,675	955	1,720
1967	2,802	958	1,844
1968	3,287	1,129	2,158
1969 [1]	3,383	1,232	2,151

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports, No. 67-43; No. 69-2 and No. 70-3.

TABLE 11.—U.S. TRADE IN FOOD AND RELATED PRODUCTS, BEVERAGES, TOBACCO AND LIVE ANIMALS, 1970-69 [1]

[In millions of dollars]

	Exports	Imports	Balance
1960	3,167	3,392	−225
1961	3,466	3,455	11
1962	3,743	3,674	69
1963	4,188	3,863	325
1964	4 637	4,022	615
1965	4,520	4,013	507
1966	5,186	4,590	596
1967	4,710	4,701	9
1968	4,592	5,363	−771
1969 [1]	4,446	5,309	−863

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports, No. 67-43; No. 69-2 and No. 70-3.

Mr. BURKE. Are there any questions?

Mr. CONABLE. Yes, Mr. Chairman.

I would like to say whenever Mr. Danielian comes before the committee, he tests widely held assumptions. I think it is very valuable for the committee to have him appear.

We welcome you back, sir. Your testimony is, as always, unique in its value to us.

Thank you.

Mr. DANIELIAN. Thank you very much, Mr. Conable.

Mr. BURKE. Thank you for your testimony.

Mr. BURKE. Our next witness is Mr. Clifford O'Hara.

We welcome you to the committee. You may identify yourself and proceed with your testimony.

STATEMENT OF CLIFFORD B. O'HARA, CHAIRMAN, COMMITTEE XI, AMERICAN ASSOCIATION OF PORT AUTHORITIES, AND CHAIRMAN, FOREIGN COMMERCE AND GOVERNMENT TRAFFIC COMMITTEE, NORTH ATLANTIC PORTS ASSOCIATION

Mr. O'HARA. I thank you, Mr. Chairman.

My name is Clifford B. O'Hara. As director of port commerce for the Port of New York Authority, I am responsible for directing the promotion and protection activities for the Port of New York-New Jersey.

I appear here today in my capacity as chairman of Committee XI: Foreign Commerce of the American Association of Port Authorities, and as chairman, Foreign Commerce and Government Traffic Committee of the North Atlantic Ports Association.

The corporate membership of the American Association of Port Authorities includes all the 80 principal public port agencies concerned with the planning, development, and operation of the seaports along the coasts, bays, and rivers of the United States, its insular possessions, and the Great Lakes. The association's member ports handle virtually all the oceanborne foreign commerce of our Nation. The North Atlantic Ports Association, most of whose members also belong to the American Association, represents U.S. Atlantic coast ports from Maine to Virginia, and includes both public and private port interests. It speaks for member ports which are responsible for developing and operating

facilities through which flows about half of the total oceanborne foreign commerce of our Nation by value.

In their efforts to accommodate this flow of commerce, which amounted to 417 million long tons valued at almost $42 billion in 1969, these ports have invested well over $2 billion in terminal and cargo handling facilities since the end of World War II. Through this massive investment in facilities, American ports have not only provided for the efficient and economical transfer of goods between ocean and inland carriers, but expanded transport capacity through innovations such as containerization, making international trade cheaper, safer, simpler, and thus more attractive.

And since one of the most essential elements that make a country's ability to compete in the international marketplace is the level of its prices, the investments by American ports which help keep the cost of transport down are directly contributing to the ability of U.S. products to earn shares of overseas markets.

Also, as the various ports compete with each other to provide the best possible facilities and the most effective services to exporters and importers, they help expand the total volume and value of international trade by stimulating exporters and importers to maximize their foreign trade opportunities. A dramatic example of such competitive efforts to expand trade is the planning and building of world trade centers, which are becoming a way of life in many ports.

Individually and collectively, both associations and all member ports are vitally concerned with the policy framework within which our Nation's foreign trade is conducted. The ports of the United States submit that millions of workers earning their livelihood in every part of this Nation have a direct stake in the maintenance of a healthy two-way flow of ocean trade. Since a port is basically an interchange point between land and ocean transportation, it is a place where a large number of people must join forces to carry out this interchange function smoothly and economically. The physical handling of the cargo is but a small portion of the total number of activities which must necessarily accompany a foreign trade transaction.

The American Association of Port Authorities conducted a survey about 2 years ago which showed that about 583,000 persons in the United States earned their livelihood directly from the handling, documentation, and financing of foreign trade. This total, however, includes only readily identifiable employment categories directly involved in the passage of cargoes through the marine terminal facilities in our Nation. It does not include, for example, railroad and trucking company employees in port areas, since it is almost impossible to isolate workers involved solely in foreign trade activities from those engaged in domestic work. Nor does it include employees of export-import wholesaling organizations, export management companies, foreign trade zone workers, foreign consular employees, marine terminal construction and maintenance employees, international trade and transportation consultants, and others.

At the Port of New York alone, the inclusion of such types of workers would swell the figure for employees engaged in foreign trade activities from about 216,000 to well over 430,000. It has, in fact, been estimated that the operations of the port provide the basis for the livelihood of one out of every four persons residing in the New York metropolitan area.

The number of employees of port agencies is in every case overshadowed by the huge number of employees of the many private enterprise organizations engaged in providing essential services to shippers and traders. Moreover, there are large numbers of employees of plants and industries which are located in port areas primarily because of the availability of deep water transportation for receipt of their raw materials and expeditious distribution of their manufactured products. The national total of workers in this category is undoubtedly well over 1 million.

This finds support in a study released by the Maritime Administration a few years ago which reported that 2,500,000 workers were employed in export-related industries in States having port facilities. This is some 83 percent of the estimated 3 million jobs created by overseas demand for U.S. products—a demand which can be maintained only if our trading partners can pay for their purchases by selling their own products to us.

The ports of the United States strongly support further implementation of the policy of reciprocal trade liberalization which has been the cornerstone of our national foreign economic policy since 1934. While we testify here in our own self-interest, we believe this self-interest to be synonymous with the national interest. We therefore support the administration's proposed Trade Act of 1969 as a vital step on the road to expanded trade on a fair and equitable basis, with adequate provision for both domestic and international adjustment.

Clearly it is in the national interest that the President have the flexibility to offer limited tariff reductions which will avoid unnecessary exposure of U.S. exports to foreign retaliation. Clearly it is in the national interest to remove the obsolete symbol of U.S. protectionism in the form of the American selling price system of valuation in return for reciprocal concessions on nontariff barriers to U.S. exports. Clearly it is also in the national interest that the credibility of U.S. negotiators be reinforced in their attempts to effect the removal of foreign nontariff barriers through congressional declaration on this issue.

We are aware that some American firms and even industries are especially vulnerable to competition from imports, and submit that firms and workers in trouble deserve help while market adjustments take place and production is shifted to areas of greater comparative advantage. The ports of the United States, therefore, support the administration in its attempts to make adjustment to foreign competition easier and to remove unfair trade practices.

It is important, however, to distinguish relief through internal assistance to firms and workers from relief through import restrictions under escape clause provisions, for the latter contains the inherent danger of obviating otherwise liberal trade policies unless used in the most exceptional of cases.

Yet we recognize also that the past inability of domestic industries to obtain relief through the existing escape clause mechanism has contributed to the pressures for enactment of numerous legislative proposals for import quotas, and we therefore support the enactment of a viable escape clause provision.

The American Association of Port Authorities and the North Atlantic Ports Association vigorously oppose protectionism, including

import quotas on any and all products. The President declared in his message to Congress last November 18 that:

"American trade policies must advance the national interest—which means they must respond to the whole of our interests, and not be a device to favor the narrow interest." In addition to being a negative, selfdefeating response to both competition and the unfair trade practices of others, import quotas must certainly "favor the narrow interest."

By choosing such a course, we would be giving protection to the few at the expense of the many. By subsidizing industries that should be upgrading their products and the skills of their workers, we would invite foreign retaliation against U.S. exports in other industries with the consequential harm to other industries and workers, feed inflation, and erode the purchasing power of American consumers.

It is a fact that ports tend to be the driving economic force in their local hinterlands, and that a great portion of the Nation's industry and population is concentrated about the U.S. ocean and lake ports. It is, therefore, not only in their own economic interest that the U.S. ports oppose unilateral or more severe import restrictions, but as representatives of consumers, business, and labor generally, which could all be seriously injured as a consequence.

Recognizing that differences in tax systems between the United States and other major trading nations place U.S. exports at a competitive disadvantage, the corporate members of the American Association of Port Authorities adopted during their past annual convention a resolution favoring the enactment of tax legislation consistent with GATT rules which would provide tax incentives for exporters as beneficial as those provided to trading competitors of the United States. Furthermore, we applaud the administration's efforts to insure that American products be allowed to compete fairly in world markets on equitable terms.

It has not been my purpose to delve deeply into the specific provisions of the Trade Act of 1969, but to express the support of the U.S. ports for it as a reaffirmation of the American commitment to reciprocal international trade and cooperation. As we go forward into the seventies, let us build on the achievements of a national trade policy which has proven its success over the past 35 years, and not slide back to the dark days of economic nationalism.

I would like to cover a couple of points in summary.

No. 1. The ports of the United States have invested over $2 billion since the end of World War II in port facilities, and the effect of this investment has been to keep down costs in shipping, which contribute to the ability of the American firms to compete in foreign markets.

One of the important factors is the tremendous employment which is created by port activity. We made a study in the American association about 2 years ago which indicated that in the American ports at that time, 583,000 people received their income directly from activity involved in the servicing, handling, and financing of foreign trade.

That is a very substantial number, because it does not include the employees of the railways, trucking companies, the exporting companies themselves, the importers, and it is a very impressive number of people, and it is sometimes lost sight of, who benefit by the activities of foreign trade.

Studies have shown that one in four people in the New York port area receives his income directly or indirectly from port activity.

The position of these associations is that we support the Administration Trade Act of 1969 as a continuation of the 1934 policy, which has been so beneficial to our country.

We oppose import quotas generally, and we favor tax incentives to encourage the movement of exports.

Thank you very much for your time, Mr. Chairman.

Mr. BURKE. Thank you, Mr. O'Hara.

Are there any questions?

Mr. CONABLE. No questions.

Mr. BURKE. We appreciate your testimony.

Mr. O'HARA. Thank you.

Mr. BURKE. Our next witness is Mrs. Gail Bradley.

We welcome you to the committee, Mrs. Bradley. You might identify yourself for the record and proceed with your testimony.

STATEMENT OF GAIL BRADLEY, VICE PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

Mrs. BRADLEY. Thank you very much.

I am Mrs. David G. Bradley of Durham, N.C., vice president of the League of Women Voters of the United States, and for the past 3 years, foreign policy chairman.

The league is a volunteer citizens' organization of about 160,000 members in 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. We devote our energies to governmental issues on local, State, and national levels.

Mr. Chairman, the committee has a copy of our full prepared statement for inclusion in the record, and I shall summarize the main points in my presentation to you now.

SUMMARY

FOREIGN TRADE POLICY

These are crucial times in the trade field. Many changes are taking place with new problems appearing along with some of the old ones. Most tariffs have been reduced to low levels, but nontariff barriers loom large. The emergence of trading blocs poses special problems, as do international monetary policies, national fiscal decisions and the need to open new markets to developing countries. Technological advances and the growth of international investment, while providing new opportunities, also create new difficulties. The United States has the capacity to meet these challenges. But we must have the overall policies and the machinery, domestic and international, to do so.

Today we would like to urge this Committee to pursue two complementary courses as the basis for a sound approach to international trade. The first is to advance legislation aimed at fostering increased exports and expanded world trade. The second is to resist moves to protect special interests at the expense of the general welfare, and instead effectively to help U.S. business and workers adjust to the problems of international competition.

THE TRADE ACT OF 1969

There are several sections of the Trade Act which we commend as essential to the forward movement of expanding world trade: restore the authority of the President to make limited tariff reductions; formalize authorization of GATT appropriations; liberalize the trade adjustment assistance criteria; and eliminate the American Selling Price system of customs evaluation.

OTHER TRADE ISSUES

The League regards the current moves to impose quota restrictions as serious threats to the very foundations of the American economy and to our relations with other nations. Legislative quotas are a particularly undesirable barrier and subvert the potential effectiveness of the mechanisms designed to deal equitably with import-induced injuries. They invite rigid, and sometimes extreme categories or restriction in response to the most aggressive special interests while trampling on broad consumer rights and interests.

CONCLUSION

The League views the 1970's as crucial years in trade. We believe our economy is basically sound and our competitive and innovative abilities unimpaired. The United States should be a leader among nations by pursuing trade policies and practices which would inspire others to follow the same pattern. Our task is to induce others to remove their import restrictions, to open their markets to our exports and others. The League of Women Voters urges enactment of the Trade Act of 1969 before the close of this session of Congress.

Mrs. BRADLEY. The League of Women Voters is a long-time supporter of the liberal trade measures that have been the basis of U.S. trade policy. The league's position is based on the conviction that the expansion of international trade is the route to economic well-being at home and abroad, and that it paves the way to the harmony between nations so essential in this close-knit modern world.

We maintain that national trade policy should be predicated on the paramount importance of the public interest, serve general rather than special interests, and provide U.S. consumers with the widest possible variety of economic choices.

Conversely, we oppose restrictive barriers, because they divide nations, hinder the flow of trade, increase domestic inflationary pressures, and excuse American industry from the beneficial stimulation of international competition.

These are crucial times for trade. Many changes are taking place. There are new problems along with old ones. There are new challenges and new opportunities.

We believe the United States has the capacity to meet the challenges—but it must have the domestic and international policies to do so. The trade legislation being considered now will have far-reaching impact on many matters of importance to our country and all its people.

Today we would like to urge this comimttee to pursue two complementary courses as the basis for a sound approach to international trade. The first is to advance legislation aimed at fostering increased U.S. exports and expanded world trade. The second is to resist moves to protect special interests at the expense of the general welfare.

I shall expand on these two principles in discussing the major legislative proposal to be considered by this committee, the administration's proposed Trade Act of 1969.

There are several sections of the Trade Act of 1969 which we commend as essential to the forward movement of world trade.

One is the provision to restore the authority of the President to make limited tariff reductions. This would enable him to make adjustments required by individual trade contingencies and obligations. This minimal authority should be extended to June 30, 1973.

A second provision we favor is to formalize authorization of GATT. The general agreement on tariffs and trade has proved itself as an

effective trade negotiation mechanism. The United States and other major trading nations are currently engaged in preliminary talks within GATT on the whole question of nontariff barriers, hoping to find a pattern for solving this serious problem.

It is time the United States gave full support to this valuable international instrument. The league supports regularized authorization of the U.S. share of the expenses of GATT.

A third important section of the Trade Act deals with adjustment assistance. The league considers adjustment assistance to be the constructive way to help domestic industries and workers injured by increased imports to make economic adaptations. It enables both firms and workers to be helped, without the imposition of restrictive measures such as quotas or higher tariffs which would be damaging to U.S. relations with other nations and would impair benefits to the U.S. consumer and the general economy.

We believe liberalization of the requirements for adjustment assistance is needed, and we think the proposed provisions will make adjustment assistance a workable program.

We urge you to enact the liberalized provisions to insure the constructive relief Congress originally intended, and to prove to our concerned workers and businesses that there is an alternative to attempting to shut out world competition—an alternative that can open new opportunities and one that avoids the inevitable retaliation that is brought against the nation which closes its markets to others.

While we support adjustment assistance as a positive approach, we do not support the principle of greater use of "escape clause" relief. I have already discussed some of the reasons we prefer adjustment assistance as the chief means of rendering help. Dislocations related to increased imports are often local rather than industrywide. We dislike resort to the escape clause also because it can have both international reverberations and reverberations against other domestic industries. Retaliation provoked by barriers designed to favor one particular industry is often felt by some other innocent industry.

The use of the escape clause should be a measure of last resort, and should be regarded as temporary relief in extreme cases and under unusual circumstances.

In supporting adjustment assistance, the league has in mind another aspect of changing trade patterns which will become more important in the future. That is temporary preferential tariff treatment for the less developed countries, which we support as part of a sound program of development assistance.

These countries need such tariff preference for a better chance for economic growth and balanced development, but we must be prepared to help our industries to adjust to the additional competition.

A very important section of the Trade Act of 1969 concerns the American selling price (ASP). I have already mentioned the serious concern in the United States over the problem of nontariff barriers. Our business firms have a great interest in having nontariff barriers reduced, for these are now major impediments to their trade opportunities.

For many years, the ASP method of customs evaluation for establishing tariff rates has been a stumbling block in our relations with our European trading partners. They regard ASP as the epitome

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of nontariff barriers. If we expect to make progress in nontariff barrier negotiations, it is essential that we repeal ASP.

Our Government agreed to seek its repeal in the last major GATT round of negotiations, in exchange for promised important trade concessions by our partners. These special concessions will benefit U.S. automotive, tobacco, and canned fruit industries—and the U.S. chemical industry itself.

ASP is an unfair, arbitrary, manipulative method of setting tariff rates. Two administrations have concluded that it should be eliminated. Time is growing short. ASP should be repealed this year.

The League's position supporting trade expansion includes opposition to the various practices that hinder trade. We regard the current moves to impose quota restrictions as serious threats to the very foundation of the American economy, and to our relations with other nations. We do not want to retrogress to an era of protectionism.

Legislated quotas are particularly undesirable trade barriers. They subvert the potential effectiveness of the mechanisms designed to deal equitably with import-induced injuries. They invite rigid categories of restriction in response to the most aggressive special interests while trampling on broad consumer rights and interests.

Quotas slow down economic opportunity, harm relations with other nations, retard the economic progress of developing countries, lead to higher prices and limited selection for American consumers, and serve to shield outmoded and inefficient businesses.

The League of Women Voters urges this committee to avoid the temptation of short-run gains from quotas at the expense of the long-run trading interests of this country.

Instead, the League believes Congress should sustain the momentum of the U.S. trade agreements program which has contributed so effectively to this country's economic health and to expanded international trade by enacting the Trade Act of 1969 before the close of this session.

Thank you, Mr. Chairman, for allowing us to present to the committee our views on this important legislation.

(Mrs. Bradley's prepared statement follows:)

PREPARED STATEMENT OF MRS. DAVID G. BRADLEY, VICE PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

I am Mrs. David G. Bradley of Durham, North Carolina, Vice-President of the League of Women Voters of the United States and for the past three years foreign policy chairman. The League is a volunteer citizens' organization of about 160,000 members in 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. We devote our energies to governmental issues on local, state and national levels.

Our organization is a long-time supporter of the liberal trade measures which have been the basis of U.S. trade policy for many years. Several generations of League members, stretching back to the post-World War I era, have contributed to building the positions the League now holds. These positions are based on a firm conviction that the expansion of international trade is the route to economic wellbeing both at home and abroad and that it paves the way to the harmony between nations that is so essential in this close-knit modern world. The League maintains that national trade policy should be predicated on the paramount importance of the public interest, serve general rather than special interests, and provide U.S. consumers with the widest possible variety of economic choices. Conversely we oppose restrictive barriers because they

divide nations, hinder the flow of trade, increase domestic inflationary pressures, and excuse American industry from the beneficial stimulation of international competition.

These are crucial times in the trade field. Many changes are taking place with new problems appearing along with some of the old ones. Most tariffs have been reduced to low levels, but nontariff barriers loom large. The emergence of trading blocs poses special problems, as do international monetary policies, national fiscal decisions, and the need to open markets to developing countries. Technological advances and the growth of international investment, while providing new opportunities, also create new difficulties. The United States has the capacity to meet these challenges. But we must have the overall policies and the machinery, domestic and international, to do so. With these we can improve our own trading position, and we can assume leadership for expanded trade around the world. We stress the fact that the trade legislation you are considering now will have far-reaching impact on many matters that are important to our country and all its people.

Today we would like to urge this committee to pursue two complementary courses as the basis for a sound approach to international trade. The first is to advance legislation aimed at fostering increased U.S. exports and expanded world trade. The second is to resist moves to protect special interests at the expense of the general welfare, and instead effectively to help U.S. business and workers adjust to the problems of international competition. I shall expand on these two principles within the context of discussing the major legislative proposal that must be considered by this committee, the Administration's proposed Trade Act of 1969. The League welcomed the President's trade message in November in which he affirmed this country's continued adherence to liberal trade policies. We believe the need for such policies is urgent today and for the dynamic world economy that is likely in the 1970's.

THE TRADE ACT OF 1969

There are several sections of the Trade Act of 1969 which we commend as essential to the forward movement of expanding world trade.

Presidential Authority.

The first provision we favor is to restore the authority of the President to make limited tariff reductions. This would enable him to make adjustments required by individual trade contingencies and obligations, and it would provide the possibility for revisions which may be our interest to make in the future. Without this presidential authority some American industries may suffer needless discrimination. This minimal authority should be extended to June 30, 1973.

GATT Authorization.

A second provision we particularly favor is to formalize authorization of GATT appropriations. The League of Women Voters has supported U.S. participation in the General Agreements on Tariff and Trade since its inception and we have welcomed its development into a major international instrument for dealing with trade problems. The contracting nations are more and more dependent on this body as the forum for working out trade agreements. The United States and other major trading nations are currently engaged in preliminary talks within GATT on the whole question of nontariff barriers, hoping to find a pattern for solving this serious problem. GATT has proved itself as an effective trade negotiation mechanism during other difficult trade negotiations and we are fortunate it is available to deal with current trade problems. It is time the U.S. gave full support to this valuable international instrument. We urge that the trade legislation this year provide for regularized authorization of the U.S. share of the expenses of the General Agreements on Tariffs and Trade.

Adjustment Assistance.

A third important section of the Trade Act is that dealing with adjustment assistance. This provision is really a vital matter in any legislation that aims to provide a framework for today's international trade agreements. Partly as a result of U.S. encouragement other nations have increased their trade with this country as well as among themselves. We welcome the increased trade volume and the goods made more available to all of us. As trade patterns change, however, and as production methods evolve and new techniques create some new commercial benefits and eliminate some old ones, we must be aware of the effects on segments of our working and producing population.

The League of Women Voters considers adjustment assistance provisions to be the constructive way to help domestic industries and workers injured by increased imports to make economic adaptations. An effective adjustment assistance program encourages adaptability and it helps create an atmosphere for innovation and enlightened competition in the international market. It enables both firms and workers to be helped without the imposition of restrictive measures such as quotas or higher tariffs which would be damaging to U.S. relations with other nations and would impair benefits to the U.S. consumer and the general economy. Where there may be a temptation to restrict imports in the mistaken belief that job opportunities for U.S. workers will thereby be enhanced, adjustment assistance makes it possible to choose the alternative approach of opening new opportunities and avoiding the inevitable retaliation that is brought against the nation which closes its markets to others.

We are glad the 1962 Trade Expansion Act included forward-looking adjustment measures but we believe liberalization of the requirements for adjustment assistance is needed and we think that the proposed provisions will make adjustment assistance a workable program. We urge you to enact the liberalized provisions to ensure the constructive relief that Congress originally intended and to prove to our concerned workers and businesses that there is an alternative to shout our world competition.

It is because we are convinced that the U.S. can benefit from expanding world trade and can only lose if it tries to shield itself artificially from healthy competition that we favor combined efforts for adjustment assistance and increased exports. While we support adjustment assistance as a positive approach to the alleviation of injuries caused by increased imports, we do not support the principle of greater use of "escape clause" relief. We prefer adjustment assistance as the chief means of rendering help to those injured by suddenly rising imports for reasons I have already discussed. It also has the advantage of applying to groups of workers and individual firms rather than to whole industries. When increased imports affect domestic producers, the dislocations are often local rather than industry-wide. The adversely affected—often weaker and poorer firms and their workers—need help; the unaffected do not and they should not benefit from the troubles of others and at the expense of the American taxpayer and consumer. We dislike resort to the escape clause also because it can have both international reverberations and reverberations against other domestic industries. I have already alluded to some of the international reverberations in speaking of retaliation that is inevitably taken by other countries against the country that sets up import barriers. What is not often realized—because it is not often mentioned—is that the retaliation that is provoked by barriers designed to favor one particular industry is often felt by some other innocent industry. It may even be one that is less able to afford added trade impediments than the industry that claimed escape clause relief. The end result of the use of escape clause relief is reduced trade, almost certain loss of some exports and export-related jobs, and the unfair passing on of dislocations related to increased imports.

The use of the escape clause should be a measure of last resort and should be regarded as temporary relief in extreme cases and under unusual circumstances. The escape clause will not promote competitive industry nor will it lead to orderly adaptation to changing trade patterns. Adjustment assistance devices, on the other hand, are appropriate to our world of increasing economic interdependence and rapid technological change. It is upon them that we must build in the future.

In supporting adjustment assistance the League is also thinking of another aspect of changing trade patterns which will become more important in the future. It is an aspect to which the League has long been attentive. Our trade interest is related to other positions we have in support of policies to promote a sound program of development assistance for the less developed countries (ldc's). Because we believe the needs of these nations call for special consideration, the League's trade policy encompasses support for measures to improve access to our markets for their goods, in part by means of generalized temporary preferential tariff treatments. We would waive the principle of reciprocity, which we generally support, for these special trade concessions to the developing countries. It is in the long-range interest of the United States to assist the ldc's. A trade policy which ignores the desperate plight of the poor nations also ignores a source of international conflict.

Tariff preferences are needed by ldc's to give them a rightful chance for economic growth and balanced development within the evolving international system. But we must be prepared to help our industries to adjust to the additional

competition. The United States, in concert with other nations, is currently exploring within the OECD the possibility of providing preferential tariff treatment for less developed countries. The League hopes such tariff preferences will be agreed upon soon and it hopes that this country will have a workable plan of adjustment assistance in operation too.

American Selling Price

I have already mentioned the serious concern in the United States over the problem of nontariff barriers. Our business firms have justified grievances against many foreign nontariff barrier practices, and other countries have complaints against us. For many years the American Selling Price (ASP) method of customs evaluation for establishing tariff rates has been a stumbling block in our relationship with our European trading partners, who regard ASP as the epitome of nontariff barriers. In the last major round of trade negotiations under GATT our government agreed to seek Congressional repeal of ASP in exchange for important trade concessions by our partners. If we expect to make progress on the key nontariff barrier negotiations that are beginning under GATT, negotiations in which our exporters have a large interest, it is essential that we repeal ASP as a first step of good faith. Beyond such general principles, the repeal of ASP is clearly merited on specific issues. The League of Women Voters holds that ASP must be eliminated for the following reasons:

ASP is obsolete and no longer justified. The "infant" dye industry has grown into the mammoth benzenoid chemical industry which is healthy and competitive both at home and abroad. Furthermore, benzenoid production is largely merged with other chemical manufactures.

ASP is unfair to other nations. The foreign exporter often has no way of knowing when he signs a contract whether or not his product will be evaluated under ASP. ASP duties are frequently much higher than those applied under ordinary methods of evaluation. ASP can be manipulated by American producers, who can adjust their prices, change their specifications, or enter production in such a way as to come under the law. ASP would be illegal under GATT if it did not predate the establishment of that body.

Failure to eliminate ASP would be unfair to other sectors of American industry. The supplementary package to the Kennedy Round agreements will only be activated by Congressional action on ASP. The special concessions offered by other countries "on the condition that the United States converts its ASP-based tariffs to a normal basis of tariff evaluation" will benefit the U.S. automotive, tobacco, and canned fruit industries.

Elimination of ASP will benefit the U.S. chemical industry itself substantially through the European tariff cuts on chemicals which are part of the supplementary package. It will also benefit many American wage earners through increased jobs and higher wages that will result from expanded export opportunities and continued growth of the chemical industry as a whole.

Elimination of ASP will benefit American consumers who will pay lower prices.

I add that time is growing short. Our trading partners will not extend the agreements of the Kennedy Round indefinitely. Two administrations have independently arrived at the same conclusion regarding the need to eliminate ASP. ASP should be repealed this year.

OTHER TRADE ISSUES

The League's position in favor of policies for expanding trade includes opposition to the various restrictive practices that hinder trade. We have opposed nontariff and tariff barriers. We have applauded past progress in eliminating import quotas.

The League regards the current moves to impose quota restrictions as serious threats to the very foundations of the American economy and to our relations with other nations. We oppose across-the-board quotas, as well as quotas on specific commodities. We do not want to retrogress to an era of protectionism, to retaliatory move and counter move that raise economic and political walls between nations. I mentioned earlier, in discussing the merits of adequate adjustment assistance, some of the dangers generally attached to the imposition of import barriers. Legislated quotas are a particularly undesirable barrier. They subvert the potential effectiveness of the mechanisms designed to deal equitably with import-induced injuries. They invite rigid, and sometimes extreme,

categories of restriction in response to the most aggressive special interests while trampling on broad consumer rights and interests.

In 1970 import quotas would mean:

A slowing down of economic opportunity. Contracting markets lead to fewer rather than more jobs for U.S. citizens and for those of other nations, and decreased profits for industry. Quotas would mean a lowering of incentive to create new products and stimulate new tastes, for these depend on an expanding market.

Deteriorating relationships with our trading partners, who threaten to impose restrictions in return. If world distrust and retaliation rule in trade relations, these attitudes spill over into other areas of international policy.

A blow to economic progress made by many of the ldc's we have been striving to assist by means of our foreign aid programs. Ldc's must be able to trade if they are to help themselves reach self-sustained economic growth. We must encourage trade to enable them to be less dependent on foreign aid.

Higher prices for American consumers and a more limited selection of products. The effect would be felt especially sharply by the lower-income Americans who purchase inexpensive imported apparel, footwear, and other consumer products which generally do not compete directly with American products. The effect would be cumulative, since trade would be damped down from the base period on, and the effect would be magnified because we are in an inflationary period when imports play a key role in countering pressures for raising prices.

Quotas could wipe out our trade surplus altogether. Protectionists persist in ignoring the basic economic axiom that if we do not buy from others they will not be able to buy from us.

It is argued that quotas are being sought to prevent injury to American industry but, in our judgment, what is really involved is fear of competition, a retreat from competitiveness and a sheltering of special interests. Furthermore, restrictions that are applied automatically do not allow for careful evaluation of the merits of a case.

A basic rule in considering such legislation should be the national interest—the public at large must be the first concern. An equally important criterion should be the search for harmony among nations. Quotas fail on both counts. The League of Women Voters strongly urges this Committee to avoid the temptation of short-run gains from quotas at the expense of the long-run trading interests of this country.

CONCLUSION

The League views the 1970's as crucial years in trade. The United States can act constructively or it can turn back to the regressive policies which helped to bring on the great depression. The League wants this country to move ahead. We believe our economy is basically sound and our competitive and innovative abilities unimpaired. The United States should, indeed, be a leader among nations by pursuing trade policies and practices which would inspire others to follow the same path. Our task is to induce others to remove their import restrictions, to open their markets to our exports and others'. That is where our obligation and our challenge lie—not in raising restrictions of our own.

We would remind this Committee of our President's words in his Economic Report to the Congress in February of this year:

> Artificial barriers to trade, such as tariffs and quotas, usually act to reduce or eliminate exchange that would have benefited the trading parties. Similarly, by insulating domestic producers from foreign competition, trade restrictions reduce the incentives to increase innovation, efficiency, and specialization—dynamic forces that have made a major contribution to the economic growth of industrial nations.

The League of Women Voters urges the enactment of the Trade Act of 1969 before the close of this session in order to sustain the momentum of the U.S. trade agreements program, which has been such an important factor in our economic health and in the growth of international trade and the concomitant economic welfare of peoples around the world.

Mr. BURKE. Thank you, Mrs. Bradley. We appreciate your testimony.

Are there any questions?

Mr. CONABLE. No questions.

Mr. BURKE. We just wish to congratulate the League for the usually good presentation.

Mr. BURKE. Our next witness is Mr. Harry L. Graham.

If you will identify yourself for the record, you may proceed with your testimony.

STATEMENT OF HARRY L. GRAHAM, LEGISLATIVE REPRESENTATIVE, NATIONAL FARMERS ORGANIZATION

Mr. GRAHAM. Mr. Chairman and members of the committee, I am Harry L. Graham, legislative representative of the National Farmers Organization whose home offices are in Corning, Iowa. I represent an organization which has membership in 49 States and which is engaged in collective bargaining for its members in many commodities. The method which the NFO uses is very simple: It brings together a sufficient quantity of the production of their membership in a given commodity to have a positive effect on the market. Our success has been sufficient to give us hope for the future for this organization and for its members.

Not only has the National Farmers Organization been engaged in marketing agricultural commodities here in the United States but it has also been engaged in marekting agricultural commodities overseas. With the rapidly increasing membership and with increasing amounts of agricultural production being consigned to the NFO for bargaining on behalf of the member owners, the interest of the NFO in foreign trade is not peripheral but of almost equal importance to that which we have given to the domestic market. Therefore we come to you today expressing a real concern for the future of foreign agricultural trade as it can be adversely effected by some of the trade regulating proposals which are before the committee.

There is no question that this Nation is at one of the great watershed periods in its history and that the decisions which this distinguished committee will make and recommend to the Congress will have wide-ranging effects on our international trade for many years to come. For the record, and not for the information of the committee which is aware of these problems, it should be pointed out that the problems of world trade are much broader than balance-of-trade figures, and the adverse effects that our trade policies might have on some industries and even on agriculture. They are interwoven with our overcommitment overseas with the problem of maintaining military bases all around the world, of our assumption of the necessity of being the peacekeeper of the world with the idea that we could enforce some Pax Americana. The problems involve both the threat of economic aggression supported by subsidized exports from our trading partners and economic aggression supported by trade policies of the United States against our trading partners. As such, these problems do not have simple answers. Indeed, the more simple and the more apparent it is, as one looks at it causually, the more the chances are that we will be trapped by our own planning.

We are in general agreement with the President who said in his message to the Congress on foreign trade:

> Any reduction in our imports produced by U.S. restrictions not accepted by our trading partners would invite foreign reaction against our own exports—all quite legally. Reduced imports would thus be offset by reduced exports, and

both sides would lose. In the longer term, such a policy of trade restriction would add to domestic inflation and jeopardize our competitiveness in world markets at the very time when tougher competition throughout the world requires us to improve our competitive capabilities in every way possible.

In fact, the need to restore our trade surplus heightens the need for further movement toward freer trade. It requires us to persuade other nations to lower barriers which deny us fair access to their markets. An environment of freer trade will permit the widest possible scope for the genius of American industry nad agriculture to respond to the competitive challenge of the 1970s.

We are familiar with the case that the textile industry has attempted to make for restrictions on textile imports and we are also familiar with the case that has been made by the shoe industry. We are also aware that there are many other industries which have a stake in the limitation of imports which would undoubtedly try for a share of the protection that might be afforded by the passage of some of the legislation which is before the committee.

On the other hand, we are also aware of the fact that the export market for agricultural commodities has provided an outlet which is more or less profitable for about three-fifths of the U.S. production of rice; three-fifths of the soybeans, including the oil and meal; nearly two-fifths of the tobacco; and over one-third of the wheat. Indeed, in the past years there have been times when the sale of three commodities, wheat, feed grains and soybeans, have exceeded over a billion dollars in gold for each commodity. The exports of agricultural commodities which are supported and regulated under Government programs since the wheat-cotton bill of 1964 have been $30 billion in gold. In a number of years, our agricultural exports have been double the gold earnings of any other major American industry.

It is a matter of record that our biggest purchasers have been West Germany, Japan, Great Britian and the rest of the EEC, as well as Korea, India, Pakistan, the Phillipines, Mexico, Columbia and Israel, among others. Sales to West Germany and Japan have been about a billion dollars a year. Retaliation against quotas, and legislation designed to put quotas on imports into the United States would be directed primarily against our largest trading partners and the largest markets for agricultural commodities—Japan. West Germany, and Great Britain, Japan and West Germany have made it abundantly clear that U.S. quota restrictions would lead to counter restrictions against U.S. exports, and that the retaliation would fall primarily on U.S. farm products.

We would point out to the Committee that there is an over-abundance of wheat available for export markets and that the United States is not going to impose its will upon the purchasing nations as long as there are alternative supplies available in Canada, Australia and Mexico, and that these surplus supplies will be supplemented in the very near future by a surplus being produced in India and Pakistan, and the surplus which is being produced in the EEC at the present time will be expanded. It should be noted that West Germany, usually our largest market for wheat will this year export more wheat than it imports.

Being a national organization, the N.F.O. has to be particularly sensitive to those acts which would grant economic relief to one commodity or one section of the country at the expense of the rest of our agricultural economy. At this point we have not been persuaded that there would be any significant increase in the usage of cotton produced

in the United States by the imposition of import restriction against textiles and textile yarn, when more than ⅔ of these imports are made up of man made fibers. We are convinced that the unusual benefits which have been granted to the chemical industry by the American selling price legislation are unjustified, and that the building of barriers against the importation of man made fibers would be unwarranted and unjustified concession to the American Chemical industry, which is no longer an infant industry in need of the protection of our total economic and political system.

What we are saying in essence is that American trade policy should not be self-defeating, that it should be developed with due regard to the general welfare, that it needs to be made consistent with our national policy towards our international problems, and that its result should be expanded agricultural trade on a profitable basis rather than a program that diminishes both price and volume.

It should be apparent by this time that the world is engaged in a technological revolution in both agricultural and industrial production that it outstripping the demand of the markets for these commodities at profitable prices. In agriculture, we have seen the further progress of the technological revolution which came to Europe and Japan a number of years ago and which is only in more recent years beginning to make itself felt in the United Staes. This, combined with trade policies, has made Western Europe almost self-sufficient in much of her agricultural production and has given her a substantial surplus in some products, notably dairy products and soft wheat.

The Iron Curtain countries, especially Russia, have demonstrated their ability to produce and to export on the world markets substantial quantities of vegetable oils (this adds validity to our warning that Western Europe could very easily and readily replace her purchases from the United States, and the $500 million annual sale of vegetable oils would be most seriously threatened because an available supply is close at hand, despite some production problems which Russia had last year).

A few years back it looked as if Russia might be a permanent market for surplus wheat produced in the Western World and the same was true of China. Indeed, Canada based her export program largely on sales to these two Communist countries. This seems to have been a mistake and Russia is now exporting some grain and the Chinese requirements are considerably less than were anticipated. This is what has led to the crisis in wheat production in our neighbor to the north.

Three years ago it seemed that the subcontinent of India and Pakistan would be a permanent market or at least a disposal area for surplus American agricultural products, but a combination of improved weather and the use of the new dwarf wheats have increased the production of wheat in India from 74 million long tons in 1967 to a predicted excess of 100 million tons this year and a predicted 125 long tons in 1975. The same factors have indicated that Pakistan will be exporting wheat in the next couple of years. This does not mean that all of the food needs of these two great countries are being adequately met. It simply means that they are selling agricultural products, both food and fiber, in order to get needed international credits for the further expansion of their domestic economies.

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Although the production of cotton in many developing countries is still in a rather primitive state, the fact is that they are actually increasing their production of cotton and that this cotton is entering the markets of the world at prices that are competitive with U.S. prices.

Despite the success the United States has had in coaxing some of its trading partners and the food deficit nations to substitute wheat for rice, rice still remains the basic cereal food of the world. The combination of improved technology in terms of planting and harvesting and improved varieties such as I.R.–8 promise to double and triple the production in Southeast Asia, parts of Russia, and other developing countries.

Perhaps the brightest picture we have in our international trade for agricultural commodities is in terms of feed grains and soybeans. However, we should not be lulled into any great sense of security concerning these two important dollar-earning crops because they can be substituted for other crops in surplus supply in other countries as they have been in the United States.

What we are trying to say is that we are in for a time of trouble in terms of international markets for agricultural commodities under the best of circumstances, and a time of economic disaster under worsening trading conditions.

The major problem which U.S. agricultural exporters have faced during the last several years have been the proliferation of nontariff barriers, particularly the variable levy system used by the European Economic Community. A major part of our economic thrust and major portion of our negotiation efforts has been to remove or reduce these barriers.

We have been very disillusioned by the present administration and their disregard for the organzation of the special trade representatives' office and the lack of priority given to this office since January 1969. Their first action was to turn the trade negotiations over to Mr. Stans, the Secretary of Commerce, who immediately embarked on a mission to convince the rest of the world that they had to agree to U.S. quotas, a mission which was without any significant success. We were concerned that he took the Secretary of Agriculture along for a part of this trip as a member of the team, but not an equal member and the chairman of the committee has properly pointed out the fact that they took Mr. Gilbert long before he had been confirmed as the special trade representative. It should also be noted that this office was down-graded in terms of appropriations at the same time.

We now note with some concern the suggestions in the President's proposal for trade legislation to put this in the hands of the President for his assignment to any area where he chooses. In our judgment, trade negotiations should be assigned to the special trade representative who can take an overall and balanced view of our trade problems and not assigned to separate members of the Cabinet whose views could be more restricted and consequently their judgment less valid.

We think that a case in point can be made at this time with what the administraton has done with the results of the Kennedy round. Their first act was to indicate that they intended to disregard the International Grains Agreement concerning wheat, even though this was a valid treaty ratified by the Senate and having the force of law. We would like to file a supplement to this testimony giving in detail

the way that the administration wrecked the International Grains Agreement and the fact that at no time did they use the instrumentalities created within the Agreement to try to work out the problems between exporting and importing nations.

Not only did this action on the part of the Department of Agriculture tend to force down grain prices, but it also effectively prevented our attainment of the minimum prices scheduled by the treaty, a major objective of the N.F.O. Of almost equal importance was the carefully laid plans to enter into negotiations with other producing countries who were creating the surplus of wheat production in an attempt to share equally with the producing nations the responsibility for the control of this production. The treaty also laid the foundation for the negotiations to provide for some arrangement whereby the producing and importing countries of the world would assume some joint responsibility for international food-relief programs, a responsibility that has been carried almost exclusively by the United States on a unilateral basis.

So we have now, on the one hand, a tremendous pressure being built up in the Congress for some kind of quota restrictions of imports into the United States and, on the other side in the Department of Agriculture, a drive towards to the "freeing of trade" which simply means that the United States is prepared to embark on a program of economic aggression and expansion in an attempt to bulldoze our way over the legitimate trading rights of other nations. The present administration proposals before the House Committee on Agriculture are a part of this overall plan whereby the United States would be permitted and assisted in lowering its prices for those commodities which it was offering for export to the point where it would be unprofitable for other producing nations to continue their production of the commodities which we can produce in surplus.

This is a dream world which the people from the grain trade, who now dominate the Department of Agriculture, are living in, but it is also a nightmare for agricultural producers. It assumes that there is some profit in exports when there is no regard for price. It proposes to set export prices at levels far below the domestic costs of production for these commodities. By doing this, they hope to avoid the responsibility which is placed upon the United States, as a member of the General Agreement on Tariffs and Trade. They propose to sell U.S. products for less than the domestic price support, then they propose to lower American prices for agricultural commodities to permit this economic aggression to take place. The loss comes out of the hide of farmers here and around the world, with U.S. farmers going bankrupt along with the agricultural producers of the world.

We would point out to the committee that there is no "world market price" for any agricultural commodity generally traded in the world. The price is determined to a large extent by the price at which the Commodity Credit Corporation offers these commodities for sale, and, in the case of wheat, by the amount of subsidy which they are willing to pay to the exporters to permit them to sell at lower prices than the legal release price from the CCC.

We would again point out that this is a one-way street to agricultural bankruptcy in the United States, and it is a one-way street to a world food shortage, regardless of the technological improvements that are available to agricultural producers.

It seems strange to us that while the rest of the world is trying to firm up and stabilize their economic and political situation within their own countries by protecting their agricultural incomes, that the United States should be embarking almost unilaterally on a program to destroy their competition. The disheartening thing about this is that they will not succeed. There is no way in which we can lower prices sufficiently in the United States to make any significant in-roads into the markets for those commodities which are protected by variable levies in the Common Market.

We would again point out that this is a one-way street to agricultural bankruptcy in the United States, and it is a one-way street to a world food shortage, regardless of the technological improvements that are available to agricultural producers around the world. The simple fact is that farmers cannot take advantage of these improved technological methods unless they can find some way of capitalizing their investment and paying it off on the basis of earnings. The method being proposed by the grain trade people in the Department of Agriculture is a one-way street to economic and political disaster and should be firmly rejected by this Congress.

It seems obvious to the National Farmers Organization that if there is going to be anything except anarchy in the markets of the world, that there must be some basis developed on which the great trading nations can find some agreement in terms of their share of the markets which will enable them to establish prices which will be profitable for the producers and not excessive for the purchasers. This was done in the International Grains Agreement. This is what we have been attempting to do in terms of textiles and shoes and other commodities that are imported into the United States. But while we have been pursuing this course on the right hand, the left hand has been destroying the credibility of U.S. treaty commitments by the flagrant disregard of the International Grains Agreement on Wheat and the unilateral destruction of that treaty.

We believe that this committee would be well advised to take a long hard look at the possibility of adjusting our tariff rates for those commodities which seem to be causing us the most trouble as they are imported into the United States, and that we stay within the regular tariff procedures for trying to solve these problems instead of going the route of nontariff barriers.

We recognize that there appears to be some need for speeding up the decisions of the Tariff Commission and perhaps that can be done by larger appropriations which would permit a more adequate staffing of the Commission.

We are not convinced that it is necessary to give all the authority to the President which is embodied in the administration bill which is before the committee, because we remember that President Johnson disregarded the advice of the Tariff Commission concerning dairy imports and set the imports at levels which were more consistent with reality than the recommendations of the Tariff Commission has indicated.

We remember, Mr. Chairman, conferences with you at the time when we were considering beef import limitation legislation in 1963 and 1964. We also remembered that as this legislation was nearing passage, it was possible for us to work out an agreement with the importing

countries which has not been completely satisfactory to either the U.S. producers or our exporting friends, but it has been a solution that could be lived with. During this period of time when it has been in existence that livestock prices have assumed a more realistic level for agricultural producers than they were even before the agreement.

We think that an important part of this agreement was the understanding with the Government that they would buy and remove from the market an amount of domestic beef roughly equivalent to that which was imported. Our studies indicate that this has been done and that the American economy has not suffered unduly from this kind of an agreement. At the same time, we have not been an insurmountable problem for those who seek to develop the economy of their own countries, especially among our friendly allies such as Canada, Australia, Mexico, and Ireland.

We hope that this same objective can be accomplished regarding some industries. At the same time, we believe that it is necessary to loosen up and properly underwrite the programs to reimburse industries that have been adversely effected by imports from other countries. The suggestions in the legislation which has been proposed to make it easier to establish damage would have our support.

Without going into further detail, we would say to the committee that we appreciate the extreme difficulty in which you are working and that we think you should continue your deliberations with due respect to international obligations in which we already have assumed under the General Agreement on Tariff and Trade, that we should, as far as possible, avoid getting ourselves into positions where we can be the defendant in suits brought against us for economic aggression that is prohibited by the CATT, that our domestic agriculture and industries should be protected and assisted as far as it is in the general welfare, and that the legislation which is finally approved should be the basis for expanded world trade rather than expanded economic aggression.

The final test of trade policy in our domestic and foreign economic policies really is in the relative prosperity of our people. I don't think that it is possible to test this on the basis of an annually consistent and persistent favorable policy trade. There must be a relative equality in the trade balances between trading nations or in the total trade balance between one nation and all its trading partners or the inevitable result is the bankruptcy of one of the trading partners and the resulting restriction of the trading area rather than its expansion.

We would point out that it is not very realistic to expect a favorable trade balance in the midst of the outflow of U.S. capital in the amounts that we have at the present time for purposes other than trade, mainly for our national security commitments, which should be reevaluated along with everything else in this regard. I remember hearing someone in Congress saying, in terms of our wheat exports that we would not mind going down 1 or 2 percent in the level of our wheat exports, was said against a background of a decline in foreign import markets of approximately 30 percent. Now, obviously the United States cannot maintain the same level of exports of any commodity in a situation where there is a tremendous change in the supply or the market demand of nations. We have to take our reduction along with other countries and there is just no practical way of avoiding this responsibility.

Again, what we are trying to say is that our main objective should be realistic and attainable in the light of the economic productive conditions of the world at any given time, and they should be of a long range character that allows some temporary decline in our trade balance, especially after there has been a relatively long period of a favorable trade balance, and that these declines should not create any kind of a mass hysteria in the stronger trading nations of the world. The only way that we can keep any consistence in the world trading patterns is for the United States to adopt realistic trading policies and stay by them with only minor adjustments that are required from time to time but without the major shift in our trading policies which seem to be envisioned in some of the legislation which is before this committee proposing to set quotas and nontariff barriers rather than staying within the more traditional tariff considerations for regulating trade.

In conclusion we would say that it is our belief that the imposition of import quotas on those major items suggested by the legislation introduced by the chairman and the other items that are suggested by a great deal of legislation introduced by numerous Congressmen is an extremely dangerous and hazardous procedure and that it should be the "court of last resort". We would prefer tariff changes to the imposition of nontariff barriers. We would support the legislation to make it easier to prove damage to the domestic industries, including agriculture. We would support legislation, if it is needed, and we have some serious reservations about this, that would permit the President to make the decisions after the Tariff Commission made its investigation and report. Or at least give the President the authority to over-ride the Tariff Commission when he thought it was in the national interest. We believe that the office of the Special Trade Representative should be strengthened from the standpoint of authority, and appropriations which would make adequate personnel available. We believe that the administration should show some consistent regard for legislation existing treaty legislation if they want our trading partners around the world to have any respect for the policy pronouncements and trade policies of the United States.

Mr. Chairman, I have a supplemental statement that I want to attach concerning the history of the International Grains Agreement, the breaking of the agreement. I will bring that to the committee.

Mr. BURKE. Without objection, we will leave the record open so that you can submit that.

(The supplemental statement referred to follows:)

THE UNITED STATES AND THE I.G.A.—SUBMITTED BY THE NATIONAL FARMERS ORGANIZATION

The International Grains Agreement covering only wheat was the objective of intensive negotiations during all of the Kennedy Round in the GATT. As a result, the exporting and importing nations agreed to sell and buy at prices above an agreed minimum of approximately $1.84 per bu. base price for No. 2 hard winter wheat.

On this base, there was also negotiated a price schedule for the various classes and grades of wheat. An additional schedule of Transportation charges to be levied by all exporting countries was agreed to.

Machinery was provided for the re-negotiation of both prices and transportation charges when one or more exporters were unable to sell their traditional share of the market.

Throughout the negotiations, the Grain Trade and the American Farm Bureau Federation waged a vigorous campaign to prevent an agreement and then to prevent the ratification of the treaty by the Senate. Although the treaty required a two-thirds majority, it was ratified by a 3 to 1 vote.

The appointment of a man long associated with the grain trade as Assistant Secretary of Agriculture with responsibility for International Agricultural Trade was a matter of grave concern to those who had supported this serious attempt to prevent a disastrous price drop every time there was an over-supply available for the world market demands.

Action to break the agreement, which was now the law of the land, was immediate after the Inauguration. On Jan. 22, the U.S.D.A. announced the extension of the then existing export subsidies from April 15 to Aug. 31. This was an official indication that the U.S. was prepared to break the agreement and resulted in long-term downward price pressure.

Between Jan. 31 and Feb. 13, the U.S. sold 747,000 bu. No. 2, DNS, 14% protein to the Netherlands for an east coast price of $1.64—$0.20 under the relevant I.G.A. level of $1.84 per bu. During the same period, the U.S. also sold 1,717,000 bu. of the same quality wheat for $1.70 per bu., 14¢ under the I.G.A. price of $1.84. From Feb. 14–20, there was registered a sale to Taiwan of 576,000 bu. of No. 2 west white for a west coast price of $1.54 as against a relevant I.G.A. level of $1.62.

By the third week of Feb., it is understood that the U.S. and Canada governments had received official notes from Argentina and Australia protesting that U.S. wheat prices in the Atlantic area were up to 11 cents per bushel below the I.G.A. level for European marketing, and that some wheats sold from Pacific ports were priced up to 4¢ below the minimum.

From Feb. 21–24, there was registered a sale of 394,000 bu. to Brazil of No. 2 Hard Winter wheat with a Gulf price of $1.64 compared to a relevant I.G.A. price of $1.73.

On Feb. 28 a meeting was called by the Asst. Secretary to which the farm organizations and representatives of the grain trade were invited. The farm organizations were called on first and warned that they were not to discuss the reasons for the developing crisis, but to confine their rewards to suggestions of action to be taken. These instructions were followed by the producers who took about one-half hour.

The grain trade and Farm Bureau spent one and one-half hour, completely disregarding the previous instructions from the chair, without any objection from the chair, to state their opinions of what was wrong with the I.G.A. The obvious bias of the meeting caused some of the farm organizations to object vigorously and to insist that the U.S.D.A. try to use the Agreement rather than destroy it.

On Feb. 29 and March 1 there was held an inconclusive meeting of th major exporting countries. It is understood that the U.S. explained that its sales were disadvantaged by the shipping rates recognized that shipping rates may change over time, and that this would call for periodic adjustments among the exporters. The U.S. did not make any serious, persistent effort to negotiate changes in the days following the exporters meeting. Nor did the U.S. suggest that the Prices Review Committee of the I.G.A. meet for the purpose of changing price differentials. The Price Review Committee had been created specifically for the purpose of making periodic adjustments. It had been recognized at the time of negotiation of the I.G.A. that price differentials could not be conclusively and permanently set for all time, and the changing levels of production and demand would require temporary adjustments among the differentials from time to time. But the U.S. made no real effort to work within the provisions of the I.G.A. at that juncture.

By mid-March, Canada announced that it would no longer hold to the I.G.A. minimums, as it had been doing, and cut prices by about 10¢ a bu. This actions was taken after further consultations with the U.S. by Canadian Ministers, and no sign was given by the U.S. of an effort to move back up to the I.G.A. levels, nor to formally rearrange the price structure through the mechanisms of the I.G.A.

Two sales were registered March 21–March 27, 735,000 bu. of No. 2 hard winter wheat, 13% protein was sold to Columbia for a Gulf price of $1.64 compared to the relevant I.G.A. level of $1.73. 533,000 bu. of No. 2 western white wheat was sold to Japan for a west coast price of $1.57—5 cents under the I.G.A. level.

By early April, another meeting of the major world wheat exporters was held, at which the exporting countries agreed to work within the framework of the I.G.A. to strengthen prices. Little, however, happened, and again so far as can be ascertained the U.S. made no persistent effort to negotiate, through the framework of the I.G.A., any improvements in the situation which would have allowed maintenance of relatively strong prices. Discussions wage held in London as background to the Prices Review Committee, but the Committee was not asked to consider any concrete action or actions.

During the May 9–13 registration period, the U.S. sold 1,521,000 bu. of No. 2 hard winter 11% protein wheat to Brazil for a Gulf price of $1.62, 11 cents under the I.G.A. level. (This is not a complete list of sales, but only those reported by the GRAIN MARKET NEWS. In recent weeks, the sale prices have been significantly lower, but the exact prices in particular transactions are no longer published in the GRAIN MARKET NEWS.)

Serious trouble then arose in May over extremely low French offer prices to Taiwan, not a traditional market for France. Vigorous protests were made, it is reported, by the U.S., and the EEC agreed to rectify the situation at least in part. Just how far the EEC was prepared to go, and just how persistent the U.S. was in laying down the specifics of the prices it believed were reasonable for France in the Far East, is not clear. The indications are, however, that the EEC was moving in the right direction by late June, after Secretary Hardin's visit to Mr. Mansholt, the Vice-President of the Common Market.

Sometime in June the U.S. suggested, in an informal discussion with other exporters in London, that Article 2 of the I.G.A. be invoked and that the minimum price schedule in the I.G.A. be suspended. The other exporting countries reacted strongly against this. Shortly afterwards the Prime Minister and Deputy Prime Minister of Australia and the Prime Minister of Canada asked President Nixon to converse urgently an exporters meeting. On July 10 and 11 such a meeting was held in Washington. Certain understandings were reached, under the threat of the U.S. suggesting that prices be suspended. These understandings, it is reported, were designed to firm up world prices, and allow sales by Canada and the U.S., who, in spite of price cutting, had not been selling. It is not clear what the precise undertakings were, but it is clear that the Common Market reacted vigorously against the subsequent cuts by the U.S. on hard red winter wheat in the Atlantic. In a July 28 report from Brussels by Richard Norton-Taylor in the July 29 issue of the Washington Post, the Common Market is reported to be extremely angered by the U.S. price cuts. The EEC communique is quoted as saying that: "The European Community had counted on the United States and Canada abstaining from unilateral measures which did not conform to the terms of the arrangement." It is difficult to believe that such a communique would be issued if the United States had been working within an agreed framework, taking into account the top level governmental consideration these issues have had in recent weeks. It is difficult to believe the U.S. exhausted every remedy through the I.G.A. and bilaterally with the EEC before making the recent cuts. (U.S. wheat prices broke 6¢ that day.)

It appears that these cuts in the Atlantic were far bigger than they at first appear. The basic cut on hard red winter ordinaries was about 12¢, but other hard red wheats seem to have been cut up to 20¢.

The cut was apparently made into Europe only. Subsequently, and not surprisingly, Brazil and Japan, major importers of U.S. wheat, became angry and threatened to cease purchasing U.S. wheats. Thus the U.S. not only seems to have jumped ahead of the ministerial level decisions of July 10 and 11, but also to have offended two of its biggest customers in the process.

It is not surprising then that further cuts had to be made into Brazil and Japan, by August 13. Australia and Canada followed, since this action appears to have further breached what ever understandings were reached by ministers in July.

At no time, except for a brief threat made in June to suspend the prices of the I.G.A., does the U.S. appear to have made any serious effort to work within the framework of this international treaty.

Was all of this aggressive price cutting necessary?

The I.G.A. provisions do provide for adjustments in an orderly, agreed way. No where does the I.G.A. say that the minimums are rigid and unalterable. On the contrary, the provisions treat the minimums as indicators of when prices are weak, and when corrective action is to be called for. Article 8, very carefully negotiated with this in mind, and as subsequently carefully explained to the

United States Senate, provides for an orderly international procedure for adjustment. The provisions of Article 6, the article providing the price schedule, are clearly conditioned by all of what is said in Article 8. In addition, however, specific mention is made in Article 6 of adjustments in accordance with Article 8 and 31 (see para. 4). Moreover, paragraphs 5 through 11 of Article 6 all refer to computation of equivalent maximum and minimum prices in terms of "currently prevailing transportation costs". Paragraph 16 states flatly that all of the price equivalences in paragraphs 5 through 11 "shall be computed at regular intervals by the Secretariat of the Council with the assistance of the Subcommittee on Prices, having regard to the costs of ocean transportation which reflect the current method of movement generally employed and on the most comparable basis between the ports concerned." Moreover, under these two Articles, 6 and 8, new prices can be set for new qualities, in addition to adjustments for existing wheats defined in the price schedule.

Another article which qualifies the provisions of the price schedule is Article 4, which defines in paragraph 6 that the terms "consistent with the price range" shall be interpreted to mean that any prices, even those below the formal minimums of Article 6, are consistent with the price range if the provisions and procedures of Article 8 are adhered to.

What is important here to note is that the U.S. does not at any time appear to have tried to use the provisions of Article 8, and it seems to have ignored all of the provisions regarding price. The only reference to the provisions was in June when the U.S. Government suggested suspension, not implementation, of Article 8.

Does cutting prices make any economic sense in the present world market situation? All wheat exporting countries have heavy surpluses. The world overhang will probably increase somewhat in coming months. On the other hand, Australia already seems to be taking steps to restrain production, and Canada seems ready to undertake measures of restraining. (Canada has since reduced her planting 75% for this year.)

The U.S. Department of Agriculture announced a 12% reduction in acreage on August 12. There is no evidence that this reduction was discussed with other countries, or that commitments were sought in precise terms as to what reductions other countries were prepared to make. Again American farmers are asked to bear the total burden of supply management for the world.

Demand for what is fairly inelastic. As Senator McGovern said in the Senate on July 31, "A lower world price will not result in significantly larger wheat sales. Lower prices would only be helpful if the United States could move down alone, while other countries held back on their sales. But that degree of cooperation, where others agree to sell nothing, is impossible." He also said, "Even if there were no I.G.A., the exporters under present market conditions would still need to seek some reasonable live-and-let-live understanding in order to avoid costly price wars. Moreover, no one among the key importing countries will be grateful for price wars. The EEC will simply absorb price declines with higher import levies. The United Kingdom will oppose substantial price reductions because of the interference with her domestic programs and will adjust her levies accordingly. Japan will oppose drastic downward movements because of her rice accumulation at high support prices. Those developing countries which are becoming increasingly self-sufficient and improving their export position will oppose major declines because it will damage their own export prospects.

World price cutting by the U.S. can be matched by the EEC. In fact, as U.S. wheat prices come down, EEC levies go up, helping to finance export subsidies for cheaper European export prices. The U.S. and the EEC have the money to compete on the basis of government budgets, but other countries do not. That is competition on the basis of subsidies, not efficiency. It is competition which does not hurt the country said to create the major problem for U.S. wheat.

If average world sales cannot be directly increased by price cuts, the purpose must be to let prices fall to the level necessary to make wheat competitive with other grains for feeding. This obviously means an attack on domestic grain price supports generally.

There is no reason, if that is not the objective, that the U.S. cannot in the present world surplus situation, work together with other countries to moderate the price effects of surpluses. The present world situation requires cooperative effort to relieve the burdens, while maximizing foreign exchange earnings at minimum budget costs, and not price wars which are self-defeating and have opposite results.

The results of these actions have been to increase government costs of export subsidies by $40 million per year, to reduce gold earnings, to depress domestic prices for wheat, to reduce the EEC demand for U.S. feed grains by pricing wheat down to the feed grains level and increasing the substitution, to put further downward pressure on feed grain prices, to further alienate our two great friends among the exporters—Canada and Australia, and to seriously disturb the possibility of holding our two most important exports markets—Japan and the EEC.

Mr. GRAHAM. I want to summarize very quickly. I know this has been a long and tiring day for you, Mr. Chairman, and the committee.

We appreciate the time and the effort that you are spending on a problem that is so complex and so difficult to solve, and has so many ramifications to all of our economy.

But I do want to amplify the statement that I gave by saying to you and to the committee members, staff members, that agriculture has a very great stake in what is decided by this committee.

The Secretary of Agriculture graphically pointed out the amount of exports that agriculture has. At the present time, I would add since 1964, when the present farm program was adopted, that we have exported for gold about $30 billion worth of agricultural commodities, by far the largest export of any economic group within the United States.

Now, we are concerned about part of this legislation. We are concerned doubly because we are on the horns of a dilemma on it. Our organization now has organizations in 48 States. That means we have organizations where there is cotton, and where there is cotton, there are problems of textile quotas.

Yet, we also have a great many members who produce wheat and corn and grain sorghum and soybeans, and we are concerned with trying to find some kind of balance whereby a quota system on textiles does not end with a much greater loss of exports on grains.

We are concerned because of the very frank way in which West Germany and Japan have told us that their retaliation against these quotas would be directed against our agricultural exports.

It is possible for them to retaliate at the present time because there are available supplies in the world for these two countries, who have been our biggest customers. There is plenty of wheat. If nobody grew a bushel of wheat for the export market this year, there is more than enough wheat in reserve to provide for the total import needs of the rest of the world.

So to retreat behind an idea that they have to buy from us is a false assumption. They don't have to buy from us. Nor would they.

We don't know how far this threat will go, but we are sure they will keep their word at least to some extent.

We are concerned with this one because we still have to be convinced that import restrictions on textiles would end up with a substantial increase in the use of American cotton.

The reason we raise this question is because of the amount of manmade fibers and yarns that are coming in as a part of the total textile imports. If these are maintained in the use by our domestic mills, and we have no reason to believe that they are going to do away with the use of manmade fibers after having developed them, and having the money spent on them, we believe that this action simply would transfer the source of supply from foreign chemical companies to domestic chemical companies.

So, on balance, we hope the committee will take a good hard look at whether this costs us a great deal more money than it makes us.

I do not have all the answers for this problem. I don't pretend to, but I think before the hearings are completed, the committee will have pretty adequate information available for them at this point.

We are sure that the committee is going to be as objective as they can, and all we are saying is that we hope you will take a good hard look at this one.

Now, the other thing I want to point out is that although we are in general in support of the thrust of the administration bill, we have a little difficulty placing as much credibility in it as we should, because of what has happened to the International Grains Agreement. This was the result of the Kennedy round. It was ratified by the Senate of the United States. It is a binding treaty.

It has the effect of law. You know what a treaty does in terms of law. But the very first act of this administration was to scuttle the treaty. They did it by announcement on the 21st of January concerning the export subsidies. Then they proceeded to do everything they could to scuttle the treaty.

Although it had some injustice in the way the treaty was used, there is no record of the intent at any time to use the mechanisms in the treaty to work out the problems of maladjustment. The mechanisms were there. At least, in our judgment, we should have tried to use the mechanisms of the treaty before we destroyed it.

Now we come back to these countries, and the United States asks them to come to some kind of agreement with us concerning imports into the United States, or something of that kind, and right on the record, right in front of them, is our destruction of the most recently negotiated trade treaty that they have with the United States.

In our judgment, this is not going into negotiations with hands that are clean enough, and we think we will have great difficulty at this point because of this record.

We were very much disappointed that the administration did choose to scuttle this treaty before they gave it a chance to go to work. It meant lower prices for us. But it also meant another thing for us that we are sensitive of, the damage to our relationship with the farm organizations around the world.

We had been in the position of moral leadership in this whole negotiation. All of a sudden we ceased to have any leadership in terms of moral principles, and for the first time we had representatives of the international farm organizations being very critical of us, and of the Government of our country. This is not very pleasant for somebody who has been in these international negotiations for many years.

In summary, having just flagged that problem, one in terms of our support of the bill, we would say one other thing. We do not believe that the true results of trade policy can be measured by the balance of payments in any one year. It takes a relatively long-term trend to determine the effect of any trade policy. I do not think we can balance our total trade picture of outflow and income until we have done something more restrictive on the outflow that goes with an attempt to try to enforce some kind of Pax Americana on the rest of the world.

Thank you, Mr. Chairman.

Mr. BURKE. Thank you, Mr. Graham.

Are there any questions?

Mr. CONABLE. No questions.

Mr. BURKE. There being no further questions, we thank you for your appearance here today, and for your testimony.

This concludes the hearings for today, and the committee now stands adjourned, to meet at 10 a.m. tomorrow.

(Whereupon, at 5:20 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, May 19, 1970.)

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