TRADE REFORM

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 6767

THE TRADE REFORM ACT OF 1973

MAY 9, 10, 11, 14, 15, 16, 17, 18, 21, 22, 23, 24, 29, 30, 31;
JUNE 1, 6, 7, 8, 11, 12, 13, 14, AND 15, 1973

Part 2 of 15

(May 10, 11, 1973)

Printed for the use of the Committee on Ways and Means

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TRADE REFORM

THURSDAY, MAY 10, 1973

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

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

The CHAIRMAN. The committee will please be in order.

We have at the desk this morning Ambassador William D. Eberle, Ambassador William R. Pearce, Mr. John Jackson, General Counsel of the Office of the Special Representative for Trade Negotiations, and the Honorable Frederic W. Hickman, Assistant Secretary of the Treasury for Tax Policy.

The Chair understands that only Ambassador Eberle and Mr. Hickman will make statements, and they would like to do what we did yesterday: complete their statements before we interrogate them. Without objection, we will proceed that way.

Ambassador Eberle, we appreciate having you with us this morning, along with the others, and you are recognized, sir.

STATEMENT OF AMBASSADOR WILLIAM D. EBERLE, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, ACCOMPANIED BY AMBASSADOR WILLIAM R. PEARCE, DEPUTY SPECIAL REPRESENTATIVE, AND JOHN H. JACKSON, GENERAL COUNSEL

Ambassador EBERLE. Mr. Chairman and members of the committee it is a pleasure for me to be here.

I was reminded by one of your members this morning that as the chief negotiator for the United States, my training starts this morning, right at home.

Yesterday, Secretary Shultz and Secretary Rogers described the interrelationship of the Trade Reform Act with overall United States international political, monetary, and economic policy objectives. Peter Flanigan, the Executive Director of the Council on International Economic Policy, then outlined how the Trade Reform Act itself is part of an integrated approach to one of the set of objectives—reform of the international economic system and trade growth.

Today, I and my colleagues—my deputy, Bill Pearce, who is charged with the coordination of the bill for the administration, and Mr. John Jackson, STR's General Counsel, who has been the lead counsel on

drafting of this bill—would like to examine the provisions of the act in detail with you.

I have provided each of you a copy of very lengthy testimony, which I am tabling for the record as part of the legislative history. This testimony describes the various provisions in the act, their purposes, and the arguments for them, and in some cases when and how the administration would intend to apply them.

I do not want to take your time by reading this lengthy document. Rather, I would like to make some brief comments and then be available to answer any of your questions about the Trade Reform Act of 1973.

The CHAIRMAN. Without objection, this will be included.

Ambassador EBERLE. I would like to summarize the longer testimony, and although my statement has been submitted to you in the shorter form, I will have some ad lib comments to clarify some of these issues.

One way to examine the act is to understand its three major purposes. The major goal of the act is to establish the authority to proceed to negotiations which lead to a more open world trading system through the reduction of barriers to trade. Title I establishes new authorities to negotiate. Title II makes some major changes in existing import relief and adjustment assistance programs, to facilitate the adjustment of domestic industries and workers to new competitive conditions under a more liberal trading system.

A second goal of the act is to stimulate the building of a more equitable world trading system through reform of rules and practices which will be fair to all nations, and to provide adequate and measured responses to unfair trade practices. Titles III and IV relate to these goals.

The third goal is to open the world trading system to encompass all areas of the world. Titles V and VI would enable an expansion of mutually beneficial trade opportunities with Communist countries and the developing nations.

I wish to comment on two matters which are of particular interest. I believe, to the committee. The first refers to the broad authorities we are requesting to enable the President to enter into agreements with foreign countries for the reduction of tariff and other trade barriers. Specifically, what are our negotiating objectives? To put it another way, why are we asking for the authorities contained in title I of the Trade Reform Act?

The administration has two main objectives in trade negotiations. First, we seek a more open trading world through the reduction of barriers to trade because we believe that the more rational and efficient allocation of resources and the availability of a greater variety of goods at lower prices which result from further expansion of world trade is to the benefit of all nations. In addition, it will create jobs—jobs in the United States as well as in other parts of the world.

Our second objective is to reform the international economic system, of which the trading system is one part, by changing outmoded international trading rules, practices, and institutions to conform to today's realities in a manner which will be accepted and applied by all major trading nations. Even if there is satisfactory resolution of current trade issues, the longer term implications of the institutional defects of the GATT are serious. These defects make it difficult for the system of

international economic cooperation to keep abreast of changing conditions and circumstances. If institutions for developing these norms are inadequate, the settlement of disputes becomes more difficult, and political and economic contentions among nations increases.

The forthcoming trade negotiations must differ substantially from those in the past which focused primarily on tariffs. As tariffs have been reduced, the relative importance of other forms of trade barriers has increased, insulating large areas of trade from the adjustment process and restricting market access for the exports of more efficient producers. Preferential trading arrangements have become prevalent, their discriminatory elements impeding the trade of countries outside the arrangements and distorting international investment decisions.

While we distinguish two main objectives, they are closely interrelated. Their various elements must be negotiated in combination with each other in order to achieve our goals. Negotiations which seek the lowering of trade barriers must also include the development of adequate safeguard mechanisms and trade norms and institutions which insure that the international trading system works effectively.

The negotiations must cover all barriers which distort trade, and as they pertain to both agriculture and industry. Otherwise, the gains from reducing one type of barrier can be lost through its replacement by another form of trade restriction. All product sectors have potential to benefit from a more liberal trading system. For the trade and monetary systems to work effectively, none can become or remain insulated permanently from market forces and the international adjustment process.

Considerable discussion has already taken place in the GATT and the OECD of possible approaches to solving these problems. Negotiating techniques on tariffs could include their elimination on most products, across-the-board percentage reductions, negotiations on particular product sectors which would include other trade barriers, harmonization of tariffs among major countries which could involve some tariff increases as well as decreases, item-by-item negotiations, or a combination of all of these techniques.

We are also talking about a wide variety of other trade barriers: Quantitative restrictions, Government procurement policies, subsidies to exports, product standards, various systems of customs valuation, charges at the border including variable levies are only a few of the 27 different categories and about 800 different complaints which have been filed with the GATT.

Given their heterogeneous nature and the fact that they involve a variety of domestic laws in all countries, no single negotiating approach to solutions is appropriate. Some might lend themselves to international codes of conduct, such as product standards and Government procurement practices; others to general principles of international behavior; some others might be converted to tariffs and then reduced, and some might be eliminated.

Our major trading partners have joined us in declarations to undertake multilateral and comprehensive negotiations on "all elements of trade" to begin this fall. Clearly, these will be very complex and very difficult negotiations. Their broad scope calls for balance in terms quite different from the traditional concept of "reciprocity" in a tariff negotiation. In the words of the joint declarations which were negotiated

in January and February 1972, both with the European Community and with Japan, we agreed that the negotiations will be conducted on the basis of "mutual advantage and mutual commitment with overall reciprocity."

We are focusing on trying to negotiate a system of lowering barriers across the board—tariffs, NTB's on both industry and agriculture—and at the same time to develop a system for better trade, including multilateral safeguards. The negotiations must involve all of these elements if we are to be successful.

Given the interrelated nature of the objectives, the negotiations must proceed on various of these elements at each stage. Each element may require a different negotiating technique; in combination they involve a series of techniques. They require that U.S. negotiators have flexibility, maximum leverage, and above all, credibility at the bargaining table. The greater the U.S. input at each stage, the greater the potential for maximum participation by other countries. The purpose of title I of the Trade Reform Act is to provide the authorities the President needs to achieve these comprehensive goals.

Now, before I go specifically to the authorities requested, and explain how they relate to the requests and authorities granted in the past, I would simply like to say that all of these authorities must be put in context and perspective. This perspective is that this is a joint venture with Congress. We welcome Chairman Mills' and Senator Long's bill for a joint committee to work with the negotiators, because we think this is critically important to make a negotiation successful.

In addition, to make this major undertaking a success, the President will need the advice and ideas of industry, agriculture, labor, and consumer groups, all of whom have a substantial interest in trade. It is that kind of input, both at the technical and policy level, that will make a success out of these negotiations. We welcome that kind of advice and direction.

This leads me, then, to the specific authorities that are being requested by the administration for the President under this act, and how they compare with previous grants of authority by Congress in the trade field.

International trade is the subject of a uniquely successful partnership between the executive branch and the Congress. The partnership arises because the U.S. Constitution grants to Congress the power to regulate commerce with foreign nations. Broadscale trade negotiations will take place, and they will succeed only if the Congress declares this to be its will. For while the President has his constitutional authority to negotiate trade agreements, with respect to most matters he lacks the authority to implement these agreements on behalf of the United States.

In 1934, the Congress decided that unilateral trade restricting actions should give way to internationally negotiated mutual reductions in trade barriers. From the beginning of the reciprocal trade agreements program, Congress has recognized that international trade matters, particularly negotiations on tariffs, require a greater degree of delegation to the President than do domestic matters. The legislative history of the 1934 Reciprocal Trade Agreements Act clearly manifests this understanding, as does the Trade Expansion Act of 1962 which, in

particular, contained substantial delegations of authority by the Congress in the trade field.

For the most part, the authorities in the Trade Reform Act renew prior authorities which have lapsed and make some of them permanent, or make existing authorities more explicit. Delegations in the act of new authority or the removal of limitations on prior authorities are specifically designed to deal with international trade problems that are important today, but were less significant in prior decades. They are consistent with the need for significant changes in the international economic order.

The first delegation proposed is the authority to implement trade agreements which require the reduction or increase in tariffs. This provision would renew the standard trade agreements program delegation of tariff authority. The Trade Expansion Act authorized substantial tariff reductions overall, plus the elimination of duties on a significant portion of U.S. trade.

Specifically, the grant of authority to the administration was to reduce tariffs up to 50 percent. In addition there were smaller delegations to eliminate tariffs on items if 80 percent of world trade in these items was between the European community and the United States, and to phase out tariffs of 5 percent or below.

At that time, the tariff average on dutiable industrial items weighted by trade was about 12 percent. The 50 percent authority enabled reductions on the average of 6 percentage points. Today the tariff average for the United States is a little above 8 percent. We are asking for authority to raise or lower tariffs if you assumed that we eliminated all tariffs there would be a change of only 8 percentage points.

With tariffs much lower today than they were, particularly prior to the Kennedy round, a limited authority, in our opinion, would not be sufficient or appropriate to allow us to use all of the negotiating techniques which may be necessary to solve tariff problems. In the Kennedy round the negotiators only used approximately 75 percent of the 50-percent authority reducing tariffs about 35 percent.

I must add here that the real limit on this authority is the willingness of our trading partners to agree. Unless they agree, there will be no raising or lowering of tariffs. There are two other limitations, one the 5-year period during which agreements to reduce tariffs may be negotiated, and two, that tariff reductions must be staged over a period of time.

It is particularly important that our negotiators have the full support of the Congress with respect to negotiations on trade barriers other than tariffs. It is in this area that the constructive partnership between the executive and legislative branches is absolutely essential. Advance authority would maximize the chances of success in this area from a negotiating point of view. However, we recognize this is neither desirable nor possible, for in some cases Congress must act to change the domestic law and we do not know in advance of negotiations the form of agreements on particular nontariff barriers.

The proposed act delegates advance authority to implement agreements on a limited range of nontariff barriers.

The area in which advance authority requested in this bill includes ASP, marking, the final list, all of which affect and closely related to the valuation and tariffs. That is all other nontariff barriers which

might be negotiated which require changes in law will be brought back to Congress for a review.

We have proposed a new optional procedure in this bill in addition to the other methods of implementing NTB agreements. Today the President has the right to submit to Congress new legislation requesting any needed changes in law. He could submit a treaty. He could proceed on only administrative matters with an Executive agreement.

We are suggesting that in addition to these alternatives he have the right to submit an agreement to Congress under a veto procedure. The proposed congressional veto procedure moves from the existing system of granting advance implementing authority to the President on tariff agreements to a closer cooperative relationship between the President and the Congress. The parameters of the agreement would be outlined to the Congress well in advance of the conclusion of an agreement.

First, we would outline the parameters of an agreement to the Congress 90 days before it is signed to get your full reaction and input. Then, with or without amendments, if the agreement is signed, it would be brought back to the Congress and either House of Congress would have the final word on implementation of an agreement through veto by a majority vote. We feel this new process balances the requirements of limits on the delegation of domestic authority and the requirements of successful negotiation.

The delegations of advance authorities with respect to tariffs and other trade barriers in title I, together with the limited continuing tariff authority in title IV of the act, are authorities which deal with permanent alterations of the levels of import restrictions.

I have covered title I. Title IV refers to two other authorities. One authority is the right to compensate. In the event that import relief is granted and we raise a trade barrier, then we would have the authority to compensate our trading partners, rather than have them retaliate. This would be a negotiating matter. We have no such authority today. It expired.

The other authority would enable the negotiation of small deals. Section 403 would allow us to negotiate a particular tariff reduction up to 20 percent, but never in any 1 year affect more than 2 percent of total U.S. trade. As an example, we have a tariff problem on tobacco today with the European Community. They have indicated they are willing to resolve the problems, but they would like some compensation. We have no authority to negotiate even such a small trade package today.

More explicit authority for use of trade measures to help correct any serious balance-of-payments problems which could arise in the future would help insure that import relief and adjustment assistance measures do not bear the burden again of dealing with overall foreign competition.

Here I might add that the request for balance-of-payments authority relates to the imposition of either a quota or a surtax. We feel that we have the authority to impose surcharge under section 255 of the Trade Expansion Act. Since we are defending a lawsuit for $500 million, we feel we must have this authority clarified. That is the reason, the authority is requested in this bill, although we have made it clear that we would also be able to use it either across-the-board or on a

selective basis. This is consistent with the proposals made by Secretary Shultz to the IMF last fall.

Let me cover a few of the other authorities requested to deal with management of day-to-day trade problems.

Section 301 would give us the authority to respond in the event of unjustifiable or unreasonable foreign import restrictions. It provides a variety of responses so that we can technically have the authority to respond well beyond the agricultural provisions of section 252. We have this authority today for a limited number of products. We are asking for it across-the-board. We think we need this kind of authority if we are going to insist that all trading nations of the world live up to rules that are to be applied uniformly.

We have tried to clarify it and be more precise in the antidumping and countervailing duty areas.

Another authority that is requested provides the opportunity for the President for 1 year at any one time to cut some tariffs in the event that it would be useful in controlling inflation.

Let me now turn to another matter of considerable importance. A few provisions in the act would authorize the President to take actions which would not necessarily be in accordance with U.S. international obligations. The two principal examples are (1) section 301, which continues and expands the authority for the President to respond to unfair trade practices of foreign countries; and (2) section 401, which grants explicit and more flexible authority than that available under existing law to raise tariffs through a surcharge to deal with serious balance-of-payments problems.

The administration does not want to create any impression that we are taking our international obligations lightly. The contrary is the case. No provision of the act itself violates international obligations or requires that an international obligation be violated. In some limited cases, the act contains authority for the President which could be exercised in a way which would be inconsistent with current international rules.

Any appearance of provisions inconsistent with international obligations should be viewed in the context of proposals we are making for reform of the international rules, in the monetary system for example.

Section 252 of the Trade Expansion Act authorized actions which could be breaches of U.S. international obligations. This authority was only used once, and then in a way that was consistent with international obligations.

The argument for abiding by our international obligations is strong. If the United States were to act contrary to international obligations, this would encourage other countries to take similar action, thereby making international obligations a less effective tool of international diplomacy. The damaging effect this might have on our national interests is another major reason for the United States to conform to its own international obligations.

In sum, Mr. Chairman, although the Trade Reform Act contains some new and expanded authorities, they are consistent with and reinforce four decades of congressional-executive partnership in the trade agreements program. What is sought are not unprecedented delegations of authority, but workable solutions to the problems of trade

negotiations and other trade matters in the context of current needs of the trade agreements program and to give our negotiators the tools, the mechanism, and the leverage to do a better job for the United States. Thank you.

[The document referred to by Mr. Eberle follows:]

TRADE REFORM ACT OF 1973

Testimony for the Record by Ambassador William Eberle, United States Special Representative for Trade Negotiations, with Ambassador William Pearce, Deputy Special Representative for Trade Negotiations, and Mr. John H. Jackson, General Counsel, Office of the Special Representative for Trade Negotiations.

Gentlemen:

In this document, designed to be tabled and inserted for the record, and not presented orally, I intend to present for your information an explanation and statement of reasons supporting each major portion of a proposed bill transmitted to the Congress by the President on April 10, 1973, entitled the "Trade Reform Act of 1973" and introduced as H.R. 6767. I will take up each major title of that bill in time, and try to indicate to you what this Administration intended by the provisions, what were the reasons and arguments which persuaded the Administration to recommend the provisions in the form contained in this bill, how they compare with prior law, and in general how those provisions are likely to be utilized by the President.

TITLE I—AUTHORITY FOR NEW NEGOTIATIONS

Some of the most important provisions of the Act are contained in Title I which is designed to reestablish authorities necessary to conduct and to implement the results of a new round of trade negotiations. These authorities are of two basic types: 1) *tariffs:* authority to eliminate, reduce, impose, or increase tariffs, or to maintain existing duty treatment on products, provided such changes, if any, are pursuant to trade agreements concluded with foreign countries during the next five years; and 2) *other barriers:* a mandate to negotiate agreements with foreign countries on other trade barriers; a new optional procedure for submitting agreements to Congress for review and possible veto by resolution of either House; and advance authority to implement agreements on a limited number of specified barriers. In addition, the Title would reenact the procedures in the Trade Expansion Act of 1962 which require the prior advice and views of the Tariff Commission, Executive agencies, and the public with respect to tariffs, with comparable Executive branch procedures on other trade barriers which are the subject of negotiations.

One of the major purposes of the Trade Reform Act is to provide the President the necessary authority and Congressional support to achieve two main overall objectives: (1) a more open and equitable world trading system through the progressive reduction of barriers which distort trade; and (2) reform of world trading rules and practices which will be accepted and applied by all major trading countries, including a multilateral safeguard guideline to provide a more orderly trading system and to assist adjustment and avoid dislocations.

Barrier to agricultural and industrial trade take many forms. Tariffs continue to afford significant protection on many products, and other trade barriers and trade-distorting measures have become relatively more important as tariffs have been reduced. The proliferation of preferential trading arrangements in recent years discriminate against exports of the United States and other countries not parties to the arrangements. The negotiations will be broader in scope than the prior negotiations which focused primarily on tariffs. To achieve our objectives, they must deal with the whole complex of barriers to trade in agricultural and industrial products, and open up new approaches to deal with problems arising from discrimination.

In February 1972 the European Community and Japan joined with the United States in written declarations undertaking to seek authority for "multilateral and comprehensive negotiations" to begin this fall which "shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity." Foreign countries with parliamentary systems of government will bring to the negotiating table broad authorities to alter their trade barriers. While

the President has the Constitutional authority to negotiate and conclude agreements affecting tariffs, since the June 1967 lapse of authority in the Trade Expansion Act, he has not had authority to implement such agreements insofar as they affect tariffs or other domestic laws.

Since 1934 the Congress has periodically delegated the President authority to implement the results of reciprocal tariff agreements. The proposed Act would continue this precedent. This authority is necessary to ensure maximum participation and commitment by other countries to reduce their trade barriers.

The goal of the negotiations should be set as high as possible. To achieve its objectives, the United States cannot afford to allow other countries to limit the scope of the negotiations at the outset by pointing to limitations in the United States authority. If the initial scope is narrowed, the opportunity to deal with barriers to our trade will be sharply reduced. The authorities requested provide the President the flexibility and bargaining leverage required to deal with all anticipated negotiating problems.

TARIFFS

Congress in the past has granted authority for the President to reduce or increase United States tariffs up to specified maximum amounts. The most recent grant of authority, in the Trade Expansion Act of 1962, enable the President to implement the results of negotiations leading to tariff reductions of up to 50 percent below the then existing duty levels. This limitation did not apply to duties of five percent or below, trade agreements with the European Community on agricultural commodities, or to certain tropical agricultural and forestry products. In these cases tariffs could be reduced to zero by agreement. In addition, the Act provided authority to eliminate all tariffs on products for which the United States and the European Community, of which the United Kingdom was expected to be a member, accounted for at least 80 percent of world trade.

These provisions in the Trade Expansion Act represented very substantial tariff reducing authorities, particularly since overall tariff levels were about 50 percent higher prior to the Kennedy Round of trade negotiations than they are today. Present tariff levels on dutiable industrial products average about eight per cent for the United States.[1] Consequently, even though the statutory authority in the proposed Act imposes no lower limit on tariff reductions, the scope of the power to achieve trade expansion through tariff reductions is in practice limited by the lower tariff levels from which the new negotiations would begin. Specific percentage limitations on tariff reducing authority would result in only small percentage point reductions overall and could leave a significant number of restrictive duties largely intact.

the significance of tariffs has also been diminished by exchange rate realignments in the past two years. The Smithsonian and February 1973 monetary agreements combined resulted in an overall appreciation of the major currencies of Europe and Japan against the dollar of about 25 percent. Even if all tariffs were to be eliminated immediately, the effect would not by any means offset the benefits to United States industries in domestic and foreign markets resulting from the more realistic relationships of the major world currencies.

Limited authority to reduce or increase tariffs would be insufficient for the type of multilateral negotiations now envisaged. First, it would greatly reduce the scope of the President's bargaining leverage and flexibility at the negotiating table. Negotiations on tariffs could take several forms, employing a variety of techniques. The GATT and OECD have been considering a number of possible tariff negotiating approaches in their pre-negotiation preparations. These possibiilties include an across-the-board or linear approach; negotiations on particular product sectors which would include negotiations on trade restrictions other than tariffs; harmonization of duty rates among countries overall or on particular products or product sectors, which could involve increases as well as decreases of tariffs; item-by-item negotiations; or combinations of these techniques.

If other countries were willing, a broad authority would enable the President to negotiate the phased elimination of tariffs on most products over an extended period or to negotiate a combination of actions. For example, an agreement could result in the elimination of duties on some products, reductions of tariffs

[1] By comparison, tariff levels average about eight percent for the European Community, 11 percent for Japan and 14 percent for Canada.

by the same or varying amounts on others, and no reductions or tariff increases on other products.

Second, a lesser authority would not provide sufficient negotiating leverage to obtain a solution to some of the major trading problems of particular concern to the Administration and to the Congress. One problem of increasing importance is the proliferation of preferential trading arrangements in recent years. According to one study, these arrangements account for over one-quarter of most of world trade and over one-half of the imports in some of the most important markets for United States exports.

Limited tariff authority would severely restrict the bargaining power necessary to obtain a solution to problems raised by the discriminatory aspects of these trading arrangements. Foreign countries will have an excuse to continue their resistance to changes in these agreements if the scope of United States trade authority is restricted. The large number of parties to these arrangements constitutes a considerable voting power in the GATT. Solution to the problem of tariff discrimination may, therefore, be less difficult to achieve in the context of trade negotiations than through reform of the applicable GATT Article XXIV provisions.

Authority to increase tariffs contained in the Trade Expansion Act of 1962 was subject to a limit of 50 percent above the duty rates existing on July 1, 1934. Title I of the proposed Act would enable the President to increase tariffs without a percentage limit in the context of trade agreements. However, this authority is subject to agreement of the negotiating parties, which again is a practical limit to the authority. The authority would not be used to raise tariffs across-the-board. Rather, it is required for possible use in specific types of cases in the context of trade negotiations. For example, tariff relationships in particular product sectors might warrant the harmonization of duty rates among major countries involving some tariff increases as well as decreases. This approach was used in the steel sector during the Kennedy Round. The authority might also apply to the issue of tariff disparities on a number of products.

The authority to increase tariffs, in conjunction with the authority provided in section 103, could be used to convert other types of trade barriers to fixed tariffs and then to schedule their reduction. For example, quantitative import restrictions and other such measures insulate large areas of trade from the adjustment process. The conversion of such barriers to price-based measures could work toward the overall objective of adjustment, including greater responsiveness to currency changes.

While 1934 tariff levels are high on most products, it is conceivable that conversion to tariffs of other trade barriers on some products which have low statutory rates of duty could necessitate raising tariffs to more than 50 percent above the statutory levels. Practical constraints, such as agreement by our trading partners, and the inflationary impact on the domestic economy would preclude any widespread use of substantial tariff increases.

TRADE BARRIERS OTHER THAN TARIFFS

Trade barriers other than tariffs have become increasingly important restrictions to exports of all countries partly as a result of regional trading arrangements in Western Europe and the increasing influence of environmental considerations. An inventory prepared in the GATT of identifiable trade barriers in effect in member countries consists of about 800 notifications. These have been organized into 27 categories of barriers.

Some of these measures restrict imports directly, such as quantitative limitations and state trading; others, such as government procurement and product standards, give preference to domestic producers; some measures impede imports but were instituted for social reasons, such as health and sanitary regulations; some constitute additional charges at the border, such as variable levies; other subsidize exports rather than restrict imports. Some of these barriers have a major trade impact, others do not. In most cases it is difficult to quantify their impact on trade with any degree of precision. All have a cost to the countries affected.

Given the wide variety of such measures, their links to domestic legislation in all countries, and their varying impact on trade, there is no single negotiating approach for seeking multilateral solutions. Agreements on most types of measures would also require larger commitments from some countries than others. Therefore, there are few areas where solutions could be imple-

mented independently of agreements on other trade barriers. Some barriers, however, might be the subject of international codes, such as product standards and government procurement practices. In other areas government regulations might be harmonized or general principles of behavior adopted. Other practices might be eliminated or converted to tariffs. It is also conceivable that agreements on some or all of these barriers might be made contingent on the successful conclusion of the negotiations as a whole.

The greater the President's authority in advance to implement agreements of mutual trading benefit, the greater will be his negotiating credibility abroad. Foreign countries have expressed little interest in negotiating future agreements without some degree of assurance that such agreements are potentially acceptable to the Congress and that procedures for implementation are clear.

The Administration attaches a great deal of importance to the reduction of trade barriers other than tariffs in the forthcoming negotiations. If the trade legislation emphasizes primarily tariff authority, foreign countries may wrongly draw the conclusion that the United States attaches relatively low priority in the negotiations to other trade practices.

The primary purposes of the provisions in section 103 are two-fold: (1) to provide the President with as much negotiating flexibility and leverage as possible to meet any negotiating situation; and (2) to provide a new mechanism for liaison and cooperation with and consideration and review by the Congress with respect to agreements that require legislation for implementation. The Administration would, in addition, welcome the Congress making specific further provision for better coordination and consultation between the Legislative and Executive branches to ensure effective cooperation on all matters relating to the trade agreements program.

Section 103 contains a statement of the Congress urging the President to negotiate with foreign countries for the reduction, elimination, or harmonization of barriers and other distortions of international trade in order to provide better market access for United States exports. While the President can negotiate international agreements on any subject, a specific mandate from the Congress to negotiate on these trade barriers is very desirable for negotiating purposes. The statement would make it clear to foreign countries that the United States is serious in its intention to seek solutions to trade barriers and other trade distorting measures, and that the negotiators have the support of the Congress in seeking agreements. The reports of the House Ways and Means and Senate Finance Committees on the Trade Act of 1970 contained statements encouraging international discussion, but not a clear-cut mandate for negotiations on trade barriers.

It is difficult to frame general implementing authorty which can apply to the various types of agreements covering trade barriers other than tariffs, particularly when a number of domestic laws may apply. Consequently there are three categories of procedures for the implementation of such agreements, considered in section 103. The "mandate" in section 103(a) and (b) does not add to the current power of the President to implement such agreements. In some cases he may already have authority (under prior statutes on the Constitution) to implement agreements. In other cases he could submit an agreement in the Senate as a treaty, or seek new legislation from the Congress.

Section 103(c) of the Act provides a second procedure for implementing agreements. It would give the President advance authority to implement agreements without further recourse to Congress with respect to a limited list of subjects including methods of customs valuation, establishing the quantities on which assessments are made, and harmonization of requirements for marking the country or origin. Agreements relating, for example, to the American Selling Price basis of valuation, section 402(a) of the Tariff Act of 1930 (Final List), the wine gallon/proof gallon basis of assessment, and simplification of the methods of valuation could be implemented under this authority.

Advance authority on these matters would provide some bargaining leverage to obtain concessions of significance to United States exporters. These foreign concessions would not necessarily have to be in the customs field, or on the same subject. The items selected for inclusion on the advance implementation list are not selected because they represent wrongs or weaknesses in the United States system, but rather because they are of interest to our trading partners and could lead to reciprocal offers from them on other or similar matters. It is hoped that the Congress will see fit to add categories which it believes are appropriate for this type of treatment.

Customs valuation and assessment practices are closely related to tariffs themselves. Advance authority on these matters would enable the President to negotiate agreements to ensure that measures which pertain to the detailed application of tariffs are not increased or applied in an arbitrary manner which could offset the benefits derived from lower tariffs. The authority to raise tariffs might be used to convert certain of these measures to tariff equivalents and then to schedule their reduction. For example, the current duty on photographic film items under the Final List is 5 percent ad valorem. If the Final List treatment ceased, the duty would have to be raised to 5.3 percent ad valorem to collect equivalent duties.

With respect to marks of origin, the intent is not to use the authority to eliminate the requirements, but to seek agreement on their application. In 1958 the GATT recommended rules to reduce the difficulties and inconveniences which marking regulations may cause to exporting countries. An agreement could standardize and harmonize these requirements. It could also limit their application to cases where such marks are necessary for the information of the purchaser as opposed to an unnecessary burden to trade. Administrative costs would be reduced as well as annoyances to traders.

A new optional procedure under section 103 for implementing agreements could apply in cases where additional Congressional authority is necessary to change domestic laws. It constitutes the third and last category of procedures sought for implementing agreements other than on tariffs. Under this procedure the President would give the Congress at least 90 days notice of his intention to use the procedure in advance of concluding an agreement. After the agreement is concluded, the President would frame orders required for its implementation. These he would lay before Congress along with the agreement for 90 days. If within 90 days neither House of Congress disapproves by the majority of its authorized membership, the agreement and the orders would enter into effect.

The procedure is intended to increase the President's ability to negotiate agreements with foreign countries by expediting the process by which agreements can be implemented. It reduces the uncertainties inherent in present procedures whereby the Congress must take positive action before agreements involving domestic laws can take effect.

At the same time, the procedure provides a mechanism for the Congress to give proper consideration to any agreement before and after its completion, and thereby be more closely involved in shaping the trade agreements program. The advance notice provides both Houses and the appropriate Congressional committees an opportunity to consider the issues involved, to hold hearings to obtain the views of the public, and to influence the form of the agreement through recommendations or expressions of concern to the Executive Branch. Either House of Congress would be able to express its opposition to the new international rules for reducing or harmonizing trade barriers by vetoing the particular agreement.

There are precedents in the trade field for the use of a Congressional veto procedure. For example, section 7 of the Trade Agreements Extension Act of 1951, as amended in 1958, and section 351 of the Trade Expansion Act provide that Congress can override the President's decision not to implement the forms of import relief recommended by the Tariff Commission in an escape-clause investigation. The House of Representatives also authorized this procedure in the proposed Trade Act of 1970 with respect to implementing the agreement on American Selling Price negotiated in the Kennedy Round.

The Congressional veto mechanism is structured so that the President would determine when to use it. It does not in any way diminish the availability of existing Presidential authorities and other Constitutional procedures to implement agreements on quantitative import restrictions and other trade barriers. These include, as stated above, the President's Constitutional or existing statutory authority to negotiate and implement agreements in a limited number of cases where additional legislation is not required, submission of an international agreement to the Senate for approval as a Treaty (as in the case of the International Wheat Agreement), or negotiation of an agreement and then seeking implementing legislation from Congress.

PRE-NEGOTIATION REQUIREMENTS

Chapter 2 of Title I contains the procedures to be followed prior to the negotiation of trade agreements. These provisions are identical in substance to sections 221 through 224 of the Trade Expansion Act. Their purpose is to ensure that the

tariff authority will not be used to the detriment of domestic interests. These procedures also enable the public and Government agencies to provide full information and advice to the President with respect to our foreign objectives and domestic interests on all trade barriers for his consideration in the negotiating process. Meetings of advisory groups for this purpose would be exempt from the requirements relating to open meetings and public participation under the Federal Advisory Committee Act. The exemption would enable disclosure of information without compromise of United States negotiating positions, or trade secrets and proprietary information.

The pre-negotiation procedures require the Tariff Commission to advise the President of its judgment as to the economic impact that a change in tariff on any article which may be the subject of negotiation might have on domestic industry, agriculture, or labor. The President may begin the early stages of a negotiation, but he is precluded from making any negotiating "offer" on tariffs which might be binding if accepted, until he has received a summary of public hearings and the advice of the Tariff Commission, unless the six-month period for receiving this advice has expired.

The President may reserve any article from the negotiations. In addition, section 406 provides for the mandatory exception of articles from trade concessions which are subject to relief measures or on which action would impair the national security.

Section 102 requires that any reductions in tariffs be staged by using at least five annual stages of reduction. However, a tariff can be reduced up to three percent ad valorem in any one year. Thus a tariff reduction totaling 15 percent ad valorem or more would take at least five annual reductions to become fully effective. An overall six percent ad valorem reduction, on the other hand, could be accomplished in two annual staged reductions, although the President is authorized to extend the staging over a longer period of time. Reductions of 10 percent or less could be exempt from staging. For example, a reduction from 50 percent ad valorem to 45 percent ad valorem would not have to be staged. Where it would simplify the computation, the President has authority, within limits, to round individual stages.

Annual reductions are thus limited in magnitude to avoid giving rise to major adjustment problems for domestic industry or workers. In addition, however, there will be a number of cases where domestic conditions warrant the staging of concessions over more than five years, and the statute in no way precludes the longer staging. If a trade barrier were converted to a duty of 50 percent, for instance, the duty might then be staged downward to zero at the rate of five percent per year over 10 years.

Title II—Relief From Disruption Caused by Fair Competition

One of the major purposes of the Trade Reform Act is to provide the President the authority necessary for the United States to participate with foreign countries in the negotiation of a more open and equitable world trading system. The expansion of world trade under as few restrictions as possible will result in the overall benefit of the American economy. Trade stimulates more productive and efficient domestic industries through the competitive process. It also creates job opportunities and higher incomes, furnishes consumers a wider choice of products at lower prices, and provides a larger supply of essential materials.

The reduction of foreign tariff and other trade barriers to provide greater access abroad for American products will require the reduction of our trade barriers. Consequently, a freer trading system requires some adjustment at home. Title II of the Act is designed to ease the hardship which could result for particular industries and workers which have difficulty adjusting quickly to increases in import competition. The Administration proposes major changes to existing import relief and adjustment assistance provisions. The purpose of these changes is to provide a more effective mechanism and more efficient procedures for domestic industries to obtain temporary relief and workers to receive assistance in cases of injury by increases in imports, in order to spread the burden of adjustment throughout the society, rather than placing it heavily on a small group of persons or firms.

The economic cost of erecting trade barriers against imports is to sacrifice some of the benefits from international trade which would otherwise accrue to industry, workers, consumers, and taxpayers. At the same time it is in the national interest, in fact the responsibility of the nation as a whole, to share the

costs of adjustment through relief and assistance measures to ensure the economic and social well-being of particular segments of the economy.

The basic purpose of import relief and assistance measures should be to facilitate adjustment of industries and workers to import competition in an orderly way. The adjustment may take the form of a transfer of resources to new and more productive uses. Or the relief may enable a basically viable industry to take measures to meet more intense competition in the same line of activity. To achieve the adjustment purpose, relief should be granted to the extent and only for the period of time necessary to permit a particular industry or group of workers to adapt to competitive pressures. It should provide an incentive for adjustment, not become a means to retain and support inefficient and noncompetitive industries and firms behind the shelter of permanent trade barriers. In addition to the import relief provisions, the staging of tariff reductions is already one adjustment mechanism.

IMPORT RELIEF FOR INDUSTRIES

Current import relief measures under the Trade Expansion Act are inadequate to deal with the disruptive effects of sudden and substantial increases in imports. Some industries have been denied relief because they could not meet the stringent eligibility criteria. In only two out of 25 cases where an indusrty has petitioned the Tariff Commission for import relief under the Trade Expansion Act have a majority of the Commissioners reported that the requirements for eligibility have been met. In only another six cases were the Commissioners equally divided on the question of serious injury.

Pressures on both the Congress and the Executive Branch have increased to utilize constitutional and legislative measures other than those measures provided by section 352 of the Trade Expansion Act. Consequently, more realistic criteria and expedited Tariff Commission deliberation are necessary to deal adequately with serious adjustment problems.

Section 201 eases significantly the existing stringent criteria for determining eligibility for import relief. First, it removes the requirements of existing law that the Tariff Commission determine whether the increased quantities of imports result "in major part" from previous trade agreement concessions.

The "link" to prior tariff concessions is the criteria that most petitioners have failed to meet. It is not a fair and reasonable test for determining eligibility for import relief. It is very difficult and sometimes impossible to demonstrate a cause and effect relationship between increases in imports and tariff reductions, some of which may have taken place decades ago. In some cases, imports of products which cause injury now were not even in existence when the concessions were made, or are being imported from different sources of supply. The Trade Act of 1970 as passed by the House of Representatives would have removed this statutory causal link as proposed by the Administration.

The second major difficulty for petitioners in obtaining eligibility for import relief under the Trade Expansion Act is the requirement that increased imports be the "major factor" causing serious injury. An industry may be in serious difficulties due to a number of reasons. The cause may be changes in technology, changes in consumer tastes, domestic competition from substitute products, plant obsolescence, or poor management, as well as import competition. The "major" cause of injury has been interpreted to mean that cause which is greater than all other causes combined. To require that imports be more than 50 percent responsible for the injury imposes too rigid a test for providing adequate access to import relief. Section 201 substitutes "primary" for "major" cause. Primary cause is a more liberal and realistic criterion. "Primary cause" is defined in the Act as that cause which is greater than any single other cause but not necessarily greater than all other causes combined.

Section 201 also contains a new provision for determining that imports are the cause of serious injury. In addition to its investigation to determine the existence or threat of serious injury, the Traffic Commission will also determine, upon request, whether there exists a condition of "market disruption." The criteria for a finding of market disruption are four-fold, namely: (1) that imports of like or directly competitive articles are substantial, (2) that there has been a rapid increase in imports of the article both in absolute terms, and (3) relative to domestic consumption, and (4) that imports are offered at prices substantially below those of comparable domestic articles. In all cases, however, the Tariff Commission must find actual or threatened serious injury as well as the existence of increased imports. If the Tariffi Commission finds both market dis-

ruption and serious injury, the finding of market disruption will constitute *prima facie* evidence that the increased imports are the primary cause of the injury.

The market disruption test is not to be used by the Tariff Commission as a substitute for other separate criteria under section 201 for determing the existence or threat of serious injury to an industry. The purpose of the market disruption provision is to simplify the burden of demonstrating that imports are the *primary cause* of the serious injury. If the Tariff Commission finds market disruption and also finds serious injury the finding of market disruption constitutes *prima facie* evidence that imports are the primary cause of the injury.

If a petitioner establishes a case of market disruption, no other causes of injury need to be weighed against increased imports unless another interested party or the Tariff Commission on its own motion raises the possibility that other causes are present. The Tariff Commission must conduct a full investigation of market disruption and consider all relevant factors, whether or not an importer or other interested party has presented evidence to demonstrate that some factor other than increased imports is the primary cause of injury. The Commission would consider the *prima facie* evidence of primary cause rebutted if it finds or an interested party presents some credible evidence that another factor is the primary cause of injury. If the *prima facie* case is rebutted, then the regular showing that increased imports are the primary cause of the serious injury must be made, if the Tariff Commission is to make an affirmative finding under section 201(b).

The exact procedures for Tariff Commission consideration of these tests will have to be worked out by the Tariff Commission through regulations or rulings. To ensure an opportunity for the presentation of opposing views, the Tariff Commission could announce publicly at the time of the request that it will investigate the presence of market disruption.

Numerous bills have been introduced in the Congress in recent years to legislate domestic safeguards by limiting annual imports to maximum levels set by specific arithmetic criteria, usually based on the proportion of imports to total domestic consumption in a previous period of years. No single arithmetic formula is applicable to the greatly varying circumstances which may cause competitive pressures in different industries. Consequently, safeguards based on formulas are arbitrary rather than equitable and preclude the consideration of other economic factors which may be the actual cause of injury. They also can lead to relief for industries which do not need it and to rigid regulation of world trade. The determination of whether there is serious injury to a domestic industry and whether imports have been the primary cause of the injury should be based on a qualitative judgment. The Tariff Commission may find, for example, that poor management, or failure to produce a product which satisfies consumer demand is the primary cause of injury, rather than imports.

Section 201 entitles a petitioner or the President, the Special Representative for Trade Negotiations, or the House Ways and Means or Senate Finance Committees to request, or the Tariff Commission to institute on its own motion, an investigation by the Tariff Commission to determine whether increased imports of an article are the primary cause of actual or threatened serious injury to a domestic industry producing like or directly competitive articles. A petitioner must describe the objective for which the relief is sought, such as to adjust to new competitive conditions. A petitioner, such as a trade association, firm, union, or groups of workers must also be representative of an industry. This provision continues present Tariff Commission practice with respect to the acceptance of petitions.

The Tariff Commission must take all relevant economic factors into account in determining whether or not there is serious injury to an industry. As under the Trade Expansion Act, these factors include profit performance, unemployment or underemployment levels, and idling of productive facilities. In each case the decline must be "significant", that is the Tariff Commission will only find an industry eligible for relief if the problem is industry-wide. Otherwise, the benefits resulting from import relief measures for an entire industry with only a few small ailing firms would be offset by the costs to the overall national economy of raising trade barriers and providing unnecessary protection for healthy firms.

The Tariff Commission must report its findings to the President within three months from the date the petition or request is filed, unless a two-month extension is necessary to conduct a full and fair investigation in complicated cases.

The shortening of the time period from six months provided under the Trade Expansion Act is to expedite the granting of import relief in cases of serious injury.

Following receipt of a Tariff Commission report containing an affirmative finding of injury, the President has 60 days to make a determination under section 202 whether to provide import relief. The time period is 120 days in the case of a tie vote of the Tariff Commission because such a case probably involves a more difficult decision. The decision whether to provide import relief involves a number of international and domestic considerations. The listing of specific factors which the President must take into account in his determination only makes explicit in the law the national interest considerations which the President has in fact weighed under existing practice.

Consistent with the purpose of providing relief, the President must consider whether the industry is making an effort to compete more effectively with import competition, based on information provided by the Tariff Commission under section 201. He must also consider whether the temporary import relief is likely to promote adjustment by enabling a basically viable industry to adopt measures to become more competitive, or to enable the transfer of resources to more productive uses. Failure to provide such relief might cause severe economic and social hardship to workers and communities in a particular geographic area of the country in which the industry is concentrated. The President has the help of the Executive departments in obtaining information and advice.

On the other hand, the granting of relief may have a significant inflationary impact for all American consumers. The compensation which the United States might owe to foreign countries in the form of tariff reductions on other commodities might result in increased imports of other products, possibly leading to injury to other segments of the economy. Or, if the compensation the United States might offer to foreign countries were judged by them to be inadequate, retaliation against United States exports could occur which would have an adverse impact on our sales abroad. The President is in the best position to weigh all these factors which bear on the national interest in determining whether and in what form to provide import relief. Therefore, under this proposed Act the Tariff Commission will no longer recommend a remedy for serious injury.

The President may decide to provide import relief in one or more of the forms authorized under section 203, or he may direct the Secretary of Labor to expedite consideration of petitions for adjustment assistance for workers. Or he may take a combination of these actions. If the President decides not to provide import relief, he must submit a report to both Houses of Congress stating the reasons for his decision.

Section 203 expands the type and degree of import relief measures in cases of a Tariff Commission finding of serious injury caused by imports beyond those presently available under section 351 or 352 of the Trade Expansion Act. The relief may take the form of orderly marketing agreements with one or more foreign countries, imposition of tariffs on duty-free items or increases in existing tariffs (including tariff-rate quotas), imposition of quantitative or other import restrictions, or withdrawal of the application of 806.30 and 807.00 of the United States Tariff Schedules. The President may apply a combination of these measures. The purpose of expanding the relief measures is to provide additional flexibility to fashion a remedy for serious injury which is appropriate to the particular circumstances of each case.

The President must grant import relief within 60 days of his decision under section 202 to provide import relief. This period may be extended from 60 to 180 days if the President announces his intention to negotiate one or more orderly marketing agreements. Since the purpose of import relief is to facilitate orderly adjustment of an industry to new competitive conditions, the new provisions impose stricter time limits on the duration of relief and require that it be phased out over a certain period.

One of the major changes from existing law is to provide greater flexibility with respect to orderly marketing agreements as a possible import relief measure. Section 352 of the Trade Expansion Act provides that the President may negotiate orderly marketing agreements in lieu of providing other forms of import relief, such as tariffs or quotas. He is forced to choose between two remedies, and if he elects the one he can not revert to the other. The Trade Bill of 1970 as passed by the House of Representative would have eliminated the "in lieu of" language and would have provided that an orderly marketing agreement could

be concluded even after other forms of relief had been proclaimed. Such an agreement could also have replaced, in whole or in part, any earlier actions.

Section 203 contains amendments similar to those in the Trade Act of 1970. For example, the President could proclaim across-the-board quotas or tariff increases and then negotiate agreements with the principal supplying countries. Once these agreements were implemented, he could terminate the prior actions, in whole or in part. For example, he could terminate tariff increases but continue the suspension of items 806.30 and 807.00. However, import relief in the form of tariff increases or the imposition of duties must always be applied on a most-favored-nation (MFN) basis.

Section 352 of the 1962 Trade Expansion Act provides that if the President has concluded a multilateral agreeemnt among countries accounting for a significant part of world trade in the article covered by the agreement, he can apply the terms to countries which are not parties to the agreement. Similar authority is contained in section 204 of the Agricultural Act of 1956, as amended. The proposed Trade Reform Act contains this type of authority with some important modifications.

Section 203(c) provides that the President may apply restrictions to non-signatories in order to carry out "one or more agreements . . . among countries accounting for a significant part of United States imports of the article covered by such agreements." In order to exercise this authority with respect to non-signatory countries, there must be at least two foreign countries which have entered into agreements with the United States, either in the form of one multilateral agreement or a series of bilateral agreements. One agreement with one country could not serve as the sole basis for imposing restraints on non-signatories.

Another change from existing law is that the quantitative tests is in terms of a significant part of United States imports of the article covered by the agreement, rather than a significant part of "world trade" in the article. "World trade" is an ambiguous term which can be defined in various ways, and is not directly relevant to the United States action. The term "significant" is not defined and it is intended that it not be restricted by a specific percentile amount.

Section 203 provides new authority to suspend the application of items 806.30 and 807.00 as an import relief measure. Item 807.00 provides that on imports of articles assembled abroad in whole or in part of components fabricated in the United States, duty is assessed on the value of the articles excluding the value of these components. Item 806.30 provides similar customs treatment for metal articles exported for processing and returned to the United States for further processing.

The Administration has devoted a great deal of study to the economic factors affecting the use of these tariff provisions. It has concluded, as did the Tariff Commission, that elimination of these items would, on balance, have an adverse effect on the United States merchandise trade balance and would result in a net loss of jobs for American workers. However, cases may arise in which it would be appropriate to suspend the benefits of these tariff items to imports of articles which are causing serious injury to a domestic industry. This authority would be exercised on an MFN basis even though in most cases the action would only affect one or two countries. The authority to suspend "in part" could be used to impose a limitation on imports entered under these tariff items, or to withdraw the benefits of these items only on imports of certain articles which the Tariff Commission has found cause serious injury.

Section 203 enables more effective import relief in the form of tariff increases by eliminating the statutory ceilings on such increases. Under the Trade Expansion Act, tariff increases cannot result in a rate of duty more than 50 percent above the 1934 rates, or 50 percent ad valorem in the case of a duty-free article. Any limitations tied to the 1934 rates are not uniform in effect. In some cases, these rates are low and the tariff increases permitted cannot provide effective relief. The President should have authority to set tariffs at any level in cases where a tariff increase is the most effective form of relief.

Under the Trade Expansion Act, relief may be applied for an initial term of four years. It can be extended for additional periods, each not to exceed four years, following an investigation and report by the Tariff Commission. Under the new provisions, import relief could be applied for an initial term of up to five years, with one possible two-year extension following an investigation by the Tariff Commission. When the relief has expired, after five or seven years, the same industry cannot petition for import relief under section 201 until at least two years have expired. This waiting period is designed to emphasize the tem-

porary nature of import relief and to emphasize the adjustment purpose of that relief.

The import relief would be phased out during its initial term. In the case of a five-year term, the first reduction in relief would commence after the first three years. The President could provide import relief for a shorter term than five years. In this case the first reduction of relief presumably would begin at some point earlier than three years although this is not explicitly required by the statute. If the President decides to continue import relief beyond the initial period, he can provide the degree of relief which applied at any time during the initial term. For example, if a tarffff of 10 percent is increased to 20 percent and then reduced to 15 percent in the fourth year and to 12 percent in the fifth year, the extension of relief for two years could be at a tariff level of 12, 15, or 20 percent, or any other rate between 10 and 20 percent.

The Tariff Commission would furnish to the President at his request reports on developments in an industry which is benefitting from import relief. Under existing law, the Commission makes reports to the President on an annual basis. The annual report is a burden on the Commission and, in many cases, the data base has not changed sufficiently in one year to justify this kind of investigation.

Under existing law, a domestic industry can request the Tariff Commission to undertake an investigation with respect to any proposed modification in import relief. For example; if the President has provided for staged tariff reductions, the industry in question can request an investigation with respect to the implementation of any of these reductions. Under section 203 of the proposed Act an industry can petition the Tariff Commission only at that point when the initial term of import relief is to be fully terminated.

All of these proposals are consistent with the overall purpose of import relief, namely to enable an orderly adjustment by an industry to new competitive conditions. The time limits on the duration of import relief and the phasing out of the relief, in particular, are intended as an incentive to accomplish this objective.

ADJUSTMENT ASSISTANCE FOR WORKERS

The eligibility criteria for assistance under the Trade Expansion Act were designed to limit the scope and prevent the misapplication of compensation by making certain that workers were, in fact, displaced and firms seriously injured as a result of increased imports due to concessions under trade agreements. Consequently the eligibility criteria have been too restrictive, and the administrative procedures too time-consuming and inefficient to deliver benefits when they are most needed.

The program of adjustment assistance for workers proposed under Title II of the proposed Act departs significantly from and replaces the current program. The stress is placed on adjustment through comprehensive programs. Changes in the criteria for eligibility and in administrative procedures are designed to ensure more liberal and expeditious access to benefits.

Workers displaced from employment by import competition are only one of many categories of workers adversely affectde by government policies, technological change, or market forces. The Government has a responsibility to the national economy to ensure that any worker involuntarily unemployed for whatever reason receives assistance which can help him to obtain alternative employment quickly. Problems of adjustment faced by workers displaced by import competition resulting from trade liberalization policies are essentially no different from those faced, for example, by workers employed on a military base closed down by the Government or workers in a firm which goes out of business because of poor management policies in meeting domestic competition. In each case the individual worker may suffer severe hardship for these policies of which he has been the victim rather than the cause.

Consequently the proposals are designed to phase the special income-maintenance program for workers affected by imports into an improved program under which workers displaced for whatever reason receive benefits according to a uniform standard. Separate legislation submitted to the Congress to amend the Internal Revenue Code will provide for the establishment of Federal minimum standards for weekly benefit levels under State unemployment insurance program to ensure that all workers covered by these programs receive comparable benefits whatever the cause of their involuntary unemployment. These minimum standards would become generally effective on or after July 1, 1975, if proposed legislation is passed as presented. Federal supplements would make them available to trade-impacted workers immediately under the terms of this Act.

Under Title II of the Trade Reform Act cash benefits for workers would consist of the unemployment insurance benefits which the workers would normally receive under existing State standards. In addition, the Federal Government would make available supplemental payments wherever necessary to bring the amount the worker receives under existing State unemployment insurance laws up to the level to which the worker would be entitled under the new minimum Federal standards. When all State benefit programs provide amounts equal to or in excess of the new standard, the Federal Government would no longer pay supplements to State unemployment insurance. The Trade Adjustment weekly benefits under this trade Act would simply "fade away" because of non-use. It is important to note, however, there is no termination date. Unless and until the general Federal standards program is enacted and becomes effective (or all State benefit amounts are independently brought up to the same standard), weekly benefits under the trade adjustment assistance program will continue.

Under the Trade Expansion Act trade-impacted workers receive cash readjustment allowances in place of unemployment insurance. This allowance is equal to 65 percent of the workers average weekly wage or 65 precent of the national average weekly wage in manufacturing, whichever is less. The total of any earned income plus the adjustment allowance cannot exceed 75 percent of the worker's average weekly wage. The maximum possible readjustment allowance is presently $101.00 a week.

Until the Federal standards are achieved, eligible trade-displaced workers would be entitled to receive supplementary unemployment insurance payments from Federal funds wherever necessary to bring their weekly cash payments up to 50 percent of their average weekly wages or to the maximum level of two-thirds of the appropriate State average weekly wage, whichever is lower. The weekly payments available to a worker who qualifies under this Act may be lower or higher than those available now to workers who meet the more stringent eligibility tests of the Trade Expansion Act. If a worker had wages higher than the State average weekly wage (in employment covered by the unemployment insurance system), and that State average weekly wage was the same as or higher than the national average weekly manufacturing wage, the worker's weekly payments under this Act would be as high as or higher than under the Trade Expansion Act. In most other cases, they would be the same or lower.

Apart from the level of weekly benefits, the new proposals would liberalize the eligibility requirements for assistance and expedite the process of determination and delivery of benefits and other services to facilitate the adjustment process. The Secretary of Labor will conduct the entire process of investigating and determining whether a group of workers meets the eligibility requirements, in addition to issuing certification. The entire process will be completed within 60 days of the filing of the petition with the Secretary by a group of workers. The Tariff Commission will be involved only if requested by the Secretary.

The eligibility criteria are considerably liberalized, compared to the Trade Expansion Act of 1962. The causal link between increased imports and previous tariff concessions is removed, as in import relief cases. Increased imports need only contribute "substantially" to worker unemployment or underemployment, rather than be the "major" cause. Under existing criteria, only about 34,000 workers have been certified eligible to apply for adjustment assistance; petitions of many more have been turned down. While some workers might receive somewhat lower cash benefits under the new system, easier access to assistance could increase the number of eligible workers, perhaps as much as five times. The new expeditious procedures will provide the benefits in time to be of real assistance.

In addition to cash benefits, improved service programs will be a permanent feature of the adjustment assistance program. The Secretary of Labor will make every reasonable effort to obtain counseling, testing, placement, and other supportive services through State agencies to aid displaced workers in obtaining alternative employment. The Secretary shall also endeavor to assure the provision of appropriate training to trade-impacted workers under manpower and other service programs on a priority basis when alternative employment is not available. Supplemental assistance payments for subsistence and transportation expenses incurred while the worker is in training will be continued up to the same amounts now authorized under the Trade Expansion Act.

In addition to weekly benefits, there are several benefit allowances designed to help a worker adjust, which are a permanent part of the trade adjustment assistance program for workers even after general Federal standards for unemployment insurance come into force.

A worker may receive a job search allowance of up to $500.00 to cover 80 percent of his costs if he must search for suitable employment outside of the commuting area in which he lives. If the worker does secure employment outside of his commuting area, he may receive a relocation allowance consisting of 80 percent of the reasonable and necessary expenses of transporting himself, his family, and household effects to the new location. He will also receive a cash payment equal to three times his average weekly wage or a maximum of $500.00.

Phase-out of the Federal role in providing special income maintenance recognizes that the assistance required by workers can be better administered at the State level to reflect local conditons. While the maximum duration of cash readjustment payments will be reduced under the new unemployment insurance system, the liberalized eligibility criteria together with the streamlined delivery of assistance should provide assistance when it is most needed and can be most effective.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

Title III contains revisions to the four principal statutes which provide the President authority to deal with unfair trade practices of foreign countries or sellers abroad. The first concerns authority under section 252 of the Trade Expansion Act to respond to unreasonable or unjustifiable foreign trade restrictions or other acts which discriminate against or otherwise burden United States trade. The remaining provisions concern responses to unfair competitive practices in the import trade contained in the Antidumping Act, 1921, the countervailing duty law (section 303 of the Tariff Act of 1930), and section 337 of the Tariff Act of 1939 with respect to patent infringement.

Section 301 expands the President's authority to deal with unfair foreign import restrictions, provides new authority to act against countries which limit United States exports through the use of export subsidies, and simplifies the conditions under which the authority may be used.

The proposed amendments of the Antidumping Act and the countervailing duty law will serve to strengthen materially these statutes as instruments which can nullify the impact on United States industry and labor of unfair foreign trade practices, while at the same time, making the investigations conducted under these laws more efficient and fair. As tariff levels have been reduced over the years in successive rounds of multilateral negotiations, unfair trade practices have become increasingly significant barriers to the unfettered flow of international trade. Accordingly, the legislative tools to cope with these practices need to be sharpened.

Amendments to the present law concerning patent infringement provide a more equitable system for dealing with imports which infringe United States patents. The Federal Trade Commission Act would also be amended by a companion bill which authorizes the FTC to investigate and regulate other unfair methods of competition such as monopoly practices in the importation of products into the United States.

UNFAIR FOREIGN IMPORT RESTRICTIONS AND EXPORT SUBSIDIES

Section 301 revises and extends the President's existing authority to restrict imports from countries which unreasonably or unjustifiably restrict our exports. Section 252 of the Trade Expansion Act provides such authority only under a complex array of conditions which vary according to the practicess or exports involved. As the President stated in his transmittal message on this Act, the United States must be in a position to respond effectively and even-handedly to practices which unfairly prejudice our export opportunities abroad.

Section 252 of the Trade Expansion Act authorizes the President generally to withdraw concessions and, in some cases, to impose duties or other import restrictions on the products from a foreign country which maintains unjustifiable or unreasonable import restrictions which burden or discriminate against United States trade. The principal authority is to impose or increase tariffs up to the statutory Column 2 rates of duty. In the case of unjustifiable import restrictions on our agricultural exports, the President may impose duties in excess of the statutory rates or impose other import restrictions, such as quotas, against the offending country.

The existing statute contains a number of defects. First, section 252 gives the President greater legal authority to deal with unfair restrictions on agricultural than on industrial exports. The Trade Act of 1970, as approved by the

House of Representatives and the Senate Finance Committee, would have removed this distinction. Similarly, section 301 of this Act would remove this arbitrary distinction, giving the President full authority to deal with unfair foreign restrictions on both agricultural and industrial exports.

Second, section 252 distinguishes "unjustifiable" from "unreasonable" import restrictions. Unjustifiable connotes illegality, for example, a violation of a country's obligations to the United States under the GATT or under a Treaty of Friendship, Commerce, and Navigation. The word "unreasonable" refers to acts which are not necessarily illegal or "unjustifiable."

Since the effects on United States economic interests may be the same whether a restriction is unjustifiable or merely unreasonable, the President's authority to deal with "unreasonable" import restrictions should be the same as his authority to deal with "unjustifiable" ones. The GATT does not regulate a great variety of administrative practices which can be used to discriminate against United States exports. The President should also have authority to respond to these types of unfair acts.

The President's authority under section 252 to deal with unreasonable import restrictions is qualified by the requirement that he have due regard for the international obligations of the United States. This requirement does not apply when the President is responding to unjustifiable import restrictions. The President should consider the international obligations of the United States in all cases, whether the acts complained of are unjustifiable or unreasonable. However, disputes concerning the extent of international obligations should not limit the President's domestic legal authority to act on behalf of United States interests.

The President would resort to action which is inconsistent with international obligations only after all other possible measures which are consistent were used and failed to remedy the problem. Even the action inconsistent with international obligations would only be taken on a matter of important principle and in the national interest. Existing provisions of the Trade Expansion Act authorize actions which could be breaches of United States international obligations. Section 252 is one example of such a provision. This authority has been used only in one case, however, and never in a way which was inconsistent with our international obligations.

The third major change under section 301 is to broaden the President's authority beyond the withdrawal of trade agreement concessions. Except in the case of restrictions on agricultural products, the President's retaliatory authority is limited under section 252 to the imposition of additional duties up to the Column 2 or statutory rates. In some cases these rates are very low. Whether the withdrawal of tariff concessions would be an effective remedy will vary in each case, depending on the 1930 rates applied to those products of which the offending country is the principal supplier. Section 301 removes this ceiling because it is both awkward and unpredictable. There might be cases in which a quota would be a more effective remedy, for example, if a foreign country imposes an illegal quota on certain United States exports.

The fourth change provides a new authority which would deal with the situation in which a foreign country unfairly subsidizes its exports to third-country markets, thereby displacing the sale of competitive United States exports. The House of Representatives and the Senate Finance Committee approved such an amendment in the Trade Act of 1970. The GATT prohibits export subsidies and sanctions the use of countervailing duties to offset the amount of the subsidy. Export subsidies to third countries may, in certain cases, be just as injurious to domestic industries as subsidies on products exported to the United States.

Finally, section 301 explicitly authorizes the President to take actions on a MFN basis or only against the offending country. In most cases, action would be taken only against the offending country, as contemplated by GATT Article XXIII. However, cases might arise which warrant retaliation on a MFN basis. for example, under GATT Article XXVIII. Section 252 could be used on a MFN or non-MFN basis but contained no explicit language on this point.

The range of practices against which section 301 could be used includes all the practices covered by section 252 of the Trade Expansion Act. For purposes of simplification, explicit reference was dropepd to tolerance of international cartels and use of variable levies. Section 301 authority is applicable to these practices, however.

ANTIDUMPING ACT

The proposed amendments to the Antidumping Act would make several technical and procedural changes. Recent administrative and procedural im-

provements initiated by the Treasury Department have resulted in a more rapid and efficient completion of investigations. The proposed amendments would codify some existing practices and provide for additional procedural and technical changes to improve further the administration of the Antidumping Act.

The proposed amendments would impose time limits for deciding cases under the Antidumping Act. The amendments would set a six-month or in more complex cases, a nine-month limit, from the date of publication of the Antidumping Proceeding Notice for a decision that dumping may be present (a tentative decision as to whether "sales at less than fair value" are present). This would result in a nine- or twelve-month deadline for final action. These deadlines could be extended up to three months in particularly difficult cases provided the Secretary of the Treasury publishes a Federal Register notice of such an extension, indicating that the tentative fair value decision cannot reasonably be made within the aforementioned time limits. This change would incorporate into the Act nearly identical provisions of the Treasury's Antidumping Regulations which have been in effect since January 8 of this year. These changes assure prompt action by the Secretary of the Treasury, yet provide sufficient time for full and fair investigations.

Another amendment would require a hearing on the record before any final determination of the Treasury or Tariff Commission is made in an antidumping investigation. The subsection changes existing law with respect to hearings as follows: 1) hearings presently conducted by the Treasury Department and the Tariff Commission will be required by the statute, in contrast to present procedures under which regulations issued by the Treasury Department and the Tariff Commission provide interested parties an opportunity to be heard only at the discretion of each agency; and 2) a transcript will be required of each hearing. No other change is contemplated in the present hearing procedures conducted by the two agencies.

The transcript of the hearing plus all papers filed in connection with the investigation would form the basis for the final determination and, with the exception of material accorded confidential treatment, would be publicly available. It is necessary, of course, to protect from disclosure confidential sales, production and similar information submitted in any case, the release of which would be likely to injure the competitive position of the person or firm supplying the information. If foreign and domestic business interests could not be protected against the disclosure of such confidential information, they would be unlikely to be willing to furnish such information and the Treasury and the Tariff Commission would be unable to conduct fair and thorough investigations.

Also, in order that interested persons may be more fully informed regarding the basis of decisions made by the Treasury Department and the Tariff Commission, the Department and the Commission would be required to publish, in their decisions, a detailed rationale for each determination, which would set forth the basis for the resolution of each material issue of law or fact.

There are also several technical amendments of the definition of "purchase price" and "exporter's sales price." First, the definition of purchase price would be amended to provide that any export tax be *subtracted* from purchase price rather than *added* to it, as is now the case, in making the necessary calculations for price comparison purposes. This harmonizes the purchase price treatment of export taxes with that under the exporter's sales price definition which already provides for the subtraction of any export tax included in the price to the United States. This is necessary to avoid leaving in the calculation of the price to the United States a distorting element which is not contained in the price in the home market. This amendment would correct an error which has existed in the statute since its original enactment and which artifically reduces or eliminates any dumping margin that would otherwise exist.

Second, the definition of both "purchase price" and "exporter's sales price" would be amended to harmonize the treatment of foreign tax rebates with the present administrative treatment of tax rebates under the countervailing duty law. This would insure that tax rebates of the type considered bounties or grants under the countervailing duty law would not be allowed to distort price comparisons made under the Antidumping Act. No adjustment to the advantage of the foreign exporter would be permitted for rebates of taxes unless the direct relationship between the rebated tax and the exported product or its components could be demonstrated. For example, if the exported product benefitted from the rebate of a tax on the mortgage on the plant that produced the product, that rebate could not be used in the calculation of dumping to reduce the dumping margin.

Third, the purchase price and exporter's sales price provisions would be amended to assure that merchandise benefiting from tax rebates which the Secretary of the Treasury had already determined to be a bounty or a grant, and therefore subject to a countervailing duty, would not be unfairly penalized by being subject to antidumping duties as well, by virtue of the same tax rebate.

The exporter's sales price provisions of the Antidumping Act would also be amended to provide that when merchandise which is the subject of an antidumping investigation or finding, is imported by a person or corporation related to the exporter and subjected to further processing before being resold to an unrelated purchaser in the United States, the additional value of such processing or added materials will be subtracted in computing exporter's sales price. This amendment would harmonize the statute with the present administrative practice of the Treasury Department and remove any doubt that merchandise imported in an exporter's sales price situation and changed in form or condition before being resold to an unrelated purchaser is within the purview of the Act.

COUNTERVAILING DUTY LAW

Secton 330 makes several important changes in the present countervailing duty statute. This law presently requires the Secretary of the Treasury to assess additional duties on dutiable imports benefiting from bounties or grants.

First, the countervailing duty law would be extended to cover duty-free imports, including imports which are duty free as a result of preferential treatment under Title VI of the Act. However, countervailing duties would only be assessed on duty-free imports if the Tariff Commission determined that the subsidized imports caused material injury to United States industry. The present law's exemption for duty-free merchandise makes little sense today, especially after successive rounds of tariff reductions, through which some items of a competitive nature became duty free.

This injury requirement will apply only so long as such a determination is required by the international obligations of the United States, i.e., under the GATT. The GATT requires a material injury determination in countervailing duty cases. However, the United States countervailing duty law was in existence at the time GATT was created and the absence of an injury requirement is consistent with United States GATT obligations because of the GATT's "grandfather clause" which allows the continued application of certain mandatory legislation pre-dating the GATT. This statutory provision complies with the technical requirements of the GATT without prejudicing the position that the United States may finally take internationally on the question of the role of injury requirements in countervailing duty actions.

Second, a 12-month statutory time limit is established for reaching decisions after the formal countervailing duty investigation is opened. The initiaton of the formal investigation is signified by publication of the Countervailing Duty Proceeding Notice in the Federal Register. Treasury's Countervailing Duty Regulations would be amended so as to provide for publication of such a notice generally within 30 days after the receipt in satisfactory form of information relating to the payment or bestowal of a bounty or grant on exports to the United States. This time limit would apply only to information received after the date of enactment of the statute. We believe that twelve months would be an adequate period for all issues to be resolved.

Third, the Secretary of the Treasury would be authorized to refrain from countervailing merchandise subject to effective quantitative limitations on its exportation to, or importation into, the United States should he consider such limitations an adequate substitute for countervailing. This section is designed to avoid the excessively restrictive effect that a countervailing duty might have on merchandise already subject to a quota or restraint arrangement. The Secretary of the Treasury would have discretion to determine that countervailing in a particular case would be significantly detrimental to the economic interests of the United States.

UNFAIR METHODS OF COMPETITION

Section 337 of the Tariff Act of 1930 declares unlawful unfair methods of competition in the import trade, the effect or tendency of which is to seriously injure a domestic industry or to monopolize trade and commerce in the United States. The Tariff Commission is empowered to investigate alleged violations of the statute and to report its findings to the President. If the President is satisfied that the statutory criteria have been met, he must direct the Secretary of the

Treasury to issue an exclusion order barring the importation of the goods involved in the unfair acts. Pending a full investigation, the President may direct the issuance of a temporary exclusion order in which case the goods can be entered under bond payable to the United States.

Although the Congress, in enacting section 337 in 1930, intended that the statute have a broad scope and cover all unfair methods of competition in the import trade, virtually all of the cases under this section have involved patent infringement, that is, the unlicensed importation of articles falling within the claims of a United States patent. The effect of the amendments is to limit the statute to patent infringement cases. A companion bill will authorize the Federal Trade Commission to issue exclusion orders in respect of other unfair methods of competition in the importation of products which are causing injury to a domestic industry or which are impairing competition or monopolizing trade and commerce in the United States.

Section 337 as a patent infringement statute contains certain anomalies. In particular, the need to show that an industry has been injured and that the industry in question was economically operated are not relevent to the question of patent infringement. In addition, it is inappropriate to require a Presidential determination in such cases. The purpose of section 337 should be to provide patent holders with an effective remedy against infringing imports. This remedy, an exclusion order against all imports infringing a United States patent, should also more closely approximate the relief available to a patentee who seeks to enjoin infringement by domestic manufacturers.

A court will not enjoin infringement unless the patent is beyond question valid and enforceable. Therefore, section 350 preserves the respondent's right to challenge the validity or enforceability of the complainant's patent in the Federal courts. Thus, the Commision will defer to the courts on the question of patent validity whenever the patent involved is being seriously challenged in a pending suit. However, in order to protect the patentee, the Commission would consider whether or not the importation constituted an infringement assuming the validity of the patent. If the Commision found infringement, it would issue exclusion orders conditional on the results of the court proceedings and permit imports under bond payable to the patentee.

The present statute permits the issuance of a temporary exclusion order (pending completion of the full investigation) and in such cases imports are permitted under bond, running to the United States Government, in an amount equal to the value of the merchandise. Given the basis on which the bond is computed, a temporary exclusion order has the effect of an embargo. The solution contained in section 350 is to permit imports under bond payable to the *patentee*, based on such an amount as will protect the patentee's interest. For example, if the patentee's royalty is five percent of the value of the goods, that would be one measure of the amount of the bond, and it is especially appropriate that the bond run to the patentee rather than to the United States Government.

Although the present statute provides for judicial review of a Tariff Commission determination in the Court of Customs and Patent Appeals, there is a serious legal question as to whether the Court has jurisdiction to take such cases, since the Commision's determination now takes the form of advice to, and is not binding on, the President. Section 350 eliminates this legal question and clearly provides for judicial review in the Court of Customs and Patent Appeals.

Title IV—International Trade Policy

Title IV contains a number of authorities for the President and limitations on Presidential action which should be made part of permanent law. Some of the authority requested is implicit in existing law, but should be clarified. Other authorities existed under the Trade Expansion Act but have lapsed. In addition, some new provisions are requested to deal with economic problems which are broader than strictly trade matters.

First, the President should have explicit and more flexible authority to deal with serious balance-of-payments problems. Trade restrictive measures should be used in only exceptional cases as one remedy for basically monetary problems. However, the raising or lowering of import barriers on a temporary basis can sometimes provide an additional effective measure to complement monetary measures for correcting a serious balance-of-payments deficit or persistent surplus.

Second, the President requires certain permanent authorities to manage and administer the trade agreements program in an effective and efficient manner.

These authorities would enable the President to exercise fully our rights and obligations under the GATT. Authority to enter into supplementary trade agreements of limited scope could provide increased market access for United States exports after the broader tariff authority under Title I expires. Authority to compensate for the withdrawal of concessions under trade agreements would enable the United States to fulfill its obligations to foreign countries. Authority to reduce trade barriers on articles which are not available in sufficient quantity to meet domestic demand would help curb inflationary pressures. Authority to terminate trade agreement actions at any time would also be continued. In addition, a permanent authorization is needed for annual appropriations to finance the United States contributions to the GATT.

The principle of most-favored-nation treatment should be reenacted as basic to the trade agreements program. Articles subject to import relief or national security measures are reserved from reductions in duties or other import restrictions while such actions are in effect. There is provision for public hearings with respect to various actions under this Title.

BALANCE-OF-PAYMENTS AUTHORITY

Section 401 provides explicit and flexible authority for the President to impose a temporary import surcharge or other import limitations to deal with a serious balance-of-payments deficit, or to cooperate in correcting an international balance-of-payments disequilibrium. It also provides explicit authority for the President to reduce or suspend tariffs or other import restrictions temporarily in the case of a persistent balance-of-payments surplus.

The Executive Branch does not have explicit authority at present to take appropriate action for most of these purposes. Existing authority in the Trade Expansion Act limits the maximum import surcharge to the statutory Column 2 rate of duty for each commodity. Therefore, it effectively precludes uniform application. No satisfactory authority exists for imposing quotas across-the-board, nor for reducing restrictions when the balance-of-payments is in surplus. Under present legislation it would be difficult for the United States to cooperate effectively in international action to facilitate world payments equilibrium through the use of import restraints.

The requested authority would give the President needed tools to take effective action to achieve and maintain equilibrium in the United States balance-of-payments. Recurrent crises in international monetary affairs in recent years, and the massive deterioration in the United States external position testify to the need for a more effective and efficient adjustment process. The structure of exchange rates which has resulted from the exchange rate realignments of December 1971 and earlier this year provide a framework for improving the United States trading accounts and restoring confidence in the dollar. But exchange rate changes alone cannot assure either that equilibrium will be achieved or maintained. A comprehensive approach is required, which includes control of domestic inflation, improved access to foreign markets for United States exports, and basic reforms of the international economic system. Adequate authority to take appropriate action in the trade field is an important element in any program to assure balance-of-payments equilibrium.

The authority under Section 401 to impose restrictive measures in the case of a serious United States balance-of-payments deficit is prudent and necessary. The United States seeks a monetary system in which there are strong disciplines against large and persistent payments imbalances, and hopes that direct trade restrictive measures will prove less rather than more necessary. The intractability of disequilibria in international trading accounts in the past suggests, however, that use of authority of this nature cannot be excluded. Explicit authority for action may in itself also serve to encourage a more effective adjustment process.

The authority would be utilized only temporarily and in exceptional circumstances. These circumstances are defined as those in which (a) a substantial balance-of-payments deficit exists on the average over a period of four consecutive calendar quarters; or (b) there is a serious decline in absolute terms in the United States net international monetary reserve position; or (c) a significant alteration in the foreign exchange value of the dollar has or threatens to take place; and (d) there is an expectation that one or more of these conditions would persist in the absence of corrective measures.

The authority would not be used to prevent disruption of domestic markets by imports. The use of this authority with respect to a significant change in the exchange rate of the dollar includes a situation in which a temporary surcharge

might be a more appropriate measure than permitting an immediate depreciation in the exchange rate of the dollar. This provision is not intended, however, to provide authority to counter long-term trends in foreign exchange markets.

United States cooperation in correcting a balance-of-payments disequilibrium as reflected in payments positions of other countries would be authorized when allowed or recommended by the IMF. Multilateral cooperation could include, for example, the implementation of joint actions to limit imports from a country running large and persistent surpluses if that country did not take measures to correct its payments disequilibrium.

This provision is closely related to Administration proposals for international monetary reform. These proposals call for a system of effective and symmetrical incentives for surplus and deficit countries to take action to correct prolonged and excessive payments imbalances. Pressures on deficit countries would in large measure already exist, although we would nevertheless envisage that international concern and action could come into play in the case of prolonged deficits and the absence of corrective measures. In the case of surplus countries, it would normally be expected that they would not delay adjustment as in the past. However, additional means to induce adjustment by surplus countries may be needed. Provision for cooperative action by countries to protect their interests against a surplus country refusing to adjust is necessary in a reformed international monetary system.

In the United States proposals for monetary reform, international action to induce adjustment would take effect if by objective standards (United States proposals call for use of disproportionate reserve changes) a surplus country's reserves rose to a specified level for a specified period and an adequate program of adjustment were not in place. We have proposed specifically that IMF rules might authorize or call upon other countries to impose general import taxes or surcharges against a country refusing to adjust. Such actions could be avoided, or postponed, only if the IMF made a positive finding they were not warranted on the basis of an agreed program of adjustment by the surplus country concerned. If the surplus continued despite the agreed program, authorization for sanctions would take effect after a further period. In any event, the IMF would review the country's position periodically, and make such recommendations and authorizations as it deemed appropriate.

Section 401 specifically authorizes the President to impose a temporary surcharge in the form of duties on any dutiable or duty-free articles as well as to limit imports of such articles temporarily through the use of quotas. Imposition of quotas to deal with balance-of-payments problems are permitted by international agreements to which the United States is a party. While providing an option to impose quotas, the request for authority reflects a conviction that when short-term trade restraints are to be used by countries such price-based measures as surcharges will usually be preferred. Trading rules, as reflected in Article XII of the GATT, in envisaging solely the use of quantitative restrictions to meet balance-of-payments needs, have not kept pace with national preferences on policy instruments, or with the change in trading practices toward less reliance on quantitative restrictions. International rules should be modified to reflect these preferences.

Section 401 sets forth the principle that an import surcharge should be applied on a MFN basis, and quotas applied on a basis which shall aim at a distribution of trade approaching that which foreign countries might expect in the absence of quotas. In most cases MFN application of the trade measures authorized by this section would appear to be most appropriate and most effective. Deviation from the MFN principle and selective application of measures is authorized in certain circumstances. The President is to consider the relationship of such action to the international obligations of the United States.

Actions taken under the balance-of-payments provision must be applied uniformly to a broad range of imported products. However, the President may exempt certain articles because of the needs of the United States economy reflected in such considerations as the unavailability of domestic supply at reasonable prices and the necessary importation of raw materials. The authority to implement import restricting measures or to exempt particular products from such measures cannot be used for the purposes of protecting individual domestic industries from import competition.

If the President exercises his authority to impose quotas, imports of the articles cannot be limited to a level less than the quantity or value imported during the most recent period which the President determines to be representa-

tive. Since the quotas are for balance-of-payments purposes and not designed to alter trends in the growth of imports of particular products, any increase since the end of the representative period in domestic consumption of the articles and of like or similar articles must also be taken into account.

The authority for the President to reduce or suspend temporarily tariffs or other imports restrictions in the case of a persistent balance-of-payments surplus is the logical counterpart of the authority to take action to protect the United States position in the case of balance-of-payments deficits. The tests for surpluses are symmetrical to the tests for deficits.

It is important that the rules of the international economic system provide incentives for surplus countries to take liberalizing actions to deal with payments surpluses, and that the United States have authority to take such action should appropriate occasions arise. Administration proposals for monetary reform are designed to encourage surplus countries to liberalize by bringing additional pressures to bear for adjustment. The rules should not operate as they tend to now, primarily to make countries reluctant to liberalize unilaterally because of possible impairment of their bargaining position in future trade negotiations. As a strong proponent of effective discipline for surplus countries, the United States should be able to argue the case from a position of being able to take similar action itself should the circumstances arise.

The options available to surplus countries under presure to adjust are, of course, not limited to trade liberalization. For example, countries may be encouraged to remove controls on the outward flow of capital, to provide concessional untied aid, or to revalue. Under such circumstances, it is important that countries, including the United States, have a full range of tools so that freedom of action is not circumscribed.

It is unlikely that the United States will for some time be in a position where it would find it desirable to take action to temporarily relieve a balance-of-payments surplus. In light of the large deterioration in our external position which has taken place, the United States not only has to return to balance-of-payments equilibrium but run moderate surpluses.

WITHDRAWAL OF CONCESSIONS AND SIMILAR ADJUSTMENTS

Section 301 of the Act, which revises and expands section 252 of the Trade Expansion Act, provides authority for the President to increase or impose duties or other important restrictions in retaliation against unfair foreign trade practices. There are a number of other circumstances under which GATT rules grant a country the right to withdraw or suspend tariff concessions to another country under a trade agreement, or to terminate an agreement. These circumstances are covered by the provisions under section 402.

The withdrawal or suspension of tariff concessions generally has three types of uses. A country has the right to make offsetting withdrawals in cases where another country has withdrawn concessions under a trade agreement and has not provided satisfactory compensation. For example, if a foreign country renegotiates a trade agreement under Article XXVIII, or withdraws concessions in the formation of a new customs union under Article XXIV:6, involving increases in duties bound in the GATT affecting United States exports, the United States has the right to make offsetting withdrawals of concessions if a settlement is not reached on satisfactory compensation by the other country. At the present time, the United States and other affected countries are negotiating to obtain compensation for tariff increases on bound items in the three countries acceding to the European Communities.

The United States also has the right to initiate a unilateral withdrawal of tariff concessions from a foreign country under Article XXVIII, which may involve the imposition or increase of tariffs or other import restrictions. The United States exercised its rights under Article XXVIII in 1971 to establish a tariff quota on stainless-steel flatware.

Withdrawals may also be multilateral in form. For example, multilateral offsetting action might be called for against a country whose trade measures cause damage to the trade of third countries in order to obtain its compliance with international rules. The Contracting Parties could authorize collective action under Article XXIII.

The purpose of section 402 is to provide additional flexibility in existing law to enable the President to exercise United States rights and obligations as fully as foreign countries under the GATT and other international trade agreements,

so as to protect United States trading interests in the context of the procedures of GATT or other trade agreements.

Section 402 of this Act provides two basic authorities, however. First, as described above, it provides authority to withdraw or suspend concessions or other trade obligations and to increase or impose tariffs or other import restrictions where the United States has the right to do so under international trade agreements. In other words, it enables the President to give domestic legal effect to the withdrawal, suspension, or termination of trade agreement concessions to any foreign country in the exercise of our international rights and obligations. The authority enables the President to react to actions by other countries and also to implement the withdrawal of United States concessions under the renegotiation rights of the GATT.

If the withdrawal or termination takes the form of imposing or increasing tariffs, the new duty rate may be set at any level up to 50 percent ad valorem or 50 percent above the statutory rate of duty, whichever is greater. For example, if the present tariff is 20 percent and the Column 2 rate is 40 percent, a new tariff could be set at any level between 20 and 60 percent. Tariff increases may be applied temporarily, and then returned to prior concession levels. Section 402 does not contain independent authority to decrease tariffs although the supsension of a previously negotiated tariff increase, which have been rare in the past, could have this effect.

The use of this authority will be limited to matters pertaining to our rights and obligations under international trade agreements. It is *not* the intention to use this authority either as a substitute or extension of other authorities under this or other Acts. It would not be used, for example, as an additional avenue to provide import relief, or to impose a surcharge.

Much of the authority contained in section 402 already exists in current law, in the termination authority contained in section 255 of the Trade Expansion Act and the implementing authority contained in section 210(a)(2) of that Act. Section 402 of the proposed act is explicit, however, on questions of partial withdrawal of concessions (setting intermediate roles between those presently in existence and those previously in existence) and terminating for a time, that is, suspending, obligations or concessions. This explicit authority in section 402 is necessary to clarify these technical issues which hinder flexible administration of the trade agreements program.

The second basic authority under section 402 enables the President to maintain existing duty levels or other import restrictions even if a trade agreement with another country is terminated. Existing authority does not explicitly provide for the unbinding of tariff rate concessions without increasing the tariffs subject to the concessions. Specific authority to maintain concessions in the absence of a trade agreement would have been useful in at least one case where a trading partner notified termination of its bilateral agreement with the United States. It is not in the United States interest to have its rates of duty dependent upon foreign governmental actions. There is also the possibility that a trade agreement might be terminated by the parties would choose to maintain their tariff concessions in the absence of a trade agreement. The United States should also be able to apply its concessions rates on the basis of de facto mutual benefit, perhaps pending the renegotiation of a terminated trade agreement.

Any decision to deviate from the application of this authority on a most-favored-nation basis would have to be made consistently with all United States international obligations. If more than one international obligation is involved and they are inconsistent, the obligation applicable to the particular case would be determined by international law. Public hearings must be held concerning any authority used under section 402 if requested by any interested person within 90 days after the action is taken.

SUPPLEMENTAL TARIFF AGREEMENTS

The purpose of section 403 is to provide permanent authority for the President to negotiate with foreign countries and implement supplemental tariff agreements of limited scope. This authority would be most useful after the expiration of the broad tariff negotiating authority under Title I. It would enable the President to take action as may be necessary or advantageous for the administration of the trade agreements program. Authority for this purpose under section 201 of the Trade Expansion Act lapsed on June 30, 1967.

The authority would permit a limited number of small arrangements. It could be used, for example, to remove tariff discrepancies or anomalies without eco-

nomic rationale which may come to light only after new tariff schedules enter into operation after a major trade negotiation. There might also be opportunities from time to time for the President to negotiate a limited agreement to reduce a limited number of tariff rates in return for improved market access for United States exports. Separate authority is provided under section 404 for the granting of tariff concessions for purposes of compensation.

Implementation of supplemental agreements may take the form of increases or decreases in duties, imposition of tariffs on duty-free products, or the continuation of existing tariff or duty-free treatment. These agreements can only be of limited scope. Duties cannot be reduced below 20 percent of their existing level. The reductions could be staged over a five-year period. Duties cannot be increased to more than 50 percent ad valorem or 50 percent above the statutory rate, whichever is greater.

Furthermore, any duty reductions or the continuation of duty-free treatment under these agreements cannot cover more than two percent of the total value of United States imports during the most recent twelve-month period. Five years must elapse before the same articles can be subject to a second such agreement under this section. The agreements cannot involve tariff reductions on articles which are subject to import relief actions or national security actions. Public hearings must be held prior to the conclusion of any agreements.

COMPENSATION AUTHORITY

Under GATT rules a country that withdraws tariff concessions, or increases duties which have been bound against increase, or imposes other import restrictions is subject to retaliatory action by other countries unless it restores the general level of concessions with respect to the trade of countries adversely affected by the action. The country taking action must enter into negotiations with the countries affected and usually has to grant new concessions as "compensation" to replace those withdrawn in an equivalent amount. If a renegotiation settlement cannot be reached, that is, if the compensation is not forthcoming or is not judged adequate, the affected country has the right to retaliate against the country taking the initial action by withdrawing concessions of its own of an equivalent amount.

Section 402 provides authority for the President to impose or increase duties when a foreign country withdraws trade agreement concessions and does not provide adequate compensation to restore the mutual balance of concessions. Section 404 provides authority for the opposite situation, that is when the United States withdraws trade agreement concessions and is required by international obligations to compensate foreign countries adversely affected or face possible retaliation. The authority would be used primarily with respect to import relief measures imposed under section 203 to maintain the level of mutually advantageous concessions. It could also be used if retaliation on a most-favored-nation basis against unfair trade practices of a foreign country under section 301 adversely affects an innocent third country. The withdrawal of concessions under section 402, some supplemental agreements under section 403 which involve duty increases, and the termination of an agreement by the United States under section 408 could also require payment of compensation.

In these circumstances the President would provide foreign countries having an export interest involved in the action an opportunity to consult with respect to concessions which might be granted as compensation, to the extent required by international obligations. The President may decrease tariffs or continue existing duty or excise treatment as compensation to restore the overall balance of concessions. Any duty reductions are limited to 50 percent below the existing rate, and may be staged if appropriate. The limitation does not apply to duties of five percent or less. Duties would not be reduced on any article which is subject to import relief measures or national security action. Public hearings would be held prior to the conclusion of any agreement involving tariff reductions.

Until June 30, 1967, when the tariff reduction authority of the Trade Expansion Act expired, the President had authority to compensate foreign countries for the withdrawal of concessions for import relief or other purposes. A permanent compensation authority has not been requested previously by the Administration since it was not anticipated that the President would lack authority to reduce tariffs for as long as six years. The President should have a permanent compensation authority in order to comply with international obligations which

continue after the expiration of tariff reduction authority and to conduct orderly relations with our trading partners. This "compensation" authority should be coextensive with the President's authority to take trade restrictive actions.

SUSPENSION OF IMPORT BARRIERS TO RESTRAIN INFLATION

On March 30, 1973 the President submitted legislation to the Congress to provide a new, permanent authority to reduce certain trade barriers as one means to curb inflation. Section 405 is identical to this proposal.

In periods of sustained or rapid price increases, the lowering of trade barriers on articles available in insufficient supply to meet domestic demand can provide an effective tool to restrain inflation. Section 405 provides the President authority to reduce or suspend duties, or to increase the level of imports which enter under quota to the extent appropriate to achieve the purpose.

This authority would be used judiciously in the national interest. The authority cannot apply to articles which are subject to import relief or national security actions. Trade restrictions also would not be lowered on particular articles if the President determines that it would cause material injury to firms and workers in a domestic industry or impair the national security. Actions also cannot apply to more than 30 percent of total United States imports of all articles during the period they are in effect. Any action under this authority can only remain in effect one year, unless extended by Congress.

TERMINATION AUTHORITY

It is necessary to provide the President with unconditional authority to suspend or fully terminate trade agreement actions. This authority has been a traditional part of the trade agreements program. It is impossible to specify in advance when it would be appropriate to use the termination authority. The most predictable example of when the domestic implementation of a trade agreement might be terminated is when the trade agreement itself comes to an end. But other, less predictable, occasions have called for use of this authority. The invasion of Czechoslovakia in 1948 caused the President to terminate the application of trade agreement rates of duty to that country although the trade agreement was still in effect.

The power to terminate includes the lesser powers to terminate for a limited period of time, i.e., to suspend; to terminate in part by imposing new rates intermediate between the rate previously applied and the original statutory (Column 2) rate; and to terminate in part by imposing new rates on certain items included in a proclamation and not on others.

TITLE V—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TREATMENT

Title V authorizes the President, when he determines it to be in the national interest, to enter into commercial agreements with countries presently denied MFN treatment (and thereby subject to Column 2 rates of duty), and to extend MFN treatment in return for reciprocal concessions. The President may also extend MFN treatment to countries which accede to the GATT. Any commercial agreement that provides for MFN or any extension of MFN treatment to a country which has acceded to the GATT may, before it becomes effective, be vetoed by the resolution of an absolute majority of either House of Congress.

All non-Communist countries presently receive MFN treatment. Prior to 1951, the United States extended the benefits of MFN treatment to all countries. At the height of the Korean War, Congress withdrew MFN treatment from all Communist countries, other than Yugoslavia. In 1960, President Eisenhower restored MFN treatment to Poland on the grounds that it was no longer, in the words of the 1951 statute, "dominated or controlled by the foreign government or foreign organization controlling the world Communist movement". At the present time MFN treatment is denied to all Communist countries, other than Poland and Yugoslavia, pursuant to section 231 of the Trade Expansion Act of 1962.

Clearly our political and economic relations with Communist countries have undergone a major change since the early nineteen-fifties. At that time our trade with the Soviet Union and the East European countries was very small,

largely as a result of legal barriers, government policy, and popular feeling in the United States. In 1958, for example, President Eisenhower rejected Premier Khrushchev's offer of a comprehensive Soviet-American trade agreement, which included many types of peaceful goods which the Soviet Union wanted either to purchase or offer for sale in the United States.

Since 1966, popular feeling toward trade with Communist countries has undergone a radical transformation and both the Administration and the Congress have liberalized a number of legal barriers to such trade. Given the changes that have taken place in East-West relations, trade should no longer be viewed as a political weapon by either group of countries. Rather, increased trade between Western and Communist countries can be linked to the achievement of a stable peace and international order. Moreover, the prospective trade benefits to the United States are increasingly clear. United States exports of agricultural and high-technology industrial products, in particular, correspond generally to the import needs of Communist countries. Their exports to the United States are likely to remain rather limited even with MFN treatment.

Congress has encouraged increased trade with Communist countries. This is not clearly reflected in amendments made to the Export Control Act in 1969 and in 1972. In 1971, Congress repealed an amendment which had restricted the authority of the President to authorize the Export-Import Bank to extend credit in connection with purchases by Communist countries.

The Nixon Administration has done a great deal to open avenues of trade with Communist countries. The embargo on trade with China has been fully terminated. The export control regulations have been progressively liberalized. Most important, the Administration concluded a major trade agreement with the Soviet Union in 1972. These efforts to normalize relations have generally been well received by the Congress.

Communist countries consider the denial of MFN treatment to be the outstanding economic issue in their relations with the United States. Imports from most Communist countries are now subject to duty rates established in the Smoot-Hawley Tariff Act of 1930. In contrast, products of all other countries are subject to a schedule of duties which have been greatly reduced in a series of bilateral and multilateral trade negotiations from 1934 through 1967.

BILATERAL COMMERCIAL AGREEMENTS

The Administration does not propose the automatic restoration of MFN treatment to Communist countries. The United States would grant MFN treatment in return for a variety of concessions which would facilitate the position of American firms doing business with Communist state-trading agencies. For example, under the trade agreement with the Soviet Union which would be implemented under this title, the Soviet Union has agreed that all currency payments will be in U.S. dollars or in freely convertible currencies. It has also agreed to improve facilities for American businessmen to conduct their affairs in the Soviet Union, to encourage the principle of third-country arbitration, to take steps on our request to prevent disruption of our domestic market and to pay their lend-lease obligations. Separate negotiations are underway with respect to copyright matters and the protection of industrial rights and processes.

It is intended that reciprocal MFN treatment in trade agreements with Communist countries should take the form of a series of particular non-discriminatory, or "fair treatment", provisions relating to specific areas of trade relations.

Any commercial agreements under Title V must contain certain mandatory provisions. A bilateral agreement must be limited to an initial period of not more than three years. It can be extended only if the President determines that a satisfactory balance of trade concessions has been maintained during the life of the agreement, and that any future benefits granted will be fully reciprocated by the other party.

Second, a bilateral agreement must be subject to suspension or termination at any time for national security reasons, and must not limit our right to take any action required for the protection of our security interests. In this connection, this title does not in any way affect the U.S. system of export controls or international arrangements, such as the COCOM agreement, for the embargo of exports to Communist countries which are of military significance.

Third, a bilateral agreement must provide for consultations for the purpose of reviewing the operation of the agreement.

MULTILATERAL TRADE AGREEMENTS

The title provides that the President may extend MFI treatment, without the necessity of concluding a bilateral agreement, to a country currently subject to Column 2 rates of duty which has become a party to an appropriate multilateral trade agreement to which the United States is also a party. At the present time, this provision applies to countries which become members of the GATT. The various obligations which a state-trading country assumes under the GATT are similar in some cases to those which would apply under a bilateral commercial agreement.

For example, when Poland became a member of the GATT, the accession protocol included the following provisions:

(1) An understanding by Poland that it would increase imports from contracting parties as a whole at an average rate of at least seven percent per annum;

(2) Bilateral consultations should Poland or any contracting party request them, with provision for either Poland or the contracting party to suspend GATT obligations toward the other if further consultations with the contracting parties as a group do not lead to a settlement;

(3) Action by a contracting party to restrict imports from Poland on a non-MFN basis should they cause or threaten serious injury to domestic producers and should consultations fail to resolve the issue;

(4) A clause permitting contracting parties which maintain discriminatory quantitative restrictions inconsistent with the GATT to continue to apply them provided that the inconsistency is eliminated by the end of a transitional period of unspecified length; and

(5) Annual consultations on Poland's import targets and actions by contracting parties to remove quantitative restrictions on imports from Poland.

The Romanian accession protocol is similar to that of Poland. However, it does not permit a contracting party to restrict imports on a non-MFN basis. The United States cannot assume GATT obligations toward Romania or any other communist country until Congress authorizes MFN treatment, so the United States has invoked Article XXXV of the GATT excepting Romania from United States GATT obligations.

Hungary, which is currently negotiating accession, has a tariff system which is an integral part of its economic system. Tariff reductions are currently being negotiated individually with other GATT members as part of its accession.

Poland and Yugoslavia already receive MFN treatment. Currently, the potential candidates for MFN treatment under the authority with respect to GATT members are Romania, Hungary, and Czechoslovakia. If other Communist countries accede to GATT, the President could also choose whether to extend MFN treatment to any of them on the basis of the terms of their accessoin to GATT or to conclude a separate bilateral agreement. This decision would be made on a case-by-case basis, in the light of the obligations assumed by the particularly country under GATT and the extent to which additional concessions might be obtained.

In either case, the extension of MFN treatment is subject to veto by the authorized membership of either House of Congress within 90 days after the President submits the agreement to the Congress. Extensions of bilateral agreements, once the initial term has run, are not subject to the veto procedure.

MARKET DISRUPTION

It is not foreseen that there will be extensive injury to domestic industries due to increased quantities of imports from countries granted MFN treatment under this title. However, section 505 provides an appropriate basis for dealing with imports from countries with state-directed economies if injurious competitive pressures are incurred from time to time by domestic producers.

Section 505 contains separate criteria from those under Title II for determining eligibility for relief with respect to imports from countries receiving MFN treatment under Title V. A petition may be filed with the Tariff Commission or an investigation otherwise initiated under section 201 with respect to such imports. In its investigation, the Commission will determine whether there is, or likely to be material injury to a domestic producer of a like or directly competitive article, and whether such imports are causing market disruption. Material injury is intended to be a lesser degree of injury than serious injury,

the standard in section 201. The Commission must find both material injury and market disruption for the domestic industry to be eligible for import relief under this section. Section 505 also authorizes the President to restrict imports from a country granted MFN treatment under this title without taking action on non-injurious imports of like products from other countries, irrespective of whether MFN treatment is granted through a bilateral agreement or pursuant to that country's accession to the GATT.

Special safeguard measures in the bilateral commercial agreements themselves could provide a further means of dealing with injurious imports. This approach could take the form of a reaffirmation of the special GATT obligations entered into by non-market economy members to hold consultations in order to develop mutually acceptable solutions to actual or threatened market disruption, with provision for immediate restrictive action by the importing nation in critical circumstances. Or, if a country has entered into a bilateral agreement with the United States, the agreement could provide that each government will take appropriate measures to ensure that its exports to the other country will not cause or threaten market disruption. This provision is included in the agreement with the Soviet Union.

REPEAL OF OTHER LAWS

Section 706 of this Act would repeal the Johnson Debt Default Act and the embargo on seven types of furs and skins which are the product of the Soviet Union or the Peoples' Republic of China.

The Johnson Debt Default Act, enacted in 1934, prohibits certain financial transactions by private persons in the United States with foreign governments which are in default in the payment of their obligations to the United States. The prohibited transactions include the making of loans and the purchase or sale of bonds, securities, or other obligations of the foreign government. The Johnson Debt Default Act does not apply to countries which are members of the World Bank and the International Monetary Fund. In practice, the Act only applies to Communist countries. The exceptions are Romania and Yugoslavia, which are members of the World Bank and the International Monetary Fund, and Albania and Bulgaria, which are not in default of their obligations for purposes of the Act.

The intention of the Johnson Debt Default Act was not to regulate East-West trade, but to protect United States citizens from the sale of securities issued by governments with a history of default. In spite of opinions of the Attorney General that normal commercial credits are not affected, the existence of the Act discourages commercial transactions involving long or unusual financing methods.

It is questionable, for example, whether the Act applies to loans from foreign branches of United States banks; whether foreign branches of American investment banks can underwrite bond issues; whether long-term project loans can be made to these countries, and whether equity investments in the form of loans would be permitted.

The Johnson Debt Default Act is a competitive disadvantage for United States firms because it has the effect of discouraging sales of American plant and equipment which might otherwise be exported. At a time when the United States has successfully concluded a lend-lease agreement with the Soviet Union and is negotiating or contemplating debt settlements with other Communist countries, the retention of the Johnson Debt Default Act is an unnecessary barrier to East-West trade.

The fur embargo was first enacted in 1951, at the same time that MFN treatment was withdrawn from Communist countries. This is an extraordinary form of discrimination. The Trade Act of 1970 as passed by the House of Representatives would have repealed the fur embargo.

TITLE VI—GENERALIZED SYSTEM OF PREFERENCES

In his Latin American policy address in October 1969, the President announced his decision that the United States would participate in a system of generalized tariff preferences subject to Congressional approval. In October, 1970, the major industrialized countries agreed to seek authority as necessary for the early establishment of a mutually acceptable system of non-reciprocal and nondiscriminatory generalized tariff preferences. To permit the introduction of generalized tariff preferences by developed countries, the GATT Contracting Parties adopted a ten-year waiver of MFN obligations under GATT Article I.

It is generally recognized that the developing countries must achieve a more rapid and sustained growth in their export earnings in order to finance the increasing amount of capital goods and other materials essential to their economic development. Approximately 80 percent of the foreign exchange earnings of developing countries derive from exports primarily of agricultural products and industrial raw materials.

In recent years the share of developing country exports relative to total world trade has declined. Imports of manufactures from developing countries constitute only about 11 percent of total United States imports of manufactures, and less than six percent for all developed countries combined. The purpose of generalized tariff preferences for semi-manufactured and manufactured products is to promote diversification of exports and thereby the economic growth of developing countries through increased access to developed country markets.

BASIC PROVISIONS

The basic United States generalized preference system under Title VI of the Act would consist of duty-free treatment of imports from developing countries of semi-manufactures and manufactures plus selected other commodities. In administering the United States preference system, the President would grant duty-free treatment only with due regard for its intended purpose, its anticipated impact on domestic producers, and the extent to which other developed countries are undertaking a comparable effort to assist developing countries.

A "competitive need" formula would apply whereby preferential treatment would not be granted initially or would be withdrawn or suspended on an article from a particular developing country which the President determines has supplied a maximum of $25 million of the article or over 50 percent of the total value of United States imports of the article from all sources on an annual basis over a representative period. Once preferential treatment is withdrawn or suspended, subsequent imports of the article from the particular developing country will be subject to MFN rates of duty unless the President restores the preferential treatment at some future date.

The presumption is that preferential treatment will be withdrawn or suspended automatically whenever imports of a particular product from a particular beneficiary reach the upper limits provided in the formula. The President may decide, however, that national interest considerations warrant the continuation of preferential treatement in a few special cases even though imports exceed the formula limits. On the other hand, there may be cases where the withdrawal or suspension of preferential treatment is warranted even though imports have not reached the specific cutoff points. For example, a country may have clearly demonstrated its competitiveness in the article and be preempting potential benefits from the least developed countries.

The proposed system reflects the recommendations of the President's Commission on International Trade and Investment (the Williams Commission). It proposed the granting of preferential treatment only to developing countries which have not already demonstrated their competitiveness in the United States market at MFN rates of duty. It also recommended that the responsibility of providing improved access for developing country exports be shared equitably in overall terms and with respect to individual products among the developed donor countries, particularly with the European Community and Japan.

In July 1971 the European Community instituted a complex tariff-quota system which generally provides for duty-free treatment on imports of semi-manufactured and manufactured products up to predetermined ceilings, above which MFN rates of duty apply. Preferential imports of a particular product from a single beneficiary are limited to 50 percent of the total ceiling for the product. In practice, there are three lists of products: sensitive items to which tariff quotas actually apply; quasi-sensitive products which are subject to frequent surveillance, but on which ceilings are not imposed except by administrative decision; and non-sensitive articles which are not monitored unless a complaint is registered. The Japanese generalized preference system is similar except that certain manufactured products are exempt from preferential treatment.

Evidence available to date suggests that the most restrictive feature of the European tariff-quota system may be the 50 percent limitation on the amount which any single beneficiary country can supply of the preferential ceiling. This provision is similar to the "competitive need" element under the proposed United States system. Analyses by the State Department indicate that United

States imports under generalized preferences as a percent of GNP and as a percent of dutiable imports from beneficiary countries will not be disproportionate to imports of the European Community and Japan under their tariff-quota provisions.

Given the complexities of the various systems and differences in administrative regulations, it is impossible to determine precisely the comparative impact on donor country imports in advance. Differences in market demand, domestic supply, product coverage, levels of existing imports, customs administration, and many other factors could produce different results under the same system, or comparable results under varying systems among countries. It is also difficult to decide what particular type of yardstick most appropriately measures burden-sharing. Consequently, the OECD has established a mechanism to keep the various systems under review, to reassess them periodically in the light of actual experience, and to recommend modifications if appropriate.

The generalized tariff preference system proposed by the Administration has certain distinct advantages over a tariff-quota approach. In the first place, preferential access would be limited under the "competitive need" formula only in cases where products from individual supplying countries have demonstrated their competitiveness in the United States market. Under the tariff-quota approach, all developing country suppliers, even relatively minor ones, lose preferential access when individual quotas are filled. Moreover, no single supplying country can know when an individual quota will be filled because they do not know the amount other suppliers are shipping. The day-to-day administration of tariff quotas on anything like the scale and complexity of the European and Japanese schemes would impose a considerable burden and budgetary cost. They would also encourage the type of bureaucratic control appartus we have sought to avoid in the trade field.

The "competitive need" scheme should also provide the greatest benefits to the least developed countries which need them the most. They would not have to compete in the United States market on equal terms with highly competitive products exported by more advanced developing countries.

The GATT waiver of the MFN principle to permit the introduction of generalized tariff preferences specifically notes the view of developed countries that preferences are temporary in nature, not a binding commitment, and not an impediment to further tariff reductions on a MFN basis. Over the ten-year period imports from developing countries would tend to gradually return to MFN treatment as their industries become more competitive. The system proposed by the Administration should provide an incentive, particularly for the more advanced developing countries, to participate in forthcoming tariff negotiations since their vested interest in the maintenance of preferential tariff margins will decrease.

BENEFICIARY COUNTRIES

One of the purposes of generalized tariff preferences is to provide an alternative to the proliferation of special preferential trading arrangements between the European Community and the developing countries in Africa and around the Mediterranean. These arrangements often involve tariff preferences by the developing countries for imports from the European Community ("reverse" preferences), which discriminate against the exports of the United States and other third countries.

Consistent with this purpose, the President cannot designate as a beneficiary of the United States preferential tariff treatment any developing country which grants "reverse" preferences to the imports of another developed country, unless the country provides satisfactory assurances that it will eliminate these preferences before January 1, 1976. Furthermore, preferential treatment will be withdrawn if the country has not eliminated "reverse" preferences before that date. The condition would not be met if a developing country continues to maintain "reverse" preferences but extends them to the United States as well as another developed country. In effect, benefits of duty-free preferential treatment will only be granted to countries which adhere to the MFN principle.

It is also inappropriate to designate as a beneficiary any country which does not receive MFN tariff treatment. This condition would currently preclude beneficiary status to all Communist countries except Yugoslavia, which has requested beneficiary status, and Poland which has not. Cuba, Bulgaria, and Romania have requested preferential treatment but could not receive such treatment currently under the terms of Title VI of the Act.

The President must take certain criteria into account in designating beneficiary countries other than those automatically excluded under the "reverse" preference and MFN conditions. He must consider whether beneficiary status would serve the purposes of the generalized preference system, whether a developing country has expressed a desire to be a beneficiary, and whether its level of economic development warrants preferential treatment. The President must also take into account whether or not the country has expropriated United States property without providing payment of prompt and adequate compensation. For purposes of burden-sharing, he must also take into account whether or not other major developed countries are extending generalized tariff preferences to the particular country.

HEARINGS AND PROCEDURES

Several provisions of Title VI are designed to ensure that the granting of duty-free preferential treatment on imports from developing countries is not to the detriment of domestic producers and workers. These safeguard provisions are similar to those applicable to the granting of tariff concessions in conjunction with trade agreements under Title I.

The President cannot grant initially, and must withdraw subsequently, preferential treatment on articles which are subject to import relief measures, quantitative import limitations, or national security actions. All other semi-manufactured and manufactured products may be designated eligible for preferential treatment after hearings before the Tariff Commission. A selected number of primary and agricultural products may also be considered for preferential treatment. As the President stated in his message transmitting this Act to the Congress, the Administration does not intend to extend preferential treatment on certain products which are generally regarded as sensitive to imports, such as textile products, footwear, certain steel articles, and watches.

Prior to granting preferential treatment on any product, the President must publish and furnish the Tariff Commission a list of articles which may be considered eligible. He must also receive the advice of the Tariff Commission as to the anticipated effect on domestic producers of granting preferential duty-free treatment on particular articles. Other Government agencies will also provide information and advice. Hearings will be held to obtain views from the public.

To receive preferential tariff treatment, imports of eligible articles must enter the United States customs territory directly from a beneficiary developing country. The Secretary of the Treasury shall also issue regulations to ensure that the sum of the cost or value of materials produced in the beneficiary country, plus the direct cost of processing operations performed in the beneficiary country equal or exceed a certain percentage of the appraised value of the article when it enters the United States. The percentage will apply uniformly to all beneficiary countries. Since it is difficult to determine the effect of a given percentage in advance, the percentage once set may be modified in the light of experience to ensure that beneficiary countries receive the benefits intended. These requirments confine the benefits of the system to developing countries.

The countervailing duty law as amended by Title III of the proposed Act will apply to imports receiving generalized tariff preference as it does to other non-dutiable articles. The application of countervailing duties will be subject to a material injury determination by the Tariff Commission.

If an article on which preferential tariff treatment is being granted becomes subject to import relief measures under Title II of this Act, the preferential treatment will be terminated and the MFN rate of duty restored.

In some cases the restoration of MFN treatment may be a sufficient remedy for injury, and increases in the MFN rate or the provision of other relief measures may be unnecessary. The President cannot establish an intermediate preferential duty rate between zero and the MFN rate as an import relief measure or when modifying or limiting preferential treatment for other reasons.

The CHAIRMAN. Thank you, Mr. Ambassador.

Mr. Hickman, you are recognized, sir.

STATEMENT OF HON. FREDERIC W. HICKMAN, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY, ACCOMPANIED BY ROBERT J. PATRICK, JR., DEPUTY INTERNATIONAL TAX COUNSEL

Mr. HICKMAN. Mr. Chairman, my testimony today concerns the relationship of our tax system to international trade policy.

Specifically I will explain the administration's proposals for changes in the tax law which relate to income from foreign sources.

Some would use our tax system as a tool to deter foreign investment. We believe that would be a mistake. As Secretary Shultz stated in his testimony yesterday, the evidence is that our foreign investment has made a positive contribution to our balance of payments, to our exports and to jobs and prosperity at home.

The administration's tax proposals rest on the conviction, stated in the President's trade message, that "Our income taxes are not the cause of our trade problems and tax changes will not solve them." The basic dislocations and distortions that exist with respect to international trade and investment must be solved by hard bargaining with other countries. The route to increased domestic investment for exports lies in realistic monetary exchange rates and in assuring fair access to foreign markets for U.S. products. It does not lie in inhibiting foreign investment by use of the tax laws.

Our proposals for tax changes deal with distortions created by existing tax laws, both domestic and foreign. What is wrong with the tax system we aim to remedy. But we do not propose to use our tax laws to correct or to mask broader problems not caused by taxes.

Under existing law, if I may review just briefly the basic concepts, we impose an income tax on individuals and an income tax on corporations. Corporate earnings which are distributed are taxed twice once to the corporations when it earns them and again to the shareholders when they receive them. We do not purport to tax foreign citizens or foreign corporations except on income earned in the United States.

These general principles apply to U.S. investment at home and abroad. Thus, we tax the worldwide income of a corporation that is incorporated in the United States, and we tax a foreign corporation on income which it earns in the United States. But, we generally do not tax a foreign corporation on income earned outside the United States, whether or not that corporation is controlled by U.S. owners.

However, when the income of such a corporation is distributed as a dividend to its shareholders, if those shareholders are U.S. citizens, residents, or corporations, we tax them on the dividends they receive. In order to eliminate double taxation of the same income at the corporate level, we give a tax credit to corporate shareholders for foreign income taxes paid by the foreign corporation.

The result of this system is that foreign subsidiaries compete in foreign markets under the same tax burdens as their foreign competition. As a foreign corporation operating abroad, a foreign subsidiary pays tax abroad and not in the United States. However, at the stockholder level, the earnings are subject to U.S. tax under the general rules applicable to shareholders. When income is repatriated

from the subsidiary to the U.S. shareholders it is taxed to those shareholders at regular U.S. tax rates, subject to a credit for foreign income taxes. This credit cannot exceed the amount of tax due to the United States on that same foreign income, so that it does not reduce tax liability on U.S. source income.

Our present system of taxing foreign source income has on the whole served us well. It minimizes the intrusion of taxes into investment decisions.

At present, a business can—and typically does— decide whether or not to invest in a particular foreign country on the basis of market and business factors, knowing that it will be taxed in that country just as its local competitors are taxed.

Thus, the present system has maximized the responsiveness of investment to the forces of a free market. By being competitive abroad, American-owned foreign businesses have opened major new markets to American companies and have promoted exports, prosperity, and jobs at home.

Tabel 1, which appears at the back of this statement, indicates the contribution which American investment abroad is making to our balance-of-payments problem. The income flowing back to the United States from investments abroad is today roughly twice as large as the flow of new investment out. You will see, if you look at the last two columns there on table 1, where the net capital outflow in 1971 was $4.8 billion but the net income inflow was $9.5 billion, almost twice as much. Foreign investment makes a major contribution on the basis of repatriated earnings alone, to say nothing of the indirect benefits which flow from the opening of foreign markets to Americans.

Not too many years ago, foreign tax rates were substantially lower than U.S. tax rates, and it was argued by some that those lesser tax rates were a critical factor in many investment decisions to locate abroad. Whatever the logical merits of that position, the facts have changed very significantly in recent years. Tax rates in the major industrial nations which are open to U.S. investment are now in roughly the same range as U.S. tax rates. This is apparent from table 2. If you look at table 2 you will see in the first column a statutory corporate income tax rate which ranges from the lower thirties up to the 50-percent area. In addition to income tax rates indicated on table 2, it is important to keep in mind that the foreign governments listed collect additional withholding taxes at rates ranging up to 35 percent on the payment of dividends and interest flowing from foreign subsidiaries to U.S. shareholders. You will see in the second column what those withholding rates are on dividends. Thus, in many cases the combination of foreign income and withholding taxes exceeds the rate at which a corporation's income would be taxed in the United States. Under these circumstances, it is apparent that comparative tax rates here and abroad are of only marginal significance in normal cases and major countries.

Table 3 illustrates still a further fact which is that foreign subsidiaries repatriate about half of their foreign earnings and reinvest about half abroad. Students of corporate activity know that corporations today must reinvest a substantial portion of their earnings if they are to stay healthy and competitive. The payout rate for foreign corporations indicated in table 3, which is about 50 percent, is comparable

to the dividend payout ratio for American industry generally. There may, of course, be individual cases in which companies reinvest abroad solely to avoid the additional tax occasioned by repatriation. But in the aggregate, the situation seems to be a fundamentally healthy one in which normal percentage of income are returned to the United States and taxed here on their return.

H.R. 62, which is the bill introduced by Congressman Burke, proposed two major changes in the existing tax system. It would eliminate the credit for taxes paid to foreign countries and it would abolish the rule that shareholders are taxed on dividends only when those dividends are paid to them. We have considered these proposals at length and we have concluded that they are undesirable because they would destroy the neutrality of our tax system with respect to decisions to invest abroad.

Let me deal briefly with each of the two proposals.

The proposal to replace the foreign tax credit with a deduction for foreign taxes is No. 1.

No major nation taxes foreign source income in the manner or to the extent contemplated in H.R. 62. Every major industrial nation has devised some system for preventing double taxation of the same income by itself and other nations. These unilateral rules have been supplemented by international conventions, developed over a long period of years for the avoidance of double taxation. There are two methods generally employed to that end. One method is simply to exempt from domestic tax income having its sources in some other nation. This is the method followed, for example, by France. A second method is to tax foreign source income domestically but to allow a credit against domestic tax for foreign taxes paid on the same income. This is the method followed by the United States.

Within individual countries there may be double taxation of the same income at different political levels. For example, in our country both the States and the Federal Government may tax the same income. Where that occurs, the Nation must work out internally the interrelations between local and national taxes in order to arrive at a total level of tax which is tolerable.

As a practical matter, that kind of accommodation is simply not possible between nations, as the levels of total tax in each nation have become relatively high.

Let me illustrate the level of tax which would result if we were to allow foreign taxes only as a deduction. If, for example, $100 of corporate income pays $46 of corporate income tax in England, a deduction for that tax would leave the remaining $54 subject to tax at 48 percent in the United States. The corporation would pay an additional $26 of U.S. tax on that $54 for a total of $72 tax on each $100 at corporate income. That would be an effective tax rate of 72 percent. If the remaining $28 were taxed when distributed to shareholders at, say 50 percent, the result would be an effective tax rate on distributed corporate income of 86 percent. We believe that is an unrealistic level of taxation. People simply will not invest if the tax collector claims too large a share of the profits.

Thus, the primary reason why elimination of the foreign tax credit is unrealistic is that it would, in fact, be nearly confiscatory.

Next, let me turn to the proposal to accelerate taxation of shareholders.

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H.R. 62 would abandon the general rule that shareholders are taxed on corporate income only when that income is received. The proposal would accelerate the time at which shareholders are taxed on foreign source income by disregarding the corporate entity and taxing such income directly to the shareholders as earned. That is a fundamental change in our system of corporate taxation and in rejecting it we were influenced by the following considerations:

1. There is no persuasive evidence that the present system distorts investment decisions except in unusual cases. As previously noted the income and withholding tax rates in the major industrial nations are sufficiently close to U.S. rates that any differences would be unimportant.

2. Such a system would mean that American-controlled corporations operating abroad would in many instances be at a substantial disadvantage compared to their foreign competitors with respect to the tax burden on profits retained in the business.

3. Where there is a disadvantage at the corporate level only American-controlled companies would be subject to it and there would be a substantial incentive, if not a necessity, for Americans to divest themselves of control. That would entail a substantial loss in American investment values and a substantial decrease in the ability of American firms to manage their foreign investment. We do not believe that to be desirable.

4. The revenue gain to the Treasury from accelerating the taxation of shareholders would be minor in comparison to the depressing effect on U.S. economic activity abroad. We estimate that the acceleration of the tax on shareholders would produce about $300 million of additional revenue annually to the United States. But one of the chief effects of such a proposal would be simply to increase the amount of tax which corporations pay to foreign governments. Let me illustrate why that is so. Let's assume a corporation which earns $100 and is subject to a 40-percent income tax rate in country "*X*". If taxation of the U.S. corporate shareholders were accelerated and they were required to pay $48 of tax to the United States, it would make sense for the foreign subsidiary to declare a dividend of the $60 which remains net after taxes in country "*X*" and to pay a $6 withholding tax to country "*X*" on that amount. It would then have paid a total of $46 tax to country "*X*", all of which would be creditable against the $48 of tax owing to the United States. It would thus satisfy its potential withholding tax liability to country "*X*" wihout increasing its total tax.

The net result is that the company's tax has increased from $40 to $48, but of that $8 increase, only $2 goes to the U.S. treasury and the remaining $6 goes to the treasury of country "*X*". The results would be different where the rates are different from those which I have assumed in the example but the point is that a substantial amount of additional tax would go to foreign governments.

For all these reasons, we believe it desirable to stay with the general rule that corporate earnings are taxed to shareholders domestically and foreign only when received.

These issues are not new. In 1961 and 1962, Congress reviewed in depth U.S. tax policy with respect to the taxation of foreign income and concluded that it was generally appropriate to tax the earnings of U.S.-controlled foreign subsidiaries when those earnings are dis-

tributed to U.S. shareholders. That is, to continue to apply the same rules that we apply to shareholders of U.S. corporations. This committee rejected a general proposal to tax the undistributed income of foreign corporations to their U.S. shareholders. The report of the Committee on Ways and Means on the Revenue Act of 1962 started that:

> Testimony in hearings before your Committee suggested that the location of investments in these countries is an important factor in stimulating American exports to the same areas. Moreover, it appeared that to impose the U.S. tax currently on the U.S. shareholders of American-owned businesses operating abroad would place such firms at a disadvantage with other firms located in the same areas not subject to U.S. tax. (H. Rept. 1447, 87th Cong. 2d sess. 57–8 (1962).)

However, Congress recognized in 1962—and the administration's tax proposals recognize now—that changes in our tax structure should be made where the tax rules themselves create inequities or artificial distortions in investment decisions. Thus, in 1962 the Congress provided a special rule for foreign source income of holding companies and certain selling and service subsidiaries which were operating out of the so-called foreign "tax havens," and in that limited situation accelerated the time at which U.S. shareholders were taxed on that income. Also in 1962, the law was changed to insure that untaxed and undistributed profits of a controlled foreign corporation, whether or not operating in a tax haven, would not escape ordinary income tax in the end as a result of the sale or liquidation of the foreign corporation.

We have three proposals for legislative changes. They are advanced in the belief that our system is fair in its general application, but that in certain limited situations we need changes in our tax system to neutralize distortions in investment decisions and in revenue collections which are caused by certain features of some foreign tax systems.

Our first proposal relates to the subject of tax holidays.

There has been an increasing tendency for both developed and developing countries to provide "holidays" from their income taxes in order to attract investment in manufacturing. This can mean that no income tax, or very little tax, is paid with respect to the earnings of certain foreign corporations until the income is distributed as a dividend. This kind of deliberate and wholesale tax enticement does often control investment decisions. We believe that it is a tax distortion and that it should be neutralized.

Thus, we are requesting amendment of the tax laws so that earnings from new or additional U.S. investments in manufacturing or processing facilities which take advantage of such tax incentives will be taxed to the U.S. shareholders at the time they are earned. Where such an incentive is availed of, the income of the foreign corporation will be taxed currently thereafter, regardless of whether the incentive is in effect for a subsequent year, unless the corporation ceases to be engaged in manufacturing or process operations.

We are prepared, in appropriate circumstances, to enter into tax treaties with other countries, subject to Senate approval, to recognize incentives under appropriate safeguards.

In order to give the Secretary of the Treasury or his delegate broad authority to define by rules or regulations the general categories of

foreign tax investment incentives subject to the rule and to determine whether specific practices or benefits constitute such an investment incentive in broad terms. It would include any income tax related benefit, however effected, which is intended to encourage or has the effect of encouraging investment in the foreign country which provides the benefit, and whether or not granted to nationals as well as foreigners. Such a benefit may be provided by law, regulation, or individually negotiated agreements. However, the fact that there is a generally low rate of tax in a country will not be considered by itself a tax incentive. It is intended that only major tax concessions would be affected. Examples of benefits or practices of the type which constitute investment incentives include tax holidays—which are partial or complete exemptions from tax for a period of time—deductions for reinvestment reserves; certain grants; and certain depreciation rules which bear no relationship to useful life.

Our second proposal relates to so-called runaway plants. We believe that the United States has a legitimate interest in taxing currently the income of a corporation that has moved abroad to take advantage of lower tax rates to manufacture goods destined for the United States. To accomplish that purpose we propose, in addition to the tax holiday rule, that where a U.S.-owned foreign corporation has more than 25 percent of its receipts from the manufacture of goods destined for the United States and is subject to a significantly lower tax rate abroad, the income of such corporation will be taxed currently to the U.S. shareholders. A foreign tax will be deemed significantly lower where the foreign effective tax rate is less than 80 percent of the U.S. statutory corporate tax rate. The tests as to the percentage of exports to the United States and the effective foreign tax rates would be applied annually.

Our proposal for tax holidays and runaway plants will add a new section to the Internal Revenue Code providing that a U.S. shareholder—that is, a shareholder who is a U.S. person owning 10 percent or more of the stock—of a controlled foreign corporation will be treated as having received his pro rata share of the corporation's earnings and profits for a taxable year if the corporation is one that receives a tax holiday or a similar tax investment incentive or is a runaway plant, under the definition I have just described.

A controlled foreign corporation is one having more than 50 percent of its combined voting power owned by U.S. shareholders, a concept already in the code. The tax holiday and runaway plant rules would be in addition to those added by the Congress in 1962 and in its tax haven legislation, and the mechanism for taxing the shareholders would be comparable, but without certain escape clauses that were provided in the 1962 legislation.

A corporation will be regarded as engaged in manufacturing or processing operations if the unadjusted basis of the tangible property and real property used in its manufacturing or processing operations exceeds 10 percent of the unadjusted basis of all tangible property and real property of the corporation. Corporations engaged in other businesses, such as mining, would be unaffected. The provisions will apply to any new investment or additional investment in existing manufacturing or processing operations after April 9, 1973. In the case of additional investment or replacement of existing investment,

a transitional rule is proposed so that these provisions will not be applicable until the increased investment exceeds 20 percent of the investment on April 9, 1973.

Our third and last proposal relates to the subject of foreign losses.

We have proposed that where U.S. taxpayers have used foreign losses to offset other income taxable by the United States and those foreign losses are not taken into account by the foreign jurisdictions in later years, then the United States will, in effect, recapture those losses by a reduction of the foreign tax credit or an inclusion in the gross income of the taxpayer in later years.

This proposal modifies the present system under which the United States bears the cost during the loss years, but receives none of the revenue during the profitable years. In these circumstances, we wish to be sure of our fair share of the tax revenues.

The reduction in the tax credit would apply where the taxpayer itself continues to operate abroad in profitable years. However, since initial losses are frequently anticipated, one tax planning technique has been to operate in a branch form to deduce losses against U.S. income during the start-up period followed by incorporation of the foreign branch as a foreign subsidiary at or near the time the operation becomes profitable. In order to prevent this maneuver, the legislation proposes the recapture of losses by taking the previous losses into income upon the incorporation of a branch or comparable change in its tax status.

Mr. Chairman, this completes my statement.

The CHAIRMAN. Without objection, the tables appended to your statement will appear in the record at this point, Mr. Hickman.

No objection is heard.

[The tables referred to follow:]

TABLE 1.—U.S. DIRECT FOREIGN INVESTMENT: BALANCE OF PAYMENTS FLOWS, 1970 AND 1971

[In millions of dollars]

	1970		1971	
	Net capital outflows	Income inflow[1]	Net capital outflow	Income inflow[1]
All areas	$4,400	$7,920	$4,765	$9,455
Developing countries[2]	1,162	3,784	1,940	4,743
Developed countries	3,238	4,136	2,824	4,713
Canada	908	1,301	226	1,397
Europe	1,914	2,200	2,083	2,595
E.E.C	994	1,198	1,305	1,392
All other Europe	920	1,002	778	1,203
Western Hemisphere	568	1,375	668	1,460
Other areas	1,010	3,045	1,788	4,004

[1] Includes after-tax branch profits plus dividends, interest, royalties, fees, and film rentals net of foreign withholding taxes.

[2] Includes unallocated international direct investment.

Source: U.S. Department of Commerce, "Survey of Current Business," November 1972.

TABLE 2.—STATUTORY (1972) TAX RATES FOR SELECTED COUNTRIES

Country	Statutory corporate income tax rate	Withholding rates on dividends [1]	Country	Statutory corporate income tax rate	Withholding rates on dividends [1]
Canada	[2] 50	15	Italy	[9] 43	5
Mexico	[3] 42	15	Netherlands	48	5
Panama	[4] 50	8	Sweden	40	15
Argentina	33	12	Switzerland	[10] 29	5
Brazil	[5] 30/5	20	United Kingdom	[11] 40/38.75	15
Venezuela	[6] 50/60	15	Republic of South Africa	[12] 43/25	15
Belgium	[7] 35/10	15	Japan	[13] 36.75/26	10
France	50	5	Philippines	[14] 35	35
Germany	[8] 51/15	15	Australia	47.5	15

[1] Where a reduced rate of withholding is applied for parent-subsidiary dividends, that rate is shown.
[2] 21 percent of first $35,000, and 50 percent of the excess.
[3] Progressive rate structure of 5 to 42 percent.
[4] Corporations are taxed according to a progressive rate structure with bracket progression. The highest percent on the excess is 50 percent.
[5] 30 percent of taxable income and 5 percent on distributed profits of other than service corporations.
[6] Progressive rate structure with a maximum rate of 50 percent of income over 28,000,000 bolivares. Corporations engaged in oil and mining activity are subject to a rate of 60 percent on gross increments.
[7] 30 percent for distributed income with a floating rate on undistributed income; maximum is 35 percent on excess over B.Fr. 5,000,000. 10 percent surcharge on basic rate.
[8] Tax on undistributed profits/distributed profits. Distributed profits also bear substantial local taxes.
[9] Companies in Italy are subject to both the income tax, at rates varying from 18 to 25 percent, and the company tax of 18 percent.
[10] Federal tax is a maximum of 7.2 percent; however, the cantons assess a progressive corporation tax. The maximum rate is 29.78 percent including Federal and communal rates.
[11] A corporate tax of 40 percent is levied on all corporate profits and a 38.75 percent tax is applied on distributed profits.
[12] The normal tax on companies is 43 percent. There is a 25-percent tax on undistributed profits. Mining income is taxed at 40 percent except for diamond mining (45 percent) and gold mining (special formula).
[13] Undistributed profits are taxed at a maximum rate of 36.75 percent. Distributed profits are taxed at a maximum rate of 26 percent.
[14] Corporate tax is 25 percent of first 100,000 pesos and 35 percent of the excess.

TABLE 3.—PAYOUT RATIOS OF EARNINGS OF U.S. SUBSIDIARIES ABROAD

[In millions of U.S. dollars]

	Developed countries		Other Areas		All Areas	
	1970	1971 [1]	1970	1971 [1]	1970	1971 [1]
I. All industries:						
(a) Dividends paid	2,247	2,472	1,144	1,510	3,391	3,982
(b) Foreign withholding taxes	298	319	118	129	416	448
(c) Dividends received	1,949	2,153	1,026	1,381	2,975	3,534
(d) Reinvested earnings	2,075	2,375	874	741	2,948	3,116
(e) Total earnings (a plus d)	4,322	4,847	2,018	2,251	6,339	7,098
(f) Payout ratio (a as percent of e)	52	51	57	67	53	56
II. Manufacturing:						
(a) Dividends paid	1,499	1,584	299	294	1,799	1,878
(b) Foreign withholding taxes	206	214	51	53	257	267
(c) Dividends reinvested	1,293	1,370	248	241	1,542	1,611
(d) Reinvested earnings	1,252	1,508	282	277	1,534	1,785
(e) Total earnings (a plus d)	2,751	3,092	581	571	3,333	3,663
(f) Payout ratio (a as percent of e)	54	51	51	51	54	51

[1] Preliminary. Data exclude interest earnings as well as royalties and fees.

Source: Department of Commerce, "Survey of Current Business."

Mr. HICKMAN. Mr. Chairman, if I may, on table 3, it has been pointed out to me that line "f" under Roman I and II should say, "(as percent of e)" not "(a as percent of d)".

The CHAIRMAN. All right.

Without objection, that correction is made in the table.

Mr. Ullman.

Mr. ULLMAN. First, Mr. Chairman, I would like to say to Mr. Eberle that I do agree with the general scope of your approach to the problem.

I have said for some time now that the old GATT rules are not adequate to cope with the trade problem; it has been quite evident that that is true, that all kinds of new trade barriers and obstructions have arisen in the world that can only be negotiated out, and I think you have analyzed the problem quite carefully.

You have indicated and repeated the fact that this is a partnership and that the Congress should be involved. I think that this certainly has to be the case. I have some doubts, however, that your proposal involves the Congress to the extent that it should if we have a true partnership.

Now, recognizing the difficulties of any legislative body getting involved in actual negotiations and the fact that we haven't had a good mechanism to directly participate, I can't offer a criticism in the form of a more specific proposal as to how we should be involved.

All I would say is that, as one member of the committee, that as we are writing the legislation I am certainly going to try to find better mechanisms of getting the Congress involved in the procedure and also a better stating of our U.S. trade policy as to what our objectives are in approaching this overall problem of trade reform.

Let me turn now, Mr. Hickman, very briefly, to your analysis of foreign investments.

It is a very difficult area to work in and to thoroughly understand. Your proposals on both holidays and percentage of products sold back into the country would have their effect primarily in less developed countries, would they not?

Mr. HICKMAN. I think that that is primarily true, although you understand that we are working in the latter case with an effective tax rate so that you have to look at it on a company-by-company basis, and you will remember from the executive sessions earlier this week that even in the United States, where we have a 48-percent statutory rate, the effective rate may be very much less than that, depending upon how income is defined and rated in the particular situation.

Mr. ULLMAN. Why is it that the deferred income concept has little application in countries that have the same tax rate as the United States?

Mr. HICKMAN. Why is it that our proposals have little application?

Mr. ULLMAN. Why is it that the concept of deferred income is not particularly significant in countries that have the same tax rate that we do?

Mr. HICKMAN. The reason why that is so is that if one pays $48 in country X, and then brings the dividend back either as an actual dividend under existing law, or if we were to accelerate the taxation of shareholders and it were deemed to be distributed, he would be taxed at 48 percent in the United States, but he would have a tax credit for 48 percent on the tax that he paid abroad, so that where the foreign rates are nearly the same as the U.S. rates, there is no particular effect on the corporation from a different rule.

Mr. ULLMAN. Well, except what troubles me is this. Is there a wide discrepancy in the amount of dividends actually paid between the dif-

ferent corporations? In other words, we tax the profits of all corporations abroad in with the U.S. income. Is that a true statement?

In other words, foreign corporations in their foreign operations are taxed under U.S. rates the same as if they were operating domestically.

Mr. HICKMAN. No. A foreign subsidiary is not taxed under our tax laws, but the earnings of the subsidiary are taxed when they are returned as a dividend to the domestic corporation.

Mr. ULLMAN. Then how does the tax credit apply?

Mr. HICKMAN. The tax credit applies by determining the amount of the tax previously paid abroad with respect to the dividend. In other words, if you had paid an effective tax of 40 percent abroad, then 40 percent of the dividend that you get (grossed up by the foreign tax) would be deemed subject to the credit.

Mr. ULLMAN. Have you made any recommendation with respect to the problem of the application of the tax credit as to whether we shall continue to allow corporations to choose between an overall basis or a per-country basis?

Mr. HICKMAN. We have not felt that it was advisable to take away the existing option. There are arguments both ways. We do not feel that there are significant distortions in either case. It is simpler in many cases for companies to use the overall limitations. Surely that would be simpled from an administrative point of view.

Some people feel that a per-country limitation is more logical insofar as it deals with the tax actually paid to a particular country.

Mr. ULLMAN.The main criticism of the per-country income has been the companies with a heavy loss in a given country can deduct that loss directly against their American taxes.

Mr. HICKMAN. That is a criticism of the per-country limitation, yes.

Mr. ULLMAN. That is right. Have you tackled that problem?

Mr. HICKMAN. We have dealt with that problem in our proposal with respect to losses. We are not denying the deduction of the loss against U.S. income, but we are saying that when the foreign operation turns the corner and begins to show a profit, we want our share of the tax on that profit. So we have solved that problem, we think, by approaching it in a slightly different way.

Mr. ULLMAN. Have you kept it on a prospective basis, however?

Mr. HICKMAN. Yes. It would be effective with respect to losses starting next year.

Mr. ULLMAN. My time is up, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Thank you, Mr. Chairman.

Ambassador Eberle, on page 3 you say that "* * * the longer-term implications of the institutional defects of the GATT are serious." Up to this point, we have heard very little about GATT. I hope this is not indicative that we may be ignoring the GATT or that we are going to get into a lot of bilateral agreements outside of the GATT.

What is the position of the U.S. negotiating group with regard to the GATT? Are we interested in strengthening the GATT where we recognize there are weaknesses? Do we plan on using it extensively in the future? Is this going to be the arena where we conduct our negotiations?

Ambassador EBERLE. Congressman, we feel that the GATT should be made full use of. It is at the present time the only international set

of trade rules or trade system that we have. In saying that, let me make two quick comments for you.

We are trying to help the GATT become a problem-solving, businesslike organization. We are doing this by raising within it various issues we have with other member countries. Under article 23, we have raised issued with the United Kingdom, Italy, France, Germany, Japan. We have one panel working at the present time. It is the first time that this has been done in many years.

Mr. SCHNEEBELI. Is this through the GATT?

Ambassador EBERLE. Through the GATT.

Mr. SCHNEEBELI. At Geneva.

Ambassador EBERLE. We are finding the procedures, the system not as responsive as we would like. The important thing is to make the GATT work. We are pushing hard at the present time to help assure that it does work and that the precedures can be followed.

Mr. SCHNEEBELI. Are we getting any help from our trading partners with regard to strengthening and modernizing the GATT?

Ambassador EBERLE. At the present time, procedurally we are getting some. I think on balance we are not getting the kind of support necessary but this is really a tactical question. Our trading partners know that we want trade system reform and they want to save those reforms for the major negotiations. There are some areas in the system in which we think reform can take place and will take place as part of the negotiations. For example, the rules regarding application of a surtax versus quotas in a balance-of-payments deficit. That situation clearly must be reformed.

We are already talking with other countries about an international safeguard system. This would be some form of new rule. It may be a part of article 19, or it may be a new one. As we negotiate these so-called codes or protocols, they will in a sense become the new rules. That is the first step of the reform.

Mr. SCHNEEBELI. Let me get more specific. Suppose you are dealing with one country with respect to the tobacco tax. Do you deal directly with that country, or do you go through the GATT?

Ambassador EBERLE. You deal directly with that country.

Mr. SCHNEEBELI. Subject to the rules of the GATT?

Ambassador EBERLE. Subject to the rules of the GATT. You may deal with them either bilaterally or you may deal with them through the GATT. That is an optional procedure, but it is still within the rules of the GATT.

Mr. SCHNEEBELI. The GATT allows this bilateral agreement as long as it conforms to the general guidelines of the GATT.

Ambassador EBERLE. That is correct, and then we follow the most-favored-nation principle in the application.

Mr. SCHNEEBELI. I believe it has been our position that we are entitled to compensation under article 24 of the GATT due to the enlargement of the EEC, particularly with respect to agricultural products.

Can you give us a report as to where we stand on this; what is being offered and what we can expect out of this in the form of compensation?

Ambassador EBERLE. I will try. We have been sitting with the European Community off and on since the 15th of March, going through an analytical examination of the problem in an enlargement negotia-

tion. What has happened here is that the Community has withdrawn certain tariffs and other regulations of commerce in the U.K., Denmark, and Ireland, which will have an effect on us. These withdrawals affect thousands of product items.

We are now first going through all of those items to determine the trade coverage, our exports into these countries, and where there would be impairment of our benefits. Then we will total those up and see what they look like, applying a qualitative as well as quantitative measurement. If you just apply the ball park rule of thumb quantitatively without talking about potential job impact and all the things that we have to take into account, you would have around $700 million of trade on industrial items and about $350 million in the agricultural area which will be impaired.

The GATT requires as a minimum, in our opinion, that the rules of commerce be no less disadvantageous to us upon the formation of the new customs union than before. In this case the Community of Six negotiated with the other three countries a new tariff which is the common external tariff, but it applies to the nine countries rather than the six.

There are many thousands of industrial items on which the tariffs will be lowered. We are now in the process of going through them to determine the trade coverage. We will not have that information, probably, for another week or 10 days. I cannot give you a ball park figure, but I can say that the Community's estimate is that it exceeds the trade coverage of products in which there will be trade impairment. That gives you an idea of the process.

Incidentally, when we refer to compensation, we are talking about their offering us concessions to offset the concessions they have withdrawn from us, or if we do not accept that as being sufficient, then we must feel free to withdraw concessions. This is compensation from our side.

Now, in looking at this, we feel that there are two approaches. First of all, they must give us general equality based on a fairness test; and two, they should offer compensation to help offset injury on specific products. This in some cases will be very difficult, and we will have some very difficult decisions to make, because they have a total system in the Community of nine in which we will be asking to make adjustments in in order to offset the trade impairment that we have received in the three acceding countries or any particular one.

Where do we come out in this? We don't know yet. I can assure you that we are focusing on it, first of all, to see that we are no worse off than we were before; and two, that we will be insisting that they find some way of helping us out in those areas in which we have a trade impairment.

The problem here is this: If we do not agree and they do not make offers in those specific areas, our alternative is to take compensation on own own. Now, the problem with that is that means we would consider, and I assure you there has been no decision made at this point, withdrawing some concessions, but that does not help the industry that is going to be hurt in exporting to the other countries.

Therefore, there is a strong incentive to try to find agreement. I would judge that sometime in June we would be in a position to know more where we stand and would be getting down to serious discussions based upon all of the analyses.

Mr. SCHNEEBELI. Thank you very much, Ambassador Eberle. My 5 minutes has expired, but I would like to express the hope that we strengthen the GATT and deal further through the GATT and make it the instrument that it should be. Thank you very much.

Ambassador EBERLE. Thank you.

The CHAIRMAN. Mr. Ambassador, before recognizing Mr. Burke, just let me observe, in line with what you have said, that if it is not possible for us to obtain agreement with respect to this matter, it doesn't bode very well for anything being done later on under this legislation. I must frankly suggest that somewhere along the line the failure on their part to agree with you on the compensation that we are entitled to as a result of the expansion of the European Common Market to include Great Britain, Ireland, and Denmark will have an effect on this legislation somewhere along the line.

Ambassador EBERLE. That is a warning?

The CHAIRMAN. Take it for whatever they want to take it for, Mr. Burke.

Mr. BURKE. At the outset, I want to thank Mr. Hickman for bringing to the attention of the committee H.R. 62. I think if there was a doctor out there in the audience taking a test of some people, their blood presure more than likely went up quite a bit.

While you make some recommendations here to correct some of the situations, I don't think you really go far enough, because I don't think you are dealing with these American investors who send their money overseas and earn profits of millions of dollars and keep reinvesting that money in plant expansion over there. Some of them could go on in perpetuity before they would pay any taxes back here. What do you suggest we do about this?

Mr. HICKMAN. Our suggestion was that while it is undoubtedly true that individual companies may, in limited situations, invest abroad when perhaps they could invest at home, on the whole there seems to be a normal amount of repatriation, a normal payout, and that suggests that the amounts retained and reinvested are normal in terms of the business operating abroad.

As you will remember from table No. 1 at the end of the statement, the inflow of capital from these foreign investments is substantially larger than the outflow, so that we feel that on the whole this is helpful to us.

One cannot assume that if we were to stop people from investing abroad that they would automatically come back to the United States and invest a similar amount in something else. We think that is not the way to look at it. So my answer to you, in sum, is that we think that we have done what it is appropriate to do, or we have suggested doing what it is appropriate to do in considering the problem, and that a certain amount of normal reinvestment abroad is to be expected, is good, provides a normal flow of profits back to the United States, and that the situation does not call for more drastic remedies than we have proposed.

Mr. BURKE. Dealing with countries as an incentive on taxes, how many countries are there in the European Common Market that give a tax incentive?

Mr. HICKMAN. Well, we have identified internally some 61 countries who have given incentives that would seem to us might fall afoul

of what we are proposing. I think it is in general true that the more industrialized nations do not do it, but specifically in response to your question, there are regional incentives in Great Britain and there are regional incentives in southern Italy which would be examples of the kind of things that would be covered by our proposals.

Mr. BURKE. Those are the only two countries?

Mr. HICKMAN. Ireland, of course, has major national incentives.

Mr. BURKE. We have to take care of Ireland. I knew they would wind up getting the bad end of the stick someplace.

Now, as to your trade negotiators, how are the people selected to negotiate on behalf of the United States? Who are they? What are the qualifications, and what are the criteria used to select these people?

Ambassador EBERLE. Congressman, that could be interpreted as leading to a self-serving answer.

Mr. BURKE. I am not referring to you. You are highly qualified. I am not talking about you, but you can't sit down at all the negotiations and you certainly have to delegate this power and authority to other people to go out and do the nitty-gritty work. Who are they, and just how are they selected?

Ambassador EBERLE. First of all, I have two deputies, both of whom are confirmed by the Senate, Ambassador Pearce and Ambassador Malmgren. They will be and are directly involved in these negotiations. One is from business. One has had both business and government experience.

Then we have a team which we have been pulling together of both government officials and business people. John Jackson, who is also at this table and will be involved in the negotiations is a recognized trade law expert.

It is a combination of what I would like to put in terms of a hard-headed business approach along with knowing the background, the rules under which we have to operate, as well as bringing in the interest of the public. We will have a broad group of people.

Now, how the specific negotiators are selected is my responsibility. They are selected on the basis of their ability to sit, and there is a lot of sitting in a negotiation, being firm, and the technical ability to do the job of negotiation. It is a judgment issue, and my deputies and I have to make that judgment, but it is on a basis of the experience and competence of people that we can find in industry, government and labor, or in the general public. There will be at the top of these teams probably about 10 key people.

Mr. BURKE. When you say "labor," do you take some officials from the AFL–CIO or some of the other large union organizations, somebody that they recommend, or do you just go out and pick out somebody in the general public and say, "He represents labor"?

Ambassador EBERLE. In this particular case, on our negotiation so far, it has been a member of the Department of Labor, a man who has worked very closely with the various unions, Mr. Blackman. He has been with us on most of these negotiating teams.

Mr. BURKE. This bill is very far-reaching, and you are asking for more powers than any other President ever had. In view of the activity of the negotiators at Geneva, and their track record which created so much disruption in many industries in the country, do you believe there should be some limitations placed on this legislation, particularly as it affects certain disrupted industries?

Ambassador EBERLE. Congressman, there is no question in my mind that there are broad powers being sought. I think, as I tried to point out, that if you analyze each one of these, the real increase in powers is not in the negotiating authorities, because those are very limited. The real increase in powers is on the very items that you refer to, that is the management of the domestic problems, and our right to respond to unfair and unreasonable trade practices.

Specifically addressing your question, I think to try to spell out in advance specific limitations would be a serious handicap to the negotiators. On the nontariff barrier side, the way it is now set up we would bring these back to the Congress. We have opened the threshold both on adjustment assistance and on import relief.

I accept Congressman Ullman's comments about congressional participation. I think we can find a way, and we welcome any ideas you have to participate and to bring the results back to Congress. I think to start putting in tight, strict limitations will open the door for further limitations not only on the domestic side but on the foreign side, which will probably limit the kind of results that you would want from negotiations.

Mr. BURKE. How much time do you think the negotiators are going to need to put this package together?

Ambassador EBERLE. Assuming for the moment that the trade legislation authority would be passed by the end of the year, we will first have to have our public hearings. We are already starting on the computer runs to find out where we stand. We are talking both with Commerce and Agriculture about the broad-based kind of cooperation and inputs needed from industry. We will need inputs from the public generally.

Mr. BURKE. What I am trying to get is an estimate of how many months you think you are going to need to put this package together.

Ambassador EBERLE. I think it will probably be a year from now before we will know what a total package is all about.

Mr. BURKE. Do you think that the package will be ready for presentation? I am not trying to tie you down.

Ambassador EBERLE. The problem I have in answering that question precisely is that we will be moving sector by sector, not reaching a final conclusion until we see more what the total package will be. That is why I don't want you to have the impression that we won't be moving forward during this interim.

Mr. BURKE. Do you think you need 2 years, or 12 months, or what? I am not trying to cut you down in time. I am merely trying to get an estimate of how much time you believe you are going to need.

Ambassador EBERLE. A lot would depend on what kind of political will can be created among the nations this fall as to how fast we can move. My guess is that the commitment to be finished by the fall of 1975 is a realistic commitment as far as the negotiations themselves. Then there will be the question of what we bring back to the Congress and how long we need to implement it on this side.

It is that kind of approach that we think is realistic, building into it the fact that there will be some slippage in all of these dates. You set them and yet you know there will be slippage.

Mr. BURKE. In other words, you feel that Congress won't really get a look at this to act on it in time to reject this if they feel like rejecting it until the fall of 1975?

Ambassador EBERLE. I think you will get some pieces of it in advance. As far as I am concerned, I can assure you that you will know, and we go along, the pieces of this, because I am not about to be negotiating something unless I feel that we have some support here and that we can bring it back to the bargaining table. The only way I can do that is to work closely with Congress.

Mr. BURKE. In view of your answer, don't you think that the time should be extended for Congress to have an opportunity to look over what they have done? Ninety days seems to be a short period.

Ambassador EBERLE. First of all, hopefully you will be participating. You have 90 days to look at the subject of our agreement and 90 days after it is signed and brought back. This will not be the total package, but probably segments of the package. You will not be hit by it all at one time. If we were to bring back a total package, my judgment would be that we would not bring it back under the veto procedure. It would be too short a time. We would not imposed that on Congress. The intent under this veto procedure is to bring back the segments one at a time.

Mr. BURKE. In other words, what Congress can expect is that these things are going to come back in piecemeal fashion.

Ambassador EBERLE. I think you can expect to have it both ways. You will get some portions back in piecemeal, and at the end I am sure you will get a broader package.

Mr. BURKE. My time is up. Thank you.

The CHAIRMAN. Mr. Collier will inquire.

Mr. COLLIER. On page 7 of your statement, you say:

> We also invite Congress to establish better mechanisms for liaison and cooperation between the Executive and Legislative branches in the trade policy area.

I am sure this is desirable, but it moves on without any specifics.

Naturally, I am curious to know just exactly what is implied in this statement. What mechanisms do you recommend, and how would they be implemented in carrying out a trade policy on a cooperative basis?

Ambassador EBERLE. First of all, our intent was to invite Congress deliberately to be the initiator of these ideas so that we could best get your input. In my opening comments, I did welcome Chairman Mills' and Senator Long's bill to set up a joint committee with a professional staff that would work directly with us. I think that has tremendous merit.

We are prepared to work with either the staff or Congressmen as members of the team, but I think the important thing is that we have several layers of contact. One is a part of the team; two, a reporting process; and three, a consulting process. With this partnership we are going to need all three. And then, of course, presenting these nontariff barriers either through the veto procedure or through legislation will be an important factor.

I think you will see partnership at all levels. What we need to know is, recognizing the full-time responsibility that Congress has, how can we best do this. I think the professional staff, the consultants, all of these will be part of the procedure. All we want to do is work out what is best for the people who are responsible in Congress now, like yourselves.

Mr. COLLIER. Well, the fact remains that there was somewhat of a void in this area from the time the 1962 act was passed, and I under-

stand that there was a similar void with regard to any liaison or cooperation between our negotiators and American industry, which was not true, certainly, in the case of Japan and some of the other nations.

I suppose you might say we gave the executive a blank check. In doing so Congress merely at that point extricated itself from maintaining any relationship with what we were negotiating. Obviously, they didn't do a very good job of using the authority that was granted in dealing with the nontariff barriers because they plague us still, after 5 years of negotiating. I sometimes wonder whether any real, concentrated effort was made to use the authority that was granted to deal with the problems of nontariff barriers and so-called unfair trade practices.

Ambassador EBERLE. Congressman, I think there are three separate questions there.

First of all, insofar as Congress is concerned, I think our best bet is to have this combination of somebody from your staff working directly with us, so that you can be informed, and a responsibility on our part to consult with you and bring back portions of the negotiations. I think that can be worked out as we move these trade bill discussions along.

I think Chairman Mills' bill is an important contribution.

Second, insofar as industry and agriculture are concerned, we are in direct contact. Ambassador Pearce and I met this week with the top leaders of all farm groups. We are in the process of doing the same with business to work out a system to get an input first at a policy level, and during the negotiations at a technical level.

We are going to do our best to find that system, and we are going to try to find something that would implement it. We expect to find a method to have a public input and we think that should be added in this bill.

Insofar as the NTB's are concerned, I think there were two things: First of all, the NTB's were not thought to be important by any of our trading partners; and two, they are a much more difficult problem to solve. I think they got left pretty much to the end of the discussion and time ran out and they didn't get focused on. Agriculture is a good case in point.

Mr. COLLIER. I think this is probably one of the most important aspects of this, because we are really faced, as you well know, with a sort of a dilemma. The Constitution very clearly prescribes that it is the function of the Congress to establish duties and tariffs. As a practical matter, however, it is basically impossible for a legislative body to negotiate to do what is implied in the Constitution. Yet we still have this responsibility, and I thnk it must be discharged, rather than simply abdicating the constitutional authority which is written into the Constitution as it deals with the responsibilities of Congress in dealing with trade matters.

Ambassador EBERLE. Ambassador Pearce would like to answer that one.

Ambassador PEARCE. I at least would like to try a response.

We have a dilemma, too, Mr. Collier, and that is this: that we regard NTB's as of great importance and growing importance.

Mr. COLLIER. Excuse me. My 5 minutes are up. You are on your own time now.

Ambassador PEARCE. Mr. Chairman, unless we can bring NTB's under international rules, we are going to lose the benefits that we have achieved over six rounds of tariff negotiations. We can't ask you for an advance grant of authority to do away with NTB's; in most cases they are linked in very subtle ways to all sorts of domestic legislation.

Even if you are willing to give us that authority, it is doubtful that it would be constitutional, and we do not expect that you are willing to give us that authority.

On the other hand, our trading partners are reluctant to negotiate with us until they have some assurance that agreements can be implemented, and implemented rather promptly. After all, when you put an offer on the table, you spend some political capital. You are offering to expose some part of the domestic economy to competition it hasn't had before, whether it is a tariff negotiation or NTB negotiation. No country is willing to do that—ourselves included—unless when we make an offer we have reasonable chance that, if accepted, it will result in agreement—and fairly soon.

Our past experience implementing agreements negotiated without advance congressional authority has not been particularly good. That is why we are getting a good deal of pressure from others we are trying to negotiate with to resolve this constitutional problem and conflict before the negotiation begins.

Now, the veto procedure, which is optional, is designed to accommodate that conflict, to give us some negotiating credibility on the one hand, and to assure that Congress has the opportunity to exercise its constitutional prerogative on the other.

We notify you at least 90 days in advance of concluding an agreement to give you the opportunity to consider what it is that we are talking about. In the consultative process—the kind implied by the chairman's bill—that 90 days can be used very effectively to get an expression of the views of the Congress. We would expect to heed those views.

And if they are negotiable, we would expect that the agreement that we bring back to you would be broadly responsive to the national interest as the Congress has expressed it to us. We would expect to be able to implement that agreement after the 90-day waiting period for that reason, even if it is opposed by a special-interest group.

Now, we don't know a better way to reconcile these differences. If we want an NTB negotiation, and we think it is of enormous importance, we have to resolve this conflict some way. We have spent many months trying to find a way that would provide you with what you need to discharge your responsibility, and to provide us the credibility we need in the way of assurance to conduct an effective negotiation.

Having said that, we are most anxious to get a response of the Congress and see if there is, indeed, a better way to do it.

The CHAIRMAN. Mrs. Griffiths will inquire.

Mrs. GRIFFITHS. Thank you, Mr. Chairman.

Before we give away the power to tax, I would like to understand just how you are going to do it. I want to know when you are going to issue these rules and regulations on this foreign tax investment incentive, and how you are going to issue them.

Mr. HICKMAN. The expectation is that they would be issued as regulations dealing with broad categories of items, sorting out certain kinds of things that are clearly tax incentives, identifying certain other things that are not, and then, as in the case of any regulation, there are always large gray areas where the application of the principle to a particular set of facts is unclear, just as we have today throughout the administration of our Internal Revenue Service and Tax Code, and in those areas the Internal Revenue Service would rule as to whether or not the kind of incentive that we had presented was sufficiently broad to fall within these categories.

The reason that we have not tried to be more specific about exactly what one would pick up and what one would not pick up is that if one builds a line that is very specific, then everybody will design his transaction right up to the very edge of that line and we cannot at this point imagine all of the variations that countries will develop to get around the broad intent of the statute.

Mrs. GRIFFITHS. You are not going to levy a tax on any American where you promulgate the rules after the transaction has taken place. Why do you think the power to tax is a negotiating tool?

Mr. HICKMAN. I did not suggest that it was.

Mrs. GRIFFITHS. Then what do you want it for?

Mr. HICKMAN. I am not suggesting that you give us the power to tax.

Mrs. GRIFFITHS. You are suggesting it. I am very fascinated with this little business of "Such a benefit may be provided by law regulation, or individually negotiated arrangements."

Mr. HICKMAN. I am sorry. You misunderstand what I meant there. All we were saying was that the things that we are directing ourselves to in a foreign country are things which the company may have obtained abroad under a foreign law, regulation, or individually negotiated arrangement with the foreign country.

Mrs. GRIFFITHS. I understand exactly. In other words, a company could go into a country and negotiate a deal with that country that you have never even thought of, and you want the right now to decide whether or not you are going to levy a tax on that deal.

I have thought of one. The Secretary came in here with that suggestion on the tax revision in which hereafter we are going to tax those people who take an American plant abroad and sell none of the product in that country but sell it all back in the American market, as I recall. Now, you are going to be dealing with Communist countries. Supposing that country said, "All we want in tax is 60 percent of the gross, but we will supply the harbor." What are you going to do?

Mr. HICKMAN. I thank we would have to study the factual situation and see whether it fell within these general principles. I am afraid I don't get the drift of your question.

Mrs. GRIFFITHS. Well, if they are going to tax 60 percent of the gross, that is a heavier tax than anybody else is taxing.

Mr. HICKMAN. That depends.

Mrs. GRIFFITHS. But they are defeating your whole setup by supplying the labor. They would be defeating the whole thing. What I want to know is, why you think you are more competent to figure this out than we are.

Mr. HICKMAN. I don't believe that we are.

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Mrs. GRIFFITHS. Well, I don't either.

Mr. HICKMAN. I think that no one can write these things other than as general rules. We can, and we intend to, set out some general rules describing things that would be bad, and that is what has happened throughout the Internal Revenue Code; that you do not try and we do not try in advance to identify every single situation one way or the other. We set out some general rules and then we look to see how they fit particular instances.

Mrs. GRIFFITHS. But this thing is of no real value to you, in my judgment, as a negotiating tool unless the way you plan right now to use it is to give a company a tax break. If you are going to tell them ahead of time, "You tell us what the deal is and we will tell you whether we are going to levy the tax," they would appeal it if you levied the tax on any ex post facto law.

So as far as I am concerned, you may go back down to the White House and tell them that I am not going to vote for this, and I am going to use all the power I can to see that this never gets into the law. We may delegate everything else up here, but the tax power is going to be delegated last.

The CHAIRMAN. That is about all we have left, isn't it, Mrs. Griffiths?

Mrs. GRIFFITHS. We are keeping it.

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. I have no questions at the present time, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

I would like to touch upon one of the problems that we have faced for a long while in this matter of trade where the Nation generally may not have a trade problem with a foreign country, but a section of the country, like the west coast, might have, as we have had in the past with the steel industry.

Do you think that we will be able, under the proposals that have been made in this legislation, to equalize out the trading imbalances in regions of the country, as in the illustration that I have given about steel?

Ambassador EBERLE. Congressman, I would be optimistic and say yes, but I don't know what the problem may be. I think the answer is that the tools that we will have under this legislation certainly give us the opportunity to face most of the problems that we know today. I can't anticipate the problems.

The important thing is that by lowering the threshold to eligibility for import relief, we can get at these problems, and then through the use of the variety of techniques in giving import relief, we should be able to solve that kind of problem.

Mr. PETTIS. Let me touch upon another aspect of the proposed legislation.

I suppose that unemployment that would result from a cutback in steel production, say, on the west coast as a result of heavy importation of steel would bring into play the benefits in this legislation, even though the steel industry generally in the United States might not be hurt at all.

Let's say that steel generally throughout the United States might be in a growing market because of a lack of the same kind of a prob-

lem that we have on the west coast. The importation of steel in general in the United States has been about 12 or 15 percent of the market, whereas on the west coast it has been more than double that.

Is there any provision in the legislation which would cover that kind of problem, say, in unemployment?

Ambassador EBERLE. Certainly on the unemployment side there is provision for getting at that problem.

Let me focus quickly. The west coast had a particular problem in the past years because of the terribly undervalued yen.

When different sections of the country are being hit, a lot depends on having a better adjustment mechanism on the monetary side. If the Japanese had been selling at 25 to 35 percent higher prices, which they are today, they wouldn't be hitting any particular segment of the market.

I think there are a number of ways we get at this problem through the monetary provisions in the trade bill. Hopefully, we will have a better monetary system, and then we also have both the import relief and the adjustment assistance sections in the bill. I would feel much more comfortable under the proposed bill that we could solve through some combination of measures than we could today.

Mr. PETTIS. I think you are saying, then, that even though the industry, namely, the steel industry in the illustration that I have given, might not be particularly harmed, a segment such as the west coast steel industry being harmed could take advantage of these provisions?

Ambassador EBERLE. I thing, one, the worker benefits very clearly, and two, page 22 of the bill, section 202(d), has a provision for examination of geographic concentration and its impact. Again I have to say I think so.

Mr. PETTIS. I will examine that closely, too.

Thank you, Mr. Chairman.

Thank you, Mr. Eberle.

The CHAIRMAN. Mr. Rostenkowski will inquire.

Mr. ROSTENKOWSKI. Thank you, Mr. Chairman.

I would like to ask a question of Mr. Hickman.

In the section of the administration's bill concerning foreign investment and taxation, you suggest that earnings from future U.S. investment in those countries that offer tax holidays should be taxed to U.S. shareholders as earned, and not as is the present case, when they are finally remitted to the shareholders.

Although I certainly agree with the administration's logic that we must minimize the number of situations where for pure tax considerations it is more profitable for U.S. business to go abroad, I would like to inquire as a point of information what countries would be most adversely affected by this tax holiday provision, and to what extent do they rely on using these tax incentives to keep their economy functioning.

Would this provision be in more countries with developed and highly diversified economies, or would it be more inclined to hurt those nations to whom the U.S. investment is essential to their economic well-being?

Mr. HICKMAN. I don't think, Congressman, that it is possible to identify just which countries would be hurt in which ways, because we are dealing with the future, and we do not know what would hap-

pen in the absence of legislation of the sort that we are talking about, whether countries would rely on this, whether other devices would be used, or whether they need these things.

But it is true that these tax inducements have become fairly widespread, and may become more widespread in places where they do not now exist. They exist not only in the developed countries but also in the less developed countries.

With respect to the less developed countries, we have, indeed with respect to all of them, suggested that the right to permit those incentives to stay in place could be provided by treaty, and we now provide for a variety of things.

We negotiate a treaty and come back for approval, and the Senate does or does not ratify it, as the case may be.

But the intent of the proposal for treaty exceptions was to permit some flexibility to deal with the situations where in less developed countries these things are important, and where it does not have a major impact upon our own overall policy—for example, plants that deal with markets in those less developed countries.

So I simply cannot be specific, because there are too many variations and too many different factual situations.

There are at the present time some countries that do rely on this technique heavily, and they would have to take account of it in their national policies.

Mr. ROSTENKOWSKI. It is certainly not our purpose to injure those countries, is it, Mr. Hickman?

Mr. HICKMAN. I think we are not out to injure any country. What we are trying to do is to remove the distortions created by the tax system. It is only in this area that we are dealing. We have tried to keep flexibility in the situation so that we could work out things that won't injure countries.

Mr. ROSTENKOWSKI. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman.

Could one of you give us the number of imports which are noncompetitive, for example, coffee or bananas and some minerals?

Ambassador EBERLE. On a ball park basis, subject to giving you the final figures which we will supply to you later on, about 50 percent of our imports are competitive.

Mr. DUNCAN. Fifty percent of imports are noncompetitive?

Ambassador EBERLE. About that.

Mr. DUNCAN. Which is the larger of the noncompetitive items?

Ambassador EBERLE. I suppose the tropical products would be the largest. We will have the exact breakdown for you.

[The information requested follows:]

COMPETITIVE VERSUS NONCOMPETITIVE IMPORTS

The following table lists the major non-competitive products which were imported into the United States in 1972. The criteria for determining whether a product is "competitive" are the same as those used in supplying similar information for the Committee in its hearings in 1970 (Hearings Before the Committee on Ways and Means, House of Representatives, on Tariff and Trade Proposals, Part 1 of 16 Parts, May 11, 1970, pages 102–106). Goods deemed to be non-competitive are either not produced in the United States or, for various reasons, are not produced in sufficient quantities to meet demand. Special category items, many

of which are non-competitive, receive special treatment in the tariff and have been listed separately from the competitive-noncompetitive categories.

For convenience, the list of non-competitive imports has been prepared in the order of the Tariff Schedules of the United States (TSUS), first by schedule and then by the parts of each schedule. Totals have been calculated for each part of the schedules, but to reduce the length of the lists, only the most important products by trade volume have been listed under each part. Any item with less than $1 million of imports has been included in the total for the "part" of the schedule but is not listed thereunder.

In the preparation of the list, the Office of the Special Representative for Trade Negotiations had the assistance of the Tariff Commission in reviewing the competitive position of imported products. However, assignment of particular products to the competitive status indicated in the lists has been made by the Office of the Special Representative for Trade Negotiations.

A summary of U.S. imports for 1972 recorded on the noncompetitive and special category lists plus the residual or competitive import total follows:

[Dollar amounts in millions]

	Amount	Percent
Total imports for consumption	$55,282	100.0
Noncompetitive imports, total	18,689	33.8
Not produced in the United States	4,213	7.6
Not available in sufficient quantities	14,476	26.2
Special category items	7,538	13.6
Competitive imports	29,055	52.6

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
1-1	Live animals	1,519	727
1-2	Meats	61,106	18,526
	Mutton		17,510
	Frog meat	3,609	
	Horse meat		1,016
	Corned beef	51,420	
	Meat extract	5,093	
1-3	Fish and shellfish	29,410	1,035,484
	Smelts		1,969
	Tuna		163,655
	Sea herring		2,606
	Fresh-water fish		11,006
	Halibut		10,792
	Salmon		11,941
	Scaled fish		2,888
	Fish blocks		140,979
	Wolf fish		3,953
	Fresh-water fish		11,506
	Flat fish except halibut		45,587
	Halibut		8,212
	Dried fish	1,440	
	Salted or pickled cod	18,432	
	Salted or pickled herring		4,489
	Anchovies	8,144	
	Bonito		7,778
	Herring		6,009
	Salmon		8,039
	Tuna		49,061
	Fish roe		1,850
	Fish and fish products, n.s.p.f		39,125
	Tuna loins		6,489
	Clams, not processed		1,348
	Crabs, processed		9,646
	Oysters, canned		12,734
	Oysters, not processed		2,079
	Other shellfish		14,751
	Lobsters		162,584
	Scallops		36,194
	Shrimp, not processed		151,906
	Shrimp, canned		1,118
	Shrimp, processed other than canned		97,307
	Oyster juice in airtight containers	1,029	
1-4	Dairy products birds eggs	22,196	
	Sheep's milk cheese (except roquefort)	18,019	
	Roquefort chesse	3,889	

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
1-5	Hides, skins, and leather; furskins	6,510	80,329
	Buffalo hides	1,363	
	Equine hides		1,999
	Sheep and lambskins without wool		45,084
	Goat and kidskins		5,392
	Miscellaneous hides and skins		2,003
	Caracul and persian lamb furskins	2,586	
	Beaver furskins		1,043
	Fox furskins		6,829
	Hare and rabbit furskins		3,898
	Sable furskins	1,761	
	Miscellaneous furskins		10,657
1-6	Live plants; seeds	4,519	32,644
	Tulip bulbs		8,058
	Hyacinth bulbs	2,687	
	Narcissus		2,040
	Gladiolus corms		1,112
	Begonia tubers		1,116
	Bulbs and herbaceous perennials, n.s.p.f.		3,669
	Celery seed	1,047	
	Red clover seed		1,579
	Sweet clover seed		1,111
	Creepingred fescue seed		3,890
	Flower seed		1,972
	Grass seed nspf		1,924
	Miscellaneous garden seeds		2,337
1-7	Cereal grains, milled grained products, and malts and starches	6,111	567
	Tapioca, cassava flour and starch	6,111	
1-8	Vegetables	7,900	10,163
	Dasheens		2,334
	Turnips		4,086
	Chickpeas, dried		1,209
	Onions, preserved		1,781
	Water chesnuts	2,854	
	Mushrooms, dried	4,733	
1-9	Edible nuts and fruits	317,831	81,977
	Chesnuts	3,817	1,063
	Coconuts, whole		1,063
	Certain imported nuts	106,045	
	Filbert nuts, shelled		3,235
	Bananas and plantains	193,253	
	Blueberries		4,399
	Mandarin oranges, canned	17,710	
	Dates		2,787
	Mangoes		1,821
	Olives		50,475
	Pineapple, fresh		1,668
	Fruit mixtures		3,346
	Jellies, jams, marmalades, and fruit butter		3,505
	Other glac'e fruit, except cherries		1,182

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
1-10	Sugar, cocoa; confectionery	150,685	894,612
	Sugar		824,467
	Edible molasses		1,156
	Feed and industrial molasses		53,812
	Maple sugar and syrup		6,276
	Honey		8,900
	Cocoa beans	150,685	
1-11	Coffee, tea, mate, and spices	1,291,753	15,756
	Coffee, crude	1,181,433	
	Tea	62,827	
	Caraway	3,113	
	Cassia, not ground	4,698	
	Cinnamon, not ground	1,908	
	Cloves, not ground	4,153	
	Cummin	1,913	
	Ginger root, not ground, not candied or preserved	1,812	
	Mustard seeds, whole		4,982
	Nutmegs, not ground	1,485	
	Origanum	1,074	
	Paprika		5,182
	Pepper, unground	21,072	
	Pepper, capsicum, cayenne, or red		4,514
	Pimento, not ground	1,101	
	Sage, not ground	1,127	
1-12	Beverages	262,452	79,127
	Lime juice		2,024
	Rice wine		5,758
	Vermuth		13,812
	Bitters		1,040
	Brandy		20,307
	Cordials and liquers		36,188
	Whiskey, Scotch and Irish in containers 1 gallon or less	225,232	
	Whiskey, Scotch and Irish in containers over 1 gallon	37,214	
1-13	Tobacco and tobacco products	-	129,491
	Other filler tobacco		35,433
	Cigarette leaf, not stem, oriental or turkish		92,995
	Cigarette leaf, not stemmed, n.e.s., except Philippine		1,063
1-14	Animal and vegetable oils, fats, and greases	117,451	85,377
	Copra	25,607	
	Poppy seed	1,782	
	Sesame seed	8,249	
	Castor oil		17,608
	Coconut oil, special		62,644
	Olive oil	26,030	
	Palm-kernel oil	12,080	
	Palm oil	38,739	
	Rupeseed oil	1,394	
	Tung oil		2,105
	Wool grease		2,224

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972	
		Products not produced in the United States (or produced in only negligible quantities)	Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
1-15	Other animal and vegetable products	60,846	168,967
	Seaweed for human food	1,070	
	Wild rice		1,748
	Wheat gluten		8,085
	Brewers and distillers grains and malt sprouts		6,228
	Screenings		4,960
	Tankage, canned fish, etc.		5,606
	Fishmeal		51,627
	Meat unfit for human consumption		6,862
	Feathers, nspf		4,792
	Downs		9,822
	Bristles		13,283
	Miscellaneous animal hair		4,881
	Cattle tail and body hair		1,401
	Lac	3,927	
	Chicle	4,109	
	Other gums	28,207	
	Catgut, wormgut etc.		1,449
	Fish or shell fish, live, not for human consumption		5,938
	Animal substances, crude, nspf		8,280
	Seaweeds		2,597
	Christmas trees		4,161
	Hops, extract, lupulin		13,143
	Licorice root	4,077	
	Istle processed	2,736	
	Fibrous vegetable substances nspf - crud	2,319	
	Fibrous vegetable substances nspf - processed		2,161
	Vanilla beans	11,231	
	Vegetable substances, nspf		6,924

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972	
		Products not produced in the United States (or produced in only negligible quantities)	Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
2-1	Wood and wood products		63,581
	Brierroot	1,131	
	Wood shingles and shakes	1,131	
			63,581
2-2	Cork and cork products	32,998	-
	Natural cork and cork waste	2,158	
	Cork insulation	1,966	
	Disks, wafers, stoppers, etc	3,152	
	Bamboo or rattan sticks	1,520	
	Rattan and webbing	3,362	
	Baskets and bags	11,521	
	Articles, n.s.p.f., of unspun fibrous vegetable materials	7,443	
2-3	Wood veneers, plywood, and other wood veneer assemblies and building boards	-	336,846
	Hardwood plywood		336,846
2-4	Paper, paperboard, and products thereof	1,710	1,522,403
	Woodpulp and other papermaking materials		466,254
	Standard newsprint		1,056,144
2-5	Books, pamphlets, and other printed and manuscript material	6,018	10,145
	Tourist literature		4,757
	Printed catalogs, foreign		5,387
	Postage stamps	6,017	

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
3-1	Textile fibers and wastes, yarns and threads	85,186	35,207
	Cotton linters		1,625
	Abaca	6,169	
	Flax	2,038	
	Jute	3,645	
	Kapok	4,426	
	Sisal and henequen	5,629	
	Coir yarn and roving	1,111	
	Flax, hemp, or ramie yarns and roving	2,812	
	Jute yarns and roving	2,238	
	Wool of the sheep-duty free	43,330	
	Wool noils		11,576
	Wool of the sheep-dutiable		20,114
	Hair of the alpaca, vicuna, and like animals	1,062	
	Hair of the cashmere goat and like hair of other animals	2,928	
	Wool yarns, colored, not over 3 inches, etc.	3,844	
	Angora rabbit hair yarns		1,156
	Raw silk	4,512	
3-2	Cordage	-	-
3-3	Woven fabrics	275,447	2,405
	Woven fabrics of vegetable fibers (except cotton)	233,169	
	Jute webbing		1,482
	Cotton-bale covering, other (other than bags)	41,906	
3-4	Fabrics of special construction or for special purposes; articles of wadding or felt; fish nets; machine clothing	-	-
3-5	Textile furnishings	36,220	22,492
	Floor coverings, pile, hand-made	27,294	
	Machine-woven or knitted pile floor coverings, of cotton		5,394
	Machine-woven or knitted pile floor coverings of coir or jute		1,026
	Braided floor coverings		13,072
	Tapestries	8,889	
	Total		
3-6	Wearing apparel and accessories	4,692	-
	Silk scarves and mufflers	4,692	
3-7	Miscellaneous textile products; rags and scrap cordage	-	1,915
	Scrap cordage and bagging and sugar sack fabric		1,915

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
4-1	Benzenoid chemicals and products	2,002	-
	Primidone	1,095	
4-2	Chemical elements, inorganic and organic compounds and mixtures	20,521	134,045
	Acetylene black		1,581
	Iodine, crude		10,184
	Trioxide (arsenious acid)		1,956
	Other manganese compounds		1,670
	Nickel oxide	12,027	
	Sodium sulfate, crude		4,082
	Uranium compounds		105,147
	Dicyandiamide	3,353	
	Other amidines		3,767
	Chloroacetic acid (mono only)		3,710
4-3	Drugs and related products	7,105	33,356
	Aconite, etc., crude	1,082	
	Opium (anhydrous morphine content)	3,618	
	Hormones		32,747
4-4	Synthetic resins plastics materials; rubber	196,177	-
	Gutta-percha and guttas, n.s.p.f	2,777	
	Jelutong	2,493	
	Natural rubber latex	29,780	
	Natural rubber, dry form	160,594	
4-5	Flavoring extracts; essential oils	22,464	8,829
	Bergamot	1,602	
	Citronella	2,450	
	Clove		2,539
	Geranium	2,867	
	Lavender and spike lavender	1,498	
	Lime		6,043
	Patchouli	1,770	
	Rose	1,542	
	Sandalwood	2,179	
	Vetivert	1,910	
	Ylang ylang	1,074	
4-6	Glue, gelatin, and related products	279	13,800
	Agar		2,152
	Glue stock		11,648
4-7	Aromatic or odoriferous substances; perfumery, cosmetics, and toilet preparations	4,363	
	Enfleurage greases	4,084	
4-8	Surface-active agents; soap and synthetic detergents		

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972	
		Products not produced in the United States (or produced in only negligible quantities)	Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
4-9	Dyeing and tanning products; pigments and pigment-like materials; inks, paints, and related products	2,734	35,689
	Dyeing and tanning products		11,769
	Barium sulfate, crude		5,648
	Chrome yellow		3,809
	Ferricyanide and ferrocyanide blues		1,651
	Synthetic iron oxides and hydroxides		7,602
	Ultramarine blue	2,322	
4-10	Petroleum, natural gas, and products derived therefrom	-	4,731,779
	Crude petroleum		2,369,176
	Unfinished oil		223,431
	Distillate fuel oil		254,530
	Residual fuel		1,170,172
	Liquefied propane gas		36,537
	Other liquefied petroleum gases		36,803
	Natural gas		403,360
	Jet fuel		223,084
	Naphthas, other		14,686
4-11	Fertilizers and fertilizer materials	1,584	125,802
	Calcium nitrate		1,093
	Sodium nitrate		3,865
	Potassium chloride		116,651
	Potassium nitrate, crude		1,673
	Other nitrogen fertilizers		1,710
	Potassic nitrate-sodium nitrate mixtures	1,447	
4-12	Explosives	-	-
4-13	Fatty substances, camphor, chars and carbons, isotopes, waxes, and other products	52,457	15,537
	Casein	45,631	
	Pyrethrum, advanced		8,655
	Beeswax, unbleached		1,909
	Candelilla wax	1,849	
	Carnauba wax	3,739	
	Montan wax		1,555
	Other mineral waxes		3,137

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972	
		Products not produced in the United States (or produced in only negligible quantities)	Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
5-1	Nonmetallic minerals and products, except ceramic products and glass and glass products	393,348	407,021
	Crude precious and semiprecious stones, and articles thereof	345,940	
	Industrial diamonds, natural	47,408	
	Precious and semiprecious stones, cut but not set		340,736
	Calcined bauxite		12,362
	Fluorspar		47,851
	Natural mineral fluxes		6,072
5-2	Ceramic products	64	87,703
	Mosaic tiles		15,642
	Art and ornamental earthenware		72,061
5-3	Glass and glass products	-	13,565
	Glass chandelier parts		9,481
	Christmas ornaments of glass		4,084

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972	
		Products not produced in the United States (or produced in only negligible quantities)	Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
6-1 and 2	Metal bearing ores, metals, their alloys, and their basic shapes and forms	328,754	1,952,859
	Chrome ore	27,627	
	Columbian and tantalum ores	4,590	
	Materials containing 10% or more of nickel	57,085	
	Platinum group ore and metals	148,480	
	Rutile	27,327	
	Titanium slag	7,504	
	Unwrought cobalt	30,650	
	Antimony ore		11,754
	Bauxite		151,012
	Iron ore		415,934
	Manganese ore		34,346
	Gold in crude and unwrought forms and scrap		357,689
	Silver in ore and metal		59,948
	Tin, unwrought, including ore		211,820
	Tungsten ore		12,319
	Unmanufactured lead		76,291
	Unmanufactured zinc		202,857
	Ferronickel		35,857
	Unwrought nickel		348,451
	Bismuth		6,090
	Mercury		6,211
	Metal coins, n.s.p.f.	25,491	
6-3	Metal products	2,519	-
	Handsewing or darning needles	2,519	
6-4	Machinery and mechanical equipment	-	-
6-5	Electrical machinery and equipment	-	-
6-6	Transportation equipment	-	-

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
7-1	Footwear, headware, and hat braids; gloves, luggage, handbags, billfolds, and other flat goods	8,821	101,853
	Zoris	3,510	
	Headwear of vegetable fibers; not sewed	3,258	
	Nonelastic hat braid	1,898	
	Knit headwear		3,290
	Cloth headwear		6,008
	Headwear of fur not on the skin (so called fur felt)		1,573
	Gloves of rubber or plastics: with textile fabric fourchettes or sidewalls		12,442
	Other gloves of rubber or plastic		1,169
	Flat goods		19,695
	Luggage		56,062
7-2	Optical goods; scientific and professional instruments; watches, clocks, and timing devices; photographic goods, motion pictures; recordings and recording media	97,189	343,068
	Still cameras and enlargers with lens chief value, and other still cameras	96,052	
	Medical, dental, surgical and veterinary instruments and parts		48,033
	Apparatus for measuring, checking or automatic control of liquid or gases, or automatic control of temperature		19,329
	Still and motion picture projectors, and parts of projectors		11,888
	Photographic sensitized films and plates		105,925
	Photographic and heat sensitive papers		26,368
	Exposed motion-picture film, recorded video tape, and related sound recordings		14,736
	Phonograph records, sound recordings on wire or magnetic tape or other medium		11,097
	Magnetic recording media		30,193
7-3	Musical instruments, parts, and accessories	10,625	55,784
	Violins, violas, violoncellos, and double basses	1,730	
	Other musical instruments	8,629	
	Wind musical instruments (except wood-wind and brass wind instruments)		7,811
	Percussion musical instruments		7,642
	Musical instrument parts and accessories		24,663
	Electronic musical instruments		15,668
7-4	Furniture; pillows, cushions, and mattresses, and similar furnishings	-	327,623
	Furniture and parts		321,080
7-5	Arms and ammunition; fishing tackle; wheel goods; sporting goods, games, and toys	24,023	591,392
	Badminton equipment and parts	4,117	
	Baseball gloves and mitts	17,947	
	Arms and ammunition		85,023
	Fishing tackle and equipment		59,978
	Bicycles and parts of bicycles		279,183
	Game machines		18,767

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972: Products not produced in the United States (or produced in only negligible quantities)	U.S. imports in 1972: Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
	Baseballs and softballs		10,122
	Golf balls, golf equipment and parts		11,878
	Ice-hockey and field-hockey equipment and parts		14,401
	Tennis rackets		10,421
	Footwear with ice-skates permanently attached		9,174
	Skis and snowshoes		28,637
	Other snow sports equipment and parts		21,046
	Puzzles; games, sport, playground equipment and parts		17,566
	Models		21,097
7-6	Jewelry and related articles; cameos; natural, cultured, and imitation pearls; imitation gemstones; beads and articles of beads	8,186	108,290
	Pearls	8,186	
	Jewelry and related articles		81,897
	Cameos, coral, imitation pearls and gemstones; beads and articles of beads		24,179
7-7	Buttons, buckles, pins, and other fastening devices; artificial and preserved flowers and foliage; millinery ornaments; trimmings; and feather products	-	52,168
	Buttons, button blanks and molds		12,247
	Slide fasteners and parts		14,394
	Buckles, pins, clasps, and parts		12,969
	Artificial flowers, trees, fruits, etc		6,506
	Cut natural flowers		5,352
7-8	Combs, hair ornaments; brooms and brushes; paint rollers; umbrellas and canes	-	18,477
	Combs and hair ornaments		5,372
	Brooms and brushes of broom corn		1,519
	Toilet brushes, except tooth brushes		5,326
	Other brooms and brushes		6,417
7-9	Matches and pyrotechnics; candles; blasting caps; smokers articles	-	20,960
	Matches		2,598
	Cigarette lighters and parts		18,292
7-10	Pens, pencils, leads, crayons and chalk	-	14,554
	Fountain and ball point pens and pencils		3,474
	Marking pens		5,523
	Pen point holders, pen points, and other pen and pencil parts		1,847
	Cased pencils and pencils n.s.p.f		1,668
	Crayons, pencil leads, billiard chalk and tailor's chalk		2,042
7-11	Works of art; antiques	241,433	-
7-12	Rubber and plastics products	-	571,732
	Film sheets, blocks, and profile shapes of rubber or plastics		85,194
	Rubber and plastic tableware, kitchenware, and houseware		30,513

Products not produced in the United States or not available from domestic sources in sufficient quantities

TSUS reference (Sch.-Part)	Product	U.S. imports in 1972	
		Products not produced in the United States (or produced in only negligible quantities)	Products not available in sufficient quantities
		1,000 dollars	1,000 dollars
	Containers and closures of rubber or plastics		14,761
	Wearing apparel of rubber or plastics		27,610
	Furnishings of rubber or plastics		14,404
	Passenger car tires		194,770
	Truck, bus, and tractor tires		116,686
	Tubes, other		10,389
	Hose, pipe, and tubing		24,559
	Gaskets, of rubber or plastics		15,411
7-13	Products not elsewhere enumerated	330	81,287
	Casters		2,066
	Harness, saddles, and saddlery, and parts thereof		8,023
	Incense		1,648
	Pneumatic mattresses		17,142
	Planting pots in part of peat moss		2,230
	Sheets, strips, tapes, monograms, and other flat shapes or forms containing ballotini, or pressure sensitive		12,133
	Wigs, toupees, chignons, and similar articles		87,577
	Wearing apparel n.s.p.f., of fur on the skin		6,251
	Articles n.s.p.f., of fur on the skin		1,163
	Leather straps and strops		1,978
	Leather apparel belts		8,956
	Articles of apparel not elsewhere enumerated		9,497
	Articles of gelating, glue, or combinations thereof		3,109
	Articles of shell		1,526
	Articles of ivory		1,255
	Waste and scrap not specifically provided for		2,180
7-14	Nonenumerated products	4,357	

List III.—Special category items: U.S. imports 1972

	Millions
U.S. articles returned without being advanced in value	$1,116
U.S. articles returned as components of articles assembled abroad (value of U.S.-made components of article imported under tariff items 806.30 and 807.00	868
Act	5,095
Articles imported from Canada under the Automotive Products Trade Act	5,095
U.S. articles exported for repair or alteration (value of repair or alteration)	38
U.S. photographic film exposed abroad and returned	1
Records of business, engineering or exploration operations conducted outside the United States	4
Articles for religious institutions	2
Articles for public or nonprofit institutions	14
Articles for exhibition	3
Visual and auditory material of an educational character	3
Metal articles for remanufacture	3
Entries under $251 each	389
Repairs of U.S. vessels abroad	2
Total	7,538

Mr. DUNCAN. Thank you, sir.

Is there much concern on an international level about trade barriers at this time?

Ambassador EBERLE. The answer is, "Yes."

I think it is interesting to note that at the higher political levels, there is great concern, and a commitment to proceed to lower these barriers: one because the success of tariff negotiations over the past 25 years is recognized; and, two, if we don't manage our economic trading system better than we have in the past, it is going to create friction.

At the same time, at some other levels in other governments, where people are interested primarily in protecting their countries' preferred positions. You get different statements from them.

But on balance, there is interest and I think commitment to move forward.

Mr. DUNCAN. During the past few years, has our trade across the border in Canada increased, or decreased?

Ambassador EBERLE. It has increased substantially.

Mr. DUNCAN. Do you think the Canadian Automobile Pact of 1965 had a favorable impact on the Canadian economy?

Ambassador EBERLE. The answer is, "Yes."

Mr. DUNCAN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Landrum is recognized.

Mr. LANDRUM. Mr. Ambassador, going back to the earlier exchange between yourself and Mr. Schneebeli about the use of the GATT in our trade negotiations, the thought occurred to me that much more money is being spent in the OECD, the Organization for Economic Cooperation and Development, than is being spent in the GATT.

For example, GATT's annual budget last year I believe was about $3.7 million, and our share of that was almost $600,000.

On the OECD, the budget was $23 million, and our share of that was $7 million.

Does it occur to you that because of that financial emphasis on support to OECD, that we may be placing our emphasis through that

organization, which has no rules such as GATT employs, and that for that reason our benefits from GATT may be less than we could normally expect?

Ambassador EBERLE. Congressman, I cannot give you a value judgment on the OECD. They do many more things than look just at trade. They do have some trade issues. It is a different kind of organization from the GATT. There are 23 members, mostly the industrialized countries.

GATT has nearly 90 members consisting of developed and less-developed countries. I am absolutely convinced in my mind that a few more dollars—I don't think we need to spend many more, and I believe in a tight budget—would be worthwhile to be sure we have the best people in the GATT.

This bill provides for taking care of directly funding GATT by Congress. Today, it is funded indirectly through the State Department.

We would like to see that done, and then come to you and tell you what they are doing. We think that this would be good, and a few dollars more would be helpful. We don't need very many.

Mr. LANDRUM. I think I can appreciate your reason for your effort to disassociate the OECD from the trade picture, and emphasize the GATT picture. Frankly, that is what is intended in the two different organizations, I understand. Nevertheless, I got the impression, and I think other members of the committee have the same impression, that when we were studying these two organizations early last year, and you were present at some of the sessions when we heard from Mr. Van Lennep, the Director, that they are taking a far more active role in promoting trade and suggesting ways to develop trade relations between the European Community, for example, and the United States than the GATT.

We got the impression that the GATT was just sitting back there like a fat cat and saying or at least I got the impression that they were saying, "We have the rules and can run this thing if you want us to, but if you don't want us to, get the hell out of our way. We don't want to be bothered."

It occurred to me that maybe we need to sort of build a fire under GATT and create some way to use it a little more. What is your impression about that?

Ambassador EBERLE. Let me try to put it in perspective this way. The GATT does have a very attractive program for promoting trade, but promoting it through the analysis of barriers and how to lower them.

The OECD, on the other hand, again only among the industrialized countries, focuses more on some of the trade policy matters and relations with the developing countries. It is the only place the industrialized countries get together.

I do think there is reason to believe that we should use GATT more effectively, and I think we could also use the OECD more effectively because there are some trade matters that primarily concern the industrialized countries.

If we don't solve them in the GATT, because of the tremendous number of developing countries, we do need both forums. I think without saying one is competitive with the other or without saying we want to preclude any country from them, there is logic in having

both of these organizations. Frankly, we should use them both more effectively.

Mr. LANDRUM. Secretary Hickman, it may or may not be a soothing observation, but we here in the masculine gender have many experiences with what you just experienced. We have long ago decided that if there is going to be any real equality, that Mrs. Griffiths is going to have to surrender something for, as you observed, she is a very, very competent and able member of this committee. We are glad she brought that up. I want to direct a question as to your response to Mr. Rostenkowski's question which is which are the countries where you would by tax treaties permit the present tax advantage to continue.

Mr. HICKMAN. I don't think we can identify a particular country because in each case we would be negotiating a treaty with the country in order to deal with appropriate safeguards to be sure that the kind of thing that we were permitting was not the sort of thing that would simply be diverting U.S. investment which should stay here rather than move abroad.

On the other hand, I am sure that each country with whom we negotiate would come forward with particular instances, particular kinds of suggestions in which they would say to us, "Look, this kind of thing does not really disturb the American development picture.

"This has to do with things that are happening in our area. The U.S. economy has no particular stake in this kind of incentive that we are offering." Where that was true we would go forward on the facts, and if we were convinced it was true, those things could be permitted under the treaties.

Each situation would have to stand on its own factual feet. You might, for example, have a case in which there was a manufacturing process that was attendant to particular resources within a country that didn't exist elsewhere. It would be foolish to assume that all of that manufacturing had to happen in the United States if indeed it made sense for it to happen only where the resource was. We would be looking at individual facts and individual cases, and some would be more difficult to decide than others. In the context of the treaty, those are things that we try to work out on a quid pro quo basis.

Mr. LANDRUM. Your response suggests that I would like to direct another question to Ambassador Eberle. As to a commodity manufactured entirely in a country and exported to the United States in bulk and packaged for the consumer after it arrives in the United States, what would be your policy in trying to negotiate with that country where the manufacture takes place and they might want to withhold shipping in bulk and package it in their own country before it was shipped to our consumer? What are you going to do in a case like that under this bill?

Ambassador EBERLE. Insofar as the tax matter is concerned, I toss that to Fred.

Mr. LANDRUM. I am not concerned about the tax matter on that. We are talking about jobs in this country and jobs in the country where the manufacture takes place.

Ambassador EBERLE. There are two sides to that. First of all, tariffs or whatever barrier we have would basically protect a manufacture if that is necessary. Two, certainly whether it comes in in bulk or whether it comes in packaged form would make no difference if a

foreign country were competing either unfairly or were abruptly disrupting our market.

We could handle it either way. I think the important thing here is that we are looking at this as a way of having rules under which we can handle the matter no matter what the problem is so that it is fair on both sides or at least equal on both sides.

I think the answer is that under the present situation we would have difficulty doing much about it, but we could handle it under the new proposal in the trade bill.

Mr. LANDRUM. Thank you so much.

The CHAIRMAN. Mr. Brotzman?

Mr. BROTZMAN. Thank you, Mr. Chairman. I just really have one question for Ambassador Eberle.

First of all, I hope you don't get discouraged. You have a very difficult and frustrating job. I am well aware of that. Admittedly, our country competes very well in certain commodities and certain products and agriculture seems to be one of the best examples of that.

As we look at the overall problem of trying to improve our trade balance, it seems to me as far as the European Community is concerned, it is essential that we try to sell them more agricultural products.

I heard your response before relative to compensation, particularly as regards the United Kingdom's becoming a part of the Common Market, but I have just a general question. It seems to me like it is most important that we improve in the agricultural area and, of course, when you look at the common agricultural policy and the variable levy, it appears to be quite a formidable thing that we are trying to overcome.

I would like to know if we can even be guardedly optimistic about improving our situation?

Ambassador EBERLE. Mr. Brotzman, I think there are some very significant signs that indicate that we can make progress in opening up this market by changing, through negotiations, some of the mechanisms within their policy.

I would like to ask Ambassador Pearce to focus on why we have some optimism in this area.

Ambassador PEARCE. Actually, I am quite optimistic about changes in the common agricultural policy, in the main, because we can achieve a great deal without changing the elements of it that are essential to the Community.

That is a measure of preference for internal producers and common prices throughout the Community. Our problem now is that the Community's internal prices are so high that they encourage the production of grains that we produce very efficiently and, they discourage the production of livestock, which could greatly increase their grain imports. The Community should alter its policy in a way which wouldn't hurt its domestic farmers by shifting as we have shifted increasingly from high prices to direct Government payments in some form where necessary.

This will come very slowly; if it comes soon enough it will have an enormous impact on our trade with the Community.

The issue is before us now because Great Britain which is entering the Community has had the kind of a system that encourages imports.

It has had low grain prices. It has dealt with its farmers' income problems through direct payments. But now it is adjusting to the Community system. The import on trade will be large. We estimtae that if Britain went back to the duties she has bound in GATT, for example, and the other two new member countries maintained their existing price regimes, the average of 10 million tons they have imported in each of the last 10 years would rise by 50 percent.

On the other hand, under the Community system, we expect them to become self-sufficient by the time they completely implement that system. This indicates the enormous influence of the community's high grain prices.

Our job as negotiators, it seems to me, is to persuade them over time to shift from that sort of system to another system for taking care of their farmers, which greatly improves our opportunity for trade with them and incidently also reduces the cost of food and conveys some other benefits of importance to them.

Mr. BROTZMAN. Do they experience any internal pressures from their consumers because of the overall application of this policy, and the price situation?

Ambassador PEARCE. Concerns about inflation in Europe are a more important influence on their policy now than at any earlier time, but consumers are not as well organized in Europe as farm groups who benefit from these programs and as a result, while it may help, it will not in itself solve the problem.

Mr. BROTZMAN. Thank you very much.

The CHAIRMAN. It will be necessary for us to adjourn. Let me make an announcement before we do. We will be back at 2 o'clock, and we will expect all of you here at 2 o'clock.

We will have in addition to the present witnesses sometime this afternoon Mr. Steven Wakefield, who is Assistant Secretary of the Department of the Interior for Energy and Minerals, and Mr. John J. Maloy, Deputy Assistant Secretary of Defense for Procurement.

At the conclusion of the presentation in response to questions of these witnesses, we will ask these additional witnesses to discuss with us our energy situation.

I understand that we have in the room a very distinguished gentleman from one of our very friendly Mideastern universities, the president of the Yemen Assembly, Mr. Abdallah bin Hussin al-Ahmar. Mr. al-Ahmar, if you will stand up we will be glad to greet you.

Without objection, the committee recesses until 2 o'clock.

[Whereupon, at 12:10 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. ULLMAN [presiding]. The committee will be in order.

Are there further questions of the witnesses?

Mr. Vanik.

Mr. VANIK. Mr. Chairman, I would like to ask the Ambassadors whether we can make very much progress in trade negotiations while the monetary system is in such a mess.

Mr. Volcker says it is going to take a couple of years to straighten it out. It seems to me that it appears that one of the great nontariff barriers to trade is the shaky condition of the American dollar.

Can you give me any reassurances that this is not a problem?

Ambassador EBERLE. There are two aspects to it, Congressman. The first one is that it is true that it will take some time to develop a total monetary system. In the meantime, I think you have a system that business can live with and trade can go forward with because, on a comparatively floating basis, the adjustments are minor as opposed to being big swings. I think business can hedge that.

The second aspect is that because developing the monetary system will take 2 or 3 years the trade negotiations are essential and can make progress because they are an integral part of the total economic system. One system has to support the other and we can do both at the same time.

Mr. VANIK. There has been a great sense of urgency about this whole issue, I want to select, but I want to select with calm judgment without pressures mounting on us.

Now, in light of that situation, I am just wondering whether or not the monetary situation does not really tend to indicate the need for immediate action here to relieve it as much as possible.

I think as long as we have this uncertainty about monetary conditions I can see where businessmen the world over would be somewhat reluctant or hesitant to get into any long term commitments, certainly not any longer than a year or so in light of the monetary uncertainty.

Ambassador EBERLE. Ambassador Pearce wants to comment too, but as a former businessman, I can assure you that business is more comfortable with small changes than they are with a massive change under the old system. I don't think you have disincentive today. It is always a worry. It is only a matter of degree.

Ambassador PEARCE. I was going to make the same point. Levels of trade have risen very rapidly in this period of uncertainty. But there is another point to be made in that connection that argues for getting on with the trade negotiations as soon as we can. We have achieved a great deal of overcoming the competitive handicap of an overvalued dollar. We have a relationship now that we think is probably appropriate. But the difficulty with the monetary adjustment under the present trade rules is that not all trade is responsive to changes in exchange rates. Our success in developing a monetary system that provides for small adjustments that don't fall with too much impact on any individual trading sector depends on getting rid of nontariff barriers, for example, bringing agriculture in the trading world. That is the case for getting on with trade negotiations.

Mr. VANIK. As you negotiate to remove trade barriers and reduce tariffs you arrive at agreement with parliamentary governments. Now, what assurance do we have with respect to the stability and the permanence of agreements that you develop suppose some of these parliamentary governments develop Watergate situations and are dissolved, what kind of certainty do we have that the agreement that you work out so tediously and so laboriously, with so much effort, is not washed out by a new government? How do you respond to that problem?

Ambassador EBERLE. First of all, you do have continuity in these governments even though you have a change in government such as in Japan—the same party, the same system and the same kind of responsibility. But assuming for the moment that you did not have that kind

of responsibility and they did change policies, the very tools that we are asking for here in the management authorities on the domestic side enable us to handle and to respond to a breach of such agreements. That is their purpose. We have the negotiating authorities and the management tools.

Mr. VANIK. A parliamentary change can repudiate everything.

Ambassador EBERLE. If they repudiate in the sense of violating an understanding, then we can proceed to retaliate or take necessary action on our side to respond to it.

Mr. VANIK. That probably provides some added jurisdiction for some quick method to deal with it.

Ambassador EBERLE. That is what this bill is all about.

Mr. VANIK. On the other hand, a quick method to deal with this kind of problem may be a matter of great concern to traders who feel that their circumstances could suddenly change, because of a sudden thrust of the accelerator by someone in the White House.

Now, let me ask you this: We have talked about GATT, we have talked about your achievements. I would like to have you place in the record at this point the 10 outstanding GATT achievements in the past 2 years so that we get some idea to measure this great stride that we are making through negotiations. I know that may be something that you may not have planned to offer but I hope we can put that in the record at this point.

[The following material was subsequently received:]

TEN MAJOR ACHIEVEMENTS IN THE GATT DURING THE PAST TWO YEARS

The following list includes three types of actions which the United States initiated or was a participant in the GATT during the past two years: progress in the work program in preparation for another round of major trade negotiations, as well as declarations and endorsements by member countries for these comprehensive negotiations; remedial actions and negotiations to safeguard United States trading interests under GATT rules and procedures; and extension of GATT trading rules to additional countries, including adoption of GATT procedures to enable expanded trading opportunities for developing countries.

1. AGREEMENT TO CONDUCT NEW COMPREHENSIVE ROUND OF MULTILATERAL TRADE NEGOTIATIONS

In February 1972 the European Community and Japan joined with the United States in written declarations undertaking, subject to internal authorization as required, "to initiate and actively support multilateral and comprehensive negotiations" in the GATT beginning in 1973 covering tariff and nontariff barriers affecting both agricultural and industrial trade. The adequacy of the multilateral safeguard system will also be reexamined. The declarations state that "the negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity." In a GATT meeting during March 1972 members accounting for about four-fifths of world trade pledged their active support of and participation in the negotiations. Countries strongly endorsing the declarations were Australia, Canada, Switzerland, Sweden, Norway, United Kingdom, Denmark, Austria, New Zealand, Finland, and Poland. Spain, Turkey, and Romania also expressed their support.

2. DRAFT SOLUTIONS ON NONTARIFF BARRIERS

Since 1971 GATT working groups on industrial nontariff barriers have been trying to develop acceptable solutions to the trade problems reflected in the GATT inventory of nontariff barrier notifications. Solutions have been devised for import licensing and customs valuation. The drafting of a code on product standards is almost completed. Work has also been initiated on export sub-

sidies, domestic subsidies that stimulate exports, and countervailing duties; quantitative restrictions and export restraints; consular formalities; import documentation; and packaging and labeling.

3. TARIFF AND TRADE DATA COMPILATION AND ANALYTICAL STUDIES

Detailed tariff and corresponding trade data have been compiled and standardized in a computerized data bank for thirteen major GATT members. Various analytical studies have been produced from these data, including comparisons among countries of post Kennedy Round average industrial tariff levels and corresponding trade overall, by product categories, and by stages of processing. A study was also conducted of total imports subjects to most-favored-nation and preferential rates of duty of individual countries and GATT members as a whole. An inventory of nontariff barrier notifications by GATT members has been compiled in a form showing various import restrictive measures by product categories. The purpose of the data and studies is to provide basic information necessary for preparations in the GATT and by individual member countries for the forthcoming major trade negotiations, available to the participants for the first time on a standard computerized basis.

4. EXAMINATION UNDER GATT ARTICLE 24 OF ENLARGEMENT AND FREE-TRADE AREA ARGEEMENTS OF THE EUROPEAN COMMUNITY (EC)

In March 1973 the United States and the EC began bilateral negotiations with respect to our rights for compensation under GATT Article 24:6 for the modification or withdrawal of concessions by the United Kingdom, Denmark, and Ireland resulting from their adoption on January 1, 1973 of the Common External Tariff, other regulations of commerce, and the Common Agricultural Policy of the EC. Consistent with its GATT rights, the United States has asserted claims for offsetting tariff reductions in the schedule to be adopted by the enlarged EC in cases where the modification or withdrawal of concessions by one or more acceding countries on items initially negotiated with the United States, or in which the United States has a principal or substantial supplier interest are not offset by reductions in duties by other acceding countries on the same product. The United States is also asserting rights on certain grains in the United Kingdom and rights on grains and rice in the schedules of the original EC members which were suspended during the Dillon Round Article 24:6 settlement in 1962.

In addition, five GATT Working Parties were established in November 1972 to examine the consistency of the agreements providing for eventual duty-free trade, mainly in industrial products, between the EC and Austria, Iceland, Portugal, Sweden, and Switzerland. The United States has advised these countries of its intention to fully protect our trade interests against impairment, including that resulting from new rules of origin applicable under the agreements.

5. ALL-FIBER TEXTILE STUDY AND WORKING PARTY MANDATE TO SEEK SOLUTIONS

In June 1972 the Council of the GATT agreed to undetake a study of fact regarding the economic, technical, social and commercial elements which influence world trade in textiles, distinguishing the various textile sectors, both according to the fibers used and according to the degree of processing. The Working Party, made up of representatives of all of the major developed and developing countries, met first in July 1972 and, working through the summer, completed a study which was submitted to the GATT Council.

The GATT Council accepted the study and in April 1973 authorized the Working Party to identify and examine the problems that exist in international trade in textiles and textile goods, and to seek possible alternative multilateral solutions to these problems. The Working Party is to report back to the Council by June 30, 1973.

While the search for multilateral solutions to textile trade problems is to be made without prior commitment as to the position of any participant, the United States Government hopes that this study will lead to a multilateral, multifiber arrangement covering trade in textiles and clothing.

The GATT sets forth various mechanisms for resoving bilateral trade prbolems. These are the rules set forth under GATT Articles 22 and 23. Most bilateral trade

problems are resolved before a country needs to resort to use of these Articles. However, if they are not resolved under consultations conducted under Articles 22 or 23:1, a country may bring its complaint before the Contracting Parties under Article 23:2. During the past year, the United States used the procedures of Article 23:2 on three occasions.

6. FRENCH IMPORT RESTRICTIONS

In September 1972, the United States exercised authority granted previously by the Contracting Parties of the GATT to propose suspension of concessions on articles of French origin equivalent to the impairment suffered by the United States as a result of quantitative restrictions imposed by France contrary to provisions of the GATT. The Contracting Parties recognized the United States right to make suspensions and directed the United States and France to try to agree on a figure for withdrawals.

As a result of the subsequent negotiations with France, the French Government agreed to the complete elimination of quantitative restrictions on all but one of the agricultural products that were the subject of the United States complaint. Complete liberalization will take place on January 1, 1975 for most products, and on January 1, 1978 for the remainder. Quotas for those products will be increased by 35 percent each year, with the increase based on the previous year's quota. Only one item remains under discussion.

7. EUROPEAN COMMUNITY (EC) APPLICATION OF COMPENSATORY TAXES ON AGRICULTURE PRODUCTS

When some of the member states of the EC began to float their currencies, the EC authorized the imposition of compensatory taxes on agricultural products to maintain the unity of their Unit of Account. Many of these products were bound in the EC's schedule of concessions to the GATT. The addition of a compensatory tax to the import duty collected caused the amount of duty collected to exceed the bound rate. Informal representations to the EC by the United States and a formal written representation under Artcile 23:1 failed to resolve the problem. The United States requested the Contracting Parties to investigate the matter and take appropriate action. About $40 million of United States exports appeared to be affected. Following our request and before the Contracting Parties could consider the matter, the EC agreed to terminate collection of the compensatory taxes on at least 98 percent of those products covered by the United States complaint. The EC also committed itself to rescind the remaining taxes as soon as it is feasible.

8. QUOTAS APPLIED BY THE UNITED KINGDOM TO IMPORTS FOR DOLLAR AREA COUNTRIES (MOSTLY CARIBBEAN AND LATIN AMERICAN COUNTRIES)

The United Kingdom applies quotas on certain products imported from dollar area countries (about 18 countries). The products affected are fresh grapefruit, single-strength orange and grapefruit juice, rum, cigars, bananas, and frozen or canned grapefruit segments. The United States held consultations with the United Kingdom in an effort to obtain removal of these quotas. Finally the United States took its complaint to the GATT under Article 23:2, asking the Contracting Parties to declare the quotas illegal, recommend their removal, and authorize the United States to suspend equivalent concession on articles of United Kingdom origin until the quotas are removed. The Contracting Parties established a panel to consider the complaint. The panel issued an interim report to the Contracting Parties and recommended that the United States and the United Kingdom consult bilaterally once more in an effort to resolve the matter. I promised to issue a final recommendation within 30 days if bilateral agreement on a solution could not be reached. The bilateral consultations are taking place at this time.

9. GATT AUTHORIZATION FOR GENERALIZED TARIFF PREFERENCES

In June 1971 the GATT member governments authorized a waiver from the most-favored-nation rule of Article I to permit developed member countries to grant generalized tariff preferences to imports from developing countries. The waiver recognizes that preferential arrangements do not constitute an impediment ot tariff reductions on a most-favored-nation basis and that they should not raise

new barriers to trade of other GATT members. It also notes the view of developed countries that the preferences are not a binding commitment and are temporary in nature. The waiver was requested by a number of major developed countries, most of whom have since implemented generalized preference schemes, establishing an agreed basis for equitable sharing among donor countries of preferential market access for developing countries. The waiver provides for the furnishing of information to the GATT of generalized preference arrangements introduced or later modified, and for consultations in the event trade benefits of other members are unduly impaired as a result of any such arrangement.

10. EXTENSION OF GATT RELATIONS WITH EASTERN EUROPE

Romania became a contracting party to the GATT in November 1971. Romania's accession followed negotiations with the other contracting parties, the results of which are embodied in the formal protocol for the accession of Romania. The accession protocol provides: (1) an understanding that Romania will increase imports from the contracting parties as a whole at a rate equivalent to the overall increase in imports foreseen in its current Five-Year Plan; (2) bilateral consultations should Romania or any contracting party request them, with provision for either Romania or the contracting party to suspend GATT obligations toward the other if further consultations with the contracting parties as a group do not lead to a settlement; (3) action by a contracting party to restrict imports from Romania should they cause or threaten serious injury to domestic producers and should consultations fail to resolve the issue; (4) a clause permitting contracting parties which maintain discriminatory quantitative restrictions inconsistent with the GATT to continue to apply them, the objective being that they be removed by the end of 1974; and (5) biennial consultations on Romania's import targets and actions by contracting parties to remove quantitative restrictions on imports from Romania. The Romanian protocol of accession is modelled after that of Poland, which became a contracting party in 1967.

The Hungarian Government is currently negotiating for GATT accession on a different basis from Poland and Romania. Agreement has been reached on the terms of its accession protocol, and tariff reductions are currently being negotiated individually with other GATT members as part of its "entry fee." An import commitment will not be required.

In addition to specific action under GATT procedures to protect or improve United States trading interests, the United States has engaged in extensive bilateral consultations to obtain reductions of Japanese barriers to United States exports of industrial products, including high-technology items. The consultations have resulted in the following actions by Japan:

Import Quotas.—In the context of bilateral consultations, Japan has reduced from 52 to 9 the number of four-digit Brussels Tariff Nomenclature items all or part of which are subject to GATT-illegal import quotas on industrial products. Japan has expanded the quotas and eased the restrictions on most of the items remaining under restriction. For example, Japan has increased the maximum allowable share of the Japanese computer market which may be gained by foreign firms—including IBM Japan—to 50 percent, up from 41.2 percent in Japanese fiscal year 1971. Further progress on removing the restrictions is expected shortly.

Nuclear Power Reactors.—Although importation of nuclear reactors will continue to require an import license, the Japanese Government will no longer discourage the purchase of imported power reactors by Japanese power companies. The new policy states that selection of both foreign and domestically produced reactors will be made solely on commercial and safety grounds.

Special Purchases.—At the meeting in the summer of 1972 between President Nixon and Prime Minister Tanaka, the Japanese announced their intention to purchase a significant amount of high technology products from the United States, including civil aircraft valued at $320 million.

Tariffs.—Japan reduced tariffs by 20 percent on virtually all industrial products on November 22, 1972.

Government Procurement.—The Japanese Government rescinded in September 1972 a "Buy Japan" Cabinet decree. Only computers and related equipment will continue to be procured from domestic sources, if available.

Other Measures.—In addition, import procedures in Japan on industrial products have been considerably simplified. The automatic import quota (AIQ) and automatic approval (AA) systems have been abolished, the import deposit requirement has been abolished, costs of import financing have been reduced, and investment regulations which resricted the flow of U.S. industrial exports to Japan have been considerably eased.

Mr. VANIK. I wrote you a letter, Mr. Ambassador, on May 7. I haven't had a reply to it. I understand you may have had some problem through the mails that are also in a difficult management problem. I would like to have your response when you can prepare it so that we can put it in the record following my letter of inquiry. Did you receive my letter?

Ambassador EBERLE. I received your letter, and I have your answer right now if you would like it, or put it in the record.

Mr. VANIK. We will put it in the record along with my letter of inquiry.

Mr. ULLMAN. Without objection this material will be furnished.

[The letters referred to follow:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 7, 1973.

Hon. WILLIAM D. EBERLE,
Special Representative for Trade Negotiations,
Washington, D.C.

DEAR MR. EBERLE: During your testimony before the House Ways and Means Committee on H.R. 6767, the Trade Reform Act of 1973, I would appreciate it if you could provide me with some data and answers for the record to the following questions, so that these issues may be explored more fully during the hearings.

(1) In Section 103, the President is provided with authority to remove non-tariff barriers to trade. The Congress is given a veto authority over any such negotiations in 103(e). But in the explanatory notes to this provision of the bill, the following paragraph appears:

> This authority could apply, for example, to new agreements relating to quantitive limitations on imports of agricultural products. However, *it is an optional procedure* [to obtain Congressional approval] since the President can, if he believes it appropriate, use his existing authorities or other constitutional procedures with respect to import limitations or other non-tariff barriers imposed pursuant to domestic laws. [Emphasis added.]

Would you please provide a complete legal description of the "optional" authorities and "other constitutional procedures" which might be used with respect to non-tariff barriers? In which cases does the Administration expect to avoid the Congressional review and potential veto route?

(2) In Section 201, relating to investigations by the Tariff Commission, the explanatory notes again raise some questions. In particular, the notes state "Comparable" is intended to be a more narrow category of products than "like or directly competitive articles".

From this note, it appears that it will be more difficult in some cases for American industries to prove "market disruption." Any clarification you can give to this note would be appreciated.

(3) Finally, certain foreign aid assistance may not be provided in violation of 22 U.S.C. 2370(d) which states that:

> No assistance shall be furnished under section 2161 of this title for construcion or operation of any productive enterprise in any country where such enterprise will compete with United States enterprise unless such country has agreed that it will establish appropriate procedures to prevent the exportation for use or consumption in the United States of more than twenty per centum of the annual production of such facility during the life of the loan. In case of failure to implement such agreement by the other contracting party, the President is authorized to establish necessary import controls to effectuate the agreement. . . .

How does this section "coordinate" with Title VI. It would seem to me that possible conflicts might arise between the direct foreign aid loan program and Title VI. Has any consideration been given to adjusting this language so that it is consistent—and provides necessary safeguards for the American producer?

Thank you for your assistance in this matter.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS,
Washington, D.C., May 29, 1973.

Hon. CHARLES A. VANIK,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN VANIK: I am supplying the following information in response to the questions raised in your letter to me of May 7, 1973 on the Trade Reform Act (H.R. 6767) for insertion in the record of the Committee on Ways and Means hearings on this legislation as you requested during my testimony on May 10, 1973. I am also including a response to your request during that testimony for a review of the emergency powers of the President under current statutes in relation to provisions proposed in the Trade Reform Act.

Response to question 1.—The United States currently enters into international obligations in the form of a treaty or an Executive agreement. These documents are given domestic force within the United States by one of several means: action by the Senate in the case of a treaty, enactment of legislation by both Houses of Congress, and the exercise by the President of authorities previously given to him by the Congress or by the Constitution.

The concept of "nontariff barriers and other distortions of trade" covers a very broad area of our domestic statutes and administrative practices. Some, such as those covered by international commodity agreements, are traditionally the subject of treaties and could continue to be handled in this fashion. Other matters, because of their complexity and the far-reaching nature of changes required in domestic law by an international agreement, might best be the subject of new legislation. The third category of authority for domestic implementation—the authority that the President already has—concerns matters such as making arrangements for the establishment of commercial offices within the United States, reducing administrative barriers to trade, and harmonizing United States Government administrative practice with that of foreign governments.

Section 103 (d) and (e) of the proposed Trade Reform Act adds a new legislative method, a veto procedure, which can be used in place of legislation or in place of a treaty or action which could have been based solely on Presidential authority.

As under existing practice, the President must choose whether to implement an international agreement by submitting a treaty to the Senate, submitting legislation to the Congress, or utilizing the authority he already has. The choice depends mainly on the subject matter of the agreement. Were the President to act where he did not have authority, our legal system provides for redress in the courts. The new procedure adds another choice of the method for implementing an international agreement at home. It does not change the necessity for Congressional authorization, in any of the forms listed above including the veto procedure, where the President does not have Constitutional or previously delegated powers.

Response to question 2.—The use of the word "comparable" as a narrower category of products than "like or directly competitive articles" is necessary because price comparisons are more valid when made between similar articles. The term is used to make clear that price comparisons of imports and domestic articles should not be based on an overall average applicable to a broad category of products which may be "like or directly competitive" in their end-use, for example, but on articles within the broader category which are similar in material, style, quality, or other relevant characteristic. This requirement does not imply a greater burden on American firms seeking to show market disruption.

Response to question 3.—Nothing in the proposed Trade Reform Act of 1973 would change or nullify the provisions of section 620(d) of the Foreign Assistance Act, 22 U.S.C. 2370(d). There have been very few occasions which required the application of this section. In any event, if action were required by the President to establish necessary import controls to effectuate an agreement under this section, the President would have no difficulty in suspending the application of preferential treatment under Title VI of the Trade Reform Act for imports covered under such an agreement. Section 605(a) of the Trade Reform Act would specifically authorize the President to modify, withdraw, suspend or limit the application of the preferential treatment with respect to any article or with respect to any country.

Emergency powers of the President.—The reference to "emergency powers" was directed to section 318 of the Tariff Act of 1930 (19 U.S.C. 1318) which authorizes the President, during any period of emergency declared by him, to au-

thorize the Secretary of the Treasury to permit duty-free imports of foods, clothing, medical, surgical, and other supplies for use in emergency relief work.

No similar authority is contained in the proposed Trade Reform Act nor is it needed in view of the continuing existence of the authority contained in section 318 of the Tariff Act of 1930. There would not appear to be any compelling reason to repeal this section in view of the purposes which it serves which are distinct from the purposes served by Title IV of the Trade Reform Act. Moreover, this provision is relied upon currently for extensions of times within which certain matters of customs administration must be accomplished.

The repeal of section 318 of the Tariff Act of 1930 (19 U.S.C. 1318) would have the effect of revoking Presidential Proclamation No. 2948 of October 12, 1951, issued thereunder, which authorizes extensions of the statutory period in which imported merchandise may be held in a general order or bonded warehouse. The statutory period for merchandise in a general order warehouse is 1 year (19 U.S.C. 1491) ; for a bonded warehouse, there is a 3-year period (19 U.S.C. 1557 and 1559). By eliminating Customs authority to grant extensions of these periods, Customs recordkeeping responsibilities would be simplified. However, owners of warehoused merchandise could be adversely affected in that merchandise would have to be withdrawn from warehouse and either entered for consumption or exported at the end of the statutory period when it might be economically disadvantageous to do so. To retain the flexibility available under existing law, sections 491, 557, and 559 of the Tariff Act of 1930 (19 U.S.C. 1491, 1557, and 1559) would require amendment to grant the Secretary of the Treasury authority to extend the time periods stated within.

The "Truman Emergency Proclamation" to which reference was made is the proclamation of December 16, 1950 (no. 2914). That proclamation of national emergency was based on the menace of communist aggression, especially in Korea, and created the legal basis for the imposition of an embargo on trade with Communist China and North Korea (and, subsequently, North Vietnam). President Johnson relied on the Truman proclmation in promulgating the Foreign Direct Investment Regulations on January 1, 1968. President Nixon declared a new balance of payments national emergency on August 15, 1971, in the proclamation establishing the import surcharge.

The request for trade authorities in the Trade Reform Act are entirely separate from the existence of a state of national emergency. Sections 401 and 405 are specifically related, for example, to fighting inflation or protecting the United States balance of payments position. The question of the existence of a national emergency is not relevant to the proposed provisions of the Trade Reform Act.

Sincerely,

WILLIAM D. EBERLE,
Special Representative.

Mr. VANIK. In accordance with your statement and your desire to eliminate nontariff barriers, do I take it that you would like to get rid of the American quota system which is a problem, the quota system on milk and cheese and beef and other meats? Those are some of the things in your negotiations you would be bargaining away; are they not?

Ambassador EBERLE. They are certainly the subject of discussion. Whether they will be bargained away will depend upon the impact that would have on us and what we can gain from the other side. If you take the kind of approach that we would want, we would hope, say, in the agriculture area, dairy products in particular, that there are various ways in which that industry can become competitive. Ways with the comparable foreign products so that we may be able to benefit by bargaining away quotas. Besides, we feel that there are some of these quotas that really aren't effective any more, such as in the beef area.

Mr. VANIK. The President has suspended it, but I want it off the books, taken off, so that producers in other places can get ready to produce meat for us. I am afraid the Government's present policies are to export all our food. I am afraid that the cupboard is going to be bare. No one is thinking about the national welfare and thinking about pro-

viding sufficiency in our own food stocks for our own people. I am getting very, very much concerned about what there might be left in the cupboard and the price that the people might have to pay for what remains.

I know the whole big thrust here is to open up agricultural exports and this is fine and good, but I think it is only justified and to be encouraged if it does not disturb the dietary standards of our own people, and I think we are getting very close to that point. If all of our soybeans are going to go abroad, where you are going to open up new markets for them, our cattle won't be able to eat soybeans. They will probably have to eat grass where they can find it and the beef will get lean and tough and maybe people won't buy it. Maybe we will have to buy beef from Europe to get the better cuts that we have been accustomed to.

One of the things I worry about, Mr. Ambassador, is the heavy emphasis that there is in this bill on agriculture and the very little emphasis there is on trying to develop a system under which we can export some of that technology that we used to pride ourselves on, some of the highly sophisticated items of production. I look at my television set and I see a foreign country. I turn on my transistor, I listen to a foreign country. You might just as well put foreign music in the gadget because there is very little that is American inside of the radio.

You know, the box is made in America, sometimes, but the contents come from all over the world. I can become disturbed over our exports of our resources, of our mineral resources and our agriculture, and that we are failing to become an adequate exporter of things that people labor over with a great deal of intensity with a high degree of sophisticated skill.

Ambassador PEARCE. Mr. Vanik, I am not sure that is a question but to the extent it is, and it applies to our current problems with agricultural prices, I would like to make an observation if I may.

We have reserves in this country really in two forms: We have reserves in warehouses, accumulations of grains and soybeans that we carry forward from one year to the next.

Mr. VANIK. The bins are empty, they say.

Ambassador PEARCE. My point is simply this: We have other kinds of reserves, too. Those other reserves are acres kept out of production to avoid excessive market supplies that are costly to store and which harm producers by depressing prices. The Department of Agriculture always has very difficult judgments to make in moving some levers that influence how much we produce. It tries to administer them in a way that assures adequate production to meet domestic needs at fair prices and to serve foreign markets. At the same time we have had some 60 million acres out of production and that costs us. When we can expand our export markets it gives us an opportunity to reduce those costs.

As Ambassador Eberle said earlier, we spoke to a large group of farmers the other day. One of them made an observation that I think is appropriate here. He noted that we are expanding production as rapidly as we can this year. He said:

> It costs me $28 an acre to plant and harvest the land that I was able to produce last year, but the marginal cost of expanding my acreage, bringing some of that other reserve back into production, is much less, it comes to $9 an acre on my farm.

So, against this background when we have a very unusual world demand situation, a reserve that is prudent for normal circumstances proves to be inadequate to assure domestic consumers what they regard as of fair prices. So the tradeoffs are between tax costs, farm income, and the occasional, but really very rare instance such as we have now, where food prices are high and there is not really a great deal we can do about them.

Mr. VANIK. Mr. Chairman, if I can say something in one sentence I know my time is up. I want to say this: I am a reader of Soybean Digest and of Sorghum News. What they tell everybody is that this newly released acreage shouldn't be planted, just raise some hay or other things, use some of the land for development by people who will soon not be able to live in the city because there is no food. I don't know what kind of response there will be to the added acreage. I think it may not be as productive as you hope.

Ambassador EBERLE. I assure the Congressman we are putting equal emphasis on industrial goods. I think when we reply with the 10 points I will add a note of where we have made a major step forward in the industrial area, particularly in Japan and Canada in getting our technology and our consumer goods, consumer durables where they are fully competitive today in export markets. I think you will see more and more of this.

Mr. VANIK. Thank you.

Mr. ULLMAN. Mr. Archer will inquire.

Mr. ARCHER. I would like to ask a question with respect to the administration's proposals that relate to tax holidays overseas. Do you intend that your elimination of deferral privileges apply where the natural flow of raw materials and sales has no connection with the United States whatsoever? I have in mind oil which is produced in the Middle East, refined in France, and sold throughout Europe.

Would your provisions with respect to elimination of deferral apply under those situations?

Mr. HICKMAN. They would apply in any case where there was a tax holiday availed of unless they were relieved by a treaty. It would be our intention that in the instances in which we went for treaties the kinds of things that we would continue to permit would be those things which had no connection with the United States—where the foreign investment would in no way displace American investment.

Of course you also realize that the proposals that we have relate only to manufacturing and processing and do not ordinarily relate to mining or things of that sort. There is a point of course at which the products of mines are processed and refining would be a processing operations; yes.

Mr. ARCHER. I think we have to remember that foreign owned competitors will continue to avail themselves of these tax holidays so to speak, and they will continue to be able to export to this country without penalty. This is a matter of some concern to me. I would like to follow it up by saying, do you intend for elimination of deferral to apply to facilities that must be located abroad? That is, facilities which manufacture heavy goods with a low value such as bricks or cement which are uneconomical to transport?

Mr. HICKMAN. Again I think those are exactly the kinds of things that we would hope we could exempt by treaty but that would be a

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process of negotiation to define which things fall in that category and which things fall in categories where they were in fact displacing American investment here.

Mr. ARCHER. What about in the area where manufacturing or processing facilities cannot be constructed in the United States for ecology or other reasons? Does that go back again to solution only by treaty?

Mr. HICKMAN. It goes back to the treaty point again as to whether or not we have something displacing American investment. I would suppose it would not be national policy to encourage pollution abroad merely because it is inconvenient for people to clean it up here. But always we have to get back to the facts in a particular situation. We are not trying to do more than to prevent the tax system from diverting what would normally be American investments abroad. It is that feature of the tax system which people have complained of and which we would try to eliminate.

Mr. ARCHER. This is the point I am making, that under the types of situations that I have presented the American investment abroad would not be because of the tax holiday; but, because the tax policy happened to be there, they would be penalized in their ability to compete with other foreign corporations who were taking advantage of that tax holiday.

Mr. HICKMAN. That is why our proposal includes provision for treaty exemptions and in the case of the runaway plant situation, also for an exemption by Presidential order, which would take care of the situations in which for one reason or another we were unable to work out a treaty, but the situation was the kind of thing you described.

Mr. ARCHER. Is there any way that we could perfect this in the tax legislation itself without having to wait and hope for some sort of treaty solution to the problem?

Mr. HICKMAN. We contemplate that the legislation would contain some standards that would be the operative rules governing which things were in and which things were out. But, as always, the rules have to be stated in a general fashion. We certainly don't object to that. We look forward to working with the committee to try to work out rules that will be acceptable. But for the reasons that we have been talking about, so many of the individual situations would depend on their own facts.

Mr. ARCHER. Could we perhaps get at this by putting a clause in the legislation that the tax holiday provision would apply only if the Treasury finds that a manufacturing or processing investment was made as the result of a tax inducement and that the inducement was a significant factor in a decision not to make that investment in the United States?

Mr. HICKMAN. I think something that gets to that general result is something that we would like to respond affirmatively to, but as to the particular language, and how it would be phrased, I would not like to respond to that at this moment.

Mr. ARCHER. I have another question for you, Mr. Hickman. I hate to monopolize you and leave all these other fine people idle, but would you provide the committee and committee staff additional data on relative operating cost as wall as tax differences for countries in which the proposals might apply, as well as those where it would not?

We would like some more information to put these tax differences in context.

Mr. HICKMAN. I am not sure I understand what it is you are asking. You wish to know what such factors as labor, for example, are in various other countries?

Mr. ARCHER. Yes.

Mr. HICKMAN. I am sure we have some general data along those lines. If we can zero in on it in a way that will be helpful, we will be glad to do that.

Mr. ARCHER. If you can get with the staff with respect to this we will be grateful.

Mr. HICKMAN. Yes, sir.

Mr. ARCHER. Thank you very much.

Mr. ULLMAN. Mr. Burleson will inquire.

Mr. BURLESON. Thank you, Mr. Chairman. I will pass for the time.

Mr. ULLMAN. Mr. Gibbons.

Mr. GIBBONS. Thank you, Mr. Chairman.

Let me say before I start asking questions that I am glad to be back. I still have a little jet lag trouble. I had breakfast in France this morning and lunch in the middle of the ocean and a snack over here a while ago.

I understand that there have been some very interesting discussions here, and I would like to catch up a little on it before I go into detail.

Let me say also while much of the press and of course the current opinion over in Europe is focused on our problems here, which I will describe as Watergate, I find that the working people of Europe, the ones who are trying to mold a better climate in which all of us can live, are deeply interested in what is going on here in this committee and on this particular subject. Of course, I would expect them to ask me a lot of questions about it. I have been impressed as I have never been impressed before by the focus of the Europeans' eyes on the Ways and Means Committee right now, and on these hearings that we are having.

Let me say that I think the Europeans see better than they have in the past the problems that the United States has, and I think, Mr. Eberle, you will find them a little more cooperative when you get back to bargaining with them. I know it is kind of hard to fuss at your best overseas customer but we did do a little of that this time and I hope you don't have too many things to undo when you get over there from of our chance remarks.

Mr. Hickman, let me ask you a couple of questions about DISC. You know, it is not one of my favorite tax incentives. I understand that yesterday, I don't know who it was who said it but someone said here yesterday that one of the major areas in which we are competitive in foreign countries is in the field of agriculture. Certainly that is true. In other words, we have a natural advantage in agriculture. We have good land, good climate, good growing conditions, and a well-organized agricultural setup.

I wonder, since we are more competitive in those fields, than perhaps we are in some of the fields of manufacture, is there any reason why we should continue to give DISC treatment to agricultural products such as the minerals that we export, coal?

I understand we even export some coal. I don't know whom we can export it to and why we export it, but we still export some oil. Should

we continue the Government's support of this kind? Is there any real reason why we ought to continue doing that that I am just not aware of?

Mr. HICKMAN. I think in general we are concerned with exporting all of these things. Certainly we do have a competitive advantage in certain areas which we hope will lead to larger volumes of exports than it has. DISC is intended to be, if you will, a marginal incentive. The tax system is a cumbersome tool to deal with these things unless we apply it broadly. If we try to tune it too fine and turn it on and off I think we discourage the overall operation that we had intended.

May I comment briefly on the subject of timber to say that taking advantage of the DISC really requires that the exporter give up an advantage which is provided under the Code, or substantially all of the advantage. So far as we know, DISC is not really being used in that area.

Mr. GIBBONS. We had a copy of the Weyerhaueser financial statement the other day. Weyerhaueser, as I recall—I am speaking from my own memory—had about an $8 million tax credit, apparently from DISC, in just the short time that DISC has been in operation. They did not classify it as a deferral of taxes, as I remember from their financial statement. They classified it as just cash flow, a kind word for profit when you don't want to call it profit.

Mr. HICKMAN. That is permitted under the financial accounting rules.

Mr. GIBBONS. I understand that. I am not criticizing them for reporting it like that, but I didn't think we were doing it for lumber products.

Mr. HICKMAN. My remarks did not apply to all lumber products. To the extent that one deals with timber, in order to get the capital gain treatment on the sale of timber, you can not run it through a DISC, in effect. Now that does not mean that they may not have finished or processed goods in some fashion for which companies can use a DISC. I would simply have to look into the facts of their particular situation. That is a very big company.

Mr. GIBBONS. I realize in their financial statement they weren't too specific—not that any company is too specific on any of these particular questions. I realize the problems any time you try to fine-tune a tax loophole. But couldn't we broadly say it applied only to manufactured products? Isn't that where our problem is? Our coal mines are very competitive. We mine more coal more cheaply than anybody else in the world, I understand. We have great forest reserves, and everything else. Do we really need to subsidize those kinds of exports? Can't we just exclude the natural products like cattle and coal and all agricultural products from this kind of tax subsidy? Can't we just exclude them? That would not be fine-tuning. That would be sort of choking it off, I guess.

Mr. HICKMAN. I should say first that we do not regard this as a subsidy.

Mr. GIBBONS. I know we don't.

Mr. HICKMAN. It is an encouragement, if you will.

Mr. GIBBONS. I know we don't. For GATT reasons we don't call it a subsidy, but it is a subsidy.

I am not going to harass you any longer on that one. I am going to try to get some votes out of the committee on that.

Mr. HICKMAN. That is ultimately a value judgment that one has to make, whether certain products ought to be excluded or not. The last time around the Congress decided that they ought to be included.

Mr. GIBBONS. I don't think the Congress fully understood that we were subsidizing the exportation of coal to send to Japan and to send to the Ruhr so that they could turn it into coke and into steel and then send it back over here. You know, those tax rebates or incentives or subsidies, whatever you want to call them, are really peculiar because this one comes back and shows up in the importation of foreign steel. My area uses imported foreign steel so I guess I shouldn't complain too much about that, but we are doing that on coal, we ship it down here to Norfolk and give the DISC treatment and send it to Japan and they ship it back to us in the form of steel. Then the steel people come up here and say they cannot compete.

Let me go to something else. Mr. Hickman, we have a lot of Americans living abroad. I am constantly impressed with how many people we have over there who are American citizens, and have a great loyalty to this country. Is there any broad policy reason, though, why we should continue to exempt the first $20,000 of their earned income from U.S. taxes?

Mr. HICKMAN. The justification for that rule over the years is that they pay in other countries under various tax systems different kinds of taxes for which they do not get deductions in the United States.

There has been recurring discussion of whether the precise number is a good number, whether that much ought to be exempt. There are problems about people going abroad who are required to report as income things that would not produce a tax in this country, for example, employees abroad frequently have to send children to American schools. If the company that sends them there pays that, that becomes taxable income. Those things have been thought to wash out in a general sort of way in this exemption of the first so many dollars. No one can say for certain that the exact amount is traceable and turns out in every case to be exactly correct. We see problems with that exemption. We think that one of the technical details is that the foreign tax credit that is allowed with respect to foreign taxes on that first $20,000 exempt income probably should be tightened up and not allowed in the way that it presently is allowed. That is a detail we would want to work out with the committee.

Also, I should point out to you, perhaps most important, that we have included that exemption in the minimum income tax proposal we have made, so that where it becomes too large in relation to the individual income it would be subject to that minimum tax provision.

Mr. GIBBONS. Thank you, sir.

The CHAIRMAN. Do I understand you are through, Mr. Gibbons?

Mr. GIBBONS. Yes, sir.

The CHAIRMAN. Mr. Karth?

Mr. KARTH. Thank you, Mr. Chairman.

Mr. Ambassador, on the broader perspective on Presidential authority to adjust the runaway plant that Mr. Archer was discussing with Mr. Hickman, as I understand your testimony, this morning, you do propose that the President have authority in the event our balance-of-

payments situation worsens or comes into deficit, to impose an import surcharge?

Ambassador EBERLE. That is correct.

Mr. KARTH. Mr. Ambassador, I am a little confused about this because all countries are interested in maintaining a balance of trade and balance of payments. There is not one country in the world that isn't. Of course you would be much more expert in knowing it than I, and I am sure you are aware of that because of your work in bargaining with them, and in attempting to get a better deal for the United States.

If that is true, what causes you to believe that foreign countries would have any incentive to bargain with us, for example, and eliminate their artificial barriers as well as their tariff barriers if in the final analysis the United States, upon suffering a balance-of-trade or balance-of-payments deficit, the President of the United States could for all practical purposes undo the agreement? Now, it seems to me there is a contradiction in this bill.

On the one hand, we are for open and free and unemcumbered trade and elimination of all barriers between all nations to accommodate that. On the other hand, you say the President ought to have authority to put on surcharges in the event that we suffer an imbalance or a deficit in the balance of payments. Would you explain that contradiction to me?

Ambassador EBERLE. I will try. I think the key here is that the balance-of-payment situation can be changed much more rapidly with a change in the currency relationship than it can with trade barriers. In other words, if you have a 10 percent currency change it affects both imports and exports, whereas a trade barrier would only affect one side.

Two, the adjustment mechanism on the monetary side is a terribly important one. As Secretary Schultz last September suggested to the IMF, we need the kind of monetary adjustment that would help in keeping the balance among countries and in order to keep this you do need to have some incentives and disincentives. One of the alternative disincentives, to put on a surtax.

The last point I would make is that the ability to obtain the removal of some of these trade barriers lies in the fact that the United States is still the largest market in the world, still the most open market in the world, and people want to compete here. They do worry about our ability to make changes in the entry of products to this country. As a businessman if I knew that my competitor could react against me, I probably wouldn't take action myself. Therefore this bill is designed not for the purpose of responding, but to show people that we will have the ability to respond. Therefore I think you will get a more open and equitable trading world.

Mr. KARTH. Mr. Ambassador, that was a pretty fancy answer but we do have a trade bill; is that right?

Ambassador EBERLE. That is right.

Mr. KARTH. That does not give the President authority to manipulate the value of our currency which was in large part, I think, the answer to my question. This does not give the President authority to manipulate the value of our currency does it?

Ambasador EBERLE. No, sir.

Mr. KARTH. So we are talking about surcharges on products from foreign countries with whom we may have trade agreements. That is the paradox, sir, I see in two different parts of your bill.

Ambassador PEARCE. Mr. Karth, let me try to make a response to that, if I can. The rationale beyond the world trading system is that countries are operating at equilibrium exchange rates for their currencies. It means that the value of their currencies in terms of what they will buy has to be realistic in relation to what can be bought with other currencies. Now, the United States had a very serious problem that developed in the last half of the 1960's. Our costs got away from us. We were locked into fixed exchange rates and we became uncompetitive across a very substantial part of our trade.

Now, the GATT recognizes that when that situation happens and when it can't be entirely dealt with through domestic discipline, something has to give, and so article XII of the GATT permits countries under those circumstances to impose temporary restraints on imports.

Now, the GATT system provides for quotas which we don't like. Presumably it provides for quotas because when the GATT came into effect the countries that were in balance-of-payments difficulties had quotas, so it was a much easier thing to negotiate. We prefer a surcharge. We took the position in the GATT that our action in 1971 was justified because we were in a situation where a fundamental disequilibrium existed. So there is nothing inconsistent with the right of a country to defend itself when its currency is overvalued by changes in its exchange rates.

What we are doing on the monetary side is trying to develop a set of rules with which everybody can agree is appropriate and to increase the symmetry and obligation on the part of countries in deficit on the one hand, and those in surplus on the other. It is really not a contradiction. These things have to work together if we are going to have an economic system in which everybody thinks he is fairly treated.

Mr. KARTH. I am glad that you are optimistic about it, but on the other hand I have some pessimism, I think, on this one point because I can visualize countries that really seriously are bargaining away whatever tools of defense they think they have to gain something, where in the final analysis they may have gained nothing because the President of the United States has authority to impose a surcharge in the event our balance of payments is in deficit.

I want to caution you on that. You may want to think of it and come up with other language.

Ambassador PEARCE. We didn't invent the surcharge. Other countries with balance-of-payment difficulties have resorted to this. The resulting changes in the exchange rates have produced a set of relationships that I think the people feel much more comfortable with than those that existed before. I don't disagree entirely with your point, and that is that countries can be concerned about the responsibility of any government that holds these authorities.

But I think that the record will show that we have used the authority that we have had responsibly.

Mr. KARTH. But the reason we seek a new trade bill and the reason we seek these massive negotiations to eliminate the problems that confront us is because all of these things that you are talking about

have not worked well enough, they have not worked well enough to provide free trade among nations in a truly competitive fashion such as you apparently seek to accommodate by virtue of this bill.

Ambassador PEARCE. I don't know how far you want to pursue this.

Mr. KARTH. Not much further because I have a phone call.

Ambassador PEARCE. Let me close by saying that both the trading system and the monetary system were put in place at an earlier time when the relationships between the United States, on the one hand, and other countries were quite different. They need readjustment to reflect realities of today. If we can adjust them everybody will benefit. Everybody will find himself operating in a system in which he sees an advantage for himself. That is our goal.

Mr. KARTH. Thank you.

The CHAIRMAN. Mr. Hickman, I understood you to say this morning that you have a study which shows that 61 countries have tax incentive programs that would be covered by your tax holiday proposal. Is that right?

Mr. HICKMAN. That may be covered, that is right.

The CHAIRMAN. I wonder if we could, not for purpose of the record, but I wonder if we could as a committee, so that our staff could look into it, have a copy or copies of that study.

Mr. HICKMAN. Certainly.

The CHAIRMAN. We would appreciate having them.

Mr. Hickman, I know you are an expert drafter of tax laws. I so label you, anyway. I wonder if you could give me your reaction as to how many pages your three provisions would add to the Internal Revenue Code. Would it be anywhere from 15 to 100, or what?

Mr. HICKMAN. I think it might add two pages, maybe.

The CHAIRMAN. In that case, we would be leaving everything to you to work out in regulations. Just how many pages would be added to your regulations?

Mr. HICKMAN. I would think, Mr. Chairman, that that is not really true. We would hope that the Code itself might set forth the broad general principles and I think that we usually find that we have several pages of regulations for each page or paragraph of the Code, a great deal of which repeats what is already in the Code. But the more that we can hold down the exceptions in these things, the shorter they will be. The temptation always is to load them up with a great many specific exceptions. We would hope that would not be necessary.

The CHAIRMAN. I raise these questions because I know of your great interest in tax simplification. In this instance I don't want you to overlook that interest.

Mr. HICKMAN. I will not lose sight of it.

The CHAIRMAN. Based on the questioning which occurred this morning, Mr. Hickman, I understand one of your principal purposes in the tax holiday provision is to encourage less developed countries which presently have tax holiday provisions to enter into tax treaties with us. Did I understand you correctly?

Mr. HICKMAN. I don't think I said that was one of our principal purposes. It would be a side effect which we think would be beneficial, which would enable us to work out treaties with these countries that we have not so far been able to work out.

The CHAIRMAN. Let me ask you what standards will you use in determining where you will restore the tax holiday by treaty.

Mr. HICKMAN. I have tried to indicate in a general way that——

The CHAIRMAN. What I am getting at, would you do it across the board with any country that wanted to do so, or would you restore the tax holiday feature only under certain conditions? And if that is the case, why?

Mr. HICKMAN. I would think it would not be just across the board. It would not be something that we gave away to any country with whom we entered into a treaty. It would be the subject of bargaining in the context of the specific things that they wanted and we wanted and subject to the normal tradeoffs occurring in such negotiations. In general, the guiding principle would be to try to separate those situations in which there clearly was no diversion for tax reasons from investment in United States to some foreign countries; that is, where it might actually be said that investment in those countries by reason of their tax incentives took it away from the United States or was likely to do that.

We would have in mind that we would try to reach treaties that balance those things out, but in each case that would depend on the facts and circumstances that related to the individual country and what they were willing to give and what we were willing to give.

The CHAIRMAN. Is there some advantage to us in having treaties with less developed countries?

Mr. HICKMAN. Yes, we have thought there is.

The CHAIRMAN. What is it?

Mr. HICKMAN. One of the advantages is that we get a fuller exchange of information by treaty than we otherwise can get. However, the principal purpose of these treaties is to delineate the sources of income and be sure that the taxes are appropriately allocated. It is frequently the case in less developed countries that they reach out and tax a great deal more income conceptually than we think is appropriate. So it would hopefully eliminate the friction that arises in those situations.

The CHAIRMAN. I was in hopes that there would be something other than the fact that you might have better relations with the Senate Foreign Relations Committee than you had with Ways and Means, or Finance Committee. The treaty of course takes it away from the Ways and Means and the Finance Committee and delivers the jurisdiction over to the Senate Foreign Relations Committee. That could not enter into it at all?

Mr. HICKMAN. There is no committee with whom we feel we have better relations than your committee. The treaty procedure is a side effect that we have to accept.

The CHAIRMAN. In the past some of the people in the Treasury did aspire to go to the Senate Foreign Relations Committee.

Mr. HICKMAN. That was a different era.

The CHAIRMAN. I understand it was a phase long ago.

Have you looked at the gross up provision and the way it applies to less developed countries?

Mr. HICKMAN. Yes; we have.

The CHAIRMAN. It is my impression that the advantage from the adding of the gross up max is about half of our high rate and it tends to decrease the further away you get from the half rate provision.

Mr. HICKMAN. I think that is right.

The CHAIRMAN. I have some difficulty in understanding the logic of an incentive of this type. Would you advise me what the logic is?

Mr. HICKMAN. It is an historical development that I think really does not exist on the basis of logic.

The CHAIRMAN. I am glad to hear that.

Mr. HICKMAN. We would be happy to consider with you the possibility of changes in that area. We have not recommended it because it did not seem to us at this time to rise to the dignity of one of the major items that we felt needed to be dealt with but that does not mean that we would not be receptive to possible change in that area.

The CHAIRMAN. If you include it in many, many pages of the tax bill everybody won't know really whether it is important or not but they will think it is because of the size of the bill.

Mr. Hickman, we both know that there are certain advantages to the per country limitation as well as to the overall limitation. We are really caught here in a whipsaw. The company that find it advantageous goes the per country route and the other company that finds it more advantageous will go the overall limitation route. So we get the worst of two worlds and they get the best of two worlds. I have been thinking that perhaps it might be simpler, and I wanted to ask your advice, you commented briefly this morning on it, that it might be just simpler than to do the two things that you are doing here, I mean the thing that you are doing here with respect to the application of the loss to something other than American earnings, to put all these companies that are operating outside the United States on the overall limitations, everybody goes that route whether it is to their advantage or not.

What is wrong with that?

Mr. HICKMAN. I think that it does not totally respond to the problem that we were trying to respond to with our provision. The reason can be illustrated by supposing that you have a company which was not operating in a number of countries but suppose it is operating in two countries and had losses in each one of them.

The CHAIRMAN. That is the home company operating without a sub?

Mr. HICKMAN. Yes. Then you would still have the kind of situation that we are trying to deal with in which they would deduct the losses against U.S. income. The only reason they generally don't elect the overall limitation is because the losses may deprive them of the credit elsewhere. If they had no elsewhere to worry about, but only had losses, then that would not be a penalty and merely requiring the overall limitation would not stop them from taking the loss. So we think we have targeted the problem a little more closely than you would do if you just removed——

The CHAIRMAN. I know you have. That is what worries me about your proposition. Very frankly, we have a fuel or energy shortage such as we are told we have and we are going to deprive these companies of the incentives to find oil and gas outside the United States, and then give them great incentives to find oil and gas in the United States. It turns out there is not any to be found in the United States. Then it seems we have made a serious mistake in limiting their ability to find it outside the United States. I don't quite understand why in

order to get more drilling at home we have to cut back so much on the possibility of drilling outside the United States. This is a point that disturbs me.

Mr. HICKMAN. I don't think, Mr. Chairman, that this is intended as a penalty provision in that sense. It does have an aspect of making exploration less advantageous abroad in the sense that it increases the tax somewhat because at the moment, if they can take the losses here and then pay taxes on the profits abroad and everything washes, they are better off than if they have to pay some tax here and abroad too.

The CHAIRMAN. That sounds good now; what you say sounds very good to those of us who are tax reformers and who want as much equity as we can get into the law. But I am trying to measure it in terms of what the effect may be upon the overall establishment of reserves throughout the world to which we may have access of oil and gas.

Now, people within the industry tell me, if they understand it—maybe they don't understand it because there is some degree of confusion in their minds about just what it is that you are proposing—but they think in many instances that the risk of a $3.5 million hole, when they have no other income outside the United States, the possibility that that turns into that dry hole and cannot be charged entirely as a business loss against their income, even though their income is totally from American sources, that they just won't make that kind of an investment.

Mr. HICKMAN. There is nothing to prevent them from charging that off as a deduction. All that we are saying is that if it turns out to be ultimately profitable, then we want to have a chance to tax the profits and not to have some foreign government come in and through the operation of the tax credit limitation soak up all the tax that relates to the profit. That is all we are proposing we do. It is not intended and we didn't devise it as a provision to discourage foreign drilling.

The CHAIRMAN. I understand that, and I am asking these question in the hope that we can get the record clear and the people can understand what it is that you are asking. Now let me ask you, in 1969 we had a provision in the bill that passed the House that later became the Tax Reform Act of 1969 that went in this direction. Is your proposal the same as that which we had in the House last year?

Mr. HICKMAN. Our proposal is in essence very similar to that. It is a little more liberal in its transition effect.

The CHAIRMAN. We were tougher than you are in this.

Mr. HICKMAN. You were somewhat tougher.

The CHAIRMAN. That is what I want to bring out, so that there can be an understanding of it. You did not go as far as the committee did in 1969.

Mr. HICKMAN. That is right; this also does not go so far as what the elimination of the per-country limitation would do.

The CHAIRMAN. Let us take your proposition and do away with the per country as well.

Mr. HICKMAN. That would be a good deal tougher than what we are proposing.

The CHAIRMAN. It would just be tough on those who find that there is a great advantage to splitting their income earned abroad between

the various countries where they are earning it. Are we more concerned with the overall picture of their earnings than we are as to where they earn it? I would think we would be.

Mr. HICKMAN. That is a judgment on which people differ.

The CHAIRMAN. I want you to think about it now because we will talk more about it when we get into executive session, but I feel very strongly that any time you have an alternative in the tax law you get taken because somebody is going to find it more advantageous from his point of view to use one, somebody else another. In the process there is always a tax consequence.

Mr. HICKMAN. Any time we eliminate an option we pick up money——

The CHAIRMAN. I would not want to pick up money necessarily. I don't know that we would on the whole. Some we would, some we might not.

I think that those who are on a per-country basis, if they add some good tax advice from some source might want to go to the overall limitation. I think you can think of some cases, perhaps. I think I can.

Now in place of your denying deferral under your specialized runaway plant, and tax holiday provisions, have you thought of the possibility of requiring a reasonable proportion of earnings to be brought back within a certain limit, within a certain period of time, following the year of the earnings, or have you thought in terms of some portion of those earnings being assumed to be returned to the parent in the United States and taxable within the year of their earnings, not all of it.

Would that not be a simpler way to do it?

Mr. HICKMAN. We considered that at some length. I think that our preference for the solution that we have is based largely on the feeling that a rule which turned on measuring each year the amount of earnings and profits abroad would be administratively very difficult for us to deal with.

Second, it would not give adequate consideration to the differences between companies that were expanding or new or had heavy capital requirements and needed to reinvest, as distinguished from others who were in different kinds of business in which investment requirements were not so great. Once we got started on such a proposal it would be like any other provision, we would have some exceptions to deal with and we would end up inevitably with something that was quite complex to administer.

Again, as I pointed out in table 3 in my statement this morning, we felt that on the whole, and realizing that some individual companies may take advantage of these rules, on the whole the evidence was that sums are being repatriated at levels that seem to be quite normal in comparison to what happens in industry generally.

So, it did not look to us as if there were a problem, really, in that area. Reasonable sums are being repatriated on the whole and an attempt to fine tune the system to take care of every little company that didn't quite meet a standard is a complication that is probably not worth the candle.

The CHAIRMAN. I think so much of you and we need you so badly here to help us as an official of the Treasury that I just don't want you to get sick and wear yourself out with this complicated arrangement

you have brought to us. I think you will have more headaches with it then you can possibly manage. I am sure you can think with me of the difficulty I have in knowing exactly the kind of tax incentive provision that would come under your tax holiday proposal to end deferral.

Let me ask you about a few cases. Suppose a foreign government has a lower rate of tax, not only for foreigners who invest in a certain area within the country but also for citizens of their own country as well. Is a provision of this type subject to your tax holiday rule?

Mr. HICKMAN. If it is a regional incentive which I take it is your question.

The CHAIRMAN. It would be, but it applies to their citizens as well as us.

Mr. HICKMAN. Our concept is that it would be included.

The CHAIRMAN. There are no exceptions to that?

Mr. HICKMAN. Our view is that it should be included. One can arrive at a different conclusion.

The CHAIRMAN. I am not arguing with you about your conclusion. Suppose the country is trying to encourage a certain type of activity and provides a lower rate of tax by one device or another where this activity is carried on.

It may be a certain type of manufacturing that they want. Would your tax holiday provision apply to this kind of case?

Mr. HICKMAN. It normally would.

The CHAIRMAN. Suppose it was an investment credit of approximately the same size as ours, would that be tax exempt?

Mr. HICKMAN. I think it would not.

The CHAIRMAN. What if the credit was two or three or four times our credit, would that be tax exempt?

Mr. HICKMAN. There is a point at which those things get to be a major tax incentive.

The CHAIRMAN. Would it be twice, 3 times, 4 times, or would it be 10 times?

Mr. HICKMAN. I don't know that I can answer it at the moment. As you point out, that is the difficult part of this.

The CHAIRMAN. Suppose the tax incentive takes the form of a tax deferral, does your tax holiday device apply in that case?

Mr. HICKMAN. It is intended that it would apply if it was a major deferral, yes.

The CHAIRMAN. Do you think there is any logical inconsistency in withdrawing the tax deferral privilege in case of tax incentive abroad but not in the case of United States possessions.

Mr. HICKMAN. The United States possessions problem I think maybe we can't deal with on a totally logical basis. We are not saying that countries can't do any of these tax holiday things. We are simply saying if they do it, if an American company takes advantage of it, then we will treat it as if the shareholders had received the income.

The CHAIRMAN. I am talking about Puerto Rico.

Mr. HICKMAN. Puerto Rico is a place where this occurs in the United States. It is not technically within our provisions. We deliberately kept it out. I think it is true that logically there would perhaps be an inconsistency there, but it is just a practical question of whether we wish to sweep Puerto Rico under such a ruling or not.

The CHAIRMAN. Suppose the incentive device takes the form of a nontax advantage such as the construction of the facility itself, the building and all, or maybe they build the building, a corporation, but they need a railroad spur for some distance back to the railroad track, so the Government decides it will build that railroad spur, or maybe they have a harbor but the harbor is not deep enough, they would have to dredge it out but the Government says, "Oh, no, we will do that for you even though it may cost several million dollars."

Are these such acts as would cause termination of deferral?

Mr. HICKMAN. I think the actual donation to a company of plant and equipment would come within that provision, but——

The CHAIRMAN. Now wait a minute. We do that for anybody who wants to locate a plant in some of our States even though it may be foreign owned.

Mr. HICKMAN. I understand that. We have similar incentives here. Again, we are not condemning the incentives. Without saying you can't do them, we are saying internationally they create a situation which draws investment artificially abroad. Here, too, it draws investment artificially to certain places. We are trying to deal with that.

The CHAIRMAN. Whoever is going to administer this provision will have some headaches.

Mr. HICKMAN. Unquestionably there will be some headaches.

The CHAIRMAN. As I understand it, if a plant has already run away, you are not going to do anything about terminating the tax deferral in that case. It has already gone.

Mr. HICKMAN. We are dealing with future investment, yes.

The CHAIRMAN. I understand there has to be a 20-percent growth in investment in the case of the runaway plant of the past before deferral is terminated or even considered.

Mr. HICKMAN. That is right.

The CHAIRMAN. Do you have any view as to how effective this provision will be in returning to the United States those operations where the manufacturing has already been removed from the United States? Will it have any effect?

Mr. HICKMAN. I don't think that its major effect will be that, because the investment is normally substantial and they will stay.

The CHAIRMAN. We are just going to stop them.

Mr. HICKMAN. We are going to stop the tax laws from drawing them out.

The CHAIRMAN. Even though it does not mean they are returned to the United States and the creation of jobs here?

Mr. HICKMAN. We have tried to leave room to deal with that kind of situation where it has no effect. If it, in fact, prevents American companies from making a profit without any advantage to the United States, we would hope that could be dealt with either by treaty or by Executive order.

The CHAIRMAN. I want you to know that I think you are headed in the right direction, anytime you can take the tax consequences out of a business decision, but bear in mind that no businessman today, at least if I am advising him, would take a business action, even though the marketplace signals he should do it, without talking to his lawyer.

If we are going to do this in these cases, I think we had better begin

considering tax neutrality here at home, too. I am just having a little difficulty with this.

Somebody suggested to me that in some cases, your proposal, the runaway plant, would work in a peculiar fashion. Suppose that you already have a plant located abroad and that the manufacturer, the owner of the plant, decides to try to change things so that he is not shipping back to the United States as much as he previously has been, but that this requires additional investment in his plant and equipment in order to shift.

Now, if this investment exceeds 20 percent, does this mean that even though he has attempted to shift out of the runaway plant status by not shipping back to the United States, the very fact of trying to do so is going to result in a loss of tax deferral for him?

Mr. HICKMAN. In the runaway plant situation, it is a year-by-year test. Any year in which you fall below you need not worry about it.

The CHAIRMAN. He has not fallen below. He has to make his investment first before he can fall below. Would you take into consideration the fact if he makes it this year he will fall below next year?

Mr. HICKMAN. In that situation that would be an increased investment, and if such a situation in fact exists, the rule would apply. I do have a little difficulty seeing how the situation arises, but all kinds of things can arise.

The CHAIRMAN. One company gave me a case as a concrete example of what they intended to do.

Mr. HICKMAN. But it would be included in the proposal.

The CHAIRMAN. The tax deferral would apply?

Mr. HICKMAN. I am sorry, Mr. Chairman.

The CHAIRMAN. The tax deferral would apply. That would still be characterized as a runaway operation?

Mr. HICKMAN. Runaway plant.

The CHAIRMAN. How would you do the next year when it falls below?

Mr. HICKMAN. The next year it would be out from under.

The CHAIRMAN. He had already paid some tax on his earnings the year before?

Mr. HICKMAN. That is right. That would be U.S. tax-paid dollars abroad. It is not the end of the world, this penalty.

The CHAIRMAN. Maybe it will work. I don't know.

Let me raise a question with you, Mr. Ambassador, and I thank you, Mr. Hickman, for your answers.

Yesterday I think perhaps Secretary Shultz made a statement about, what was it, reciprocity, the word reciprocity that was misunderstood at least by some and caused some degree of concern and agitation in some of the capitals abroad. They thought from reading of certain articles that the Secretary had said that we were no longer going to proceed on the basis of reciprocity in our negotiations and in our trade.

Will you straighten out the record by telling us just what was intended?

Ambassador EBERLE. Mr. Chairman, the United States agreed, and it is our policy, that these negotiations will be conducted pursuant to the declaration of 1972, which is mutual advantage, mutual commitment, with overall reciprocity.

Secretary Schultz' comments yesterday were totally consistent with this. He did say you won't find the word reciprocal in any testimony. You also won't find the word in the Trade Expansion Act of 1962 or the Trade Reform Act of 1973.

What was being said here was that in the old days of tariff negotiations there was, as Secretary Shultz indicated, a tit-for-tat type of situation—you give me a 1 perecnt reduction in your tariff on a $100 million worth of trade and we must give the same amount in return.

This forthcoming negotiation is so broad and so complicated that we are going to have to apply judgment in a lot of these areas. It does not involve the old kind of direct reciprocity. It does involve the kind of mutual commitment where you have new codes of standards, codes of conduct, removal of barriers, the kind of mutual advantage where, if we can remove the distortions from a lot of these areas of trade, the trade will flow on a more even keel and we will get our share or more on a highly competitive basis.

It is that kind of approach that we are all talking about.

I just want to be sure that we get started. I think there is some concern that there are a number of practices of other countries that we are proceeding against, that we would like to dispose of without compensation because we consider them illegal. We don't consider the illegal quotas that Japan has part of the negotiations. We are proceeding to discuss a lot of these practices with the other countries.

The CHAIRMAN. Thank you, sir.

I thought that was really what the Secretary had in mind yesterday.

Mr. Ambassador, in the statements yesterday and in the statements today there is an indication that relief from injurious import competition will be far more accessible than it is under existing law. Much has been made of the proposed elimination of the "in major part" language and the shift to "primary."

I think perhaps the emphasis on the elimination of existing problems of criteria tend to ignore the other changes that you proposed in the escape clause criteria.

What do you have in mind, for example, with the insertion of the language in section 201, and I quote, "for the purposes of facilitating orderly adjustment to import competition."

I believe this is the first time this language has appeared in the escape clause provision, is it not?

Mr. JACKSON. Mr. Chairman, that is true, this is new language.

The CHAIRMAN. Does this emphasis on orderly adjustment to import competition tend to reduce the likelihood that an industry can demonstrate to the Commission's satisfaction that it is being injured by increased imports and should be eligible for relief?

Mr. JACKSON. I think it does not, Mr. Chairman. The point of that language was to focus the purpose of the escape caluse. This purpose is to allow adjustment. But the technical criteria still remain, increased imports, serious injury, and then the causal link, which, of course, is primary cause.

The CHAIRMAN. Under section 202, under which the President may act after an affirmative finding by the Commission, there is listed for the first time Section 202(c) factors that the President shall take into account in determining whether to provide import relief, is that correct?

Mr. JACKSON. That is correct.

The CHAIRMAN. These include advice from the Secretary of Labor on the extent to which workers in the industry have applied for assistance, the probable effectiveness of import relief as a means of achieving orderly adjustment, the effect of import relief upon consumers, the effect of import relief on U.S. international economic interests, and so forth. Is that right?

Mr. JACKSON. That is correct.

The CHAIRMAN. These factors have not been spelled out in the escape clause legislation in the past. I am wondering what impact they might have, if, indeed, this legislation is to make import relief more accessible to domestic industries. Is this a limitation or further assistance to their getting relief?

Mr. JACKSON. Mr. Chairman, this can work both ways. The purpose of this is to put in one person the responsibility of weighing a number of different aspects that are part of the cost of an import relief program and to give him a chance to look at the needs not only of the industry that is injured, but also to weigh that against the needs of the workers there, the needs of consumers, and the possible effect on other industries where some compensatory concessions might have to be made under our international obligations.

The CHAIRMAN. I am asking this because I don't find anything here. We lay down a lot of these factors that have to be considered. I think one of the important factors that ought to be considered is whether or not it is in the public interest to maintain an adequate production base in the United States of this particular industrial activity. Should that not be considered?

Mr. JACKSON. I think that is a good point, Mr. Chairman, and that question is one that should be considered.

The CHAIRMAN. Now, let me ask you with respect to antidumping. In the trade bill in 1970 that passed the House, we included amendments to the Antidumping Act at the Treasury's suggestions, incidentally, to treat with imports of state trading nations.

Now, in your proposals to amend this Antidumping Act you do not include amendments on how imports from state trading nations are to be treated under our Antidumping Act.

Is this an oversight or was this a purposeful omission? If so, why?

Ambassador EBERLE. I would like to introduce Matthew Marks, of Treasury, who has been our chief adviser in this whole unfair area.

The CHAIRMAN. We are well acquainted with Mr. Marks. We welcome you to the committee.

STATEMENT OF MATTHEW MARKS, DEPUTY TO THE ASSISTANT SECRETARY (TARIFF AND TRADE AFFAIRS) AND DIRECTOR, OFFICE OF TARIFF AND TRADE AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. MARKS. Mr. Chairman, this was not an oversight. As you are well aware, our present regulations recognize in price-controlled economies terms such as home market price are essentially meaningless.

Accordingly, the regulations provide that the Treasury Department compare the price at which the article is sold in the United States

with the home market price of similar merchandise in a free world economy.

At the time of the hearings of the 1970 trade bill, we were fearful that these regulations might be subject to court attack. It was for that reason that the administration in effect asked for a statutory endorsement of this provision of our regulations.

The CHAIRMAN. I have no quarrel with that.

Mr. MARKS. I understand. I am trying to explain the reason. Although we have had a number of Communist country cases before and since that time, these provisions have not been subject to court attack.

In view of this, we no longer see the need for a statutory provision on this particular subject. I might add as an aside that, if the Treasury regulations contrary to my anticipation were subjected to court attack and were overturned, we still would not be completely helpless under the Trade Reform Act if there were a flood of low-priced imports from Communist countries.

In such an event, we could fall back under the provisions of section 505 of the Trade Reform Act, which deals with market disruption. I don't anticipate that happening.

The CHAIRMAN. Mr. Marks, I am sure everybody understood except me. Why is the inclusion of the language in this bill that was in the 1970 bill that passed the House, dealing with imports from state trading nations, why would that be unconstitutional?

Mr. MARKS. Unconstitutional, did you say, Mr. Chairman?

The CHAIRMAN. I thought you said you did not include it because to include it would raise a question of the constitutionality.

Mr. MARKS. No. I am sorry, Mr. Chairman. You may have misunderstood me.

The CHAIRMAN. I am sure I did. That is why I am asking you again.

Mr. MARKS. I will be glad to repeat.

The CHAIRMAN. I am not asking you to repeat what you did say because I may misunderstand it. Say it in different language. I don't want to misunderstand you again.

Mr. MARKS. Previously we were fearful that the old regulations might be subject to court attack.

The CHAIRMAN. What old regulations? The ones in existence?

Mr. MARKS. The ones that are presently in existence, and which were in existence at that time, too.

The CHAIRMAN. What bearing does that have on special language in the law somewhere which enables you to deal with the imports from state trading nations under the Antidumping Act? How do you deal with them if we don't write something in?

Mr. MARKS. We deal with them in this way: The regulations are already adequate to deal with them. The only question would be whether the regulations could be overturned. We feared at one time they might be. We no longer fear they will be.

The CHAIRMAN. You are certain that your present regulations are sufficiently broad to enable you to deal with antidumping cases arising from the shipment of goods from the state trading nations?

Mr. MARKS. The word "certain" frightens me a bit, Mr. Chairman.

The CHAIRMAN. We didn't think so in 1970.

Mr. MARKS. That is what I am pointing out, Mr. Chairman. We have had experience since then. We have had six Communist coun-

tries since then. We have not been subject to court attack since then. Therefore, we have changed our judgment.

The CHAIRMAN. That satisfies that so far as I am concerned.

Does any member of the committee want to ask a question on that particular point?

I am not through now, Jim.

Mr. BURKE. I would like to find out: How can you arrive at an antidumping violation with a country like China or Soviet Russia?

The CHAIRMAN. That is an interesting question.

Mr. MARKS. The way we do it is this, in effect: Let us assume for the moment that the microphone that I am using is sold by the Communist country in the United States for $100.

The CHAIRMAN. Bear in mind the Ways and Means Committee is responsible for the purchase of that microphone.

Mr. MARKS. Do you observe the buy American provisions, sir?

The CHAIRMAN. We do.

Mr. MARKS. Now, in a normal situation we would go to the country and look to see at what price they sell this microphone exfactory, fob in that country. In a Communist country this is nonsense because the prices are meaningless. It is a price-controlled economy.

What we do instead is look for the country which has the nearest similar microphone which is not a Communist country. Let us assume the nearest similar microphone is in France. We then go and find out what is the price of this microphone sold in France.

If it is sold in France at $92 and sold in the United States for $90, there would be a $2 dumping duty there.

The CHAIRMAN. What if there is already dumping in France, Mr. Marks?

Mr. MARKS. This provision is a provision, Mr. Chairman, which is not perfect in its application. We challenge in Treasury anyone to come up with a better provision.

The CHAIRMAN. Mr. Marks is a friend of mine. I don't want anybody laughing at Mr. Marks.

Mr. MARKS. We challenge others to come up with a different stand, and no one has been able to.

The CHAIRMAN. I'll tell you what you do. You work with us in executive session and let's see if we cannot come up with something better.

Mr. MARKS. I will be glad to, Mr. Chairman.

The CHAIRMAN. Let me go back to this nontariff barrier authority. I note the authority requested in 103(c), I believe it is, with regard to prior approval of any trade agreement for the reduction, elimination, or harmonization of barriers and other distortions of trade.

It has been indicated that the intention is to seek authority to eliminate such things as the American selling price final list, the wine gallon, proof gallon requirement regarding alcohol beverages and requirements for marks of origin. Is that correct?

Ambassador EBERLE. That is correct.

My question is: If these requirements in our customs and tariff laws are burdensome and their elimination is worth something to our trading partners, why has not definite legislative language for their elimination been developed on which the Congress could pass at this

time, rather than reference to these matters in nontariff barrier authority?

We can repeal, based on conditions, if you want to, ahead of time. They go into effect on certain conditions.

Ambassador EBERLE. Our problem is that we don't know what those conditions are. They are worth something to our trading partners, and we would expect to get——

The CHAIRMAN. Why don't we tell them to get off their type of proof gallon and wine gallon and go to our kind? Would that be just as easy?

Ambassador EBERLE. In all of these cases there will be some compromises, although we are one of the few countries that use this particular method. On the other hand, there are some bottling systems that ought to be cleared up in our favor, too.

The CHAIRMAN. We are just about to take over their metric system. I would like to have something around here that I could remember as a boy.

Mr. JACKSON. I might comment briefly, Mr. Chairman.

The CHAIRMAN. Yes, Mr. Jackson.

Mr. JACKSON. It is not the intention in formulating this list under 103(c) that the negotiation will obtain from trading partners' concessions on the same type of items. We may be able to trade one of these for something better, that is more interesting to us on their side.

The CHAIRMAN. I understand.

What I am getting at is the approach used and a prior approval authority to me is important because it does indicate an attitude toward the future. Do you share that?

Mr. JACKSON. Yes.

The CHAIRMAN. As I read section 103(d)—Let me drop to the next paragraph—regarding the 90-day procedure for congressional veto, I am a little confused. Does this leave to the President the determination of whether the implementation of the agreement does or does not require a change in the domestic statute affected? Does he make that decision? Who does?

Mr. JACKSON. Mr. Chairman, he makes that decision, just as he now makes that decision, absent this provision.

The CHAIRMAN. I know, but what if he is wrong?

Mr. JACKSON. Then he can be sued.

The CHAIRMAN. He can be sued?

Mr. JACKSON. The Government could, in implementing the particular provision.

The CHAIRMAN. You mean like the Secretary of the Treasury could be sued if he issues more bonds than we say he should?

Mr. JACKSON. For instance, like the lawsuit that was brought on the surcharge.

The CHAIRMAN. Do you want to put in some kind of insurance program for the benefit of the President, insure him against a mistake?

I don't know that that satisfies me. There should be some appeal arrangement, don't you think?

Mr. JACKSON. I think that is worth considering, Mr. Chairman.

The CHAIRMAN. Many times any President can get wrong legal advice, I guess.

[Laughter.]

The CHAIRMAN. No. I was not being funny. It is in this area of the veto procedure that I am concerned. I would like to have your comment on the important role that the President would have in determining whether or not changes in the domestic law would be required to implement a particular agreement on the nontariff barriers.

Mr. JACKSON. If I understand you, Mr. Chairman——

The CHAIRMAN. Let me repeat it. I would like to have your comment, Mr. Jackson, on the important role that the President would have in determining whether or not changes in the domestic law would be required to implement a particular agreement on the nontariff barrier side.

Mr. JACKSON. May I use an analogy?

The CHAIRMAN. All right.

Mr. JACKSON. Under the existing practice right now, absent these new provisions of the bill, the President must make similar determinations.

For instance, he must decide if he negotiates something in the international sphere, whether in implementing, he will take a treaty to the Senate, or he must come to the Congress for legislation, or in some cases he may use authority already granted to him by the Congress or the Constitution to implement.

The CHAIRMAN. That is what worries me, the authority the President assumes he has under the Constitution.

Mr. JACKSON. I know that is a very troublesome area. The purpose of this legislation, the intention of this provision is not to change at all the existing law on that question, the President's independent authority.

The CHAIRMAN. Isn't it true, Mr. Jackson, that every one of the nontariff barriers that we have in existence here in this country results from some statutory action of the Congress?

Mr. JACKSON. I don't think that is true, Mr. Chairman.

The CHAIRMAN. Give me an example first, not a statute.

Mr. JACKSON. I will try to. I am not sure I can offhand.

There are sometimes administrative practices that are termed nontariff barriers. It may simply be the way a government goes about its business.

For instance, in requiring necessary forms for customs purposes or for any other purposes.

The CHAIRMAN. That is just redtape.

Mr. JACKSON. That is right. That can be a nontariff barrier.

The CHAIRMAN. My goodness. I never thought it would. I guess it can. Now give me another example.

Mr. JACKSON. You so easily push me into a corner, Mr. Chairman.

There are some other possibilities in the area of how a government will allow another government or another society's firms to set up offices in the country, in our country, for instance, or to provide certain kinds of facilities. Now, sometimes these are termed, I grant you they are out on the fringe, but sometimes they are termed nontariff barriers.

It is thought, in some cases anyway, that the executive branch will have authority to implement agreements of small statute in that area without further constitutional or legislative authority.

The CHAIRMAN. Let us look at some of the statutory arrangements. Do any of our health laws enter into this, sanitation laws?

Mr. JACKSON. Yes. I am sure that there are such, there are aspects of those laws that could be termed nontariff barriers.

The CHAIRMAN. I understand that they are actually considered abroad as being nontariff barriers.

Mr. JACKSON. I am sorry——

The CHAIRMAN. I understand that our health and sanitation laws in many instances are considered by people abroad as being nontariff barriers.

Mr. JACKSON. That is true.

The CHAIRMAN. Of course, the Agricultural Act, wherein we support agricultural prices and lay down quotas against importation of like articles from abroad, we do that because we say we have to do it in order to not be supporting the price of the same agricultural commodity outside the United States.

Your quarantine is another area that might be viewed as a nontariff barrier.

We are getting into a pretty serious subject matter now.

Mr. JACKSON. That is correct, Mr. Chairman. That is one of the dilemmas we have had in trying to think through a procedure for negotiating internationally on nontariff barriers.

The CHAIRMAN. I was visiting with a very fine Dane who was over here from Denmark. He was quite anxious to know whether or not I thought our negotiators would be interested in bargaining away the nontariff barrier which is the quota on the importation into the United States of milk products. He was very anxious to know whether I thought they would do that. I told him I didn't know.

Mr. JACKSON. I can't answer as to what the end result of the negotiation might be. As I understand the import of your question——

The CHAIRMAN. I did not expect you to say whether it would or would not be included, Mr. Jackson.

I know you don't know right now. Go ahead.

Mr. JACKSON. I would say that the legal intent and scope of 103 (d) and (e) could encompass the kind of things that you have mentioned.

The CHAIRMAN. There is no question about these areas that I have mentioned. Should there be any negotiation with respect to the elimination of these types of so-called nontariff barriers, then the President would have to submit those matters to the Congress.

Mr. JACKSON. If it required a change in the domestic legislation.

The CHAIRMAN. Do away with it if it required a change in domestic legislation.

Mr. JACKSON. Whether such change is required; I could not give you an immediate judgment on that.

The CHAIRMAN. You are a Philadelphia lawyer?

Mr. JACKSON. No, sir. I originally practiced in Milwaukee.

The CHAIRMAN. You sound like one.

I know they have good lawyers in Milwaukee, too, but I can't get you to admit freely.

Let me go ahead to another aspect of it. I realize that a great deal of effort has already been made to identify, to categorize, and to reach agreement on how best these distortions to trade can be reduced.

I am talking about nontrade barriers and their elimination. It would be useful to the committee, I believe, if you would indicate at this time

the status of the discussions in the GATT in each of the areas that have been identified, the positions that negotiators have taken and the commitments we have made as to the courses of action in these nontariff barrier areas, Mr. Ambassador.

Ambassador EBERLE. Mr. Chairman——

The CHAIRMAN. Let me say this: If you feel for 1 minute that public exposure would not be useful, it would be helpful to the committee if such information could be provided to the committee later on in executive session.

Ambassador EBERLE. I can supply this to you. I think it would be more useful because the work program is substantial, it covers a broad-based list of items. We could submit this for the record and then bring you up to date in executive session on our negotiating posture on these items.

The CHAIRMAN. Without objection, if you think it is appropriate, it will appear in the record at this point.

[The following was submitted for the record; more detailed information will be furnished in executive session:]

GATT WORK PROGRAM ON NONTARIFF BARRIERS

As indicated in the briefing papers transmitted to the Committee by the Office of the Special Representative for Trade Negotiations, the more than 800 country notifications on alleged industrial nontariff barriers (NTBs) have been grouped into 27 categroies. In meetings during 1970 various solutions to the trade problems arising from these NTBs were proposed and discussed in five working groups.

In February 1971 it was decided that more progress might be made if a few NTBs were selected for concentrated attention. Furthermore, if working groups could draft solutions acceptable to delegations, these solutions would be recommended to governments for their consideration.

Since 1971 solutions have been drafted by working groups for import licensing procedures and customs valuation practices. The drafting of a code of conduct on product standards is almost completed. Work is underway on export subsidies, domestic subsidies that stimulate exports, and counterveiling duties; quantitative restrictions and export restraints; consular formalities; import documentation; and packaging and labeling. The OECD is working on a code on government procurement practices.

It is anticipated that, during the forthcoming multilateral trade negotiations, work will continue on these categories and further work will be initiated on some of the remaining ones. The GATT Committee on Trade in Industrial Products is now in the process of drawing up a list of NTBs that delegations want included in the negotiations.

Work on NTB problems has concentrated on developing solutions that make economic sense and that might be acceptable to the countries concerned if reciprocal concessions were obtained in the broader trade negotiations. Little attempt has been made to achieve a balance of concessions within the framework of solutions on any particular NTBs. In many cases reciprocity will have to be obtained in the context of a larger package that would involve other NTBs, tariffs, agriculture, safeguards, and other aspects of the negotiations.

Reports on the status of work on those industrial NTB categories that have been, or are being, actively considered are attached.

PRODUCT STANDARDS

The most ambitious effort so far in the GATT work program is the drafting of a code of conduct to prevent technical barriers to trade in the field of product standards and certification. International harmonization and certification of standards can facilitate trade. Significant economies can be realized if exports are designed and tested for a large multicountry market rather than for a number of separate national markets with different standards and quality assurance

requirements. However, if international harmonization and certification arrangements are exclusive, they can result in technical barriers to trade.

U.S. interest in GATT work on standards was particularly spurred by the conclusion of an exclusive European arrangement for the harmonization and certification of electronic components (CENEL Agreement), which had potential adverse trade effects for the United States and other nonparticipants. This electronic components scheme may be only the first of a score of similar arrangements that are being planned by Western European governments and by the nominally-private national standards bodies located in Europe.

The GATT has no provisions specifically relating to standards. The purpose of a standards code is to ensure that standards will be used to facilitate rather than to impede trade. In particular, worldwide rather than regional or other exclusive standards arrangements are encouraged.

The GATT standards code would (1) encourage participation in standards writing in international organizations so as to harmonize standards on as wide a basis as possible; (2) encourage participation in international certification arrangements for assuring conformity to standards; (3) formulate rules for regional standards arrangements so that, in standards writing and certification, these arrangements will not operate to restrict the trade of third countries; and (4) formulate rules that should be followed by national standards bodies so that the writing and certification of standards will not create unjustifiable obstacles to international trade. The code would apply to both mandatory national standards, with which it is obligatory to comply, and to voluntary national standards, where there is no legal obligation for compliance. Furthermore, it would apply to standards bodies at the central, state, and local government levels and to voluntary or private standards bodies.

The draft standards code contains more than thirty pages of text. An outline of the code was made available to the Committee and to the public in connection with public hearings held in June and July of 1972 by the interagency Trade Information Committee, which is chaired by the Office of the Special Representative for Trade Negotiations.

In large part, the code deals with potential trade barriers rather than with difficult rollbacks of existing restrictions. Unlike solutions to most other NTBs, the code might be considered selfbalancing in that all adherents would be required to take the same obligations with respect to future actions. Consequently, countries might be willing to implement such a code prior to the conclusion of the multilateral trade negotiations instead of including it as one of the balancing elements in these negotiations.

A working group of the GATT Committee on Trade in Industrial Products is expected to finish a draft of the code about June 8. This draft will probably contain a number of disagreed provisions which will have to be resolved at some point. Because the code is intended to cover agricultural as well as industrial products, it is likely that it will be examined by the GATT Agriculture Committee to determine its applicability to agricultural products.

The principal substantive area of disagreement relates to quality assurance systems. Underlying this disagreement are fundamental philosophical differences. Some countries maintain that international and regional quality assurance systems are inherently superior to national systems. The United States recognizes that international and regional systems, such as those in Western Europe, are potentially more trade-creating than national systems but that they can also be used to discriminate against nonmembers of a regional system and thereby inhibit trade. Consequently, safeguards must be included so that such systems will not be abused. Some other countries, however, regard such safeguards as casting doubt on the desirability of such systems.

IMPORT LICENSING

GATT work on import licensing has related to so-called automatic import licensing and licensing that is used to administer import restrictions. Licensing that is designed to restrict trade is being considered in connection with quantitative restrictions.

Many countries continue to require licenses as a condition of importation even though these licenses are issued automatically. They maintain that such licensing is necessary for statistical and surveillance purposes. The United States, however, contends that these "automatic" licensing systems should be abolished on the grounds that their objectives can be accomplished by other means and

that they are sometimes used to restrict trade. In any event, "automatic" licensing constitutes unnecessary red tape that deters trade. The United States also has some interest in licensing that is used to administer import restrictions (health and sanitary restrictions, for example) because such licensing may have a restrictive element.

The solutions that have been developed for import licensing involve two texts that, *inter alia,* would require elimination of other countries' automatic licensing systems and would establish rules for licensing to administer import restrictions. Not all parts of these texts have been agreed by all delegations. For example, rather than eliminate "automatic" licensing, some countries prefer that it be subject to rules designed to ensure that it not be operated in a restrictive manner.

These texts have been "put on the shelf," to be made a subject of the future negotiations, both with respect to their final form and content and to the negotiating values to be assigned to the different actions that countries would be obliged to take if these texts are implemented.

CUSTOMS VALUATION

The United States and several ther countries have customs valuation laws that, in some respects, do not accord with the provisions of the GATT. The U.S. American Selling Price and Final List bases of valuation are cases in point. However, U.S. legislation is not in violation of the GATT because it is maintained under the Protocol of Provisional Application, which permits the maintenance of inconsistent legislation that existed at the time of accession to the GATT. Some other countries resort to valuation practices which, while not in conflict with the GATT, nevertheless create some trade problems. The practice of "uplifting" customs values in less than arm's length transactions is an example of the latter.

A uniform system of customs valuation in all countries was discussed as a possible solution for NTB problems in this area. In particular, universal adoption of the Brussels Definition of Value on either an F.O.B. or a C.I.F. basis was proposed and is still favored by many countries. Without specifically mentioning the Brussels Definition the March 1973 report of the U.S. Tariff Commission to the Senate Finance Committee[1] unanimously suggests adoption of an international customs valuation system.

The solution devised in the GATT working group, however, addressed itself to the specific customs valuation practices notified in the NTB inventory. Texts on Principles and Interpretative Notes would require, *inter alia,* that these practices be brought into conformity with the present GATT provisions. Although these texts are disagreed in some respects, their implementation would require major changes in the customs valuation practices of the United States and of several other countries. The United States has made clear that acceptance of these texts would require reciprocal concessions on other NTBs and/or in other aspects of the trade negotiations.

EXPORT SUBSIDIES, DOMESTIC SUBSIDIES, AND COUNTERVAILING DUTIES

U.S. countervailing duty legislation does not require that injury be cause to a domestic industry before countervailing duties can be imposed. In this respect U.S. legislation differs from the GATT but is not in legal violation because of the Protocol of Provisional Application. A few other countries also have countervailing duty legislation that is inconsistent with the GATT. The solution that has been proposed for this problem is the adoption of an injury requirement by those countries that do not have one and the drafting of a code on countervailing duty procedures and practices.

The United States has maintained that subsidies, not countervailing duties, are the basic problem. If there were a satisfactory solution on subsidies, this should largely resolve the countervail issue. In any event, the United States has made clear that there can be no resolution of the problem of countervailing duties except in the context of a satisfactory settlement of the problem of subsidies on both industrial and agricultural products.

A 1955 GATT amendment introduced a provision outlawing export subsidies; but this provision has been accepted by only seventeen countries.[2] The GATT itself does not adequately define what constitutes a subsidy but a 1960 working

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[1] U.S. Tariff Commission, *Customs Valuation,* Report to the Senate Committee on Finance and the Subcommittee on International Trade, March 14, 1973.

[2] These seventeen countries are Austria, Belgium, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Rhodesia, Sweden, Switzerland, the United Kingdom, and the United States.

party report lists certain practices, which, when applied to industrial exports, would generally be regarded as subsidies and would be prohibited when they resulted in prices for export that are lower than prices in the domestic market. Agricultural products are only subject to the obligation that export subsidies not result in more than an equitable share of world trade for the subsidizing country.

The United States has expressed dissatisfaction with the present GATT provisions. In the first place, the United States wants more comparable treatment between agricultural and industrial products. Secondly, the ban on export subsidies on industrial products contains no definition of what constitutes an export subsidy other than an illustrative list of practices. Furthermore, this ban applies only when the subsidy results in "dual pricing." However, subsidies can stimulate exports through increased advertising, larger sales commissions, and similar means other than lower prices.

In the GATT working group on subsidies and countervailing duties the United States is trying to reform the present rules. As a first step the United States has proposed that an attempt be made to define what constitutes and export subsidy and supplement this definition by a list of banned practices. The key issue is how far the United States and other countries are willing to go in limiting subsidies—both export subsidies and domestic subsidies that stimulate exports.

The problem of foreign subsidies involves both the U.S. imports and U.S. exports. Subsidized exports to the U.S. market can be countervailed against. However, there is no adequate remedy under the GATT or under U.S. law to deal with subsidized products competing with U.S. exports in third countries. Under the present GATT rules, an exporting country injured by such subsidization can request the recipient of subsidized products to impose a countervailing duty. However, this country may have no interest in imposing such a duty on its imports. Consequently, the injured exporting country may have to resort to competitive subsidization, as the United States was once forced to do in exporting chickens to Switzerland.

Another possible remedy in cases of third-country export subsidization is retaliation under Article XXIII of the GATT. The United States has recently initiated an Article XXIII action against Italy with respect to export subsidies on fabricated steel products. The United States has also proposed that the GATT rules on countervailing duties be amended to permit retaliation when injury results from third-country export subsidization. Section 301 of the proposed Trade Reform Act of 1973 would, *inter alia*, explicitly authorize such retaliation.

Serious work looking toward solutions on subsidies and countervailing duties has been initiated only recently. Although domestic subsidies that lead to import substitution are part of this work, this separate problem has not yet been considered.

QUANTITATIVE RESTRICTIONS AND EXPORT RESTRAINTS

Quantitative restrictions imposed on industrial products by developed countries are no longer a serious problem except in the case of Japan, which continues to maintain quotas on a few categories of products. Quantitative restrictions on most agricultural products are directly related to domestic agricultural programs and are being dealt with in that context.

The United States has proposed the abolition of all illegal quantitative restrictions before the beginning of the multilateral trade negotiations. Countries maintaining such restrictions after that time would be required to seek GATT waivers or pay appropriate compensation. Restrictions that are now inconsistent with the GATT but are given legal cover by waivers or accession protocols would be subject to negotiation. Most other countries do not want to make any distinction between legal and illegal restrictions on the grounds that, whether legal or not, they restrict trade.

Some countries have proposed that restraints on exports be treated in the same way as quantitative restrictions on imports because both of these measures can have the same restrictive effects on trade. The United States has maintained that there are various kinds of export restraints—short supply controls, quality control measures, etc.—and that there has not yet been any serious discussion of these various kinds of export restraints. Furthermore, the problem of some export restraints and of some quantitative restrictions are directly related to the safeguard question and can only be resolved in the context of the development of international rules on safeguards. For this and other reasons the United States has supported the establishment of a special safeguards group. Any residual problems that might remain after rules on safeguards are devised might then be dealt with in the NTB aspect of the trade negotiations.

CONSULAR FORMALITIES

With very few exceptions, consular formalities and fees are maintained by developing rather than developed countries, largely for revenue purposes. The United States with the support of some other countries has proposed the abolition of all consular formalities and fees on the grounds that they constitute unnecessary red tape and impose an inequitable tax burden upon traders. Revenue losses resulting from the elimination of fees could be recouped from other sources. It has been pointed out that the abolition of consular formalities and fees is a contribution that the developing countries can make to the trade negotiations and that negotiating credit could be given them for such abolition.

A text that would require the abolition of consular formalities and fees is now under consideration. Although this text has not been accepted, it has considerable support.

IMPORT DOCUMENTATION

One of the principal NTB notifications on import documentation concerns the U.S. Special Customs Invoice Form 5515 but there are also problems with other countries' practices.

The United States has proposed that a solution to these problems would be international simplification and harmonization of import documentation. Lists of common requirements for a customs invoice and for an all-purpose entry document have been tabled. However, before establishing an expert group in the GATT for this purpose, the Customs Cooperation Council and the Economic Commission for Europe have been requested to undertake the technical work that might serve as the basis for a solution to documentation problems. Reports on this work are expected in the near future.

PACKAGING AND LABELING

Some of the problems relating to countries' packaging and labeling requirements will be resolved by the draft code on product standards. Once the text of this code is completed a review will be conducted to determined the remaining problems and what kind of solution might be applied to them. It is anticipated that this work will begin in the fall.

GOVERNMENT PROCUREMENT

In one narrow sense it is correct to say that government procurement is probably the most extensive NTB with which we have to cope. The United States is now spending approximately $14 billion a year in the procurement of civilian goods and the other member governments of the OECD, as a group, are spending a sum of roughly the same magnitude. Thus we are talking about a sum of approximately $30 billion a year which might be compared with the total volume of world trade affected by the Kennedy Round—an amount approximating $40 billion, $8.5 billion of which was accounted for by the U.S.

It is, however, misleading to think of government procurement in these terms. All major OECD countries are highly restrictive in their procurement systems. Thus any movement in relaxing this NTB would mean considerable changes on the part of all governments (the U.S. included) in tempering the restrictiveness of the existing systems. Unlike most NTBs we are dealing with in the GATT, government procurement, like the dumping code, presents an opportunity for a self balancing agreement without any need for a trade off against movement in other NTB areas.

The United States has played a leading role in OECD work aimed at developing an international code which would safeguard the existing stake U.S. suppliers have in sales to foreign governments and improve access to the steadily growing public sector markets abroad. The United States has emphasized particularly the need for published regulations, tightly drawn rules to discourage discrimination against foreign firms and products, and minimal exceptions from the proposed rules. Despite progress, wide differences remain on certain key provisions which the United States considers essential for any proposed code.

At the instigation of the United States, efforts to complete a draft code have been accelerated to set the stage for negotiations on the difficult political issues relative to the code which must be resolved.

The CHAIRMAN. Just one final question. This has to do with your tariff negotiating authority.

In the statements of yesterday, as I recall, there was submitted some language which I think was on page 7 of somebody's statement. Maybe it is your statement of today or maybe it was the Secretary's statement of yesterday—indicating that U.S. negotiators must have "flexibility, leverage, and credibility at the bargaining table."

For that purpose it was suggested that the President be given unlimited authority to increase and decrease rates of duty in addition, and I think we must recognize it would be unprecedented authority, and under certain circumstances to implement international agreements on nontariff barriers.

Thus my question is: In view of the conversations which have taken place this year in Europe and Japan, how do you judge the likelihood that negotiators for the European Communities and Japan will be willing to engage in tariff negotiations which would result in the complete elimination of duties by most of the industrial nations in substantial sectors of trade over a period of time, whatever that period of time might be?

Ambassador EBERLE. Mr. Chairman, my crystal ball is not very good, but I would say that on balance the various officials whom I will differentiate from negotiators, have indicated almost across-the-board that they would consider a major tariff reduction. Countries such as Japan and Germany have indicated, and the Scandinavian countries have indicated, over a period of time they could go for duty elimination.

There is a group of countries such as France, England, that have indicated they feel this is so important——

The CHAIRMAN. Italy?

Ambassador EBERLE [continuing]. Italy—so important to the glue of the European Community that to commit to go all the way at this time would be impossible.

I think on balance, there is a good prospect for a substantial tariff reduction. How much further at this time will really depend on the negotiations.

The CHAIRMAN. Do you say that in view of the knowledge that the original six of the European Economic Community are divided right now, evenly, three and three, over even the desire to sit down and begin negotiations?

I may be wrong, but I get that information from many sources in Europe. You have Belgium, the Netherlands, Germany, that are perfectly willing to begin negotiations; you have France, Italy, and Luxembourg.

Ambassador EBERLE. I think there is some division over what they should negotiate, but in the declaration at the end of the October summit meeting which was again concurred in the presentation of a mandate, all have committed themselves to a full-fledged negotiation this fall.

The CHAIRMAN. Maybe that is something like economy here in Congress or tax reform in Congress.

It is great to talk about it in general terms. When you get down to the nitty-gritty of it, it becomes rather embarrassing on occasion. Not so widely supported.

I don't know whether or not that general statement that they have made indicates that they want to get down to the nitty-gritty or not. I don't like them to try to put us in a position of being the culprit for

not having further negotiations when I don't think they are sincere in calling for them themselves.

Now, you don't say that; you are an Ambassador.

Ambassador EBERLE. I think there is a valid point that you make. There are a number of people in other countries who have said they are not too excited about these negotiations, but I think when you take it to the higher political level, there is a political will, knowing that there are important economic problems that must be managed. One of the ways of managing these problems is to have negotiations to start to face up to and solve some of them.

I think for that reason, as I tried to indicate before, there is a desire to proceed, but it will be tough to negotiate for the simple reason no one likes to give up a preferred position.

The CHAIRMAN. There has been a whole lot to say about the authority that the President is asking in the package being unprecedented, unlimited, greater than anybody in the past ever had the nerve to ask for, and so on.

Does this package contain any greater request for authority to reduce our own duties than has been the custom in the past or the case in the past?

Ambassador EBERLE. In balance, no.

The CHAIRMAN. There has not been any request in the past that I can remember. Maybe so, but the Congress has not acted on it, as I remember, except in escape-clause actions to allow the President to up rates of duty without limit.

Now, that is a new one. For whose benefit would an upping in the rate of duty be?

Would it not be for the American producers, American workers? Would it be a protectionist device?

Ambassador EBERLE. The answer, I believe, is "No." Let me quickly say——

The CHAIRMAN. If you raise a duty other than the case you are talking about, where you put a duty into effect in place of a nontariff barrier, I don't understand why it would not be protective.

Ambassador EBERLE. If it is put into place, you are right, it would be. As a practical matter, in the 1962 act the President had the authority to raise tariffs by 50 percent over the column 2 rate.

The CHAIRMAN. Was that in the 1962 act?

Ambassador EBERLE. Yes. Of course, you need that authority for adjustment. But on balance, you keep bringing tariffs down.

The CHAIRMAN. Is that what you are talking about? You really want a 50-percent limitation on the authority to up it or not? How high do you want to go?

Ambassador EBERLE. One of the techniques of negotiation is the technique of harmonization and the technique of eliminating nontariff barriers and converting a quota into a tariff. What is that tariff? It may have been a low rate. We just don't know at this point.

The CHAIRMAN. I understand that. I want you to be thinking in those terms.

Mr. VANIK. Mr. Chairman, that is the precise way in which this bill is different from all the others.

The 1962 act said no more than 50 percent. You have no limitation here. There is no range.

The CHAIRMAN. That is what I am talking about. I think it would be better and more in keeping with the feeling of the committee if we had some limitations somewhere. But I take some of the responsibility now. I talked to Ambassador Eberle, Ambassador Pearce, Mr. Flanigan, and talked to others in the administration about allowing us on the committee to exercise our judgment with respect to standards for timing, for the use of the authority, the extent to which it could be used, and for them not to worry about that because I was satisfied that whatever they came up with would not suit us anyway, that we would do it a different way, so they would be wasting a lot of time downtown. I am willing to assume that responsibility, not lay it off on them that they have not asked for standards.

I realize they are going to develop those standards. But in other areas where the President is asking for additional authority, if it is additional authority, I can't conceive of any request on his part in this package that is not calculated to greater assurance of continuation of businesses and jobs in the United States as we definitely step forward to enlarge the total of world trade.

Ambassador EBERLE. That is correct.

The CHAIRMAN. That is the point I want to get over. That is what I want us all to understand, that at this particular stage in history, we cannot move forward as we have in the past, encouraging and supplying the leadership for greater and greater world trade without being cognizant of the fact that there has to be in the same person taking that leadership authority to see to it that we at the same time protect our own people in employment and protect our own industries here in the United States and not do away with them.

Just one further thing that I want to ask of you. Whether or not we contemplate the granting of the extraordinary concessions to the less developed countries by ourselves, or will we do that in agreement with other industrialized countries?

Ambassador EBERLE. There are two steps to that, Mr. Chairman. The first step is the granting, the providing for the generalized preference system. Once we have that, we would make a determination of those products that would come within it. We would do so in consultation with Japan and the European Community—both of them have their preference, the same systems in place already—to see that they are operating with some consistency and for the benefit of the developing countries.

The CHAIRMAN. This is the point I am getting at. We don't intend under any circumstances to shoulder the burden and go alone in providing this type of extraordinary tariff treatment for the underdeveloped countries of the world, just ourselves?

Ambassador EBERLE. No, we do not.

The CHAIRMAN. Mr. Schneebeli?

Mr. SCHNEEBELI. In line with the chairman's comments, can you give us any assurance that if the Congress approves all the changes that you ask, our trade picture is going to improve? Is there any quantitative measure of what could result from what you are requesting? How do we know we are going to improve the trading picture?

Ambassador EBERLE. Congressman, this is a very complex question. I can try to give you some guidelines or guideposts along the way.

First and foremost is having an adjustment mechanism on the monetary side so that there is a rate of exchange that is fair and we are not dealing with undervalued or overvalued currencies. We believe that we have reached the point of fairness today.

Second, what this bill will do is give us the tools to be sure that the exchange rate mechanism will have more markets and more products, goods, and services which are flowing in trade, to operate on.

As you increase trade, obviously this will have an impact, and I think you will see the United States moving toward balance. As far as the specifics, I think you see in the first quarter of this year a switch in the trend. I think that is the important thing. The trend is starting up in the sense of exports, down in the deficit balance.

I think we must watch this.

The second thing we must watch is our competitiveness insofar as inflation its concerned, to see that we manage our economy in a way that our products remain competitive. I think we can do that.

All of these things have an impact and will have a bearing on the trade balance.

Now, of course, the trade balance is not all we look at. There are our invisibles, what goes into the services, the insurance, the shipping, these go together to make up a current account, and eventually the basic account, of which the trade account is only part. This is why you have to look at all the various policies and why I say you need guideposts as you go along.

Mr. SCHNEEBELI. You have been in this capacity as negotiator for some time. Do you feel, based on your experience to date, that the request you have made of us would enable you to handle most of the problems you have encountered?

Ambassador EBERLE. In my judgment all the things that we can anticipate at this time can be managed with these kinds of authorities, yes.

Mr. SCHNEEBELI. What is the reaction of the people with whom you have discussed trade to the requests that you have made? Do they think these changes would put you in a better position to deal with them?

I understand the Japanese are not too happy with what is being requested.

Ambassador EBERLE. We have had mixed reactions to this, Congressman. I would say on the whole it has been very favorable. There have been some very specific concerns that have been expressed to us, first on the balance-of-payments authority. They are concerned about the application of that authority on a non-MFN basis. Second, they are worried about the import relief section, not having lowered the threshold, this could be a protectionist scheme as opposed to what was intended as an import relief adjustment section.

I think the other area of concern is the broadening of the old section 252, which is section 301 in this bill. This provision allows the United States to respond to unreasonable and illegal or unfair trade actions. In the past, we had this authority primarily on agricultural products.

I think the concern is that they have not understood that our policy is that these tools will help the United States, first obtain and then maintain a more open world market. If these countries realize, which

they will, that we can in fact respond, it is our feeling that they will not take an initial unreasonable or unfair action to start with.

In any business situation that I know of, when you deal with your competitors, and as a diplomat these are "trading partners" which I realize as a businessman are also competitors, you must be on an equal basis with them. All of these countries have comparable authority. We do not. We think it is fair if we are going to the same bargaining table that we have that kind of authority.

Mr. SCHNEEBELI. If you are given authority to deal in many more specific areas rather than generalized areas, you are going to have a pretty busy shop, aren't you? You are going to have to augment your staff and your activities greatly, it would seem to me.

Ambassador EBERLE. I am glad you raised that issue. I appeared before the Senate and House Appropriations Committees yesterday. I would like your support.

Mr. SCHNEEBELI. It seems to me you would be involved in much greater activity.

Ambassador EBERLE. The Office of the Special Trade Representative staff will remain the same, but under a special budget for negotiation we would have authority to add roughly 42 more people.

Mr. SCHNEEBELI. What is your present staff?

Ambassador EBERLE. Forty-five.

Mr. SCHNEEBELI. So you would have to double your staff, approximately.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Burke will inquire.

Mr. BURKE. On section 103, with reference to this expiration of 90 days from date. Would you have any objections to putting 90 legislative days?

Ambassador EBERLE. I am under the impression that there was the intention on our part to be sure it did not cover holidays. I am sure we can work that out.

Mr. BURKE. That is what I mean.

The average legislative week is a 4-day legislative week. You lose Friday, Saturday, and Sunday. Under your proposal almost 28 days would be lost.

Another thing, on this language on page 11, it is a little bit vague, but it seems to indicate that this 90 days will not occur after Congress adjourns sine die, until they meet again. Is that right?

Ambassador EBERLE. Yes; you are correct.

Mr. BURKE. During this period between the adjournment sine die and the meeting of the new session, that 90 days does not begin until after Congress goes back into session?

Ambassador EBERLE. That is right.

Mr. BURKE. If we adjourn October 1, sine die, the 90 days would not start until January, when we meet again?

Ambassador EBERLE. That is correct. There would be an interruption.

Mr. BURKE. Here is a question I have for Mr. Hickman.

Under these tax credits as a result of foreign investments have you any estimate of that the loss in revenue is a year, the average loss during the past 2 years, annual loss?

Mr. HICKMAN. You are talking about——

Mr. BURKE. The deferred income, deferred taxes.

Mr. HICKMAN. How much money we would collect if tax deferral——

Mr. BURKE. If H.R. 62 had been in effect during the last 2 years, how much revenue would we have received insofar as it refers to the deferred tax?

Mr. HICKMAN. I am told here that if we taxed the income currently and gave a deduction instead of a credit, the revenue difference, assuming that everything else stayed the same, which of course it seldom does, but assuming that, it would be roughly $4 billion.

Mr. BURKE. $4 billion?

Mr. HICKMAN. Yes, sir.

Mr. BURKE. On this loss of $4 billion, where do you think that the Government should pick that up in view of the fact that we are facing a $19 billion deficit this year? Who should carry that load on their back for this foreign investment tax credit?

I mean if we are to have some equity in our tax system?

Mr. HICKMAN. The point always is, Congressman, as to whether or not the provision is a fair one.

If it is a fair one, then we don't count it as a revenue loss in the sense that somebody has to pick it up.

There are of course many things that we could eliminate from the law that would have revenue consequences, but we don't do it because we think the system as it exists is there because it is fair. That is what we believe here.

Mr. BURKE. We had testimony in the executive session the other day, and without revealing who they were or how they did it, some of these large corporations are not paying as high as 6 percent tax.

Do you think it is fair to assess a tax on a fellow earning $7,000 a year, 14 percent, and then have a multimillion-dollar corporation only paying 6 percent tax on its profits?

Do you think there is equity there?

Mr. HICKMAN. As we explored the other day, that is an extraordinarily complicated question. One of the reasons that some of these rates appear to be low is not the fact that they weren't paying tax, but they were paying large amounts of tax to some foreign government for operations in that foreign country. The fact that we then did not tax them on what they had already paid taxes on elsewhere, we believe is a fair system and consistent with the practices of other countries in similar situations.

Mr. BURKE. In other words, despite the fact they are only paying 6 percent on millions of dollars of profits, you feel that is a fair and equitable situation?

Mr. HICKMAN. They are not paying 6 percent once you take into account what they are paying to the foreign government. They are paying a great deal more.

Mr. BURKE. This is on their profits that they are making and the tax they are paying on their earnings, they are only paying a 6 percent tax.

Mr. HICKMAN. If one earns $1 million abroad and $100,000 here and pays the tax on the $1 million abroad, it seems fair enough that he should not necessarily have to pay a tax on the $1 million here.

But if you compute the effective tax rate by putting only the U.S. tax in the numerator, over the total worldwide income in the denomi-

nator you get a very artificial number. I think that was the thrust of part of what Dr. Woodworth was trying to tell you the other day.

Mr. BURKE. Also you get a thrust on your part that there is no portion of those profits that should be taxed and there is no time limit that we should set to bring some of that income into the country?

Mr. HICKMAN. That income comes in very steadily right now. As I pointed out this morning, we have an inflow that is twice the outflow.

Mr. BURKE. I can tell you of companies that used to be located in my area that have built plants overseas that have paid very little taxes during the last 6 or 7 years, practically no taxes.

In fact, the owners of those firms were having a rather difficult struggle when they were operating here in the United States, but once they closed up their plant here and went overseas, they are spending most of their time on the Riviera. They come back with a nice, healthy tan on; they look wonderful. No more wrinkles, worries or cares.

They just tell us they wished they had known about this before.

I don't know what we are going to do here. We are getting all kinds of false figures on unemployment, how wonderfully it is being reduced.

All I get back in my district is unemployment. Plants are closing every day.

What we are concerned about here, whatI am concerned about, I voted for that trade bill in 1962, and I listened to the glowing promises of the administration at that time about what they were going to do on adjustment assistance. There is a lot of mumbo-jumbo in this bill about what they are going to do, but I can't see anything specifically spelled out on what they are going to do on the loss of a job.

I will say my State right now can't pay up to 52 weeks of unemployment without carrying the entire burden by employers and the State government.

If you people create more unemployment in our area, who is going to pay for all the unemployment?

Mr. HICKMAN. What we are saying to you, so far as our tax proposals are concerned, is not that these are not serious problems, because indeed they are. We say they are not caused by the tax system except in limited instances, and we would propose to change the tax system in the instances where that was true. Otherwise, we think we must look to more effective remedies than tax remedies to deal with the underlying situation.

Mr. BURKE. This dealing with the tax incentives that other countries grant to some of these investors, I am anxious to get a look at that list of countries. I hope you are able to come in here with an estimated income that will come back to this country as a result of the provisions in this bill that you have referring to those tax incentives that these nations are granted.

Mr. HICKMAN. I would not wish that there be any misunderstanding on that score. We do not think that most investment abroad involves these kinds of incentives or these kinds of situations that we are proposing to reach. We do not think there would be a major revenue impact.

What we are saying to you is that the tax system does not create these distortions except in very limited situations. It is those limited situations that we are trying to remedy. Since they are limited, there will not be a major revenue impact.

Mr. BURKE. Actually what you are doing, you are fighting mosquitoes on the front porch and there are lions and tigers clawing at the back door. It really bothers me because I have to confess in 1962 I sat here rather naively and I listened to all the glowing promises. I am a free trader, believe me; I believe in the expansion of trade.

When I saw the havoc that was completed in my area of the country I started to have second thoughts about it. I am concerned about our negotiators. I tried to find out from the Ambassador here, whom I respect very highly, how much of a voice the workingman is going to have in these trade negotiations. Who is going to be in there speaking for the workingmen and workingwomen of America? Some appointee down at the Department of Labor who has to follow his orders? Or are we going to have an independent man speaking up for the workingmen and workingwomen who have lost their jobs as a result of the GATT agreements?

Is there going to be anybody at these negotiations who is going to speak up for the workingmen and workingwomen of this country? Over 1 million permanent jobs have been lost in America since the Geneva agreements. Who is going to be at this trade negotiation talking for the workingmen and workingwomen?

Ambassador EBERLE. Mr. Burke, I have said that we would expect to have a public advisory group where the kind of people you speak of would be present. The negotiation would have that kind of advice, recognizing the public interest, from any group and all groups that have a substantial interest.

We would hope that this would be part of the bill, just the same as we would have participation of Congress as part of the bill.

We have left this provision open so that we could have discussion as to what kind of public body should be formed in an advisory capacity.

In addition to that, we will always maintain the kind of discussions we have with the various groups that have an interest, whether it be business, labor, or the consuming public. We are doing this today. I can tell you I have personally met with a number of labor leaders who have expressed their concerns about several things. If we get the facts, we can do a much better job.

Mr. BURKE. I have a lot of faith and confidence in you if you do get this type of cooperation and people who will advise and get somebody at that negotiating table who has a sympathetic ear.

Our whole trouble with this Government, as I see it, our Department of State and Department of Commerce seem to have spent all their time telling all of our trading partners how to get business over here; they spend very little time telling our people here how to get business over there.

What is going to happen with Japan, where you ship a Pinto car there which retails for $6,000; they ship a $2,000 car over here and it sells for about $25 less? Do you think you are going to get the Japanese people to sit down at the trade negotiations and let us ship a Pinto car over there that retails for $2,000 over here and sell it for $2,000 over there?

Ambassador EBERLE. Mr. Burke, let me give you some assurance that since last September when we were able to get agreement with the Japanese to open up their distribution system to American prod-

ucts, it is now possible for American products to be distributed through an American distribution system. A Pinto car with duty and freight paid, landed in Tokyo is about $2,500 now. You are correct, it sells for over $5,000. But that is in the distribution system. I think you will see that price coming down.

I will give an example. When we opened up a distribution system, Sears, Roebuck entered into a direct mail order business in Japan. The first hundred items they have advertised, and the MITI people gave this to me in February, 99 of them were 50 percent less in the price being sold in Tokyo compared with the same American goods being sold through the Japanese distribution system. We are making progress.

Now, on the other side. When the Pinto was introduced in 1971, it was $71 higher than the equivalent Japanese car. Today it is more than $200 less than the equivalent Japanese car. This has taken place in the currency revaluation. I don't think we should be discouraged. We have a tremendous catchup job to get done.

I will refer to Joseph Wright, chairman of Zenith, who indicated 18 months ago he was prepared to build plants abroad to take over most of the company's production for foreign markets. He has canceled all that. His present plans are to build new plants in the United States.

There has been this turnaround. I agree, however, we need a great deal more in export expansion. I think that kind of insistence and urging should have high priority in this Government and in our business.

Mr. BURKE [presiding]. I don't want to take any more time.

Mr. Conable.

Mr. HICKMAN. Congressman, I spoke this morning with Mr. Martin about the fact that I must catch an airplane, there is no other this evening. If I may excuse myself at this point, I will leave Mr. Patrick, who is our international tax counsel, here.

Mr. CONABLE. May I ask one question before you go, Mr. Hickman? When I returned to the room here from the floor last time, the chairman was interrogating you at some length about tax holidays. Did he ask you about the current practice in Great Britain of permitting the 1-year writeoff of capital investment?

Mr. HICKMAN. He did not ask that specifically, but it was caught up in the general kind of thing he was asking. The answer is that writeoffs wholly unrelated to useful life would be included in our provision where they are extreme in that sense.

Mr. CONABLE. It has to be related to useful life?

Mr. HICKMAN. It has to be in some general sense related to useful life.

Mr. CONABLE. I get the impression that you are saying that our various tax preferences would not be considered holidays and that therefore if there was some symmetry in the taxation in the foreign land to the preferences permitted in our country, that that would constitute a kind of an escape clause for them.

Mr. HICKMAN. I think our system is a point of reference in a good many cases against which you would judge other practices.

Mr. CONABLE. There is nothing specifically in the law, though, about symmetrical tax treatment.

Mr. HICKMAN. No.

Mr. VANIK. Mr. Chairman, before Mr. Hickman leaves, the Cost of Living Council has requested the Treasury to suspend DISC treatment for certain agricultural commodities such as wheat and lumber. Is your office going to act on that?

Mr. HICKMAN. Congressman, Mr. Corman interrogated the Secretary at some length on that yesterday. The Secretary said that he was aware of the correspondence, he would check into it and advise you as to what the situation was.

Mr. VANIK. What we want is a definition of what you mean by short supply, so that we know when this sort of thing might have application.

I don't expect an answer now but I would like to have you place in the record a Treasury estimate of what the revenue gain or loss or what the revenue effect would be, if we were to tax foreign income after 10 years of deferral. In other words, put a limitation on the deferral of income beyond 10 years.

I would like to know what the Treasury estimate is.

Mr. HICKMAN. We will see what we can develop.

[The information follows:]

REVENUE IMPACT OF ENDING DEFERRAL FOR FOREIGN INCOME 10 YEARS AFTER IT IS EARNED

In order to estimate the revenue effect of eliminating deferral on profits of controlled foreign corporations which have been retained abroad for more than 10 years, rules would be needed to determine the order in which dividends are paid.

Under the ordering rules of present law, retained earnings of year 1 would generally still be considered to be retained abroad until year 10, and beyond. In order for a dollar of retained profits from year 1 to be considered as repatriated, dividends of more than 100 percent of current earnings would be required in a subsequent year, since the dividend ordering rules would say that current earnings must be fully paid out before prior retained earnings can be considered as repatriated.

Under that assumption, therefore, unless more than 100% of annual earnings were paid out in subsequent years, retained earnings in year 1 would be subject to tax in year 10, year 2's earnings in year 11, etc. The estimated revenue gain, therefore, of a 10-year deferral would remain at about $300 million, but would be postponed for 10 years.

Mr. BURKE. Thank you very much, Mr. Hickman. We appreciate your appearance here and your cooperation.

Mr. Conable, do you wish to inquire?

Mr. CONABLE. Yes; I would like to ask one or two other questions if I may, Mr. Chairman. Thank you.

Mr. Ambassador, do these negotiations have any particular impact on the voluntary agreements that are already in existence? Would you try to fold them into a total multinational framework? What is the impact of your proposed trade legislation on these already existing voluntary agreements?

Ambassador EBERLE. Let me talk about the negotiations. Mr. Jackson will give you some technical details of the bill. There are primarily two areas covered by voluntary agreements—textiles and steel.

The long-term cotton textile agreement expires September 30. We are already now in the process of negotiating an extension of that agreement. One would expect this would be completed and these bi-

lateral agreements would be folded into some multilateral agreement which would continue for whatever period of time can be negotiated.

Now the other one, of course, is the voluntary steel agreement which is effective today. There is a lawsuit over it. Depending on the outcome of that, we will have to take a hard look at where we go from there.

Mr. Jackson, I think, should comment on some of the details of how it might be looked at.

Mr. JACKSON. I would just say briefly that because there is a lawsuit it is probably not appropriate to say too much. There is provision in the bill, in section 203, for a so-called orderly marketing agreement with foreign countries. That deals only, of course, with marketing agreements with foreign countries, and it is not intended to limit or preempt the President's authority to take other similar diplomatic measures with other foreign entities.

Mr. CONABLE. The President has authority to negotiate, of course. That is why it is interesting to see how this relates.

Mr. JACKSON. That is correct, Congressman.

Mr. CONABLE. Mr. Ambassador, also there has been very earnest and determined reference here to the payment of compensation for market extension. There are some countries such as Sweden in Europe which have historical relationships with new Common Market countries and who are now flopping around a little out there, I guess.

There is some intent to give them perferences of one sort or another, even though it will be a special arrangement, a special relationship. Do you anticipate that this will result also in compensatory preferences?

Ambassador EBERLE. Congressman, the associated countries, the nonapplicant members of EFTA who did not join the Community, and who entered into these special arrangements, are maintaining that the agreement is a free trade area and comes within article 24 exception to the GATT.

It is our position that these arrangements do not come within it and, even if they did, article 23 provides that any time a prior benefit has been impaired, compensation may be sought. We have so advised the Community and we will be proceeding on May 28 and early June, to have the first working party in the GATT reviewing the subject.

I am sure we will have a very interesting and tough negotiation over this issue, but we feel that where they do impair benefits, as a matter of equity, there should be adjustment, and we are proceeding on that basis.

Mr. CONABLE. Are these special relationships of some significance so that we are talking about substantial compensation, or is it comparatively a modest thing compared to the market extension?

Ambassador EBERLE. As a relative matter to the gross net income it is insignificnt, but to some of the industries that are involved, it is very significant. So long as it is significant to some industries, we are concerned and we will be proceeding on that basis.

Mr. CONABLE. Your determination to secure compensation is just as great there as it is with respect to market extension?

Ambassador EBERLE. That is correct.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Vanik is recognized.

Mr. VANIK. Going back to my almost required reading in the Soybean Digest, it says here, talking about the EEC, that this is what the trade negotiations are all about: "The EEC needs a market for its industrial goods and the United States wants a market for its grain."

Now I want to know if you are successful and we get all these, we start removing some of these barriers, what are the three or four principal things that you expect would come out of the European Common Market to us and what do you suppose we will be selling to them? Will it be grain? Principally agricultural products?

I am trying to figure out what this will mean for the industrial sections of America. If the plan is for us to import more manufactured products from this part of the world, it is going to be tougher on us. If they expect to get these industrial goods in our country, it seems like a rather poor tradeoff from the standpoint of the general economy of America.

Ambassador EBERLE. Mr. Vanik, I think it is important to note that although agriculture is an important product, it is only 25 percent of our exports, the balance being in the manufactures and services area. Certainly in the case of the EC enlargement, the places where we are being impaired are roughly two-thirds in the industrial area.

I can assure you that we are just as interested in expanding our industrial exports as we are in agriculture. Let me focus on that. Obviously, the products that we would like to see continued opened up for us are our markets in pulp, paperboard, machine tools, aerospace, airplanes, consumer durables, and electrical appliances. I could take you down a long, long list of these items.

We think we are competitive in them. At the same time, because we also have a tremendous comparative advantage in agriculture, we would like to have that opened up, too.

Now, the reverse is that certainly in some agricultural products, such as in hams from Denmark, some of the cheeses, they would like to see our markets more open to them. We all benefit if we can do this. Obviously, the European automobiles have a certain customer appeal over here.

Mr. VANIK. I told the people in Detroit if they didn't come out with a smaller gasoline consumer by 1976 that we probably would have to tax them. I have a bill to put an excise tax on automobiles that overly consume gasoline. I think it is one way to take the huge gasoline-consuming giants off the highway, and to compete better with the foreign cars and assist American domestic employment in the auto industry.

I feel that the Europeans and the Japanese have been helpful in this area because they have certainly pointed the way for us to get us an automobile that apparently meets emission standards and safety standards and still burns considerably less gasoline. So I think that this sort of thing has been good for the long haul of the country.

Now I want to ask you this. Some of the powers that are asked for in this bill seem to me to exist under the emergency power of the President. I am looking at the emergency section here: "Whenever the President" and so forth—"declares an emergency," and we have been in one almost all the time, "he may authorize and the Secretary of the Treasury may permit under such resolutions as he may prescribe, importation free of duty," and so forth.

Don't you think we should review those emergency sections and take those out of the law if the new trade concessions come in?

Ambassador EBERLE. I am not sure what act you are referring to.

Mr. VANIK. I am talking about the title 19 section which permitted the Truman emergency proclamation, under which we are still operating. I think Mr. Truman would be shocked to know that his emergency is still governing life in America.

As I see it, there is power there for the President to do a great deal of what you seek to do in the act. I would like to have that reviewed to see if we can't either take some of the emergency language out of the act or change the emergency language insofar as it relates to customs and duties.

Ambassador EBERLE. We will check it for you, but I think the important thing here is the powers under the bill for solving and responding to trade problems is something that we should have whether we have an emergency or not. Therefore, I think they really belong in the Trade Act.

Mr. VANIK. There is one other thing that comes to my attention. This bill seems to have no strong consumer interest section. I am wondering if there should not be written into this bill some strong language that provides for some assistance for the consumer in America. If, for example, through some operation of the trade agreement consumer prices rise extraordinarily or shortages should be created on the American scene, it seems to me that there ought to be some powers granted or some restraints and some machinery that will operate that will help alleviate the consumer problem.

Now most of this bill, the language of this bill, the pages, the words, are spent on the displaced worker. I think we need almost as much substantial language which I would like to label the "consumer concern section."

Now it would seem to me there ought to be some specific safeguards written into the law which will declare that notwithstanding anything else in the law, when a condition occurs in which the consumer of America is going to face extraordinary burdens, shortages, some dietary cutbacks because of the operation of this law, that some of the things that the law does might be changed to suspend it or abate it.

Ambassador PEARCE. Mr. Vanik, that is a very useful observation. I am always amazed at the general lack of understanding of the consumer's interest in trade legislation and negotiations of the kind we are going into right now.

Mr. VANIK. I apply this either way. There is a time when you have to increase imports in order to meet this criterion. There is a time when you have to decrease imports or decrease exports. It can work both ways to meet the consumer problem.

Ambassador PEARCE. That is quite right. We have in this bill two provisions that go directly to the question of the consumer's interest that again has not attracted as much attention as it might.

In the import relief section for the first time the President is admonished to consider what the extension of import relief in any given case does to consumer prices. Moreover, we have asked for explicit authority under section 405 to make modest reductions of tariffs covering a limited amount of our total trade where goods are not available at reasonable prices to American consumers. But beyond

that the main purposes of expanding international trade is to take advantage of efficiencies everywhere to make prices lower and the choice broader for consumers. As I have said, it has always been a matter of some interest to me that this essential value of world trade has been so little realized.

Mr. VANIK. I think some of the language ought to be directed to making available to the people of the United States and to the world products of better quality at the best kind of price. This would be the sort of desirable goal toward which we could aim.

I will try to develop some further language. I am glad to have your reaction to it. I think a stronger consumer section in this bill could be very instrumental in making it a real possibility and would be instrumental in bringing about a successful action in this committee and in the Congress.

Thank you.

Mr. BURKE. If the gentleman will yield, I would like to make this observation.

Talking about the consumer's interest, I kept a very close tab on imports of footwear up around the New England area. We have footwear being imported into New England right now formerly manufactured by domestic manufacturers and those plants have gone overseas and they are making exactly the same pair of shoes, the same leather, the same workmanship, everything exactly the same, and when they arrive in the Port of Boston they arrive at a price of about $4.50 a pair. But they are not selling at a reasonable profit for the retailer, they are retailing for about $29.95 a pair.

In other words, what they did, they destroyed the domestic market on that particular type of pair of shoes, but they are selling it at the American selling price as if they were domestically manufactured.

What are you going to do about conditions like that?

Ambassador PEARCE. It seems to me your question goes not so much to trade policy as to the effectiveness of competition in the shoe industry which should be assured by effective action of the antitrust laws.

Mr. BURKE. I am just pointing out the results of the trade negotiators, what they did to the shoe industry in New England. They closed up over 115 shoe factories up there, but those shoes are still being manufactured overseas, the same type of shoes and everything else, the same retail outlets.

Instead of costing them $8 or $9 or $10 a pair wholesale, they are only costing them $4.50 a pair wholesale. They are not passing that savings on to the consumer. In other words, this illusion they create that imports cut prices, is true up to a certain point. Once domestic competition is eliminated, the imports reach a higher retail price. That is true in the footwear industry.

Ambassador PEARCE. One additional observation. As you know, in a companion piece of legislation we have proposed that responsibility for dealing with unfair competition other than patents, dumping, and countervailing duties be transferred from the Tariff Commission where it has received very little attention, to the Federal Trade Commission where attention can be given to the competitiveness of industries supplying the U.S. market.

That too, I think, is responsive to the point you are making, Mr. Burke—without attempting to assert or concerning that there is any lack of competitiveness in the shoe industry. I simply don't know that.

Mr. BURKE. I am merely bringing it to your attention. I thought it should be brought to the attention of the friendly Ambassador heading the negotiation; and what happens after they destroy the domestic market, then they seek a higher price and the consumer is gouged for the profit of a few individuals and not for the benefit of our country or even the people who work in these shoe factories overseas.

Mr. Duncan, do you care to inquire?

Mr. DUNCAN. Yes, Mr. Chairman.

How often have you used section 301 in responding to unfair trade practices?

Ambassador EBERLE. Congressmen, that is the revised section 252. In the 10-year history of section 252, it has been used once.

Mr. DUNCAN. Why haven't you used it more often?

Ambassador EBERLE. I think it has been a deterrent to action in the agricultural side. Section 252 is primarily an agricultural section.

Under section 301 we have broadened it, one, in the areas where it has been a strong deterrent; and, two, where it had some fuzziness as well as not being broad, and therefore was not useful on the industry side of the export picture.

Mr. DUNCAN. Do you anticipate using it more in the future? I understood you to say it was a tool you could use.

Ambassador EBERLE. That is correct. It would be a tool we would expect to have available to use, again in response to actions of other people.

Mr. DUNCAN. Do you think that possession corporations that continue to pay no tax either in the possession it is operating in, or the United States, liquidates its operation in the possession and returns to the United States, should pay taxes?

Mr. PATRICK. As Assistant Secretary Hickman discussed earlier, in our proposals with respect to tax holidays abroad and the potential for tax exemption for a U.S. investor, we have not addressed ourselves to the status of so-called possessions corporations, which may in fact be incorporated under U.S. law, operating in the possessions of the United States, and yet not paying current U.S. income tax on their earnings.

The relationship of the United States and its possessions is one that we think has to be considered in that special context. It is a question that the Treasury Department is willing, as with other matters that arise in this international tax picture, to discuss with and work on with the committee.

We are cognizant of the fact that the governments in our possessions, in some cases, such as Puerto Rico, have placed very considerable emphasis on the benefits of industry manufacturing in the possessions. Our present laws require that a possessions corporation must be one that has at least 50 percent of its income from the active conduct of a business, and some 80 percent of its income from sources in the possessions.

We recognize this tax factor and the incentive that operates under the combination of our laws and the possessions' laws. We think that it is one that is worth examing with the committee, bearing in mind our historic relationship with the possessions, but we have not made a proposal on that at this time.

Mr. DUNCAN. Should we consider changing the rules dealing with tax treatment of shipping income especially with operations touching our shores?

Mr. PATRICK. This has certainly been under consideration and has been an area again in which we have some interest in considering the appropriate tax mechanism with the committee. The shipping area is one that throughout much of the world operates through flags of convenience operations without paying substantial tax anywhere in the world. While in some cases these are U.S.-controlled or U.S.-owned shipping corporations, in the entire shipping area a large block of these ships are entirely foreign owned through ownership in flags of convenience countries and carry cargoes to and from our shores.

We think it is a general problem that we have recognized for the United States and for a number of other countries in the world that have maritime fleets.

There has been a very strong administration policy, as well as in the Congress, evidenced in legislation to support a domestic merchant marine fleet, and in taking that policy into account, we must take into account our international tax treatment with respect to U.S. and foreign vessels.

Suggestions have been made during these hearings with respect to the taxation of shipping, both U.S. controlled and foreign controlled, with mention of your specific point about the tax treatment of shipping that calls at our ports.

As you undoubtedly know, under our present law by statute we provide for a reciprocal exemption for the United States and any foreign country for ships of that country that call at the U.S. ports, provided that they grant reciprocal treatment for U.S. ships.

Certainly one impact of that approach has been that a great deal of flag shipping is on the high seas at all times, that the source rules of various countries may limit the jurisdiction to tax the particular ship. Again, I think we have to consider the source rules as well. It is something that we would be interested in exploring with the committee.

Mr. DUNCAN. Something that concerns me, I think your amendment in the foreign tax area applied to investments after April 9 of this year, thus between April 9 and the current date businesses are actually proscribed from investing in certain countries that have certain types of unspecified laws.

It would appear that they would be similarly proscribed under your retroactive effective date in making investments by the time this bill becomes law later in the Congress. The retroactive date you have recommended would appear to shut off certain types of investment in the period after April 9.

Mr. PATRICK. In the considerations leading to proposing a base date for measuring investment, it was felt necessary to avoid the other impact that you can have; namely, a surge of investment going into foreign countries to try to take advantage of holidays and accelerating that form of investment in the interim period between the date of announcement and the date on which legislation might go into effect. So the determination was made that it was advisable to measure the date for existing investment in terms of the announcement date, although we proposed that the legislation would not apply to income that was earned until after the beginning of 1974.

Mr. DUNCAN. How can business make an intelligent investment decision under these circumstances? It would be rather difficult; would it not?

Mr. PATRICK. Some of the hazards of business are due to uncertainties, among other factors, in the tax laws, whether we change our taxes or whether foreign countries may change theirs. Those who are vitally concerned with this issue presumably provide some evidence that the tax impact is one that is significant in whether or not to make their investment in those cases.

Mr. DUNCAN. Do you have a list of the products that domestic producers claim will have an adverse effect on their ability to maintain or improve their position in the domestic market? Do you have a list of those?

Ambassador EBERLE. I am not quite sure. There are a couple of areas, such as scrap steel. You are looking at the demand on exports where there is a shortage domestically.

Mr. DUNCAN. Yes.

Ambassador EBERLE. We have had complaints on hides. Yes, we took action, but it was changed.

Logs, some concern on meat, but actually there is so little meat shipped out that it is not a reason for action. Right now, there is an excess demand on cotton. I guess the quantities are all right, but the prices are rather high. We are getting demand from around the world.

Mr. DUNCAN. How about imports?

Ambassador EBERLE. Obviously we have had problems in two areas, textiles and steel. The automobile industry felt there was a problem but I think there has been a slacking off of imports in the automobile area.

Mr. DUNCAN. What about electronics?

Ambassador EBERLE. Electronics again is one industry that has had problems. There are still segments of it that have problems, but a lot of this has changed. For example, I indicated Zenith now is planning to build its new plants here. We are exporting hand calculators to other parts of the world in competition with all comers. There has been quite a dramatic change here and what applied a year or 18 months ago is no long applicable.

Because of dramatic shifts it is very difficult to follow all the numbers.

Mr. DUNCAN. Is there a list you can provide us for the record?

Ambassador EBERLE. I can try. I do not have that list.

[The following was submitted for the record:]

PRODUCTS CLAIMED TO BE IMPORT SENSITIVE

Domestic producers of the following products have claimed that increases in imports are having an adverse effect on their ability to compete in the domestic market. The list is based on formal petitions for import relief filed since 1970 and legislation introduced during this session of Congress seeking quotas.

Barbers chairs, Bearings and parts, Billiard balls, Brass-wind instruments, Earthenware and chinaware table articles, Electronic articles (consumer products and components), Electron microscopes, apparatus, and parts, Ferroalloys, Flat glass, Footwear, leather and other, Fruits and vegetables (e.g., mushrooms, tomatoes, strawberries, olives), Glycine, Iron and steel products, Marble and travertine, Pianos, Stainless steel flatware, Textiles (certain items), Umbrellas and parts.

Mr. DUNCAN. The Japanese and some of the other countries' restrictions are considerable as we have discussed. Do you think that the tools in this proposed legislation can get them to change their attitude?

Ambassador EBERLE. Two things. One, is that it certainly will help. I think on top of that, insofar as Japan is concerned, their attitudes are changing. There has been a big shift in the last year. We would like to see more. I think the fact that we will have these tools will provide even a better opportunity for us to get that shift. I think you must always keep in mind that there will never be an economy precisely like the United States. Their culture, their history, their method of distribution, are all different. I think the important thing to remember is that whatever the differences are they should still conform to the guidelines on a fair basis throughout the world.

Mr. DUNCAN. Do you think that we can get in a position to tell them that trade should be fair and that it should be a two-way instead of a one-way street?

Ambassador EBERLE. We are telling them that now, and I think we are making progress, and we will continue to make progress.

Mr. DUNCAN. Do you think that we will have to give up something to offset our present disadvantages?

Ambassador EBERLE. Let me try to give you two parts to that answer. Part of the disadvantage we have has been changed substantially by the two currency revaluations, and devaluations. The other side of the coin is that there are some provisions in Japan, as well as in the United States, so-called nontariff barriers, that I would think they would be pushing us to remove as we push them to remove theirs.

I think some of the examples that they are concerned about lie in some of the provisions in our countervailing duty law. They would like to see an injury test in it. We have given no indication that this would be a subject of discussion. There are these kinds of changes that they would like and which they will want to talk about.

Mr. DUNCAN. I think the Congress intended to give you authority in the 1962 Trade Expansion Act really to tell these countries that we did not intend to carry a soft stick, so to speak. Apparently, it was not used or something. The list of countries that were erecting nontariff barriers to our products has grown, I think, in the years instead of lessened.

Ambassador EBERLE. It has grown. The real shift in the trading and the world economy really started in the middle 1960's. I think there was still the idea we were the strongest country in the world and could afford to share our resources on a very generous basis. There was the idea that we had to help rebuild and I think that idea carried on.

I think there was real need for helping to rebuild in the years following World War II. That changed in the late 1960's. Now we are in a little different position where we have three major partners in the trading world and we have to recognize that fact and act differently.

Mr. DUNCAN. What do you consider the main element of this legislation, that this legislation would do, that the 1962 act didn't do?

Ambassador EBERLE. Let us set aside tariff authority. The first authority is the specific indication to negotiate nontariff barriers and a very precise procedure for how they will be handled in the United States, whether we could get approval of agreements on these barriers was a problem in the past. I think this is a very substantial step forward and should allow us to negotiate, bring back agreements and move forward to eliminate the NTB's. It gives us credibility we didn't have before. On the management side, the new section 301 is a response

to countries that act in an unfair, unreasonable way. The authority applies across the board, whereas the old section 252 related primarily to agriculture.

We have the authority in the bill for compensation which allows us to take action and negotiate various kinds of resolutions of problems. We have what I call the small deal authority to negotiate tariffs up or down 20 percent on any one tariff and affecting not more than 2 percent of the U.S. imports. This provides authority to solve problems each year. We have no such authority today.

We have authority in the bill to focus on the problem of inflation. Another authority, of course, is the import relief section where we have lowered the threshold so that we can move more quickly and in timely fashion as well as to allow more people to qualify for relief. These authorities are all part of the management side.

Mr. DUNCAN. Let me ask you one last question. How does the Common Market treat the value-added tax on exports?

Ambassador EBERLE. The value-added tax is considered under the GATT rules as a tax similar to our excise or sales taxes. If there is an export of the product, they are entitled to have the value-added tax rebated the same as we would have rebated a sales and excise tax. This goes back to a proposal that was put forward in the late 1940's, that taxes such as income taxes were paid by the businesses whereas the consumer paid the value-added, excise, and sales taxes, and therefore it was proper philosophically to rebate one and not the other. Now when you have areas where primarily we rely on taxes other than value-added taxes such as the income tax. You get some possible competitive disadvantage which hopefully is picked up in the exchange rates. I think that is the point you look at, as you change these taxes to get competitive impact.

Mr. DUNCAN. It is the advantage today in favor of the Common Market countries.

Ambassador EBERLE. Certainly when there is a change by increasing that tax, there is at least a temporary advantage. This is a debatable point. You have been most helpful.

Mr. VANIK. In your response to Mr. Duncan, you pointed out the distinction between the 1962 act. You pointed out the manner in which this new act that you propose eliminates the necessity of going to Congress.

Which specific requests have you made to reduce nontariff barriers? What ones have we received and refused?

Ambassador EBERLE. The historic one is ASP.

Mr. VANIK. The selling price. You know, we did that here, and the process worked. The majority insisted on leaving the selling price alone. What you want to do is to subject the majority of the American people to your negotiations rather than deal with the legislators.

Ambassador PEARCE. One further problem is that we never got a definitive final answer. That agreement was in space for a period of more than 6 years. But origins of this antedate the ASP experience. When we have not had advance authorization from the Congress for negotiations we have had difficulty, going all the way back to the Havana Charter.

There have been fundamental differences between the Congress and the Executive over how these authorities are divided and how they

are best administered. Our trading partners know that. They have been very reluctant to spend their political capital as I said this morning without some assurances that we are moving to resolve differences, to divide the authorities in a way that will make them predictable.

Mr. VANIK. Mr. Eberle, on page 13 of your testimony you said that it would have a damaging effect on our national interest not to conform to international obligations. If so, why should Congress give the President authority to take action not necessarily in accordance with U.S. international obligations?

Ambassador EBERLE. I tried to point out it is important that the United States be on record that it will in fact, carry out its international obligations, but there is a gray area; a good example being the surtax which we put on. We were not the originators of that type of action. If everybody else is proceeding down one course and it is argued in our courts that this is inconsistent with international obligations, then we would have no right to move. I think it was proper in that case for us to move and we did feel it was proper in relation to our international obligations.

It is that gray area of having that right. I think having that right, we will never have to use it. That is our intent.

Mr. VANIK. Mr. Eberle, that reply to my letter if we can just turn it over to the secretary, he will put it in the record.

Ambassador EBERLE. Fine, I will do that.

Mr. BURKE. Mr. Ambassador, I wish to thank you for your appearance on behalf of the entire committee. You have been very helpful. We appreciate your appearance and your contribution.

The committee now is going to stand in recess for 15 minutes. At that time we will meet with Mr. Wakefield of the Department of the Interior and John J. Malloy of the Department of Defense.

The committee will be in recess until 10 past 5.

Ambassador EBERLE. Mr. Burke, do you wish us to stay?

Mr. BURKE. No.

Ambassador EBERLE. Before Mr. Vanik goes, I would like in behalf of our group to thank you for this opportunity. We know we have thrown a great deal at you and we are at your service to come back at any time and discuss these matters with you whenever you want us. Thank you.

Mr. BURKE. You are going to be hearing from us.

[A recess was taken.]

Mr. VANIK [presiding]. The committee will be in order. I understand that the two witnesses that we have with us this afternoon are Mr. Wakefield, Assistant Secretary of the Department of the Interior and Mr. Malloy, the Deputy Assistant Secretary of Defense for Procurement.

We are very happy to have you here. We are sorry we have kept you so late. I am somewhat responsible for your having been requested to be here. I am very much concerned about the relationship between this trade bill and our national security.

One of the things that I am concerned about is that the language of the bill is almost completely silent on the issue of the national security. For example. I am wondering whether among the statements of purpose of the bill there should not be language added where it refers to "furthering the peace and raising standards of life through-

out the world, while maintaining and insuring the security of the United States."

Now, as the bill reads in its present form, it is a pretty wide-ranging affair, as you know, and I am just wondering whether those in the Department of Defense feel secure, if extraordinary amounts of some of our natural resources that are in short supply are permitted to be traded out of the country. Do you have any policy statement on that issue?

STATEMENTS OF HON. STEPHEN A. WAKEFIELD, ASSISTANT SECRETARY FOR ENERGY AND MATERIALS, DEPARTMENT OF THE INTERIOR; AND HON. JOHN M. MALLOY, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR PROCUREMENT

Mr. MALLOY. I would like to comment. Mr. Vanik, that we obviously have a great interest to insure that the Department of Defense has the resources needed to defend the country, and we would not sit still for any situation that would deny that to us.

I think that we do have authorities available to us to protect certain suppliers of critical items in this country, that may be threatened by foreign businesses.

We have that authority now, and we are prepared to exercise it if the situation arises.

Mr. VANIK. The 1962 act had national authority for you. It was under that 1962 act authority—an amendment to the 1958 law—that the oil import quota system was established, theoretically, as a matter of protecting the security of the United States. The whole principal behind the oil import quota system was the security provisions. That was the validity or the basis under which that was authorized.

Now, that was only used once. There were 33 other applications under the military security section. Thirty-two were denied. One is pending for the protection of extra high voltage power circuit breakers and high power transformers.

In recent years, the Office of Emergency Planning turned down applications of aid for the ferro-alloy industry and for miniature ball bearings.

Is it in the best interest of the security of the United States that we should be dependent on foreign sources for miniature ball bearings and items of that type?

Mr. MALLOY. In connection with miniature ball bearings, we have protected ourselves by issuing procurement instructions that we will buy only from U.S. sources. There was a finding by our mobilization people that we had a situation requiring action on our part, and we took it under the existing authority that we had.

I did not personally participate in this decision, but as I understand it, part of the rationale for OEP's denial was that the Department of Defense had authority to do it on its own and that authority should be used.

Mr. VANIK. Are there many component parts for defense items that are made abroad?

Mr. MALLOY. There are many component parts if you look all the way down into the sub, sub, substructure, the bits and pieces. There are many that are made overseas.

Mr. VANIK. Such as what?

Mr. MALLOY. There are very few major components or critical components made overseas, but there are many items in the electronics area, I understand, such as transistors, things of that kind, which are labor intensive, which may be made overseas.

Mr. VANIK. What would you do if an overseas supply is cut off? We have lost the capacity to make some of these things. What happens if component parts, so many of them are of a rather sophisticated nature, are made abroad because of the labor factor, where does that leave us if the source of supply is cut off through an adverse world military situation?

Mr. MALLOY. You could postulate circumstances in which the situation could become serious. Those are the kinds of situations that we try to search out and take action to protect ourselves. Given the possibility of a cut off of a foreign supplier, we look to see whether we could reestablish the capability within the United States in some reasonable period of time.

If such capability could be easily reestablished in the United States, then you could have much less risk than the situation where you might completely lose the skills to produce a component that you need for military purposes.

Mr. VANIK. Take the transistors which are pretty much made outside of the country now. What do you do if the source of supply is cut off?

Mr. MALLOY. I am no expert in transistors, but as a sort of layman's reaction, I think, given the technology of the transistor today, we could easily start up manufacturing transistors in this country. There may be others in which that would not be possible.

Mr. VANIK. I understand that transmissions for some of the military vehicles are made abroad. Now, this is a rather difficult assembly to make very, very quickly. Is this a fact?

Mr. MALLOY. I do not know whether that is a fact or not.

Mr. VANIK. I wondered if you could, for the purposes of this committee, and I don't expect you to have the answer, I wonder if you would prepare for the committee a listing of these items that are procured abroad, so that the committee can make some evaluations on how much we must depend on foreign sources for defense material, so that we can determine whether or not it is in the best interest of the country to be so dependent.

The other question that comes to my mind is whether we should not maintain, in the interest of national security, some residual capacity in many of these areas, so that we don't let foreign sources just take over the whole technology and destroy an ongoing skill and an ongoing capacity to produce at least some portion of our defense needs, so that we can anticipate being able to carry on if there should be adverse military situation.

Mr. MALLOY. Yes, that is a perfectly good suggestion Mr. Vanik, and one that we have addressed and one that we have authority to deal with now and in the future.

If I might comment on your first request, I have with me, information as to the amount of material that the Department of Defense purchases from foreign sources. It amounts to about $2 billion a year out of a total DOD procurement program of about $38 billion a year, so it is not a very significant amount. However, I believe your question was broader than that and you were interested in things that possibly are incorporated into our weapons.

Mr. VANIK. Yes.

Mr. MALLOY. This is a very difficult question to answer because we do not keep records in that detail, and it happens at the third, fifth, and tenth tier subcontract level.

Mr. VANIK. Could you provide for the record a general summary of the kinds of things so we have an idea as to what makes up the $2 billion of offshore procurement?

Mr. MALLOY. We can do that enough so you get the feel for the situation.

[The material requested follows:]

SUMMARY OF DOD DIRECT PROCUREMENTS AWARDED FOR PERFORMANCE OFFSHORE DURING FISCAL YEARS 1970, 1971, AND 1972.

[Amounts in thousands]

	1970	1971	1972
Total DOD procurement (excluding civil works)	$35,971,597	$34,516,827	$38,291,601
Procurements for performance offshore	2,406,849	2,072,628	2,009,007
Offshore breakdown:			
Petroleum	509,999	455,619	437,018
Construction	465,104	294,693	224,643
Services	600,548	599,617	574,295
Actions under $10,000	188,159	184,867	195,158
Subtotal	1,763,810	1,534,796	1,431,114
Other offshore	643,039	537,832	577,893
Total	2,406,849	2,072,628	2,009,007

Generally, awards made for performance offshore are in direct support of U.S. troops stationed overseas. Very few items are imported from foreign sources for use in the U.S. The only readily identifiable programs involving major end items or components are the procurement of the Harrier from the UIK., and items obtained from Canada under the U.S./Canada Defense Production Sharing Program.

Following is a more detailed breakdown of offshore procurements by commodity program.

DOD AWARDS FOR PERFORMANCE OFFSHORE

[In thousands of dollars]

Program	1970	1971	1972
Total, military	2,406,849	2,072,628	2,009,007
A-1A—Airframes and spares	122,249	141,979	171,379
A-1B—Aircraft engines and spares	37,030	16,560	19,281
A-1C—Other aircraft equipment	16,430	19,458	29,932
A-2—Missile and space systems	70,287	27,929	30,758
A-3—Ships	4,579	15,134	13,199
A-4A—Combat vehicles	26,739	25,326	26,611
A-4B—Noncombat vehicles	26,002	13,942	22,569
A-5—Weapons	1,602	1,223	271-
A-6—Ammunition	48,677	21,162	18,074
A-7—Electronics and communication equipment	142,621	118,101	103,192
A-8A—Petroleum	509,999	455,619	437,018
A-8B—Other fuels and lubricants	28,396	27,926	35,788
A-8C—Containers and handling equipment	108	22	0
A-9—Textiles, clothing, and equipage	13,227	11,896	11,890
B-1—Building supplies	19,150	10,427	8,543
B-2—Subsistence	52,047	60,857	59,930
B-3—Transportation equipment	1,136	511	1,200
B-9—Production equipment	372	242	269
C-2—Construction	465,104	294,693	224,643
C-9A—Construction equipment	322	251	779
C-9B—Medical plus dental supplies plus equipment	1,548	1,742	1,910
C-9C—Photographic supplies and equipment	1,555	694	459
C-9D—Materials handling equipment	224	73	198
C-9E—All other supplies and equipment	28,838	22,377	22,203
S-1—Services	600,548	599,617	574,295
All other actions of less than $10,000	188,159	184,867	195,158

Mr. VANIK. I am concerned also about some of our mineral shortages. We have the tungsten, tin, zinc, and forest products, and many other things, nickel, et cetera. I guess you have some of these things in good supply, but with respect to those mineral substances that are in short suply, I would like to have included in the record at this point some kind of analysis. We probably ought to get the same thing out of the Interior, some kind of an analysis as to what kinds of things, what kinds of materials the Department might have to import in order to maintain an adequate military reserve for defense purposes.

Mr. MALLOY. I will endeavor to get that information, either from our own sources or possibly from other Government departments. I suspect that much of that may come from outside of the Department.

[The information referred to follows:]

FOLLOWING ARE THE DEFENSE REQUIREMENTS FOR 1 YEAR FOR SELECTED STRATEGIC MATERIALS DURING AN EMERGENCY

Commodity	Unit	Requirement[1]	Source of supply[2]			
			Stockpile	U.S. production	Canada/ Mexico	Overseas
Aluminum	ST	843,000		843,000		
Antimony	ST	5,600		5,600		
Asbestos	ST	1,514			1,514	
Bauxite	LDT	3,190	3,190			
Beryllium	ST	806		806		
Bismuth	Lb.	437,000		437,000		
Cadmium	Lb.	3,077,000	3,077,000			
Chromite, metallurgical	ST	128,300	128,300			
Chromite, refractory	ST	14,800	14,800			
Cobalt	Lb.	3,718,000	3,718,000			
Columbium	Lb.	398,600	398,600			
Copper	ST	397,000		397,000		
Fluorspar	SDT	47,900	47,900			
Lead	ST	229,000		229,000		
Manganese, battery grade	SDT	8,550	8,550			
Manganese, metallurgical	ST	199,300	199,300			
Mercury	Flask	7,317	7,317			
Mica	Lb	1,103,000				1,103,000
Nickel	ST	36,669			36,669	
Iridium	Oz	1,050	1,050			
Palladium	Oz	107,000	107,000			
Platinum	Oz	69,000	69,000			
Rutile	SDT	6,337		6,337		
Silver	Tr. Oz	24,680,700		24,680,700		
Tantalum	Lb	265,000	265,000			
Tin	LT	11,400	11,400			
Titanium sponge	ST	10,266		10,266		
Tungsten	Lb	4,186,000		4,186,000		
Vanadium	ST	582		582		
Zinc	ST	356,400		356,400		

[1] Essential U.S. industrial requirements needed during the 1st year of a war to support (a) direct military programs, and (b) those industries which indirectly support the Defense Department. Computed by DOD and OEP.

[2] Defense requirements may be supplied from materials maintained in the stockpile of strategic and critical materials, from U.S. production after the beginning of hostilities, or from imports, as shown.

Additional information on total U.S. imports to meet national requirements is contained in the following excerpt from the 22d Annual Report to the Joint Committee on Defense Production prepared by the Department of the Interior.

LIST OF SELECTED MINERALS AND METALS SHOWING U.S. DEPENDENCY ON FOREIGN SOURCES IN CALENDAR 1971

Commodity	Percent of U.S. primary consumption from foreign sources: Total	Percent of U.S. primary consumption from foreign sources: By source	Quantity of net imports
Aluminum	91	Jamaica 34, Surinam 19, Australia 12, Canada 9, Dominican Republic 4, Guyana 4, Haiti 2, other 7.	5,083,000 tons.
Antimony	92	Republic of South Africa 25, Mexico 17, Bolivia 10, United Kingdom 9, Japan 6, France 5, Guatemala 4, Belgium-Luxembourg 4, other 12.	12,572 tons.
Asbestos	83	Canada 79, Republic of South Africa 3, other 1	627,700 tons.
Beryllium (ore)	44	Brazil 26, Republic of South Africa 7, Argentina 3, Uganda 3, Mozambique 2, Rwanda 1, other 2.	4,006 tons.
Cadmium	47	Canada 10, Mexico 9, Japan 7, Australia 5, Peru 4, other 12	3,433 tons.
Chromite	100	Republic of South Africa 32, Turkey 26, U.S.S.R. 24, Phillppines 12, other 6.	1,299,000 tons.
Cobalt	87	Zaire 35, Belgium-Luxembourg 24, Finland 10, Canada 8, Norway 7, other 3.	5,456 tons.
Columbium	100	Brazil 63, Nigeria 16, Canada 11, Zaire 3, Angola, Belgium-Luxembourg, Burundi-Rwanda, Congo (Brazzaville), West Germany, Malaysia, Mozambique, Portugal, Singapore, Spain 7.	1,527 tons.
Copper	8	Canada 3, Peru 2, Chile 1, other 2	135,000 tons.
Fluorspar	80	Mexico 63, Spain 9, Italy 5, South Africa, France, Canada, West Germany, Switzerland 3.	1,059,914 tons.
Iron ore	34	Canada 17, Venezuela 11, Australia, Brazil, Chile, Liberia, Peru, Sweden 6.	37,100,000 tons.
Lead	31	Canada 9, Australia 7, Peru 6, Mexico 3, Honduras 2, Republic of South Africa 2, Yugoslavia 1, other 1.	256,000 tons.
Magnesium	0		(20,641) tons.
Manganese (plus 35 percent ore).	99	Brazil 36, Gabon 33, Republic of South Africa 9, Zaire 6, Australia 6, other 9.	913,000 tons.
Mercury	54	Canada 35, Mexico 9, other 10	21,217 flasks of 76 lbs. each.
Mica (sheet)	100	India 81, Brazil 14, other 5	5,666,000 lbs.
Molybdenum	2	Chile, Canada, Philippines 2	(46,284,000) lbs.
Nickel	88	Canada 72, Norway 7, Republic of South Africa 2, other 7	136,500 tons.
Platinum-group metals	88	United Kingdom 42, U.S.S.R. 31, Republic of South Africa 12, Canada 4, Colombia 3, Belgium-Luxembourg 2, Japan 2, other 2.	916,159 ozs.
Rhenium	5	Belgium-Luxembourg 3, West Germany 1, France 1	377 lbs.
Rutile	100	Australia 92, Sierra Leone 8	213,349 tons.
Selenium	38	Canada 33, Japan 2, Mexico 2, other 1	395,000 lbs.
Silver	35	Canada 20, Peru 8, Mexico 2, Honduras 2, other 3	45,738,000 ozs.
Tantalum	100	Canada 44, Brazil 13, Zaire 13, Australia 5, Nigeria 5, Argentina, Belgium-Luxembourg, Burundi-Rwanda, French Guiana, West Germany, Malaysia, Mozambique, Portugal, Republic of South Africa, Sapin, Thailand, Uganda 20.	590 tons.
Tellurium	15	Peru 11, Canada 3, other 1	30,000 lbs.
Tin	100	Malaysia 59, Thailand 30, Indonesia 3, other 8	47,738 long tons.
Titanium sponge	23	Japan 20, U.S.S.R. 2, Unitxd Kingdom 1	2,832 tons.
Tungsten	0		(1,623,000) lbs.[1]
Vanadium	25	Republic of South Africa 14, Chile 8, U.S.S.R. 2, other 1	1,328 tons.
Zinc	57	Canada 31, Mexico 9, Peru 3, Australia 3, Finalnd 3, other 8	648,743 tons.

[1] Net exports largely due to Government sales.

Note: Figures in parentheses are net exports.

Mr. VANIK. All right; now my next question deals with the impact in trade of military sales. Could you tell us what the volume in dollars is of military sales for the last reporting period?

Mr. MALLOY. Yes, sir, I can.

Mr. VANIK. Are these military sales by any chance cataloged also by the Department of Commerce or are they solely in the Department of Defense, military sales to foreign countries, foreign purchasers?

Mr. MALLOY. I am not sure whether Commerce has a record of them. I believe there are additional requirements for approval of the export of military weapons by the State Department and that Department perhaps has records.

Mr. VANIK. You have to issue an approval, too, do you not?

Mr. MALLOY. Yes; we recommend it.

Mr. VANIK. You recommend it; the State Department acts on it with a certificate and Commerce, to your knowledge, does not even keep a record of it?

Mr. MALLOY. I am not sure, sir; I am not in the sales business, and I just don't know.

Mr. VANIK. What is the total then in military sales?

Mr. MALLOY. For fiscal year 1972, there was a total of $3,462,426,000 in foreign military sales, worldwide.

Mr. VANIK. It is almost as much as our sales of soy beans. Let me ask you this. How much of that is covered by Export-Import Bank credits?

Mr. MALLOY. I will have to find that out for you, sir. This field I am not familiar with.

Mr. VANIK. Well, we would like to have it for the record. We understand that you had very little idea about our scope of questions today, so what we would like to have is the report, and you might carry back the report of military sales for probably the last 3 years so that we have that in the record.

Then we would like to have in the record an idea as to how much in percentage or in dollars, of those sales was covered by Export-Import Bank loans so that we know what part of our Export-Import Bank authority is being used to promulgate military sales.

As far as military sales are concerned, does the trade bill present any problems that you know of?

Mr. MALLOY. None that I know of, no, sir.

Mr. VANIK. And there is nothing in the bill that effects you one way or the other? These are generally contracts with governments, aren't they, or do they have purchasing agents?

Mr. MALLOY. Well, the foreign sales are made up of DOD sales to foreign governments as well as sales where foreign governments deal directly with our own contractors. There is, of course, in the bill——

Mr. VANIK. I would also like to find out whether these sales made by American defense manufacturers are made directly by the corporations or whether they are made through Domestic International Sales Corporation. There should be someone in your shop who should be able to determine whether they are made through regular corporations or whether they are made through export sales corporations. I want to know just how DISC is working and whether it is working in the way we intended it should work when the Congress passed the proposals for it.

But the reason this is of great concern is because it involves taxation and the manner in which the sales are made and the manner in which the profits on the sales might pass through a DISC or be a direct sale by the corporation involved. As a matter of fact, are the negotiations for sale of these items made right through the Defense Department or are they made directly with the corporation producing the defense material?

Mr. MALLOY. They are made both ways. Some governments prefer to deal with our people in DOD and others prefer to deal directly with the concerns involved.

Mr. VANIK. Yes, but I would like to know the difference between those sales that are made through the Department of Defense and those

sales that are made directly by the corporation. Break that down either by percentage or by dollar value so we can see what effect the Domestic International Sales Corporation device is having on the military sale. The total military sales, as you said, are almost $4 billion a year.

Mr. MALLOY. Right.

Mr. VANIK. Has that been going up or has it been going down? Do you know whether that counts in our balance of payments? It does, doesn't it?

Mr. MALLOY. Yes, sir; it is very important in that.

Mr. VANIK. It is very important in the balance of payments.

Mr. MALLOY. It has been going up, Mr. Vanik. In fiscal 1971 it was roughly $2 billion. In fiscal 1970 it was just a little under $1 billion.

Mr. VANIK. I would like to have that in the record so we can show that projection.

[The information requested follows:]

Following is the total of Foreign Military Sales for each of the last three years and the amounts that were covered by Export-Import Bank Loans:

Fiscal year	Total sales (billions)	Amount covered by Eximbank loan (millions)
1970	$0.9	$286
1971	2.1	253
1972	3.46	250

DOD does not have information as to the portion of foreign military sales which are processed through DISC. The determining factor in this regard is not whether the sales are made through the Department of Defense or directly by the Corporation to a foreign government. The Corporation in either case may set up a DISC and credit the receipts of Foreign Military Sales to the DISC. The determining factor is whether those receipts meet the criteria for "qualified DISC receipts" established by the Internal Revenue Service. The implementation of the DISC legislation is primarily the concern of the Department of Treasury.

Mr. VANIK. Mr. Duncan, do you have any questions?

Mr. MALLOY. Excuse me, Mr. Vanik, may I elaborate on a point you asked about earlier with respect to the protections in the bill for the national security interests. There is, of course, section 406 which deals with that question. I wanted to be sure the record mentioned it.

Mr. VANIK. As I compare 406 with the old law which has not worked well, and maybe they have learned how to do things more concisely, but the old law involved all of these words to protect the Department of Defense. They new law adds about one-fourth of the language. So this is one of those things that made me wonder whether or not you are adequately protected under section 232 of the 1962 act and under section 406 of the proposed legislation.

Mr. MALLOY. It is my understanding that nothing in the old was repealed, that 232 would not be repealed by 406.

Mr. VANIK. I am advised that 232 would remain in the law.

Mr. MALLOY. Right.

Mr. VANIK. So what we see in section 406 is supplemental language rather than the language of substitution. I am still concerned about its adequacy.

Mr. Duncan.

Mr. DUNCAN. Thank you. When you receive a request for investigation under section 8 of the Trade Agreements Extension Act, do you conduct an immediate investigation? Do you have facilities to do that?

Mr. MALLOY. Mr. Duncan, you are getting me a little far afield from my own area of expertise. It is my general reaction that those requests would go to OEP, initially, and DOD would act in a supporting role, but I am not really that familiar with it.

Mr. DUNCAN. You are not familiar with their investigations?

Mr. MALLOY. I know they make investigations. I know they come to DOD and ask DOD for the national security implications and DOD does do surveys and provides information to OEP, and works, on the problem with them.

Mr. DUNCAN. This act that you are referring to goes back beyond the 1962 trade agreement; is that correct?

Mr. MALLOY. I am told that that is correct, sir.

Mr. DUNCAN. Thank you very much. Thank you, Mr. Chairman.

Mr. VANIK. Thank you very much, Mr. Malloy. I would like to direct a few questions to Mr. Wakefield.

I am particularly concerned with the new oil fee system. Is oil covered thoroughly in this new trade bill?

Mr. WAKEFIELD. Mr. Vanik, I am not familiar with the bill but I understand section 232 is not changed and that is the only section that would affect us.

Mr. VANIK. Now with respect to the new oil fee system, how is the new import program going to operate? Why are the license fees, for example, for finished products higher than they are for crude oil? When I read the article about your eliminating license fees I thought, fine, I am going to go out there and get an import license or buy an oil future so I can maybe insure a warm winter.

But I find it doesn't work that way, that just anybody can't go over there and providently buy oil at even today's high prices, which are probably going to be doubled tomorrow. What is the theory of the license? Why do you have to impose a license. What is the logic behind that?

Mr. WAKEFIELD. The theory of the license fee, Mr. Vanik, is to encourage domestic producing and domestic refining industry. Your first question was why are the products higher, why the differential. Our studies have indicated that a refinery built off shore because of a number of reasons, including tax advantages off shore, can manufacture the products and import them into the United States about 40 cents a barrel cheaper than a domestic refinery, therefore the differential.

Mr. VANIK. Well why should there be any license fee at all? Do you have an application before you? Could you place in the record the form of the application? Do you have it?

Mr. WAKEFIELD. No. But they are very easily made to the Office of Oil and Gas.

Mr. VANIK. What information do you require? What does a person or corporation have to do to apply for an import license?

Mr. WAKEFIELD. I am not sure of the specific regulations. I think you yourself could import. I don't think there is any limitation on any person.

Mr. VANIK. How is the fee based, on the amount of volume of the import?

Mr. WAKEFIELD. The volume.

Mr. VANIK. With the idea of the license; not everybody has to pay a license fee, do they? The old established importers get by without a license fee, do they not?

Mr. WAKEFIELD. The people that have quotas for 1973 are permitted to import those volumes without the payment of either tariffs or a fee.

Mr. VANIK. They can import the same quantity they did before?

Mr. WAKEFIELD. Yes; to the limit of the 1973 allocation levels. Those will be phased out gradually over a 7-year period.

Mr. VANIK. Why does it take 7 years, why don't we start treating them like everybody else next year?

Mr. WAKEFIELD. There are several reasons for this. First, many investment decisions were made based upon the old oil import program. Out of equity, if nothing else, it was felt that people who had invested hundreds of millions of dollars should not be penalized.

Mr. VANIK. They won't be penalized if they just keep getting the oil they want. Why would they be penalized?

Mr. WAKEFIELD. If they had to pay a higher fee when they were getting a quota duty free.

Mr. VANIK. But in the past they were enjoying the privilege of buying the oil under quota with a quota ticket for as much as a dollar and a half a barrel less than they could buy it in this country.

Mr. WAKEFIELD. Not recently.

Mr. VANIK. I know it has changed but until a very short time ago there was a dollar and a half a barrel differential. It seems to me they have had a fat cat life for a long time. I don't know why we should have grandfathered in any privilege at this time. I find that very difficult to accept in the new licensing arrangement.

Mr. WAKEFIELD. Another very real concern we had was the independent segment of the market.

Mr. VANIK. The independent is going to have to pay for the license.

Mr. WAKEFIELD. The independent refiners have historically been able to obtain a much larger percentage of their inputs through the sliding scale than a major refiner. If we put everybody on an even footing it would place the independent refiners, who do not have large amounts of domestic production, at an immediate disadvantage and an inability to obtain adequate supplies of crude oil on today's market.

Mr. VANIK. So you say your policies are designed to help the independent, the small purchaser?

Mr. WAKEFIELD. Yes.

Mr. VANIK. All right, we will check that out.

Mr. CAREY. Would the chairman yield?

Mr. VANIK. Yes, I am sorry.

Mr. CAREY. I would like to point out for the record, if you put the sale on across the board, including applying it to the historical quotas, one unavoidable inevitable result will be that consumer prices would increase by just that much because the domestic prices go up to meet the level of the imports and the level of the imports are determined by the cost of the license plus the cost of the product.

So one very sound reason for not placing the fee basis across the board was it would be a heavy installation of cost borne by the con-

sumer. So I think that is one part of the program that we should carefully notice. We don't want to do anything that will result in a drastic increase of the price to the consumer because we anticipate over the 7-year period there would be a moderate installation of cost as it goes on.

Mr. WAKEFIELD. That is correct.

Mr. VANIK. That old import system cost consumers $5 to $7 billion a year.

Mr. CAREY. But if we don't look in the historic basis that new fee would be immediately passed to the consumer so we would have more than the anticipated increase in cost and we are trying to avoid that.

Mr. VANIK. Since we have both you and the Department of Defense here, has the Department of the Interior, first of all, made any calculations as to the cost to the consumer of the new method of import control?

Mr. WAKEFIELD. In 1973 it will be less than under the old system.

Mr. VANIK. You have no idea of the differential?

Mr. WAKEFIELD. No; this question was asked to Bill Simon of the Treasury Department today. He is having a schedule prepared on this. I will be glad to see that it is furnished to this hearing for the record if you wish it.

[The schedule referred to follows:]

U.S. REVENUES AS A RESULT OF NEW OIL IMPORT PROGRAM

[In millions of dollars]

	Fiscal year—				
	1973	1974	1975	1980	1985
Before proclamation 4210	175	253	343	430	526
After proclamation 4210	124	28	178	1,270	1,609
Net gain/(loss)	(51)	(225)	(165)	840	1,083

Mr. VANIK. All right. Has the Department in conjunction with the Department of Defense considered the establishment of a defense petroleum reserve?

Mr. WAKEFIELD. We already have the naval petroleum reserve.

Mr. VANIK. I know we have the Navy petroleum reserve. Is that sufficient for the entire Department of Defense?

Mr. MALLOY. I am not qualified to answer that, Mr. Vanik. I will get you an answer, however.

[The following information was supplied for the record:]

RESERVE PETROLEUM SUPPLY FOR DOD

The Department of Defense maintains reserve inventories of refined petroleum fuels for use by combat forces in wartime. These inventories are intended to bridge the gap until augmented supply deliveries can be obtained from the domestic and offshore petroleum industries.

Behind the reserve inventories the Department of Defense has the Naval Petroleum Reserves (NPR), only one of which, NPR No. 1 in California, has any significant existing crude oil productive capacity. The maximum additional amount which could be produced with existing facilities is 95,500 barrels per day, approximately 12% of military peacetime consumption.

NPR No. 1 has an estimated potential production capacity of about 267,000 barrels per day with additional development. NPR No. 4 on the Alaskan north

slope has, speculatively, a potential capability of 3,000,000 barrels per day or more, if potential major oil fields are discovered there. It is not likely that NPR No. 4 oil, even if found, will play any significant role prior to 1980, and it will probably be much later. At today's prices, it is estimated that discovery and development of a 3,000,000 barrel per day deliverable capacity would cost $4 billion or more. Any such development would of course provide capacity well in excess of any foreseeable Department of Defense wartime needs.

Mr. VANIK. We ought to know whether or not the reserve program is adequate and for how long a period it might be needed to sustain us. Have we given any thought to establishing a general consumer reserve, just filling up some of the wells, just as we use old gas wells in my community to average out the intake of gas through the summer months so that we build up reservoirs for use during the winter?

Have we given any consideration to the development of an in-ground or in-tank reserve somewhere in a safe place, a reserve that would eliminate or reduce the danger of rationing and fuel shortage?

I think what we need in the Department of Interior is the kind of thinking that is going to insure that we have adequate supplies.

Mr. WAKEFIELD. Mr. Vanik, I am not sure of anything we can do that will create another barrel of crude oil.

Mr. VANIK. We could buy it. We could make Government purchase and put it away.

Mr. WAKEFIELD. That would be true if there were a tremendous amount of oil available on the world market, but unfortunately there is not today. We are facing worldwide crude oil shortages.

I might add in response to your question of what is being done, the Oil Policy Committee is studying a way to use this new program to encourage the construction of emergency storage facilities. I will again point out that this will cost the consumer more in terms of the product, or the taxpayer more. It is very expensive.

As far as just putting it in the ground in old abandoned oil reservoirs, that is not practicable in any way. Even in new fields, the average oil well only gets about one-third out of the reservoir and the rest stays in.

With any kind of above-ground storage you have additional tremendous costs and siting problems.

But this is a matter we are looking into.

Mr. VANIK. Do you have authority under the law now to establish such reservoirs?

Mr. WAKEFIELD. Do you mean in connection with Federal lands?

Mr. VANIK. No. I am talking about the authority to put aside, acquire and set aside reservoirs of oil to be available for release in the event of shortage.

Mr. WAKEFIELD. Do you mean for the Federal Government?

Mr. VANIK. I am talking about for people generally. I am talking about over and beyond defense needs, for civilian needs.

Mr. WAKEFIELD. Yes. What we are looking at is not for the Federal Government to do this but for encouragement to industry to build up inventories.

Mr. VANIK. Senator Jackson has a bill that I generally like which would provide for such a storage facility, primarily to avoid shortage and rationing and also to help stabilize price. If we have some supplies on hand we have some leverage, we have a little opportunity to bar-

gain. We would not be as desperate as we would be if we were running out.

Now, this is a New York problem, but in your city what is the gasoline running?

Mr. CASEY. Would the Chairman yield?

Mr. VANIK. Yes.

Mr. CAREY. Before you leave that point on encouragement and incentive for storage, I hope we can advise the Department of Interior and I think the Department of Defense would be well advised to look at this also from the point of view of their future needs, that here is a case where aside from encouragement and incentive we might consider the requirement by the refiners of the country and those who market and who are integrated with refineries that in return for getting the bonus or the benefit of import licenses and the tax incentives which will be there available for creating new refining capacity, that depending on the size of their production and distribution and anticipated marketing, that they be required to construct sufficient storage facilities at appropriate places along the pipelines or near the metropolitan centers or at refineries to constitute a given supply of, say, 6 months or even a year.

Historically, the industry, and I don't mind putting it on the record that I am a former member of this industry, has operated on a hand-to-mouth basis, or catalyst to tank farm to pipeline to consumer, because the refined product represents an asset they want to turn into cash just as quickly as possible. It is a good way to operate.

Now I think that there is another interest to be served, and that is what the Chairman has pointed to, namely maintaining a reserve against spot shortage, against catastrophe, and against sudden fluctuations in price due to spot shortages.

I think that is a requirement that we should definitely explore with regard to utilizing the value of and the weaponry of the import licensing, the incentives for new refinery production.

I think that if they begin to seem irritated or annoyed by this, we shouldn't listen with too great compassion to such annoyance and irritation because they have ample ways in which they can compensate for the cost of this requirement if you place it upon them, namely, the 7-percent investment credit, accelerated depreciation range, for the cost of constructing the steel tankage, and this steel tankage is very modest in terms of construction compared with the value of the product and the ease and convenience of the consumer.

So I think in this case instead of talking about encouragement or incentive you ought to recognize that the encouragement and incentive is there in terms of the present tax system, and the convenience of the consumer and the defense security needs of our country are such that these companies should look to serve the country and the consumer by creating such facilities.

It is a requirement that we should place upon them because it is well within their capacity to do so. They could get away from the seasonal operations of their present business. We know what happens. They begin cutting down the supply of fuel oil and building up gasoline stocks according to the calendar. They can change that calendar. They can change their runs. They can change their crude runs to build up stores, providing the storage is there to incorporate those refinery runs.

Then we could get away from the seasonal fluctuations and we will control reserves to a better extent than we are doing right now.

But the job is to make sure they are refined reserves and not crude. Once they are refined into gasoline or heating oil they are operational in terms of our supply system. That is what we have to get the refiners to do.

I think we ought to make them do it and not just encourage them or implore them to do it. It is the only way we are going to get our private enterprise system to respond, because if you ask them to do it or seek that they do it, we will be exactly where we were after the Korean war or World War II where we set up objectives in terms of them to recommend for defense mobilization. We didn't get them until we required them to construct the capacity in terms of priority and license.

So I think we ought to look carefully at a system of mandated storage facilties because if a fellow wants to be in the energy business then he should be required as a responsible supplier to have sufficient supplies on hand for the demand he anticipates, and it is his job to make sure that storage is there.

It might make for a few jobs in the construction and steel industries. We can use those jobs. I think that is a point we ought to explore and see if we can't impose this on the industry. Since we have price and wage controls, why not inventory controls? I think it is a good idea.

Mr. VANIK. The thing that shocks me about our oil policy is you wonder who is running the house. You should be able to anticipate what the needs are. I know that more gasoline is probably used for the automobile, the new emission systems and the control systems probably have increased gasoline needs by 6 or 8 percent, but that was all known. There were no surprises.

Someone in charge of oil policy is letting us run out of oil. Perhaps we have to fix it in the law and determine who is going to determine an adequacy of supply.

Is the energy crisis as serious as they say it is? You talked about those oil wells that still had oil in them. Now that is the secondary oil. I have wondered, frankly, about the estimates that we get. Does your Department make its own independent estimates of oil supplies?

Mr. WAKEFIELD. The Geological Survey does, yes.

Mr. VANIK. The Geological Survey told us in 1922, that we would be out of oil in a few years. I just want you to know how uncertain these thing are. Now, whose figures do you take to determine the supplies of oil?

Mr. WAKEFIELD. The Geological Survey's.

Mr. VANIK. Just the Government agency?

Mr. WAKEFIELD. Yes.

Mr. VANIK. You do that independently. Well, I have a feeling that the energy supplies of this country are grossly underestimated. I want you to know that I have great doubt about the estimates that are made. I have a feeling that they are calculated on the basis of primary recovery and that they completely exclude the potential of secondary recovery. It is that secondary recovery, that oil that still remains in the well that takes something special or extra to do to remove it, it is that oil that is still in the ground and still there. I would like to have some calculation or some estimate made as to the secondary oil reserve, so that we can match that and make a comparison on the

figures that are currently being distributed with respect to oil resource supplies on hand or estimated on hand.

Mr. WAKEFIELD. I am afraid I would have to have some pretty definite parameters to get that, the major factors being what the economies are. If you are talking about $4-a-barrel oil, your secondary recovery will be different than if it is $6 or $8 a barrel.

Mr. VANIK. You can have those added calculations. You can have those parameters, as you say, in your calculation. If you can supply that for the record, that would be helpful because that oil is here. It is in our Earth, in our country. If it is going to cost more money to get it out, we ought to have some idea as to how much there is at the higher price.

Mr. WAKEFIELD. Mr. Vanik, I don't think that it is the problem. According to the Geological Survey, we have 100 years' supply at today's consumption rates. The problem is that you don't get it out of the ground until the wells are drilled and until it is discovered.

Now one of the major things that we have done is to open up the outer continental shelf. I think that will help a great deal.

Mr. VANIK. Has any of that come into substantial production as yet? The greater part of those sales have just been completed.

Mr. WAKEFIELD. That is correct. We were delayed in the courts for about a year by environmental litigation.

Mr. VANIK. I have some information from the Senate Subcommittee on Antitrust and Monopolies that the major oil companies are gettting into the discount oil business at the same time the independents are being forced out.

The Office of Emergency Preparedness said that 562 gas stations have already closed and 1,376 are in the process of being closed. Mr. Trent of OEP said that there is no area of the country where the driver will be unable to obtain gasoline. The shortages are not expected to be as severe as to warrant rationing by the Federal Government.

We have Exxon now marketing discount gas under the name of Alert in 16 stations in 4 States. Gulf discounts gas under two labels, Economy and Mulco. Shell markets under Reed, Mobile under the name Blue Goose and Red Dot.

I wonder if there is not a calculated plan to force out the independents, get their distribution system, and then as the companies start their offshore drilling they can raise their prices and eliminate some of the service that the gasoline discounters have been providing to the American people.

What do you have to say about that, is that a possible picture?

Mr. WAKEFIELD. In the first place, I certainly hope not, because I don't think there is anybody more concerned about the independent segment of the market than I am. Second, it was announced today that we are starting an allocation system to assure that every retailer in every State of the Union is able to get at least the same proportionate amount that he was able to get last year, including the people that purchased in the spot market without contracts.

Mr. VANIK. Do you have some more questions?

Mr. CAREY. I think there is another oil policy survey or study due by this September from the Oil Policy Committee of the National Petroleum Council on the question of available supplies, et cetera. Some of my advice from that study indicates to me that we have not

underestimated in any way the depth and nature or the acuteness of our shortage, at least in terms of product that is available to be refined and that we can count on over the short term.

As a matter of fact, I think one of the major concerns in terms of our economic growth is that the satellite industries that depend on feed stock have begun to tell their product managers not to base any new estimates for chemicals or pharmaceuticals or any feed stock industries that depend on oil to extend business if it means additional feed stocks.

If they could estimate and get feed stocks they would be willing to do so to keep their plants running and get new ones running and on stream.

My survey is that those who depend on petroleum are not counting on any new supplies, and indeed find the situation extremely tight.

So I don't think we are underestimating what we have available. We are in tough shape until we get new exploration or imports or some access to coal or something of that kind.

I think, Mr. Chairman, that new study which will be ready by September will be a guide to us, but in the meantime we'd better figure on the low side as far as what is available is concerned.

Is that your information as well?

Mr. WAKEFIELD. Yes, that is correct, Mr. Carey, except that the completion date for the report is December. In fact, I chair that study and I think it will show the situation for the short term much worse than we projected.

Mr. VANIK. Mr. Malloy and Mr. Wakefield, we appreciate very much your coming. I would like to reserve the right to submit some further questions to you in letter form that we could make a part of our record.

Mr. WAKEFIELD. Surely.

[The following was supplied for the record:]

HOUSE OF REPRESENTATIVES,
Washington, D.C., May 22, 1973.

Hon. Ambassador WILLIAM D. EBERLE,
Special Representative for Trade Negotiations,
Washington, D.C.

DEAR MR. EBERLE: In the House Ways and Means Committee print released in May of 1973 entitled, "Briefing Materials Prepared for use of the Committee on Ways and Means in Connection with Hearings on the Subject of Foreign Trade and Tariffs," there is a brief description of alleged U.S. non-tariff barriers.

With respect to the item on page 149 of this Committee print, which reads:

Mark of origin—The Tariff Act of 1930 requires that imported articles be conspicuously, legibly and permanently marked so as to indicate the country of origin to the U.S. consumer.

Is it the intention of the Administration that this provision be subject to negotiation and removal in the event that H.R. 6767 is enacted?

Further, if this provision were negotiated away, would there be anything in the law to prevent American manufacturers to stamp products made in the United States as having been made in the United States of America?

Thank you for your assistance in answering these questions prior to the beginning of Executive Session in Ways and Means on H.R. 6767.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, D.C., June 6, 1973.

Hon. CHARLES A. VANIK,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN VANIK: Thank you for your letter of May 22, 1973, in which you inquire whether it is the intention of the Administration that the mark of origin requirement under the Tariff Act of 1930 be subject to negotiation and removal if the Trade Reform Act of 1973 is enacted, and whether American manufacturers would be prevented from stamping products as of domestic origin.

The inventory of nontariff barriers compiled in the GATT, consisting of about 800 notifications by member countries covering about 27 different categories of nontariff measures, includes a complaint against the United States by several countries which regard our mark of origin requirements and penalties as "excessive and burdensome." To date our marking requirements and those of foreign countries, such as those maintained by certain member states of the European Community, have not received attention in the GATT work program as a priority matter for solution.

The Administration view is that no form of trade-restricting or trade-distorting measure should be precluded from the outset as a possible subject of negotiation. It is not anticipated, however, that mark of origin requirements would be removed as a result of negotiations. The notifying countries did not propose their elimination. Rather, the prevailing view was to review, possibly strengthen, and ensure compliance with a recommendation on marks of origin adopted by the GATT in November, 1958, a copy of which I am enclosing. The resolution basically recommends the simplification or harmonization of these requirements, and reduction of their application to cases which provide information necessary for the final consumer rather than on all imported products. The view of foreign countries is that United States requirements have become an excessive burden upon exporters as a matter of general rather than exceptional application.

The marking of origin provision requires that upon importation into the United States the foreign exporter have marked the country of origin of the product. There is nothing in the law to prevent American manufacturers from stamping domestically-produced articles as having been made in the United States, whether or not the mark of origin provision in the Tariff Act of 1930 were removed.

I will be happy to answer any further questions you may have on this subject.

Sincerely,

HARALD B. MALMGREN,
Deputy Special Representative.

Mr. VANIK. I am sorry to keep you here so late, but I wanted to hear from you before we closed the public part of the hearing. We are very grateful to you.

The committee will now stand adjourned until tomorrow morning at 10 o'clock.

[Whereupon, at 5:56 p.m. the committee adjourned, to reconvene at 10 a.m. Friday, May 11, 1973.]

TRADE REFORM

FRIDAY, MAY 11, 1973

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. James A. Burke, presiding.

Mr. BURKE. The committee will be in order.

The list of administration witnesses appearing here today is Hon. Earl L. Butz, Secretary of Agriculture; Hon. Frederick B. Dent, Secretary of Commerce; Hon. Peter J. Brennan, Secretary of Labor; and Hon. Henry Kearns, President and Chairman of the Export-Import Bank; and Hon. Carroll G. Brunthaver, Assistant Secretary of Agriculture for International Affairs and Commodity programs.

On behalf of the committee, we welcome all you gentlemen to the hearing here this morning and, if you will each identify yourself for the record, you may proceed with your testimony.

Secretray Butz is recognized first.

STATEMENTS OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE, AND HON. CARROLL G. BRUNTHAVER, ASSISTANT SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS; HON. FREDERICK B. DENT, SECRETARY OF COMMERCE, AND HON. LAWRENCE A. FOX, ACTING ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS; AND HON. PETER J. BRENNAN, SECRETARY OF LABOR, HON. JOEL SEGALL, DEPUTY UNDER SECRETARY OF LABOR FOR INTERNATIONAL AFFAIRS, AND HON. HERBERT N. BLACKMAN, DEPUTY ASSISTANT SECRETARY OF LABOR FOR TRADE AND ADJUSTMENT POLICY

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

I understand that I am scheduled first this morning here and I have a short statement. With your permission, I would like to read the statement.

Mr. BURKE. Permission is granted.

STATEMENT OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE

Secretary BUTZ. In my view, the Trade Reform Act of 1973 is one of the most important pieces of economic legislation to come before the Congress in recent years. We need this bill.

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1. We need it to take full advantage of the growth potential of this country's agricultural sector;

2. We need it to help generate the domestic and foreign economic expansion we must have to maintain a high level of employment at more stable price levels;

3. And we need it to reduce our increased trade deficit through expanded agricultural exports.

I firmly believe we cannot achieve any of these objectives unless we negotiate the reduction of barriers which distort the flow of agricultural trade among nations. And I am further convinced that negotiations leading to this result cannot be accomplished unless the President is granted the tools contained in the bill before this committee—tools which would give him broad negotiating authority, yet strengthen his ability to protect domestic industries threatened by unfair trade practices or injurious imports.

Why are liberalizing trade negotiations for agriculture so important at this juncture?

GROWING EXPORTS ARE VITAL TO THE HEALTH OF OUR AGRICULTURAL SECTOR

Exports are responsible for about 15 percent of cash farm income and it could be reasoned that exports provide about one-fifth to one-quarter of net farm income. That is because land and other fixed costs are already in place for domestic production, and they continue whether we export or not. Exports add to farm returns and permit farmers to farm at nearer full capacity with lower per unit costs.

This year we are exporting the produce of more than 80 million acres, equivalent to nearly 30 percent of harvested cropland. This means that the production from one-fourth to one-third of the land being cropped by U.S. farmers today depends on export markets. These figures could be even higher as we bring more land into production to meet the upsurge in demand.

Until recently, this country has had costly programs to take land out of production—about 60 million acres just a year ago. This has resulted in less than full efficiency, and in higher unit costs.

This year, under the impact of stronger foreign and domestic demand, we are bringing former set-aside land back into production. Farmers can use more of their land, which costs the same whether idle or not, and make fuller use of their machinery and their know-how to produce more food and feedstuffs from virtually the same capital investment they have had before.

When farmers can lower average costs from what they would have been under restricted production, and at the same time increase supplies, the result can't help but benefit the farmer in terms of higher income and the consumer in terms of greater abundance of food.

The American farmer wants to produce at the fullest capacity practical, and exports permit him to do so to his own benefit, and to the benefit of the American public. Better access and stable access to overseas markets are essential if this country truly wants to release the full productive potential of its agriculture.

AGRICULTURAL EXPORTS ALSO STIMULATE DOMESTIC ECONOMIC GROWTH

Agriculture remains by far the largest industry in this Nation today. It is related to the employment of around 16.5 million people, or about one-fifth of the total U.S. labor force, and it generates over 16 percent of total GNP.

The impact of the dramatic upsurge in farm exports of recent months already is being felt in the nonfarm economy. Based on an estimate of more than 5,000 jobs generated in warehousing, transportation, trade and elsewhere for each $100 million of grain exported and 4,200 jobs per $100 million in soybeans, we calculate that increased exports this fiscal year of grain and soybeans alone will have meant well over 100,000 new jobs off the farm.

We estimate that this year's exports mean $150 million more in receipts for the transportation and warehousing industries this year than last. First-quarter deliveries of covered hopper cars numbered 4,117, double last year's figure. And railroads and shippers had over 9,000 on order as of April 1 this year. Barge builders have backlogged orders representing a year and a half of work. Some ports are operating 24 hours a day, 7 days a week.

What is more, these increases in the number of jobs and the amount of income being generated directly by agriculture mean that there will be more demand for consumer goods and services produced by other sectors of our economy. Thus a growing agriculture can be beneficial for the entire country.

But agriculture is a key to domestic economic growth not only because of its size, but also because of its efficiency. Output per man-hour in agriculture has increased by 3½ times since 1950, about twice the increase for nonfarm workers. One farm worker—farmer, hired laborer, or unpaid family laborer—could feed 16 Americans in 1950; today he can feed more than 50.

This remarkable improvement in agricultural productivity since 1950 has made it possible for American consumers to increase their per capita consumption of beef by 80 percent, while at the same time foreign countries were more than doubling their purchases of American farm products.

This remarkable agricultural productivity has reduced the cost of food in relation to available income over the past 20 years. The American food bill, which took 23 percent of the average after-tax disposable income in 1952, took 15.7 percent in 1972.

Because of its size and efficiency, agriculture is a key growth leader for our domestic economy and the strongest link in the chain of international competition. Demand is booming for agricultural products, both at home and abroad, and American agriculture—because of its increasing productive capacity—is uniquely suited to meet this demand. No other industry today faces quite the same combination of growing worldwide demand and competitive superiority.

In order to take full advantage of this situation, it is imperative that we open up world markets and encourage a freer flow of trade among all nations. Only in this way can we create the largest number of new jobs, the highest incomes, and the greatest purchasing power for our people.

Agriculture makes another important contribution to the economy by contributing a surplus to the trade balance, and it is capable of increasing that surplus.

Since 1969, agricultural exports have risen from $5.7 billion to an estimated $11.1 billion in fiscal year 1973. Even without the sales to Mainland China and the Soviets, and the price effects of these sales, we still would come up with exports of over $9 billion.

Comparing our calendar year 1972 exports of $9.4 billion with those of other sectors in the economy, we see that agricultural exports nearly equaled the total value of all our exports of nonelectrical industrial machinery. They are more than double our total chemical exports, and roughly three times the exports of all U.S. consumer goods.

While the calendar year 1972 trade deficit for nonagricultural products jumped sharply to a record high of $9.3 billion, agriculture was piling up a trade surplus of $2.9 billion. But that doesn't tell the whole story. More than $2 billion of our agricultural imports are coffee, tea, bananas, and other products we don't grow. When we get into competition—where it is U.S. agriculture against other suppliers of similar products—and we compare our commercial exports with competitive imports, we have a trade surplus of $4 billion.

Projections for U.S. agricultural exports under current programs and policies give an annual compounded growth rate of about 5 percent. We believe that liberalization of import restrictions in major foreign markets could substantially increase this growth rate. It would be unfortunate to have to pull back our production plant because we failed to get the market access we need to sustain this higher growth rate.

Why is liberalization of agricultural trade feasible now?

Greater interchange between nations is inevitable. Inflationary pressures and consumer demand within countries around the world are causing national and international goals and systems to bend as never before.

Particularly, there is a growing worldwide commercial demand for farm products at reasonable prices. People are getting more income, and spending more of it to eat better. In some places this improvement may mean simply eating more staple foods such as grains. More often it means adding variety to, and improving the quality of, the diet by including more meat and poultry products, a greater selection of fresh fruits and vegetables, and a larger proportion of processed and prepared foods.

Meat, especially, requires far more agricultural resources to produce—and therefore offers an opportunity for substantial increases in sales of U.S. grains and soybeans. Of course, weather has created unusual demand conditions during the past year. But the basic trend toward increased demand remains the same.

In fact, this growing demand is creating a pattern of national pressures which are already beginning to force changes in traditional systems of production and trade. In recent months it has caused the European Community to ease restrictions on meat imports; it led the Japanese Government to remove the pork levy and increase beef import quotas and to institute a new review of many other quotas; it caused Canada to reduce tariffs for 1 year on a wide range of meats, fruits, and

vegetables; and it induced the Russians to maintain their 5-year livestock production goals in the face of unfavorable harvests of grain and feed crops.

The United States is no exception. We are all aware of the recent pressures for change related to the cost of living. The Agricultural Act of 1970 eliminated commodity-by-commodity acreage restrictions and marketing decisions. Since then many American farmers affected by these program changes have begun farming in ways that would not have been possible under the tighter restrictions of the old law.

Recent actions such as freeing additional set-aside acreage and suspending all direct export subsidy payments have further recognized consumer needs. Our proposals for domestic farm legislation would move agricultural programs still farther in the direction of more freedom for farmers to respond to the market. As the opportunity to trade between nations increases, the United States with its land resources, its technology, and its farming and management skills will be called on for greater production.

For all these reasons I am convinced that international negotiations are both timely and necessary if American agriculture is to profit from its own efficiency and help our economy to achieve its full potential for growth. We must have the provisions of the Trade Reform Act of 1973 in order to do this.

One kind of negotiation we would expect to undertake would be to further develop our trade relations with Eastern Europe, the Soviet Union and with the People's Republic of China. These countries offer the United States excellent possibilities for significantly expanding agricultural exports. But if the Soviet Union is going to come to us for its grains and its citrus, it is going to expect equal treatment on the other side of the trade coin. It is going to expect most-favored-nation (MFN) treatment. Given the kind of safeguards provided in the President's trade bill, we think providing MFN treatment would be a very worthwhile step and one very much in our interest.

The trade bill would also give the President broadened authority to raise or lower tariffs when negotiating trade agreements. And it would authorize him to negotiate on all nontariff barriers, many of which have never before been subjected to international discipline. These authorities would be used to negotiate freer trade with other GATT members.

We realize that there may be some apprehension about giving the President such broad grants of authority. Among other things, this apprehension may concern the possible removal of agricultural restrictions by Executive order.

Let me say first that the Trade Reform Act contains carefully prescribed procedures which would require public hearings and departmental advice before any such offer could be in negotiations. Furthermore, any part of the negotiated outcome which requires changes in domestic law would have to come back to Congress for review, where we would expect to demonstrate that we had been hard bargainers and that the benefits we were going to obtain for any concessions offered would be substantial.

Let me also emphasize that if we are going to obtain the kinds of benefits I have been describing from our trading partners, then we, too,

must be prepared to liberalize, including doing such things as expanding or eliminating section 22 quotas.

We are learning with experience that protectionism breeds distortions in trade and production; we are learning that with a little more liberality on everybody's part, market expansion would probably take care of many of the problems most feared by protected sectors.

For example, the dairy industry has been highly protected around the world. Surpluses have built up and certain of our trading partners have resorted to large export subsidies in order to market these surpluses. In a liberalized trading situation we would expect that these export subsidies would be terminated, thereby ameliorating much of the adverse effect for U.S. producers.

Let me point out finally, that because the trade bill does request so much flexibility for the President—flexibility which he must have if he is to negotiate successfully—it also provides more safeguards than in any previous trade legislation.

Various authorities would enable the President to retaliate against unfair trade practices, to provide temporary border protection for domestic industries (including agriculture) threatened with serious import injury, and to deal with special problems, such as inflation and balance-of-payments disequilibrium. All of these authorities would be readily available should they be needed.

But just as the President needs flexibility on the negotiating side, he also needs it on the safeguards side. If we are to negotiate for a more liberal trading world, it would be a step backward to define too narrowly those circumstances which might from time to time require restrictive action.

In my view, we have an unprecedented opportunity in American agriculture to seize the advantage offered by changes in world economies, in life styles, and in traditional systems to move forward into a new era of growth and prosperity, not only for agriculture, but for the Nation.

This legislation will give us that chance.

Mr. BURKE. Without objection, we will proceed with the testimony of Secretary Dent and Secretary Brennan and then we will open the panel for questions by the committee.

Secretary Dent is recognized.

STATEMENT OF HON. FREDERICK B. DENT, SECRETARY OF COMMERCE

Secretary DENT. Thank you, Mr. Chairman.

My name is Frederick Dent. I am pleased to have this opportunity to appear before you today to comment on the provisions of H.R. 6767, titled the "Trade Reform Act of 197."

The trade bill which is before you will provide the President with the authorities he must have if he is to work effectively for a more open and equitable world trading system. Armed with such authorities, he will be able to act from a position of strength in the hard bargaining of international trade negotiations.

The proposed bill is specifically designed to underpin our efforts to insure that American exporters are given full and fair opportunity

to compete in the constantly growing overseas market. At the same time, the bill will provide more flexibility and better safeguards at home with which to handle the injurious effects of sudden import surges.

Before going into the specific provisions of special interest to the Department of Commerce, let me provide you with a brief overview of recent developments in the U.S. trade picture and, to the extent one can at this point, touch upon the trade outlook for the immediate future.

THE U.S. TRADE PICTURE

As you know, the U.S. trade position deteriorated sharply again in 1972. The deficit in our trade account was $6.3 billion. Part of the deterioration was an initial result of the Smithsonian agreement of December 1971. The rise in the value of most major foreign currencies relative to the dollar caused import prices to climb, so that the same quantity of a particular imported item produced a larger import bill.

This so-called perverse price effect had been anticipated for the near term. The other major reason for last year's trade account deterioration involved the business cycle, both here and abroad. The booming U.S. economy generated strong import demand, while the relatively restrained pace of business activity in many markets abroad provided less of a stimulus to our sales.

The trade balance for the last few months does show some welcome improvement. It is too soon to know, however, whether this trend will continue. In fact, there might possibly be some deterioration in the trade picture in the months ahead because the February 12 devaluation of the U.S. dollar may again produce a short-term perverse price effect on imports.

The big question, of course, is when the positive effects of the latest devaluation will take hold. The Smithsonian currency realinement offers little guidance. Seventeen months after the agreement, it is still not clear to what extent imports have been curtailed because of higher prices.

It does appear, however, that overseas sellers are passing on the price increases induced by the dollar devaluation faster this time than after the Smithsonian adjustment. On the other hand, with the U.S. economy booming and personal incomes already high and still rising, demand at home for foreign products continues very strong.

On the export side, we should do very well this year in selling both agricultural and manufactured products. Certainly, some gains should be realized from the greater competitiveness of U.S. products because of the devaluation of the dollar. I will have more to say about this export picture later on.

It is hazardous to predict how we will end up this year, in view of the enormous uncertainties involved and the absence of statistical estimating techniques of proved validity. Our best guess at the moment is that the United States will have another trade deficit in 1973 in the same general magnitude as last year's, possibly somewhat less. By the end of 1973, however, we should see noticeable improvement.

TARIFF AUTHORITY

Let me turn now to the proposed trade bill. I feel strongly that the provisions in the bill, taken as a whole, are a responsive and responsible answer to the hard questions we face in trade policy. I should like to concenrate on those features of the bill which are of special interest to the Department of Commerce.

In the area of tariffs, authority has been requested for 5 years to eliminate, reduce or increase duties on all products in the context of negotiated agreements. Such authority would give the President the negotiating leverage he needs to secure a total package, including reduction of agricultural and nontariff trade barriers.

Industrial tariff averages in major developed countries have been reduced through past negotiations to relatively low levels—averaging below 10 percent—but numerous high tariffs remain. We would like to see a continuation of the downward trend. Of course, there must also be substantial progress on nontariff barriers and agriculture, as well as on an international system of safeguards to deal with transitional adjustment problems.

Section 101 would permit a combination of tariff actions in a trade agreement. Such actions could include the elimination of some duties, reduction of others by the same or varying amounts, no reductions on some products, and an increase in tariffs to achieve rate harmonization in certain product sectors.

This authority and flexibility in the tariff area is necessary to bring U.S. credibility to the bargaining table and provide the conditions necessary for the success of the trade negotiations.

NONTARIFF BARRIERS

Over and above the issue of tariff duties, we expect the multilateral trade negotiations to encompass a wide spectrum of national laws, regulations, and administrative practices which inhibit or distort the flow of goods across national borders. Those laws and practices give rise to a complex web of nontariff impediments to the free movement of exports.

In recent years, increasing concern has been directed toward the distorting effects on international trade of such nontariff barriers, commonly known as NTB's. Consequently, the administration intends to give high priority in the new round of negotiations to those nontariff measures employed by other countries which discriminate against U.S. exports.

Efforts in this area, particularly in the GATT, have produced some forward movement but much greater advances must be made. It is our conviction, however, that characteristics peculiar to NTB's dictate that more rapid movement is feasible only in a broader context. There are few industrial NTB categories where solutions can be self-balancing and put into effect independently of concessions in other areas.

There are no easy answers or simple solutions to the hard questions of how best to equip our representatives for negotiations in this complex field. Given the importance of meaningful progress on NTB's to our overall trade objectives, however, it is vital that our negotiators be supported by a clear mandate of the legislative branch and have at

their disposal authority that will provide negotiating flexibility and bargaining leverage roughly equivalent to that of our trading partners.

In seeking such authority, the administration has carefully taken into account the role and responsibilities of the Congress. We believe that section 103 of the proposed trade bill gives the requisite negotiating authority while insuring continued close cooperation and continual consultation with the Congress.

The bill has been drafted to cover a range of alternative procedures. The procedures envisioned, for example, would permit the President to negotiate and enter into NTB agreements through the use of advance congressional authority in certain defined areas such as country of origin marking and customs valuation.

For the broader range of NTB's, the bill includes an optional congressional veto procedure applicable to agreements for which the exercise of additional congressional authority is necessary or appropriate. In such cases, the President would give 90 days notice to both Houses of Congress of his intention to use this procedure.

The advance notice would give the appropriate congressional committees the opportunity to hold hearings, receive comments from the public and make recommendations concerning the contemplated agreements.

Then, after another 90-day period, dating from the time the President delivers a copy of the agreement and his proposed implementing orders to both Houses of Congress, the President would be authorized to move ahead with implementation, unless the majority of the membership of either House of Congress states its disapproval of the agreement.

As I noted, this is an optional procedure since the President can, if he thinks it appropriate, use his existing authorities. For example, he could submit such agreements to the Congress on an ad referendum basis or for approval as a treaty.

GOVERNMENT-INDUSTRY CONSULTATIONS

A very important aspect of the upcoming trade negotiations is, of course, how best to take into account the views of the private sector. The bill makes adequate provision for public hearings, and provision will also be made for consultations with consumer, business, labor, farm, and other interested groups.

However, Ambassador Eberle and I have agreed that it is essential to establish new government-industry consultation procedures to assure that the views of U.S. industry are taken into account fully from beginning to end.

During the Kennedy round negotiations, industry representatives felt with good reason that they were not brought into the picture soon enough and were given little opportunity to make any real input into the negotiating process. We propose to initiate immediately a three-stage program of consultations with industry, conducted jointly by STR and Commerce.

For the initial stage, we are planning a series of informal discussions with key industry executives to exchange views and ideas on our objectives, strategy, and how industry can best contribute to and participate in the negotiating process. We then envisage a second stage of informal meetings with technical experts from individual in-

dustry sectors to discuss specific industry inputs of technical data and factual information.

In the third stage, we envisage formal industry advisory groups at perhaps two levels—a senior advisory group to provide overall policy advice, and technical groups to determine precise U.S. negotiating interests in individual products and product sectors.

I believe you will agree, however, that we cannot have meaningful discussions of our negotiating objectives, strategy, and specific product interests with representatives of industry if they must be conducted in a fish bowl during the bargaining process. This is why we have included a provision in the bill exempting selected industry, labor, and agricultural groups established for this purpose from the requirements of the Federal Advisory Committee Act to hold open meetings and permit public participation.

IMPORT RELIEF

A feature of this bill which I consider of special importance for U.S. producers of industrial goods is the proposed liberalization of the current provisions of the so-called escape clause. Liberalization will ease significantly the present stringent eligibility criteria for import relief, and make such relief more accessible to industries injured by imports in three main ways.

First, the test which petitioners have most often failed to meet—to prove that import injury is linked to tariff concessions—will be eliminated.

Second, "primary cause" is substituted for "major cause" with respect to the required causal relationship between increased imports and injury. "Primary cause," meaning the largest single factor, is a more reasonable and fairer test than "major cause," which has been interpreted as greater than all other factors combined.

Third, new "market disruption" criteria will simplify the burden of demonstrating that the increased imports in question are the primary cause of the injury. A finding of market disruption would constitute prima facie evidence that imports do constitute the primary cause of the claimed injury. Market disruption, in turn, is defined as occurring when imports are substantial, are rising rapidly both absolutely and in terms of total domestic consumption, and are offered at prices substantially below those of comparable domestic products.

It is also important to mention that import relief will also be made more effective by giving the President greater flexibility in providing relief measures.

In summary, the administration proposals introduce important new safeguard procedures to permit U.S. producers to deal with rapid changes in foreign trade patterns and sudden inflows of particular products from abroad.

PATENT INFRINGEMENT BY IMPORTS

In addition to safeguards against injury from fair competition, the bill also consolidates and revises the four principal statutes dealing with unfair foreign trade practices. I would like to mention that one of these statutes—section 337 of the Tariff Act—has been amended to

provide U.S. patent owners with a simpler, quicker, and more effective remedy against infringing imports. Nonpatent situations would be covered by amendments to the Federal Trade Commission Act as provided for in a separate bill.

EAST-WEST TRADE

Title V of the bill paves the way for the normalization of our trade with the countries of Eastern Europe, the Soviet Union, and the People's Republic of China.

There are many advantages to normalizing and expanding trade relations with the nonmarket countries. Such a step would work to improve still further the political climate between the United States and those countries and carry forward the recent efforts of the President in that direction. From an economic standpoint, improved relations are good business since they can provide greater employment and earnings through larger exports, both of agricultural products and of manufactured goods which we hope to sell to those countries. In addition, the potential for imports of energy and other raw materials resources could constitute a significant factor in working to meet these growing needs.

Under this bill, the President would be authorized to extend most-favored-nation treatment on a reciprocal basis to those countries currently denied it, in the context of a bilateral agreement with the United States or if the country became a party to a multilateral agreement, such as the General Agreement on Tariffs and Trade (GATT). Such a bilateral agreement, or the extension of MFN treatment pursuant to a multilateral agreement, would not go into effect if disapproval was expressed by either the House or the Senate within 90 days of its submission by the President.

As you know, imports from all nonmarket countries, except Poland and Yugoslavia, are currently subject to the high tariff rates of the 1930 Tariff Act. We believe that the authority to correct this situation by extending MFN treatment to them is a basic prerequisite for the normalization of our commercial relations. Of course, the issue of MFN treatment will be closely related to the settlement of outstanding financial, commercial, and business facilitation issues.

Our analysis suggests that U.S. imports of manufactured goods from the nonmarket economies will not be of sufficient volume to cause material injury to U.S. producers within the foreseeable future. Should the situation arise, however, the bill provides adequate safeguards.

First, no agreement may exceed 3 years in length.

Second, should national security considerations require it, the President would be authorized unilaterally to suspend or to terminate the MFN treatment.

Third, the bill contains special procedures for handling any problem of market disruption caused by imports. It sets forth less stringent criteria for findings of import injury in those cases than in the case of market economies. However, in the granting of such relief, the President would be able to impose quotas and higher tariff rates on a selective basis; that is, applied only to imports from the country whose goods are causing the difficulty.

EXPORT EXPANSION

With the adjustments in the relation of the dollar to other currencies and with the anticipated reduction of tariff and nontariff barriers in the world marketplaces, the potential for American producers to expand their exports overseas will be substantially widened. The word "potential" is emphasized because the presence of greater opportunity will not, by itself, create greater export sales. Such sales will come only through hard and persistent efforts on the part of the American producer. These efforts must be backed by a strong and stable economy at home.

The United States has lagged behind its major competitors in recent export growth for the past decade or more. Actually, it is not our import growth which has been excessively out of line as compared to other countries, but our export growth. That is not to say there have not been some disruptive increases in imports of certain items, particularly in consumer goods. The competition of particular imports in our home markets certainly requires our serious concern.

In the last 10 years, however, average annual U.S. import growth was only 1 percentage point higher than the average of other industrialized nations taken as a whole; that is, 12.9 percent for the United States as compared with 11.9 percent for the others.

It is in export growth that the United States suffers most heavily by comparison. Our export growth in the last 10 years has been barely 9 percent annually; export growth of the other industrialized countries, on the other hand, has been more than 13 percent a year. To put it another way, other major countries' exports have risen over 240 percent in the last decade, while U.S. exports have risen only about 130 percent. It is fair to say that it is in the export area that our real problems lie insofar as our international competitive ability is concerned.

Our current adverse trade position, coupled with our longer run needs for heavy increases of imported energy fuels and raw materials, virtually dictates that export expansion be given a major national priority.

It is in recognition of those compelling facts, that the Department of Commerce is considering new export expansion initiatives. Our efforts will be directed at taking full advantage of the more open and accessible world markets that provisions in this trade bill, and the new round of negotiations, are designed to bring about.

As you know, in the recent past we have made a number of substantive changes in our laws and institutions which can have a favorable impact on our export performance. Improvements have been made in facilities of the Export-Import Bank for supporting commercial bank and individual company export transactions. U.S. export financing, both through the commercial banks and by the Eximbank, is now generally competitive with corresponding financing provided abroad; and credit is being used, as the Congress has mandated, as an active tool of export expansion.

Under the legislation enacted permitting the establishment of Domestic International Sales Corporations (DISC's), U.S. exporters can now receive tax treatment for their export income more comparable to that afforded by many foreign countries to their exporters.

Through March of this year, some 3.850 DISC's had been organized by U.S. business firms.

Commerce programs to support the expansion of U.S. exports have been realined and are now focused in two primary areas: overseas, through direct promotional techniques and marketing assistance; and domestically, to build export awareness supported by specific trade leads, export intelligence, and detailed market analysis.

Abroad, over 100 U.S. export exhibits are held each year in 12 important commercial centers, including London, Frankfurt, Tokyo, and Mexico City. Commerce-organized trade fairs—there were 17 last year—and trade missions both promote export sales and help U.S. firms establish agent and distributor arrangements. Extensive market intelligence and buyer information services support these direct promotion programs. Domestically the Department assists U.S. firms to compete for major project purchases in overseas markets and provides several thousand specific export trade opportunities annually to individual U.S. firms.

It is my expectation that with these improvements, our export expansion activities will serve an even broader spectrum of U.S. business. Moreover, the features of the trade bill I have outlined will pave the way for a substantial reduction of foreign impediments to our exports.

Mr. Chairman and members of the committee, this concludes my statement. I firmly believe that the President's trade proposals deserve your most serious consideration, I earnestly hope that, after due deliberation, they will receive your full support.

Mr. BURKE. Thank you, Secretary Dent.

Secretary Brennan, you are recognized.

STATEMENT OF HON. PETER J. BRENNAN, SECRETARY OF LABOR

Secretary BRENNAN. Mr. Chairman and members of the committee, my name is Peter J. Brennan. I am pleased to appear here today and add my endorsement to the Trade Reform Act of 1973. I am in favor of this bill both with respect to the protection it and other parts of the President's legislative program will provide for workers; and with respect to the trade negotiating authority.

The bill clearly recognizes that sudden surges of increased imports may cause serious problems for particular industries and for the workers in those industries. The bill, therefore, provides greatly improved measures to enable us to respond quickly with necessary corrective action and with assistance to workers where there is actual or threatened injury.

The provisions of title II dealing with import relief will—

(1) Permit workers as well as industries to seek industrywide relief from increased imports without reference to previous tariff concessions,

(2) Simplify the basic tests for such relief,

(3) Speed up the decisionmaking process, and

(4) Expand the range of corrective actions which can be taken.

These more effective procedures for industrywide relief and adjustment should much reduce the vulnerability of workers to sudden increases in imports.

For those cases where workers are faced with actual or potential job loss, the bill

Makes it far easier for them to become eligible for adjustment assistance;

Accelerates the determination of eligibility and the delivery of payments and services;

And authorizes improved relocation benefits and training priority for affected workers. We estimate that perhaps as many as five times the number of workers will have access to such assistance compared to the number eligible under the existing program.

As for the trade negotiating authority, it is my judgment—from my experience as a negotiator in industrial relations—that the authority the President asks for is essential. Our negotiators must have the tools necessary to get a fair shake for American production and American workers. A negotiator cannot go into a bargaining session with any hope for success unless he has the resources to bargain with; and the other side must know that he has those resources.

He must have the support of those for whom he is bargaining.

He must have authority that matches the authority across the bargaining table.

And he must be able to convince the other side that he can withdraw concessions or agreements as well as make them. The negotiating authority in this bill is designed to equip our negotiators with the appropriate tools so that we may have access to foreign markets on a parity with the access of foreigners to our markets.

Many of our citizens have become fearful of trade, fearful of the ability of American workers to compete in a world economy. We hear claims that increased trade causes mass unemployment, that high U.S. wages are pricing us out of world markets, and that we are losing our economic advantages generally. We should be concerned about the employment effects of trade, but we need not be fearful.

With respect to the claim that increased imports cause large-scale unemployment, the facts do not support the claim. With your permission, I shall submit some basic materials on this subject for the record, but it is worth noting now that, while the United States was incurring the current very large trade deficit, the unemployment rate dropped from 6 percent in 1971 to 5.3 percent in 1972 to a current rate of about 5 percent. What is perhaps even more important, employment rose by 2.6 million in 1972—the largest annual employment expansion in a generation and in the face of a sharply rising trade deficit.

Increased imports do, of course, cause some job displacements and require adjustments by groups of workers—in the same way that technological changes or domestic competition or changing tastes cause displacements and require adjustments. I am much concerned about such displacements, but I think that we should not confuse these adjustment problems with the problem of large-scale unemployment.

The contention that U.S. wages are too high and are pricing us out of world markets is misleading. Though the United States continues to have the highest wages in the world by a wide margin, wage increases in the United States, while substantial, have been less rapid in recent years than those abroad. As for unit labor costs, they have recently been rising less rapidly in the United States than in other industrialized countries and taken together with the recent exchange rate realinements are cause for optimism rather than fear.

I make these points not to minimize the existence of trade-related employment problems, but to remind ourselves of one overwhelming fact: American workers have the highest living standard in the world because they earn more; and they earn more because they produce more; they have been and they continue to be the most productive workers in the world.

Our workers do not need insulation from foreign competition. What they need is a chance to compete on equal grounds. They need the freer access to foreign markets that this bill and the consequent negotiations will provide. If they can have that access, we need not fear the consequences. To the contrary, we can look forward to new job opportunities opened up by new and larger export markets.

Yet, we know that some American workers can be adversely affected by expanded trade even when the trade is fair. As I have noted, the proposed legislation treats this problem by two kinds of remedies: import restraint and adjustment assistance.

The reduction of trade barriers may in some instances lead to sudden surges of imports which have disruptive effects on the domestic industry and its workers. In such cases, temporary import restraint may be desirable.

The bill provides for access to such restraint on terms far easier to meet than is presently the case. Industry or worker representatives would be able to file a petition for import relief for the purpose of facilitating orderly adjustment to import competition. Where the Tariff Commission finds a condition, or threat, of serious injury arising primarily from increased imports, the President would be authorized to raise tariffs, impose import quotas, or negotiate orderly marketing agreements. I would stress that this improved and more rapid access to needed import restraint should serve to reduce the number of situations in which workers may face the loss of jobs from increased import competition.

The second kind of remedy is trade adjustment assistance for workers. The adjustment assistance provision in this trade bill is, I should note, only part of the President's program for assisting displaced workers. His bill proposing Federal minimum standards for unemployment insurance and his proposed legislation on pension protection are the other parts. Together they make up a broad system of assistance available for trade-displaced workers.

There is widespread conviction that the adjustment assistance program for workers established under the Trade Expansion Act of 1962 has been a failure. The access to the program has been too difficult, the process has been far too time consuming and the delivery of services and assistance to the affected workers has been ineffective and far too late to facilitate the adjustment process.

The Trade Reform Act provides an innovative approach to adjustment assistance for workers which eases access to the program, centralizes and speeds the process of determination and delivery of services, and integrates the system into the basic unemployment insurance program.

Under the Trade Reform Act access to adjustment assistance for workers would be eased, relative to the current system, in the following ways:

1. The link to a previous tariff concession would be eliminated.

2. The basic test would be that increased imports constitute a substantial rather than a major cause of separation of the workers involved.

3. The entire process of investigation, determination, and certification would be carried out by the Secretary of Labor in no more than 60 days from the filling of a petition; a similar function has been performed by the Department of Labor staff over the past 3 years in connection with certifications under the Trade Expansion Act of 1962. The Tariff Commission would be involved only if the Secretary so requested.

4. The individual worker within a certified group would qualify if he were employed in adversely affected employment with a single firm for 26 weeks out of the 52 weeks preceding his separation. The requirement that workers be employed for at least 1½ years out of a 3-year period would be dropped.

The cash payment levels and their duration would be changed to vary by State and to conform to the proposed Federal standards for unemployment insurance. Until the Federal standards are achieved, eligible trade-displaced workers would be entitled to receive supplementary payments, from Federal funds, wherever necessary, to bring their weekly cash payments up to either 50 percent of their average weekly wages or the maximum level which is two-thirds of the appropriate State average weekly wage.

There are a number of improvements proposed in the bill with respect to services for displaced workers. For example, any adversely affected worker who has been totally separated and who cannot be expected to secure suitable employment within his commuting area in which he resides may receive a job search allowance of up to $500 to cover 80 percent of the cost of necessary job search expenses. When he relocates to take a job, he would receive relocation allowances consisting of 80 percent of the reasonable and necessary expenses incurred in transporting himself and his family and their household effects to the new job location plus a lump sum cash payment equal to three times the worker's average weekly wage up to $500.

The Secretary of Labor is directed to make every reasonable effort to secure counseling, testing, and placement services through State agencies, as well as supportive services needed to prepare a worker for full employment. These services might include, for example, basic education or minor health services related to employability.

In addition, as the bill directs, we will move to assure that training is made available to trade-displaced workers on a priority basis in the absence of suitable alternate employment opportunities.

I commend to you these changes in a program sorely in need of change for the following reasons:

1. Under the current trade adjustment assistance program, only 34,000 workers have become eligible to apply for adjustment assistance; some 21,000 have actually received benefits; and about 45,000 have been turned down by the Tariff Commission. Benefits to most of the eligible workers have come too late to be of real assistance.

2. Though some workers would receive lower weekly cash payments under the proposed system than under the current system, the easier access to the program should increase the number of workers receiving benefits by a substantial amount, perhaps as much as fivefold.

3. The telescoping of the investigation, determination, and certification process into a 60-day period administered by the Secretary of Labor will bring the available benefits to unemployed workers quickly enough to be of real help.

4. Integrating the system into the unemployment insurance programs will greatly simplify its administration at the local level and speed up the assistance program. The bill reflects a move toward the view that the problems of a worker displaced by imports are no different, for the most part, from the problems faced by workers displaced as a result of other government actions, technological change or normal domestic, competitive processes.

In all of these cases, unemployed workers should be entitled to adequate benefits. The proposed unemployment insurance legislation will insure that the States provide unemployed workers with adequate benefits. Until the bill becomes effective, the Trade Reform Act will continue to provide workers with a Federal supplement to their unemployment insurance to meet the proposed standard of benefits.

5. The relocation benefits and the new job search provision should provide positive inducement for the displaced worker to go where the jobs are rather than wait for the job to come to him. It should help overcome the reluctance of many American workers—who have become attached to their jobs, homes, and communities—to move from distressed areas to areas of greater economic vitality.

A reasonable judgment is that the entire monetary and trade program of the President, including the realinement of exchange rates, the import relief provisions of the trade bill, and the prospective achievement of a fairer trading system should make American products more competitive and help reduce the need for special measures for import impacted workers.

[The following was submitted for the record:]

Trade and Employment[1]

At present, there is no satisfactory method of estimating the effects of changes in exports and imports on employment even if we are prepared to accept wide margins of error in the estimate. All that can be said is that the amounts of unemployment created by fluctuations in exports and imports are small relative to the amounts of unemployment created by other sources of unemployment.

MEASUREMENT PROBLEMS OF CHANGES IN TRADE

It may appear puzzling that the employment impact of changes in imports and exports cannot be measured with an acceptable degree of accuracy. In particular industries we can observe layoffs and plant closings in response to a surge of imports. Alternatively, we can observe roughly the labor required to produce exprots. Why, it might be asked, can we not simply count such jobs lost from increased imports and jobs gained through increased exports?

The answer is that changes in trade do not affect employment in a direct and unique manner. The impact on employment is brought about through changes in domestic production and prices and depends critically on the state of the labor market.

Consider, for example, an increase in foreign demand for a particular export. If the U.S. export industry is operating at substantially full capacity, the increase in export demand will have little effect on U.S. production, but will very likely produce a substantial rise in price. This in turn will reduce domestic consumption of the commodity so that U.S. consumers buy less and foreign

[1] Staff paper, Bureau of International Labor Affairs, U.S. Department of Labor, May 23, 1973.

consumers more. But if the particular industry and the economy as a whole had considerable slack, the effects of increased exports on U.S. production could be significant and the effect on prices small. In that circumstance, the increased foreign demand can be accomodated by an increase in U.S. production and little reduction in U.S. consumption.

Even if U.S. production did increase in response to foreign demand and even if we could estimate the amount of increase, we would still have great difficulty inferring anything about employment. While we might estimate the increased numbers employed in the particular export industry, the estimate tells us little about the net change in employment. To tell how net employment is affected, we would have to know how long the workers hired by the export industry would otherwise have been unemployed. If labor markets are very tight, the workers hired by the export industry may simply be hired away from other jobs. In that event, there is little or no net increase in employment no matter how much of an expansion we can observe in the particular export industry. Increased employment in that industry would merely be at the expense of decreased employment elstwhere. But if there is a great deal of excess labor in most markets, workers hired by the export industry may come from the ranks of the unemployed or, if hired away from other jobs, leave vacant jobs to be taken by workers who would be otherwise unemployed. In this circumstance, it seems quite plausible that increased exports will have the effect of increasing employment. Unfortunately, for purposes of measurement, most situations are somewhere between these two extremes.

There are at least two additional kinds of conceptual and measurement difficulties that stem from forces outside the labor market itself. If additional exports do generate an increase in employment, there will be an associated increase in the income of individuals. The increase in income, it is widely believed, induces individuals to increase purchase of consumer goods which will, in turn, raise incomes of other individuals who will increase *their* purchases of consumer goods and so on. This is the well-known but controversial multiplier effect. The induced consumer purchases may also have employment effects. Further, some of the induced consumer purchases are likely to be imported goods and in that circumstance, a different set of employment forces will come into play.

Finally, monetary and fiscal policy should not be expected to ignore the impact of changes in the level of exports. An increase in exports, and its multiplier effect, if any, can be expected to increase aggregate demand and put upward pressure on income and prices. The monetary and fiscal authorities take into account recent changes in income and prices in determining an appropriate policy mix. In that case, the monetary and fiscal policy will offset to a degree the initial effects of the increase in exports.

In attempting to measure the employment effects of changes in imports, the same difficulties are encountered and some additional ones as well. Imports will cause the prices of U.S. goods to be lower than they otherwise would be to a degree which depends upon the substitutability between U.S. goods and the imports. Even if we knew the extent of these relative price declines, there would remain the problem of measuring the responsiveness of U.S. demand and U.S. production to the price declines. The important point is that the entire import increase does not represent a displacement of domestic production. Some of the import increase results from the increase in domestic demand and some from the reduction in domestic supply, both in response to the lower price. It is only the latter, the reduction in domestic supply that affects domestic employment. Regrettably, such detailed knowledge of demand and supply responsiveness to price changes is not now available. And even if we had such knowledge we would still have the problems of estimating and incorporating in the employment impact: the degree of tightness in the labor market; the multiplier effect; and the monetary-fiscal effects alluded to earlier in connection with exports.

There is a further impact of increased imports for those nations whose imports are effectively restricted by a lack of sufficient foreign exchange. They will be able to buy more foreign goods when the U.S. buys more of their goods. Some of these increases in foreign imports will be in the form of U.S. exports and these induced exports will have some favorable employment effect in the U.S. These last effects will vary over time and according to the degree of scarity of different currencies. No recent estimates of these magnitudes are available.

For the United States there is no corresponding foreign exchange effect of exports. Because our imports are not directly constrained by the availability of foreign exchange reserves, an increase in our exports need not induce us to increase our imports with corresponding employment effects.

THE EFFECTS OF LEVELS OF IMPORTS AND EXPORTS

The above discussion concentrated upon measuring the effect on employment of changes in exports and changes in imports. In the past, investigators have attempted even bolder efforts to estimate the effects of *all* trade on employment. Figures have been calculated showing the number of jobs in the U.S. that are "related to exports" for a given period and corresponding numbers have been produced for employment that would hypothetically have been required to produce an equivalent value of imports. The export number is a calculation of the number of man-hours directly and indirectly concerned in the immediate production of exported goods. The import number estimates the hypothetical domestic employment, assuming other factors are constant, in the event that imports were produced in the U.S.

The techniques of these calculations, however, are not designed to give figures which could be interpreted as the number of job increases or decreases *caused* by exports and imports. Even if they were, the numbers would be answers to questions which are essentially academic. They are academic because there is no conceivable possibility that we will cease exporting, and no proposal has ever been made that we eliminate all imports, or even all competitive imports.

If we suppose that a decreased demand for U.S. exports were to lower these exports by, say, $1 billion, it is possible conceptually to indicate, as we have done above, the kinds of information we would have to have in order to estimate the employment effects of such a change. But an elimination of all exports, say, $60 billion per year, would wrench the economy in such a drastic way that we have good reason to suppose that the impact would be substantially greater than 60 times the effects of a $1 billion change. Consequently, if these estimates are directed to the question of what would happen if we lost all our exports, they are even more difficult to calculate than the estimates we were discussing earlier.

Moreover, in order to obtain these answers researchers have had to assume that certain things are constant which we know are not constant. They have had to assume that imports have no effect on exports through the foreign exchange reserves of other countries. They have had to assume that both imports and exports have no multiplier effects, even in periods of serious recession. They have had to assume that imports and exports have no effects on fiscal and monetary policy. And they have had to assume that "jobs lost" or "jobs gained" are lost or gained indefinitely whatever the state of the labor market.

Finally, previous researchers have had to assume peculiar price and output effects. In the case of exports they implicitly assume that a change in exports has no effect on domestic prices and therefore on domestic consumption. A similar assumption is made with respect to what are called directly competitive imports. The directly competitive imports are, as a consequence, taken to displace an equivalent amount of domestic production. Non-competitive imports are treated as if they had no effect on domestic production. Yet, the banning of coffee from the U.S. market would doubtless influence the sale of other beverages. More fundamentally, this procedure does not take into account that any change in the purchases of non-competitive imports will change the amount of income available to purchase quite unrelated domestic products.

This discussion should not be taken to mean that the impact of trade on employment cannot be measured and should not be attempted. Rather, the point is that the measurement requires the accumulation of informaton which is not now available. That accumulation has just begun. As a consequence, current estimates of the employment impact are subject to unacceptably large degrees of error.

AGGREGATE EVIDENCE

Despite the extraordinary difficulties involved in measuring the impact of trade upon employment, there is good reason to believe that the effects are small compared to other determinants of employment and unemployment. One reason to expect this result is that total merchandise imports or exports amount

to only 4 to 5 percent of our total output. Even dramatic changes in items that are relaively small will not produce much change in totals.

This expectation is consistent with data on imports and employment or unemployment. These data show a strong positive association between employment and imports and a lack of association between the unemployment rate and imports. Figures I and II illustrate this strong association of imports with employment and the lack of association between the rate of unemployment and imports. Other analyses using different measures of employment, unemployment, and trade data on both a current and lagged basis yielded the same results.

These results are not surprising. Imports and employment tend to rise together over long run periods because both are moved primarily by increases in total income. Imports tend to be "pulled in" by rising incomes; they do not to any great degree generate reductions in U.S. incomes. It seems clear that little can be gained in the way of employment by inducing changes in foreign trade.

FIGURE 1
EMPLOYMENT AND MERCHANDISE IMPORTS
1952–1972

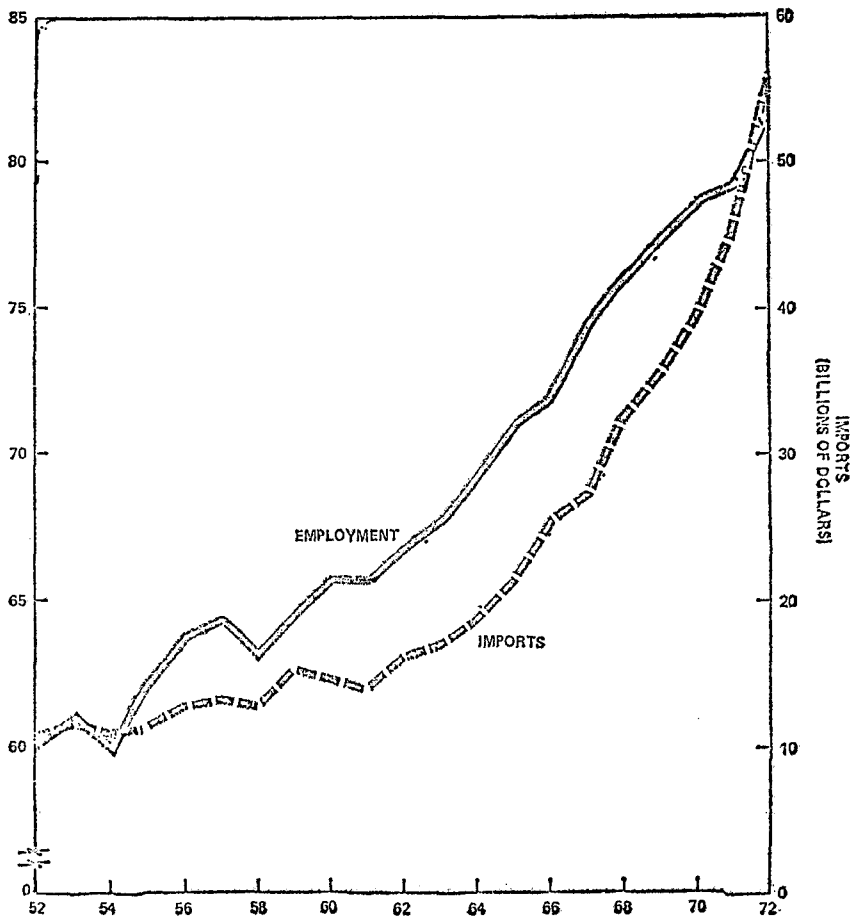
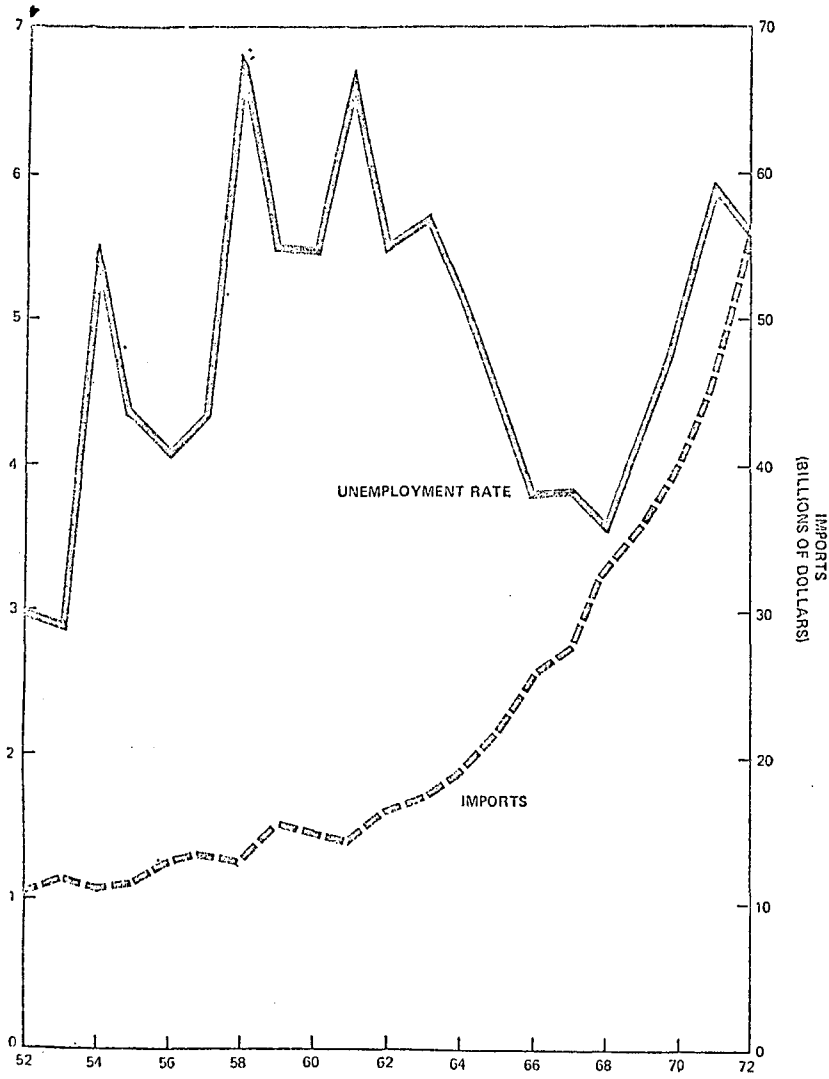


FIGURE 2
UNEMPLOYMENT RATE AND MERCHANDISE IMPORTS,
1952–1972



Secretary BRENNAN. That concludes my statement, Mr. Chairman. Thank you.

Mr. BURKE. Thank you.

[The statement of Hon. Carroll G. Brunthaver, Assistant Secretary of Agriculture for International Affairs and Commodity Programs, follows:]

Statement of Hon. Carroll G. Brunthaver, Assistant Secretary of Agriculture for International Affairs and Commodity Programs

COMMODITY CREDIT CORPORATION

The Commodity Credit Corporation is a wholly-owned Government corporation, incorporated as a Federal Corporation by the Commodity Credit Corporation Charter Act. Its purposes are to stabilize, support, and protect farm income and prices, help maintain balanced and adequate supplies of agricultural commodities, their products, foods, feeds, and fibers, and help in their orderly distribution. In addition to its basic functions, it is used to administer and, in some cases, temporarily finance numerous special activities. These operations are carried out in accordance with its annual budget programs which are submitted to and approved by Congress.

One of the major programs of the Corporation has been providing support of agricultural commodities to producers through loans, purchases, payments, and other means. Support for various agricultural commodities is provided in accordance with applicable laws. Under the Agricultural Act of 1949, as amended, support is mandatory for the basic commodities—corn, cotton, wheat, rice, peanuts, and tobacco—and for the nonbasic commodities—tung nuts, honey, milk, barley, oats, rye, and grain sorghum. The National Wool Act of 1954, as amended, requires support for wool and mohair. Support for other nonbasic commodities is discretionary. The support program may also include operations to remove and dispose of surplus agricultural commodities in order to stabilize prices at levels not in excess of those permissible by law.

The principal methods of providing support are loans to and purchases from producers. Direct purchases are also made from processors as well, depending on the commodity involved. Also, special purchases for the removal of surpluses are made under various laws. For feedgrains, in addition to loans and purchases, producers receive payments. For upland and extra-long staple cotton producers receive payments in addition to loans. For wheat, in addition to loans and purcases, producers receive marketing certificates.

Another important program has been the promotion of the export of agricultural commodities and products through export payments, credit sales, and other operations. When necessary to encourage export movement from free-market supplies, as well as from its own stocks, the Corporation makes payments on exports of agricultural commodities. The rate of payment generally is the difference between the prevailing world export price and the domestic market price. This type of program may be suspended when not needed or reinstituted in order to make commodities competitive in world markets.

To encourage exports of agricultural commodities, including products thereof, the Corporation conducts an export credit sales program. Under this program the Corporation finances, for a period not to exceed 3 years, commercial export credit sales by exporters of commodities obtained either from Corporation inventories or from private stocks. These commercial transactions are financed under the Corporation's charter authority and section 4 of the Food for Peace Act. Export sales for foreign currencies or on long-term credit have been financed by the Corporation under the Agricultural Trade Development and Assistance Act of 1954, as amended.

The Corporation conducts a program to provide storage adequate to fulfill its program needs. The Corporation has authority to buy bins (in storage-short areas) and equipment for the care and storage of commodities owned by the Corporation or under its control. The Corporation makes loans for the purchase, building, or expanding of facilities for storage and care of commodities on the farm and sells, to producers and others, bins needed for the storage of agricultural commodities. It may also provide storage use guarantees to encourage building of commercial storage, and undertake other operations necessary to provide storage adequate to carry out the Corporation's programs.

Under the supply and foreign purchase program, the Corporation procures from domestic and foreign sources food, agricultural commodities, and products and related materials to supply the needs of Federal agencies, foreign governments, and private and international relief agencies.

The use of the Corporation to carry out various other activities has been specifically authorized by law, such as the wheat certificate program, the set-aside program, land diversion payments, and cotton research and promotion.

As has been noted the programs of the Corporation are directed toward supporting and protecting farm income and prices and maintaining balanced and

adequate supplies of agricultural commodities. An essential element in supporting income and prices is making agricultural commodities produced in the United States competitive in the world market. To the extent that negotiations under the Trade Reform Act of 1973 result in removal of trade barriers and correction of other distortions of international trade that limit the availability of foreign markets for United States agricultural commodities, the activities of the Commodity Credit Corporation in this respect may be reduced.

For example, export payments, which have in the past been used to make domestically produced agricultural commodities competitive in the world market, would be eliminated when not necessary for this purpose. If adequate prices are obtained on the world market, programs to support the price of agricultural commodities to producers in the United States may be reduced. In such case, storage facility and other supporting programs could be likewise reduced, since producers and the private trade would be able to handle their stocks without Government assistance.

Mr. BURKE. We will now proceed with the questioning of the Secretaries by the committee.

Mr. Landrum.

Mr. LANDRUM. Thank you, Mr. Chairman.

The first question is put to Secretary Dent. We know that our Government has been seeking a multilateral textile agreement and I would like to know if you could give us any information about whether we are making progress in this area and if we are, how much?

Secretary DENT. Mr. Landrum, on April 30, the GATT gave a mandate to a special committee to proceed with consideration of problems and solutions in the field of worldwide trade in textiles. They are working on this and it is hoped that by the time the multilateral trade negotiations begin in September this committee will have concluded its efforts.

This ties in not only with the multilateral trade negotiations, but also the September 30 expiration of the current cotton LTA.

Mr. LANDRUM. That was my next question. It does expire this fall, is that right?

Secretary DENT. That is correct, September 30.

Mr. LANDRUM. Now, with regard to the multilateral agreement being sought and the response which you have just given, would you have any comment on what this committee could do specifically in this legislation to help in the negotiations toward the accomplishment of this multilateral agreement?

Secretary DENT. In the legislation?

Mr. LANDRUM. Yes, in considering this legislation.

Secretary DENT. Well, I think that the fact that it is of interest that this be completed in advance of the multilateral trade negotiations would certainly be an incentive for it to be accomplished on the part of our trading partners.

Mr. LANDRUM. Now, one other question to Secretary Dent which might very well be directed to each of the Secretaries or perhaps appropriately to all those who have appeared before you and some of those who may appear after you, particularly Mr. Kearns.

As I read the bill it is clear that we are asked to delegate authority to the President to negotiate on products, commodities. Now I can see how some people might expand that term to include services, but there has never been any clearly defined distinction between whether we can negotiate services and more and more as we come into this international relationship that exists in this modern day in trade and commerce, it appears to me that we must come ultimately vis-a-vis this business to negotiating on the services which our country does.

Could you, Mr. Dent, or any of the others, comment on whether we should enlarge the definitions that may be included in this bill to include services as well as products?

Secretary DENT. Mr. Landrum, as far as services are concerned, this covers a very broad array. Some might interpret commercial airline service or air freight as a service, which, of course, is controlled under other forms of organization, rather than the GATT trade committee.

We do believe in the Commerce Department, for instance, that one of the important service aspects that is covered by our jurisdiction is tourist trade which involves international expenditures totaling about $25 billion a year. We had a tourist trade deficit of $3 billion last year.

Naturally we are interested in seeing that we get a fair share in this area. I do think that there are other forms covering certain services and those that are uncovered might well be included in the broad negotiations that would be involved in this area.

Mr. LANDRUM. Isn't it true that under the operations of our Export-Import Bank, and I don't believe Mr. Kearns has arrived and I wish he were here. You mentioned airlines. Isn't it true that under the operations of the Export-Import Bank we supply a lot of capital for development of air terminals, airports, landing strips in other countries?

Secretary DENT. It would be well to check with the expert, Mr. Kearns. It is my understanding that the export credit granted by the Eximbank is for U.S. equipment only.

Mr. LANDRUM. What I am getting at is that since we furnish that, would it be appropriate—and I am not saying that it would, but just asking—would it be appropriate to think in terms of some negotiation on nontariff barriers in thinking about the assistance we might be furnishing in that field?

Secretary DENT. I understand Mr. Kearns is here, Mr. Landrum.

Mr. LANDRUM. I will save that then. I have been so interested in the statements of all three of you gentlemen, but the 5-minute rule is in effect and I don't want to trespass on the other members of the committee since my 5 minutes is up, except to say that I would like to direct some questions at each of you.

I will just say that I enjoyed thoroughly the statements of Secretary Butz and Secretary Brennan and would comment perhaps that on no other occasion has this committee had before it one who could both make the statement and testify to its accuracy emphatically more appropriately than Mr. Brennan has on page 3 of his statement, where he says that the one negotiating must know that the other side of the table knows he has the authority.

Isn't that right, Mr. Brennan?

Secretary BRENNAN. That is right, sir.

Mr. LANDRUM. One of our difficulties, as I view it in these times, is this: Our negotiators have been able to go to the negotiating table and just fold their arms and listen and then come back and say, "Here is what has been offered. Can we take it?" And then we send them back again and tell them whether or not we can take it and, if they don't want to take that, then we have to have another exchange.

It is really no negotiation; is that right?

Secretary BRENNAN. No, sir.

Mr. LANDRUM. Thank you very much, Mr. Chairman.

Mr. BURKE. Mr. Pettis will inquire.

Mr. PETTIS. Thank you, Mr. Chairman.

I yield to the gentleman from California.

Mr. CORMAN. Thank you for yielding. I have a question which I would like to pose to you now and you may want to reflect on it a bit. I understand we are going to be back at 2 o'clock and it will probably be 2 o'clock before my turn comes. I would like to ask Mr. Brennan, although I would welcome other comments, too, is there anything that would be required under the Burke-Hartke bill that the President could not do under the administration bill if that action were necessary for the protection of American business and labor and thinking about it both in the context of the trade portion of the bills and the tax portion of the bills, because I think there may be some differences?

I think it would be very useful to us if we could highlight the differences, if any, in the two bills in that respect. Do you understand the question?

Secretary BRENNAN. Yes, Mr. Corman.

Mr. CORMAN. It is not my time. When it is, I will welcome those answers. I thought you might want to reflect on it a bit because it is a broad question.

Secretary BRENNAN. Thank you.

Mr. BURKE. Mr. Pettis.

Mr. PETTIS. Thank you. I will take what remains of my time and finish my questions at a later time when the other members of the committee have had an opportunity to question the witnesses.

I have one question I would like to ask first of Secretary Butz.

Mr. Secretary, you point out increased exports will enable our farmers to produce more competitively and reduce their unit costs and you have emphasized that increased demand abroad for food products is an important part of this picture.

But since the EEC now comprises nine nations with 250 million consumers, which is a pretty important market, their Common Agricultural Policy, with its variable levy has precluded fair access to their markets, at least in the past and the community has been very reluctant to modify the CAP. So my question is this: What grounds do we have to be more optimistic about the future?

Secretary BUTZ. Well, I think there are a number of grounds. The primary one, I think, is the same high food price problem in Europe that is developing that has been a great potent factor in America here. I was in Paris 3 weeks ago at a meeting of the Ministers of Agriculture, the OECD, the 23-member nations. I was there just shortly after the Common Market had consummated a sale of 200,000 tons of surplus butter to the Russians at an equivalent price of 19 cents per pound as nearly as I can determine.

I was in a French supermarket where after I translated francs per kilogram to cents per pounds, butter was at about $1.20 per pound. The French housewife saw that price and knew they had given it to the Russians at 19 cents and she wasn't very happy about it.

That kind of pressure, I think, will shortly reflect itself in some modification of the internal high price support program for feed grains, especially in the Common Agricultural Policy, because their high price support program for feed grains results directly in the high prices of butter and meats and relative scarcity of meats.

Mr. PETTIS. I am delighted with your answer. This is optimistic. I have a second question which I think will be the last I will have an opportunity to ask at this time.

I am informed that your department has prepared a report on the cost effects of antipollution measures required under the Federal Water Pollution Act, and this is for the Secretary of Commerce, and in particular the impact on international competitiveness of the U.S. industry.

Have you completed that report and could you give us an indication of the conclusions you have reached?

Secretary DENT. Mr. Pettis, the first report has been submitted which covers an analysis of nine countries. It is such a detailed complex problem that the analysis has been accomplished but the conclusions have yet to be reached. We intend to do this on an annual basis. The first report is the foundation for the future work.

Mr. PETTIS. One more question, in view of the fact nobody has handed me a slip saying that my five minutes is up. Secretary Butz, what do you see in the next few months in the way of resolving the problem of a shortage of petroleum, particularly petroleum and in some areas fertilizer for our farmers to accomplish some of the goals you have described here this morning? Is this a real problem or is it something that is not as significant as the press has reported it to be?

Secretary BUTZ. Indeed it is a real problem. I think it is perhaps more significant than it is purported to be. We are very concerned about a shortage of fuel for our tractors in the coming weeks, especially in the farm belt in mid-America where plowing and seeding has been delayed by the weather. It means that when it dries out, they will run their tractors 24 hours a day, 7 days a week and we will bunch our fuel requirements.

Only 2 days ago, the Under Secretary of the Treasury, who is chairman of the Oil Policy Committee, testified here on the Hill about action being taken. I think this is significant in that they are now requesting the 23 major companies to maintain essentially the same distribution pattern of crude to the independent refineries or companies as prevailed during the last quarter of 1971 and the first three quarters of 1972.

It is primarily the independents and the co-ops that have the distribution pattern to reach our farmers and reach the ultimate consumer and we simply have to assure a supply to them to meet this demand. I think we are going to do it, but with no reserve for error and no margin of surplus.

Mr. PETTIS. Do you think it will be necessary for us to maybe come to rationing in order to assure this?

Secretary BUTZ. This is a form of rationing now. When you essentially freeze in existence the pattern that existed in a historic period, it is essentially a form of rationing.

The request is that these majors do this on a voluntary basis, but behind this is a powerful club contained in the Wage Price Control Act which does in fact give the Government power to allocate.

On top of that, additional allocations of the royalty oil are being made regularly by the Interior Department. They now have something in excess of 70,000 barrels every day in royalty oil allocated and additional allocations are being made regularly to the independent refineries.

Mr. PETTIS. Thank you, Mr. Secretary.

Mr. BURKE. Mr. Vanik is recognized.

Mr. VANIK. Mr. Chairman. First of all, I would like to place in the record a copy of a letter which I had addressed to Secretary Butz on April 30, 1973, along with his reply for which I am very grateful.

Mr. Secretary, you have made a very thorough and detailed response the questions that I have raised.

Mr. Chairman, I would like to have the letter placed in the record.

Mr. BURKE. Without objection it is so ordered.

[The letter referred to and Secretary Butz' answers follow:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., April 30, 1973.

Hon. EARL L. BUTZ,
Secretary of Agriculture, Department of Agriculture,
Washington, D.C.

DEAR MR. SECRETARY: Prior to your testimony before the House Ways and Means Committee on the President's trade legislation, I would appreciate it if you could provide me with data and answers to the following questions, so that these issues may be explored more fully during the hearing.

(1) What agricultural products face import resrictions, either through quotas, tariffs, or special health or packaging requirements (e.g., meat, sugar, coffee)?

(*a*) If there were no import restrictions, what is the Department's estimate of the increased volume of imports, the impact of the imports on American agriculture and industry, and the effect, in terms of prices, on the consumer?

(*b*) In light of present meat prices, what is the Department's position on repeal of the Meat Import Quota Act of 1964? If the Department is opposed to repeal, does it expect meat prices to decline—and by how much and how soon?

(*c*) Does the Department support repeal of the tariffs on meat? The issue of repeal of the tariffs by Executive Order has been under study for nearly a month; what conclusions have been reached?

(2) In light of the dominance of the United States in the world wheat markets is there any need for further export subsidies on wheat? Does such export subsidy constitute an unfair trade practice of the type which we are asking foreigners to eliminate under Title III of the Administration's bill?

(*a*) What was the cost to the Treasury of Export Subsidies for wheat in fiscal year 1970, 1971, 1972, and 1973?

(*b*) How much wheat is the Soviet Union expected to purchase from the United States in 1973? What orders have been placed to date? Is there any estimate of how much wheat the Soviets may seek to purchase from other countries?

(*c*) Has the People's Republic of China placed any wheat orders in the United States—or elsewhere in the world—to date? Are they expected to do so? And, if so, in what volume?

(*d*) What is the wheat situation in India

(3) Are there any other crops, meats, or fibers which receive export subsidies or any other form of export assistance other than foreign market information? If so, would you provide a list of such items, the type of assistance, and the cost of such assistance to the Treasury?

(4) What forms, by country, of export restriction do American agricultural commodities face? If all restrictions were removed, what increase in exports would, by Department estimates, result among the various categories of agricultural goods? What would be the effect of such increased exports on the domestic price of each of the categories of food goods?

Thank you for your assistance in providing answers to these questions. I am hopeful that with detailed information—and the time to study it—the Congress will be able to work with the Administration to develop the best possible trade legislation.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

Response to Questions Raised by Congressman Vanik in His Letter of April 30, 1973

1. WHAT AGRICULTURAL IMPORTS FACE IMPORT RESTRICTIONS?

The United States has the authority to impose quotas on agricultural imports under Section 22 of the Agricultural Adjustment Act of 1933, under the Sugar Act of 1948, and the Meat Import Act of 1964. At the present time there are Section 22 quotas in effect on wheat, cotton, peanuts, and dairy products; and Sugar Act quotas on raw sugar and confectionery.

Section 204 of the Agricultural Act of 1956 provides for the negotiation of orderly marketing agreements with foreign suppliers of any agricultural commodity. Except for the Long-Term Cotton Textile Arrangement, there are none now in effect.

Section 8(e) of the Agricultural Marketing Agreement Act of 1937 provides that imports of any agricultural commodity subject to marketing orders are prohibited unless they comply with the grade size, quality, and maturity provisions of the order. As of April 1973, marketing orders were in effect for tomatoes, onions, oranges, limes, avocadoes, raisins, prunes, grapefruit, Irish potatoes, walnuts, dates, and olives.

Further details on these restrictions and regulations are contained in the set of background papers enclosed.

With respect to tariffs, enclosed is a copy of a handbook prepared by the Foreign Agricultural Service in 1968 entitled *U.S. Import Duties on Agricultural Products*. This is generally up to date.

As for other regulations affecting imports, there are no import restrictions as such, although certain countries have expressed concern that marketing requirements contained in the Fair Packaging and Labeling Act constitute a burdensome procedure for foreign exporters.

1(*a*). Removal of U.S. agricultural import restrictions would have different effects, depending on the situation. If we removed all restrictions right now, without reference to trade liberalization actions which other countries might take, we would have one set of results. If we removed restrictions in the context of a negotiated multilateral trade package, the results could be quite different. We would expect that in preparing for trade negotiations such information would be developed, particularly in connection with the Tariff Commission investigations and public hearings called for by the proposed Trade Reform Act of 1973.

1(*b*). The Department does not regard present meat prices as a reason for repealing the Meat Import Quota Act of 1964. Quantitative restrictions on meat imports have been suspended since June 1972, and there is no prospect of their being reinstituted while current market conditions prevail. However, meat production is highly cyclical, and the Meat Import Act does provide safeguards if the supply situation changed and our producers were threatened with sudden sharp increases in imports. Meat prices have already begun to moderate, and a further decline is in prospect for this fall as a consequence of the record large increase anticipated for 1973 U.S. soybean plantings.

If we are granted the authorities contained in the proposed Trade Reform Act of 1973, we would be prepared to negotiate the elimination of our meat quotas in exchange for substantial concessions from our trading partners. But this would not preclude our producers from having recourse to the import relief provisions contained in Section 203 of the Trade Act in the event of imports causing or threatening injury.

1(*c*). The Administration sent forward on March 30 proposed legislation that would provide the President with authority to lower or temporarily suspend duties or increase quotas on all items, including meat, for anti-inflationary purposes. This was done after careful investigation of existing statutory authorities, which led to the conclusion that a request for a general anti-inflationary authority would be the wisest course of action. We hope such legislation would be introduced and approved soon by Congress.

Enclosures.

2. Despite the current dominant position of the United States in world wheat markets, the possible need for an export payment, even within the next year or two, cannot be ruled out. Even under current strong world demand conditions, the European Community maintains export restitutions for wheat, as well as for other grains; as of May 1 those restitutions for wheat were as large as $1.12 per bushel for certain destinations. In the months ahead, a changed world supply-demand situation might bring world prices downward, and unless the Community

were prepared to export less wheat, they probably would respond with an increased subsidy. As long as this situation persists, we risk the situation where, simply because of a subsidy. European producers could underbid our own wheat in world markets. Were it not for this kind of risk, or if steps could be devised to eliminate that risk, then the payment would probably not be needed. This is why we are asking for authority in the Trade Reform Act to negotiate the removal of export subsidies.

2(*a*). The cost of U.S. wheat and flour export subsidies in fiscal years 1970, 1971, and 1972 were $82.6 million, $147.3 million, and $81.0 million, respectively. The cost for the current fiscal year is tentatively estimated at $284.4 million.

2(*f*). The USSR is likely to again purchase U.S. wheat in the 1973/74 season, but barring a repeat of their unusually bad 1972 crop, the volume will probably be considerably less. We know of no orders placed thus far. On April 9, Canada announced the sale of 1.5 million tons of wheat to the USSR for delivery through October.

Much still depends, not only on 1973 Soviet weather and crop outturn, but also upon the availability of wheat for export in competing countries, and also upon the relative prices and world supply-demand situations as between wheat and other grains. If the spread between wheat and corn prices is wide enough, the Soviets may to some extent choose to import feedgrain instead of wheat, since the growth in their demand for grain is mainly in the animal feed sector.

2(*c*). The U.S. has shipped China nearly 600,000 tons of wheat during the current 1972/73 marketing year. Total Chinese wheat imports in 1972/73 are expected to be about 6 million tons with most of the imports coming from Canada and Australia. We presently expect China will need about this same quantity of wheat imports for the 1973/74 marketing year which begins in July. The U.S. probably will provide a larger share of the 1973/74 imports. There are trade reports of some sales of U.S. wheat for delivery after July 1. Canada made an agreemment with China in November 1972 for delivery of 1.7 million tons of wheat through October 1973. Australia has sold China 1.0 million tons of wheat for delivery during calendar year 1973. Therefore, both some Canadian and some Australian wheat has been committed for delivery in the 1973/74 marketing year.

2(*d*). India has purchased nearly 2 million tons of food grain this year. This occurred in spite of a record wheat crop in 1972 because of a sharp decline in the fall crop, especially rice. Imports would have been larger except for a draw down of stocks. Recent reports from New Delhi indicate the Indian Government is considering the purchase of an additional 2 to 3 million tons of food grains during the next several months. The quantity of wheat procured by the Government of India from the current wheat crop is expected to be near last year's level and the size of the fall crops will determine the extent of additional purchases.

3. With respect to export assistance, the United States has suspended or terminated all direct agricultural export subsidies. The enclosed paper describes the circumstances of termination of these subsidies. As to other forms of export assistance, an article describing Government-program exports for calendar year 1972 is enclosed.

Enclosures.

[4. Question No. 4 answered with detailed pamphlets and enclosures].

Mr. VANIK. I would like to direct your attention to marketing orders. Can you assure me that none of the marketing orders in section 8 of the Agricultural Marketing Act are designed to prohibit the entry of any specific goods from other countries, any agricultural products from other countries? Are you holding back the importation of onions, for example, for any reason?

Secretary BUTZ. Marketing order provisions in general apply equally to products produced abroad and products produced in this country. The only restriction on international trade, other than uniform requirements, would be any tariff that we might have, for example. It is not my understanding that we are holding back the importation of onions.

Mr. VANIK. They are not being held back for any reason; is that correct?

Secretary BUTZ. That is correct. The chief reason onion prices are strong, if I may use a metaphor here, has resulted primarily from the domestic supply situation. Important onion producing areas, in the Hurricane Agnes area, were severely hit by flood conditions and on top of that, we had a short crop elsewhere. The Texas crop is coming in stronger now, I understand.

Mr. VANIK. I don't know, Mr. Secretary, but I have a little garden and they tell me I have to plant the onions around the crop I intend to raise to protect it from rabbits. I don't know if there is anything to that, but we could suffer a wide spectrum of loss.

Secretary BUTZ. There are many ways to protect your garden from rabbits. Some people use mothballs.

Mr. VANIK. You indicate in your statement that we will have to give up some protection in agriculture if we are going to gain greater access to agricultural markets abroad. Do you feel that we have sufficient leverage in the agriculture sections or do you feel that we are going to have to reduce industrial tariffs in order to benefit our agricultural exports?

Secretary BUTZ. I think both of them, Mr. Vanik. We have not treated agriculture separately as we approach the negotiating table. We are going to treat agriculture like everything else as a part of the total ball of wax. We have made many concessions on the agricultural front in the last year. We have discontinued all of our export subsidies.

Mr. VANIK. Will there be any objection if we take them out of the law and provide for no more subsidies?

Secretary BUTZ. Some we have discontinued permanently. Some remain. We daily publish the export subsidy on wheat as zero. The authority remains. It is inconceivable to me that that would be brought back in the next year anyway. We have removed the import limitations on beef. We have asked for reduction of tariffs. We have asked the Congress for authority to reduce the nominal tariff on beef.

Mr. VANIK. Why not drop the whole section and eliminate the quota section entirely? The foreign producers of meat tell me that they have to make some plans for the American market and they are always afraid. As you know, it takes several years to develop a herd of beef for market and a year and a half suspension or a year's suspension isn't enough for these producers to prepare for our markets.

Secretary BUTZ. Yes, sir.

Mr. VANIK. They want a degree of permanence.

Secretary BUTZ. I hear identically the same complaint and were I in Australia, I would be singing the same song.

On the other hand, as we have raised import limitations, there is no great flow to this country. It is going elsewhere because the world market for meat is substantially stronger in other countries, especially for the kind of meat imported to this country.

The European market is a stronger market for beef than here.

Mr. VANIK. What is wrong with taking the import quota sections right out of the law?

Secretary BUTZ. I think we need some standby protection on that the same as this act has standby protection.

Mr. VANIK. But, Mr. Secretary, the bill provides that the President has some standby protections. That is what this is all about. He doesn't need quotas because he has powers under this bill to come right to your rescue.

Secretary BUTZ. There are some places though. As long as we are required to support the price of commodities in the country, dairy products being a case in point, as long as legislation requires us to support the price of dairy products at not less than 75 percent of parity and as long as foreign dairy producing nations employ the export subsidies, as they do to increase their exports, we can't get in a position where the Commodity Credit Corporation becomes the reservoir for everybody who wants to produce cheese in the world.

It would really bankrupt us around here.

Mr. VANIK. Meat is not subject to support.

Secretary BUTZ. Not in this country.

Mr. VANIK. In that situation, the argument doesn't apply to import meat quotas. On the other hand, the removal of the quota sections will give people who want to enter and provide some meat for our market an opportunity to plan for it and to produce for us if we are not able to produce what we need in this country.

Secretary BUTZ. I know that argument is often made and I guess farmers retaliate by saying why don't we do the same for steel, because they are major purchasers of products made of steel.

Mr. VANIK. This bill is, perhaps, going to do the same thing for steel.

Secretary BUTZ. Farmers argue why not do away with the voluntary quota and import restrictions?

Mr. VANIK. The farmers are not advocating the doing away of voluntary agreements. That is what they are all about. The whole agricultural economy operates under voluntary agreements. It seems to me that you can't deny to any segment of our industry a privilege which agriculture widely depends upon.

Secretary BUTZ. I am not familiar with the so-called voluntary agreements under which agriculture operates.

Mr. VANIK. I will be glad to provide some that I know of. What I am afraid of, Mr. Secretary, is this: How long do you suppose we can count on this gregarious foreign market for our products. Do you see way down the road a tremendous continuance of this appetite for our agricultural products? Can you see down the road a long and permanent market? Do you see a capacity of those who want our goods to be able to pay perhaps a rising and increasing escalating price for them? Do you see that with any degree of permanence down the road?

Secretary BUTZ. Yes, sir. I do see a move in the direction of expanding trade and reduction of trade barriers. I certainly do. With a growing population and rising affluence of peoples around the world, with a rising appetite if they want to eat higher on the hog and that means animal proteins, I certainly do see that.

The Russians in their 5-year plan, which has only 3 more years to go, contemplate a 25-percent increase in the per capita consumption of animal proteins. This is ambitious. I don't think they can achieve it. They have to do this on the basis of imported grains and protein suppplements.

The Japanese, for example, eat only 8 pounds of beef per person per year and one of these days somebody is going to teach them how to like beef.

Mr. VANIK. Mr. Secretary, this already is what is happening, as I said. You are claiming that agriculture is now a solidly mature industry which doesn't want to be controlled, doesn't want its prices fixed and is gong to lean less and less upon Federal management policies.

In the meanwhile, what is happening in this country is that there is a very permanent division occurring. When I came to this Congress, I was asked by my friends in labor to support agricultural policies, support the subsidies, support all the things that help make agriculture grow and prosper, and I did over the years because I believed this policy was important because we had a relationship with the agricultural sector. We were partners.

If food supplies were adequate, we were all the beneficiaries of it. I think that the productivity of the farmer is to his credit, but I think that the American taxpayer has had a great stake in it over the last 40 years. He has been paying billions of dollars to help bring about research, development, and improved agricultural productivity.

What I am afraid of is that agriculture is asking for maturity now in these boom days of high prices and we will probably give recognition to that desire for maturity. But along with that, there will probably come very, very quickly and perhaps even more quickly than you anticipate, a reluctance of the American taxpayer to provide any further supports for the great many agricultural programs which have helped make this industry great and strong and guaranteed sustaining levels of productivity with at least some levels of compensation.

I think that is all in jeopardy and I think that while temporarily we may have a really fine time on the farm, I am worried about what is ahead, because I can see a disinclination on the part of urban representatives like myself to continue to pour public taxpayer dollars into a program which increases productivity for export and higher prices at home.

Secretary BUTZ. May I respond to that?

First, you and I disagree rather vigorously on some points but let me say that you have just made a powerful speech in favor of this bill.

Mr. VANIK. That was not intentional.

Secretary BUTZ. You have done it very eloquently. Let me underscore it briefly. You said for 40 years we have been subsidizing agriculture. You are quite right, but not alone agriculture. We have subsidized the merchant marine that ships into the Cleveland port in the Great Lakes.

Mr. VANIK. Over my protest.

Secretary BUTZ. That is beside the point. OK; over your protest, but the fact is that we have subsidized many other sections of the economy, too. But we are at a turning point in agriculture. We are trying to move agriculture to the point where it gets its income from the marketplace with less dependence on Government.

You have a Secretary of Agriculture who believes in this very vigorously and is striving for it as forcefully as he knows how. We have recommendations before this Congress right now for the new Agricultural Act of 1973, to move us in that direction.

It is not going to be easy to get it through in spite, as you say, of the reluctance of you urban Congressmen to vote continuing subsidies. That is our goal. We want to do it.

Let me take the second statement you made that there is pressure and I know you feel there is in the Cleveland area to curtail our agricultural market geared to produce more than we can consume at home. We exported one cropland acre out of four in this country and should continue to export between 1 cropland acre out of 4 and 1 out of 3. As long as we have an agricultural plant in this country that is curtailed and that can't produce at full capacity, it is a high unit cost plant.

This year we are pulling 43 million acres back to production that were immobilized last year. Let's take the farmer, held to 80 percent of production capacity last year. This year he brings that 20 percent back to production primarily because of the export market. He produces on that 20 percent at a very low marginal unit cost. He is paying taxes and interest on it anyway. The additional marginal cost for producing that is the cost for seed and fertilizer and a little cost for plowing. In the main he has the equipment to do it and the labor to do it.

Therefore, by producing that extra 20 percent at a very low unit marginal cost, he lowers his average cost across the board and can make more money because his volume is up.

At the same time, we have a lower average cost across the board and the American consumer gets more reasonably priced food because of the fact that he has an export market to utilize the added 20 percent that was immobilized last year.

We have to get across the point that exports in agriculture are also good for the American consumer.

Mr. VANIK. I haven't time to spend at this point. I will do it later, but the first few days after the wheat deal was announced, I called it a bread tax and it proved to be correct.

Secretary BUTZ. Let me speak to that for just a moment.

Mr. VANIK. My time has expired. If the chairman wants to give you more, all right.

Mr. BURKE. Let the Secretary finish.

Secretary BUTZ. Your time has expired, but mine hasn't.

There has been a lot of talk about the increased price of bread, for example, as a result of the Russian wheat sale. The price of wheat right now is enough higher than it was before the Russian sale to make an increase in the cost of wheat farm value per 1 pound loaf of wheat bread at approximately one-half cent per loaf.

At the farm price of wheat right now there is less than 5 cents worth of wheat in a loaf of bread that your Cleveland consumers go down and pay 30 cents for.

If you took all of the wheat out of that loaf of bread they would pay a quarter for the wrapper.

I am getting tired of having everybody talk about that 5 cents influencing the price of bread.

Mr. VANIK. All I want to say is that immediately after the wheat deal it signalled a tremendous increase. Whether it was related or not, the fact is that directly after that transaction our consumer prices went right through the window for bread, for meat, for all of the great volume of consumer food items. These are facts that cannot be erased.

Secretary BUTZ. Two comments. The price of bread went up since that wheat deal. So has the price of clothing, hospital rooms, auto-

mobiles, everything else. But this sale gave us a chance to bring 40 million acres back to production, gave us a chance to save $200 million a year in taxpayer cost for storing and handling this. It gave us a chance to create another 100,000 jobs at pretty good wages in the country, all on the plus side.

Mr. BURKE. Mr. Brotzman will inquire.

Mr. BROTZMAN. Thank you, Mr. Chairman.

One observation first. It seems to me that because we are competitive with our agricultural products there is a tendency as we look at our overall trade account problem to focus on the agricultural side of it.

The larger problem there, I think, is to try to knock down some of the barriers that we are confronted with.

If I understood your answer to a previous question, it sounds as if there are some internal pressures developing, particularly in the Common Market countries that might help us a little bit with the old variable levy. Isn't that what you meant to say?

Secretary BUTZ. Yes, sir. I think that is right. We had six existing nations in the European community. There are now nine. As the United Kingdom comes in, they are going to have to move to a higher internal price for food programs. This is not going to be easy.

I had a conference with the British Minister of Agriculture in Paris. He had to go back a day early to face questions in the Parliament on this very thing and he said, "I am going to face questions about selling butter to the Russians at 19 cents a pound."

I said, "How will you answer?"

He said, "I will say that happened before we came in."

I said, "But the same policy prevails now as made this necessary. How will you answer next year?"

He said, "I think maybe I will tell them I have been trying to change it."

Mr. BROTZMAN. I would just turn our attention to a larger field for a moment in the time that I have. That is our overall growth export problem, because we have to be able to produce, compete and sell a lot of other things, obviously, if we are going to be able to improve our overall position. I picked out agriculture because this is one we can really go on if we get the right kind of fair treatment.

Secretary DENT. I was most interested in your paper particularly on export growth. I knew we had a problem, but I never was quite aware of how significant a difference there was between our growth during the last decade and that we found in countries with whom we are competing.

Mr. BROTZMAN. Now I think you are saying we have to become more aggressive, as far as selling American products?

Secretary DENT. That is correct.

Mr. BROTZMAN. You mentioned some of the new initiatives that you are planning, which I applaud. I would like to ask you this general question: How would you evaluate and compare our trade initiatives with other major industrial countries around the world right now?

Secretary DENT. I think to put this in perspective that one thing

we should understand is that one of the major factors that has been at work from a negative aspect with respect to our exports has been the overvalued condition of the dollar. The two devaluations will certainly go a long way to help that as far as our export activities are concerned. We export 14 percent of goods manufactured. The Japanese export 35 percent. The United Kingdom is up in the 50's as well as Canada. Obviously other countries have had a longer tradition of exporting than we have had in this country, largely because of our large and growing domestic market. But I think that the trade deficit that we have incurred, which brought about the monetary crisis, is a clear indication to business and to the Nation that we have to become more export-minded.

The activities we envision will certainly support the stimulation of this.

Mr. BROTZMAN. Of course, I think you agree that there are certain things we have to continue to do domestically. Over the past three administrations or so the investment tax credit has been turned on and off. It has made it rather difficult, I think, for our production factors to really take advantage of it. In other words, I don't think we have had a chance on a sustained basis to really reduce our plant incapacity which has been rather sizable over the last 2 or 3 years.

Secretary DENT. I think you hit on one of the most important deficiencies we have in this country. We fail to realize that we have got to be competitive as far as our investment incentives and cost recovery systems are concerned. Offshore people have provided more investment incentives than we have in this country. Our machinery, our plant and equipment is relatively higher priced. Therefore, where our capital recovery situation is deficient compared with others, there is a double incentive for investment to go offshore.

Just as our labor has got to be competitively priced as far as our domestic market is concerned and must produce more efficiently because of the difference with offshore, it is my judgment that the investment incentives to attract capital into plant modernization and plant expansion must not be just competitive, but perhaps a little bit more competitive than offshore. This has not been the case.

Mr. BROTZMAN. Of course, labor has a very definite role in this, Secretary Brennan. Would you like to comment on that, because I know that American workers are productive, are they not?

Secretary BRENNAN. That is true. Mr. Brotzman, the contention that U.S. wages are too high and pricing us out of the U.S. market is misleading. Though the United States continues to have the highest wages in the world, by a wide margin, wage increases have been more rapid in recent years abroad. So I think this shows that as far as competing, labor costs have recently been rising less rapidly in the United States than they have been abroad in other industrialized countries. So I think that, taken together with the recent exchange rate realinements, should cause optimism as far as labor costs rather than fear.

Mr. BROTZMAN. If we can pull all of these factors together and undergird it to a sound trade bill which will help to reduce some of these barriers, I think we should be able to whip this thing.

Secretary BRENNAN. I agree with you.

Mr. BROTZMAN. Thank you.

Mr. BURKE. Mr. Gibbons will inquire.

Mr. GIBBONS. Thank you.

To start off on a light note, I think it is significant to watch that gentleman over there in the big gold frame on the east wall. He's beginning to tip more and more. He is about to fall off his peg. That is Mr. Hawley of Smoot-Hawley days. It may be that we have him disturbed.

Mr. Butz, every place we go we hear so much about soybeans, I really don't know a whole lot about soybeans. Why is it that the United States has such a natural advantage in soybeans?

Secretary BUTZ. For the same reason we have a natural advantage in all feed and food grains. First, let me say with reference to soybeans, they are high priced now. They are in short supply, but not because we had a short crop last year. We have been increasing soybean production very rapidly in this country in recent years.

Last year our crop was 50 million bushels above the record crop the year before. It is simply the tremendous explosion here and abroad for protein feeds to underwrite the growing livestock population that has caused the current soybean situation. But why do we have a natural advantage?

The Lord gave us in America, the Corn Belt and the Great Plains area and I must add the prairie provinces of Canada in there to make the statement complete, the world's largest contiguous land mass with fertile soil, good growing climate, adequate rainfall and with high-capacity management farmers. This is truly the breadbasket of the world.

When you combine that with the fact that in the last 20 years our farmers have tripled their output per worker, you have by all odds the world's most efficient producing machinery for food grains and feed grains. This is a natural competitive advantage that we want to exploit as we attempt to reduce these barriers around the world.

Mr. GIBBONS. The reason I ask this about soybeans is that we have so much riding on soybeans. Is it a product in which we have just a temporary advantage in or is it long range?

Secretary BUTZ. No, sir. I don't think it is temporary. Last year over half of the soybeans we product went into the export trade. Last year American soybeans supplied somewhere around 75 to 80 percent of the world's trade in soybeans.

Now then the price of soybeans is high enough that we are encouraging the export of capital or the application of capital to soybean production, especially in Brazil, in another hemisphere where soybean

acreage is increasing and they have an opportunity for some increase. But I think if we can follow realistic pricing policies—and I am first to admit that the current price of soybeans is too high, it violates my definition of realistic pricing policy—if we can follow that, I think we will maintain our dominant position in the world market.

Mr. GIBBONS. The other day I was in a conference dealing with agricultural products and learned some pretty startling comparisons of U.S. prices versus European prices. Have you got any figures on this? I noticed these were not in your statement, but you made some reference to them.

Secretary BUTZ. Are you talking about consumer food prices now?

Mr. GIBBONS. Well, I think we were talking about the market price of wheat—the market price of wheat at the terminal. As I recall, the U.S. price is about $86 a long ton. Is that right? Is it roughly in that area?

Secretary BUTZ. I don't have the exact figures.

Mr. GIBBONS. The European price was about $110 or $115 a ton.

Secretary BUTZ. It is very substantially higher.

Mr. GIBBONS. Substantially higher?

Secretary BUTZ. Yes. This reflects itself in higher prices for consumer items in Europe than here. I was in Paris 3 weeks ago as I said. The morning before we flew back I went into a supermarket to do some price comparison. Whoever wrote that book on "How to See Europe on $5 a Day" was writing about breakfast.

Mr. GIBBONS. And not a very good one either.

Secretary BUTZ. Well, you would get a fork with it.

Mr. GIBBONS. I wonder if your department could prepare for us some charts showing just how our U.S. domestic prices compare with European prices and perhaps Japanese prices so we can illustrate clearly the advantage we have.

Secretary BUTZ. Yes. We will supply that. Not only is our price lower, but as a percentage of take-home pay they are far lower than anyplace else in the world.

[The charts referred to follow:]

PRICES OF U.S. WHEAT AND CORN TO EUROPEAN BUYERS, MAY 2, 1973

[In U.S. dollars per metric ton]

	Hard Winter Ordinary	No. 3 Yellow Corn
FOB price, Gulf ports	(94.43)	70.55
CIF price, Rotterdam	105.15	85.85
Plus EC variable import levy	53.81	44.37
Landed price to European buyer	158.96	131.87

Source: U.S. Department of Agriculture, EMS; Deutsches Getreidekontor e.G.m.b.H., Hamburg, May 2, 1973; Reuter News Service, May 1, 1973.

Grain and Feed Division, FAS, May 18, 1973.

SURVEY OF RETAIL FOOD PRICES IN SELECTED CITIES, AS OF MID-MARCH 1973

[In dollars per pound, converted at current exchange rates, unless otherwise noted]

City	Meat products							
	Beef and veal		Pork		Lamb		Poultry	
	Item	Price	Item	Price	Item	Price	Item	Price
Bonn [1]	Roast beef	2.08	Chops	1.45			Broiler (Grade A)	0.62
	Veal, round	2.76						
Brasilia	T-bone steak	.85	Pork loin	1.26	Chops	0.58	Broiler	.37
	Veal cutlets	.67						
Brussels	Sirloin steak	2.45	Roast	1.47	Leg, bone in	2.14	Broiler (frozen)	.66
	Roast beef	2.54	Chops	1.65	Rib chops	2.49	Turkey (whole frozen)	
	Veal steak	3.20	Bacon, sliced	.96				
Copenhagen	Veal fillet	6.51	Chops	1.96	Chop or leg	1.88	Broiler	.93
	Beef fillet	6.51					Turkey (whole)	1.27
London	Sirloin steak	1.88	Loin	1.19	Leg (Eng.)	1.26	Broiler (3 lb oven ready)	.47
	Rump steak	2.25						
Ottawa	Sirloin steak	1.68	Loin chops	1.32	Leg (imported, frozen)	.99	Chicken	.65
							Turkey	.63
Paris [2]	Top round	2.57	Fillet	1.81			Broiler	.64
	Veal "escalope"	32.2						
Rome	Sirloin steak	2.79	Loin	1.75–2.00	Chops, cutlets	1.75–2.00	Broiler (whole)	.63–.71
	Veal steak	2.71–2.89					Chicken leg	.55
Stockholm [3]	Porterhouse steak	3.81	Fillet	2.50	Chops, frozen	1.98	Broiler	1.00
	Veal cutlets	2.82						
The Hague [4]	Beef steak	2.77	Rib chops	1.39			Broiler (frozen)	.48
Tokyo	Beef loin	11.90	Center-cut chops	2.72	Leg chop	1.87	Broiler	1.67
	T-bone steak	3.57	Loin	2.55	Whole leg	1.53	Turkey	1.17–1.24
	Ground beef	1.70–3.40	Bacon	1.78	Shoulder	1.19	Chicken wings	.93
Washington, D.C.	Sirloin steak	1.69	Loin	1.29	Leg	1.39	Fryer	.65
	Veal cutlet	2.29	Bacon	1.19	Rib chops	2.19	Turkey (butter ball)	.63

	Nonmeat products							
	Dairy products and eggs		Fruit		Vegetables		Bread	
	Item	Price	Item	Price	Item	Price	Item	Price
Bonn [1]	Butter	1.28	Apples	0.26	Tomatoes	0.55	White	0.33
	Cheese, Gouda	1.24			Cabbage	.11		
	Eggs/doz	.88			Potatoes	0.5		
Brasília	Butter	.61	Apples (ea.)	.31			7-oz. loaf	.30
	Eggs/doz	.47						
Brussels	Butter	1.40	Apples, domestic	.20	Onions	.19	White (sliced in bag)	.21
	Eggs/doz	.94	Oranges	.21	Potatoes	.08		
Copenhagen	Butter	1.16	Apples	.30	Potatoes	.17	White	.40
	Cheese (45%)	.91	Pears	.44	Lettuce (imported iceberg/head).	.63		
	Eggs/doz. (medium)	.86	Oranges	.20				
London	Butter (imported)	.57	Apples, dessert	.31	Onions	.15	White (per 1¾ lb. loaf, sliced)	.26
	Eggs/doz	.71	Oranges	.22	Potatoes	.06		
Ottawa	Butter	.72	Apples	.83			White	.16
	Eggs/doz. (A, large)	.68						
Paris [2]	Butter	1.26	Apples	.26	Carrots	.13	White (sliced) per loaf	.79
	Cheese, Emmenthal	1.44	Oranges	.23	Lettuce	.34		
	Eggs/doz	.44	Lemons	.39	Potatoes	.06		
Rome	Butter	1.98	Pears	.52	Spinach	.16	Loaf	.23
	Eggs/doz	.60–.96	Oranges	.13–.21	Potatoes	.10		
Stockholm [3]	Butter	1.06	Apples, domestic	.29			White	.49
	Eggs/doz	.99						
The Hague [4]	Butter	1.12			Potatoes (Bintje variety)	.06	White (1¾ lb. loaf)	.30
	Cheese (Gouda)	1.02						
	Eggs/doz	.66						
Tokyo	Cheese, proc'd	1.30–1.46	Oranges:		Tomatoes	1.10	White	.17–.45
	Butter	1.38–1.68	Navel	1.53	Lettuce/head	.68–1.70		
	Eggs/doz	.83–1.06	Mandarin	.21	Potatoes	.06–.11		
			Musk mellons (per melon)	9.33–14.93				
Washington, D.C	Butter	.85	Apples (Golden Delicious)	.35	Lettuce/head	.39	White	.31
	Cheese (Cheddar)	1.17			Onions	.23		
	Eggs/doz. (large, A)	.73	Oranges (Fla.)/doz	.69	Potatoes (Idaho)	.20		

[1] Representative food basket prices for week of Mar. 3–11.
[2] Average prices for 4 weeks ending Feb. 3 for meat and dairy products and average for 2 weeks ending Feb. 3 for fruit, vegetables, and bread.
[3] Average supermarket prices as of Mar 15
[4] Calculated prices for January based on index figures per item published in Maandshrift, Feb. 1973

Note: Owing to differences in cuts of meat, grading, and quality, prices will not be completely comparable from country to country. Also, because of the recent devaluation of the dollar, some inflation in price occurs when converted to U.S. dollars.

FOOD EXPENDITURES, SHARE OF CONSUMER EXPENDITURES AND DISPOSABLE INCOME, OECD COUNTRIES, 1960, 1969, 1970, PRELIMINARY 1971

[In percentage of total]

Countries	Share of consumer expenditures					Share of disposable income				
	1960	1965	1969	1970	1971	1960	1965	1969	1970	1971
Canada [1]	26.1	24.4	22.5	27.2	[2] 22.5	25.0	22.8	20.8	20.8	[2] 20.6
United States [1]	22.2	20.5	19.0	19.2	(3)	20.7	18.9	17.7	17.6	[2] 16.7
Japan	43.1	41.5	35.1	34.4	33.4	35.6	31.2	28.3	27.4	[2] 26.6
Austria	33.7	29.7	(3)	(3)	(3)	30.2	26.6	(3)	(3)	(3)
Belgium	27.5	25.6	24.0	24.0	23.1	24.6	21.8	20.6	20.1	(3)
Luxembourg	39.8	34.5	(3)	(3)	(3)	31.8	29.8	(3)	(3)	(3)
Denmark	23.4	21.4	20.1	20.9	21.3	20.8	18.9	18.4	[2] 18.2	(3)
Finland	44.2	40.7	40.3	39.2	(3)	40.2	35.7	35.0	34.1	(3)
France	32.3	29.2	26.3	25.8	(3)	29.2	25.9	23.6	22.6	(3)
West Germany [1]	37.7	33.6	30.6	29.9	[2] 28.9	32.0	28.2	26.2	25.2	[2] 24.2
Greece	42.1	39.1	37.7	(3)	(3)	38.4	33.9	32.5	(3)	(3)
Ireland	52.6	50.9	47.2	(3)	(3)	48.8	45.5	42.6	(3)	(3)
Italy	39.6	38.7	36.2	35.2	(3)	33.3	32.2	30.0	29.3	(3)
Netherlands	30.0	27.2	23.7	22.8	22.3	26.5	23.1	19.9	19.3	18.9
Norway	30.6	30.1	28.1	29.2	(3)	(3)	(3)	(3)	(3)	(3)
Spain	51.4	44.2	40.0	39.4	(3)	47.3	39.4	36.6	(3)	(3)
Sweden [1]	32.8	32.3	31.3	31.5	(3)	30.6	32.1	30.5	30.4	(3)
Switzerland [1]	35.2	34.7	33.2	(3)	(3)	32.1	29.8	28.7	(3)	(3)
United Kingdom [1]	37.5	34.9	33.7	33.1	(3)	35.7	32.7	31.9	31.3	(3)
OECD total	26.8	25.3	23.6	23.5	(3)	(3)	(3)	(3)	(3)	(3)

[1] In addition to food, includes all beverages and tobacco.
[2] Preliminary.
[3] Not available.

Source: OECD, National Accounts, 1960-70 and supplemental sheets.

Mr. GIBBONS. As I go around and talk to my constituents, people ask me questions about the Soviet grain deal. They say are we selling too much, cutting our reserves too low? What is your answer to that?

Secretary BUTZ. It depends on how we define "reserves."

Mr. GIBBONS. Suppose we have a bad year.

Secretary BUTZ. We will come out of this market in the year ending June 30, 1973, with a carryout of 400 million bushels plus or minus. The wheat crop is virtually assured. The wet weather we have had has been good. We will come out of this year's market with a carryout between 800 and 900 million bushels of corn.

While that seems like a lot, it is really on the low side. That is about an 8-week supply of domestic utilization of corn and feed grains here. We will come out of this market here in soybeans with a very low carryout. It will be adequate. We will have soybean crushers that will shut down until the new crop comes.

You say are we selling too much abroad? No, we don't think so. We have pushed exports very hard. This is the reason we are putting 43 million acres back into production. We are shooting this year for an increase in the magnitude of 500 million bushels. This is an alltime high increase. We may not quite make it because of the wet weather, but at the moment we are still hopeful.

We are shooting for an increase of wheat between 220 and 230 million bushels. We will make it. We are shooting for an increase in soybeans around 200 to 230 million. This is a quantum jump.

At the moment we still think we will make it.

Mr. GIBBONS. Do you think the world has progressed far enough so that the agricultural nations of the world can get together and establish some type of food reserves? I think we need to do that.

Secretary BUTZ. I made the point at the OECD conference in Paris that the traditional food importing nations must now assume some re-

sponsibility for establishing their own reserves. For years they have looked to the United States to carry the reserve supply. They made us a residual supplier in the world market. We are no longer a residual supplier. We are a primary supplier and I want to remain that way.

We made the point to the Japanese who set across the conference table in Paris 3 weeks ago that they will always be importers of foodstuffs to their country. We made the point that they have to assume responsibility for their reserves. They are now doing that. They are doing forward buying and storing those reserves in this country, but they are owned by them.

Mr. GIBBONS. Since we are such outstanding producers of agricultural products, is there any reason for applying the DISC tax break to agricultural products?

Secretary BUTZ. We had some controversy about that after the Russian sale, as you know. Frankly I am not equipped to comment on it. It is a legal problem, primarily.

Mr. GIBBONS Let's talk about the legal problem of that particular deal.

Secretary BUTZ. I personally feel that the DISC principle should be applied to the export of agricultural products just as well as the export of any other products.

Mr. GIBBONS. That sort of does violence to my thinking. I don't know why we ought to give the people that consume our products overseas a better break than we give our domestic people. That is, in fact, what we are doing through the DISC.

Secretary BUTZ. The only better break we gave people who consume our products—are you talking about the export subsidy on wheat?

Mr. GIBBONS. No. The DISC export subsidy. Why shouldn't every agricultural product bear its fair share of export cost? Why should we give the foreigners a better break than we give our domestic consumer?

Secretary BUTZ. The primary purpose was to expand export facilities. That is not a subsidy of the foreign consumer necessarily.

Mr. GIBBONS. Have we got any agricultural products that we can sell to those Arabs who have all that oil? How are they fixed agriculturally? That is where we are going to have our big trade problem in the future.

Secretary BUTZ. You put your finger on a big problem, a national security problem, too, and it is receiving the attention of the highest levels of government. We will have to import energy in the form of petroleum as we are now. One of the questions is how we pay for it. I think one of the best ways to pay for it is in the area of another resource, agricultural products where we have a tremendous competitive advantage. It doesn't have to be directly with the Arabs.

It can be multinational trade, as you are aware.

Mr. GIBBONS. Let me ask the panel this question. In years past we have had you gentlemen in here and we always have trouble figuring out who is on top. I realize the President is on top and he controls all of you. But under the President, who is going to settle the differences—and there will be differences come up between the three of you there. Is the special trade representative the man on top, or Mr. Flanigan, or who?

Secretary BUTZ. Obviously the President. Who are you asking here?

Mr. GIBBONS. All three of you. I want to get you pinned down now that I have you here.

Secretary BUTZ. That reminds me of the story about the preacher who came to visit a couple and they were having a big fight and really carrying on. He said, "Who is boss here?" and the man said, "We are just deciding that."

Obviously, as you say, the President is on top. The President's special trade representative, Ambassador Eberle, will be the chief negotiator. The State Department obviously will have a very heavy hand in this as they should have in negotiation of this kind. Treasury will have, as they should have, because it involves balance of payments and money. The National Security Council will have because it involves security.

Mr. GIBBONS. We have had that problem before. That is the reason I asked this question. Who is going to referee this thing when we get into executive session and you three gentlemen are not there at the same time.

Secretary BUTZ. I have had a couple of good scraps with Peter Brennan. He is a good, clean fighter. I have won some and lost some. I am talking about food prices.

Mr. GIBBONS. I know, but I get caught in the middle. Who do I go to when I find you all disagreeing, gentlemen. Is it Mr. Flanigan or Mr. Eberle?

Secretary BUTZ. Yes, sir. Differences of opinion are bound to arise, obviously because there are times when labor's interest and agriculture's interest don't always go down the same track. Ultimately decisions like that have to be resolved at the White House level. In this case it will be Peter Flanigan or in the case of trade——

Mr. GIBBONS. Is that the way it works in the view of the other panel members there, too?

Secretary DENT. First of all, I think we ought to make clear that we don't anticipate a knockdown drag-out. We intend to do a job for the American people in agriculture and labor.

Mr. GIBBONS. I am not impugning your motives at all. I have been through this before and I want to know where I am supposed to go for an authoritative administration position.

Secretary DENT. When a question arises between us, we have a clear mandate that we are able to bring this before the President. If it gets on that desk, I presume that the final decision will be made there.

Secretary BUTZ. I think we might say that all three of us have an agreement with the President, if we have a point of view and he has a point of view, we adopt his point of view.

Mr. GIBBONS. Then I am to assume that Mr. Flanigan——

Secretary DENT. No. I made the statement that we have a right to take this petition to the President.

Mr. GIBBONS. Well, in our day-to-day dealings around here we don't get in contact with the President very often.

Secretary DENT. We don't intend to have a day-to-day fight between the three of us. Maybe the Department of Defense goes on the offensive daily, but not us.

Mr. GIBBONS. I realize that you gentlemen aren't actually going to fight, but we do have some differences of opinion. I will not cite any historic precedents but we will have some differences of opinion when we get to marking up this bill. I want to find out when we do go into executive session; do we have to go to the President to get issues decided?

Secretary BUTZ. As this bill was being developed, there was a great deal of manpower involved and a lot of differences. We resolved them. So we stand uniformly behind this bill. It doesn't have everything I want or everything Secretary Dent wants or Secretary Brennan. That would be equally true if I took a vote of this committee. I suppose we would get more disagreement here than we would have between the three of us.

Mr. GIBBONS. Does the textile industry need quotas now?

Secretary DENT. The arrangement which exists under GATT in the form of the multilateral cotton textile agreement have served to expand textile trade throughout the nations of the world at a rate which is very favorable for both the exporters and the importers and it appears as though this very troublesome area of international trade has been well served by the system which has been established.

Mr. GIBBONS. Thank you.

Mr. BURKE. Mr. Archer will inquire.

Mr. ARCHER. Gentlemen, it is a pleasure to have you with us today. Secretary Butz, I think you have done a very commendable job with the Department of Agriculture. We may not always agree on everything, but I particularly compliment you on preparing your testimony on both sides of the sheets of paper that you gave to us because this is one way we can sure conserve paper.

Secretary BUTZ. That is also recycled paper.

Mr. ARCHER. I compliment you on that, too. I think that is a move in the right direction. Every little bit helps.

I am wondering though about some of the things that are happening in agriculture. I had been given the impression that this was going to be the first year that we have a subsidy-free crop, more or less, in this country, that in effect we will be on a free market economy. Yet I have a sheet here that just came from Grimes County ASCS in Texas, saying producers who signed up under the 25-percent set-aside plan will now have to set aside only 10 percent. The set-aside is reduced, but the payments remain the same. I wonder if you would comment on that.

Secretary BUTZ. This is not the first year in which we will have an unsubsidized production. The 1973 crop is under the Agricultural Act of 1970. This is the last year for the provisions of the act of 1970. Our subsidies, our payments to farmers this year, are substantially down from last year primarily because of the increased production.

Yet we are required by the act of 1970 to make certain minimum payments even without set-aside. In the case of the feed grains as you just mentioned there the initial set-aside was set at 25 percent. When we got the margin intentions report it was clear to us we were not getting the response in acreage and we reduced the set-aside to get maximum production this year.

Mr. ARCHER. Could you legally reduce it to zero?

Secretary BUTZ. No, sir. It cannot be.

Mr. ARCHER. Do I read correctly that the amount of payments that are received are the same even though only 10-percent is set aside? In other words, the same amount of money that would have been given for a 25-percent set-aside is going to be given to a 10-percent set-aside or is it just per acre payments that are going to be the same?

Secretary BUTZ. Let us have Assistant Secretary Brunthaver, who is in charge of that program.

Mr. BRUNTHAVER. The provision of the law says that to any farmer who wants to participate in the program, we must offer a payment equal to 32 cents times yield times one-half base, or the difference between 70 percent of parity and the average price in the first 5 months. This payment must be given to any farmer who comes in and signs up for the program.

So while we would perhaps have liked to have gone to zero set-aside, to have gone to zero set-aside would have expanded participation and would have cost the Government another $1½ billion for land that we don't think would have come into production in any case. So we think we are virtually at full capacity and we are not spending that last $1½ billion that we would have had to spend had we gone to zero set-aside.

Mr. ARCHER. I am still failing to understand your answer. Is the farmer who set aside 25 percent last year going to get basically the same amount of money for setting aside only 10 percent this year?

Mr. BRUNTHAVER. Yes.

Mr. ARCHER. So it is not on a per-acreage basis; it is on a per-farm basis. Even though he is only setting aside 10 percent, he is still going to get paid basically the same amount of money in total for his farm that he got for setting aside 25 percent last year?

Mr. BRUNTHAVER. Yes. The only difference here is that last year in addition to the 25 percent, he could voluntarily set aside additional lands at an additional payment. That is the savings that we have incurred this year in operating the program.

Mr. ARCHER. Of course, he is still unable to graze on this 10 percent which is a deterrent, I would think, to the raising of cattle, which we badly need in this country.

Secretary BUTZ. Yes, he can graze on the 10 percent. He has to pay a nominal fee, but he can. You pointed out some of the absurdities of the present program. This minimum payment is required. We have no choice under the law. That is one of the reasons we are trying to change this provision in the new act.

Mr. ARCHER. Thank you. I would like to also ask you, Secretary Butz, what consideration we give when we export agricultural products, to the domestic impact on pricing. We certainly have some sort of a trade-off that is involved here. The more we export and the more we reduce our domestic supply, the higher our domestic prices are going to be based on the law of supply and demand.

I wonder how much detailed consideration is given to this trade-off as to what we lose for what we gain.

Secretary BUTZ. I think there are two approaches to that. In the first place, if we didn't export we would have to pursue curtailment policies in this country that would substantially curtail our output and would maintain domestic prices. Second, as I said a while ago, if we curtail our agricultural plant in this country to a, let us say, 80 percent capacity it becomes a high unit cost plant and does, in fact, raise prices internally. Now then, there has been a lot of talg around the country about the high price of beef, for example, being because we nicreased our exports a great deal. This is not true, this year especially. We are making this year's beef out of last year's crops. We will make next year's beef out of this year's crops. There is no shortage of beef in this country.

We consumed 116 pounds per person last year, a record amount, twice what we consumed 20 years ago. This year we will consume 2½ pounds more per person than last year. There is a tremendous explosion in demand. We export feed grains and cotton and we don't consume the feed grains and cotton. We consume meat, milk, and eggs.

People say we want more beef. My answer is that the smartest scientist has not found a way to get a 2-year-old heifer in much less than 24 months.

Mr. ARCHER. You had the power to restrict the export of hides. Did you not have this power and did you not attempt to restrict the export of hides?

Secretary BUTZ. Yes. That was the Commerce Department, the Export Control Act. Last July under tremendous pressure from the leather industry and the shoe manufacturers, the Commerce Department did, in fact, institute a program to export the license of hides. But the Congress overruled it.

Mr. ARCHER. Do you also have similar power with respect to restricting the exportation of other agricultural products like soybeans?

Secretary BUTZ. Yes, sir; under the Export Control Act that power still exists.

Mr. ARCHER. And lumber, for example?

Secretary BUTZ. Yes.

Mr. ARCHER. I hope that we are giving very serious consideration to the trade off that I mentioned when we make these decisions for exportation because when we dramatically change the supply available in the domestic market, we cannot have anything but a significant effect on the resulting purchasing in the market by commodity traders. It seems to me that without tending to be too critical that this is one of the things that the Russian grain sale did.

I wonder in addition whether we know, when we agree to export products, how much is going to be exported at the time that we make that agreement.

Secretary BUTZ. Well, we have no agreement with anybody, as far as I am aware, to export farm products. We made an agreement with the Russians a year ago that involved credit arrangements under which we agreed to extend CCC credit to them over 3 years in the maximum amount at any one time of $500 million in return for which they agreed to purchase a minimum of $1 billion worth of grains over a 3-year period. The way it turned out, the purchases were substantially more than that the first year, but those purchases were negotiated in the private market here with the private trade. The Government itself, our Department or our Commodity Credit Corporation, does not engage in the negotiation of a sale of a commodity to a foreign country.

Mr. ARCHER. But should we not be in a position to know how much is going to go out when we make these arrangements?

Secretary BUTZ. Yes, sir. We have taken steps right now for a voluntary reporting system on the part of the major exporters so that they report to us on a confidential basis. We will publish this as quickly as we get it, again so that the identity of a particular firm is not revealed.

Mr. ARCHER. Thank you.

Mr. BURKE. Mr. Carey is recognized.

Mr. CAREY. Thank you, Mr. Chairman. This is the first opportunity I have had sitting on a committee to welcome my neighbor in New

York, the distinguished Secretary of Labor, Mr. Brennan, before the Congress. I think it is significant that your appearance here today is on the trade bill and on what trade may mean to American labor and employment. That is a major concern to me. I am going to try to spend as much of my 5 minutes with you as I can because I learned if you spend it with Mr. Butz, you won't get much left of 5 minutes. He is highly articulate.

Secretary BUTZ. You haven't heard Peter Brennan much.

Mr. CAREY. I have heard him for a long time. I am worried, Secretary Brennan, when I read speeches made by our fellow New Yorker, Secretary Casey, about what trade is going to mean to American employment. I think that is your concern and mine. We want a fair shake, as you said. I am convinced with you in the Department to look after it, we will get a fair shake providing you are up to the hilt in these negotiations.

Secretary Butz was over talking to the Organization for Economic Cooperation and Development. I have been over there, too. When I was over there last time I said, "Where is the labor man from America around here?" There wasn't any. I have been in numerous trading places in the EEC with Americans at various receptions and I looked for the labor man and I couldn't find one. But I always find the agricultural man there, because he is in there watching for markets, selling our products, reporting back to his department and to the producers in agriculture.

As a result we get a good shake in terms of moving our agricultural commodities. Now you have done a good job so far in reshaping our manpower programs, getting some people in there who know labor and know jobs. I want to know, are you going to take an active part and is your department going to be right up to the hilt in trading, in the organization for trading, so that we get in every step of the negotiation full participation by labor people in these negotiations?

Secretary BRENNAN. Yes; we will and I will insist on it. We will be part of the negotiating teams.

Mr. CAREY. That is important because my colleagues and I, my colleagues from Minnesota, Mr. Karth, share this experience of trying to find the labor presence overseas in trading. We were not always successful. Going back to the speech made by Mr. Casey, we find only 3 out of 10 of us producing goods with over twice as many, 65 percent, engaged in services and less than 5 percent generating our food from land and sea."

So even if Mr. Butz achieves his increase in marketable commodities through agriculture, it isn't going to mean much more than 5 or 6 percent of the population engaged in that activity. Then Secretary Casey goes on:

> As a service-oriented economy, short on energy and raw materials, we will increasingly have to pay our way in the world with invisible income from investment, financial, transport services, engineering, construction projects with a high technology export, including agricultural goods, et cetera.

This is not to minimize the vital importance of enhancing our competitiveness in steel, textile manufacture. We will have to look more to high technology. Again he uses the word "invisible" for "growth." That wouldn't mean much to American labor. We have to pin down how we will get a job supply out of these negotiations.

My next concern is that we don't pin all our hopes on what is going to happen on GATT. Some of the great beneficiaries of our trade

don't belong to GATT. The Soviet Union is not in GATT. The Soviet Union doesn't seem to do so badly when it doesn't play by these rules of GATT. You said yourself that it is buying butter at 19 cents a pound. It is getting new agricultural technology plants from Occidental Petroleum on a barter basis, no dollars involved. It is going to get most-favored-nation treatment from us which I am sure will be beneficial.

We are going to ship them Pepsi-Cola and get a lot of vodka in exchange. The fellow who is going to get the most in terms of trade advantages is not even a member of GATT. So GATT should not be our hope.

Secretary Brennan, I want to know if you will look very carefully at the non-GATT countries in terms of bilateral negotiations with China and the Soviet Union and others to make sure as we go along outside GATT that we have adequate labor-concerned people dealing with those nations who, you know, have a pretty generous labor supply.

Secretary BRENNAN. Mr. Carey, we certainly intend to do that. As I said in my testimony, we will have committees, advisory committees set up. We will be talking to all people in labor and, of course, we will play a very important role.

Mr. CAREY. That reassures me a great deal. I am worried about the Secretary of Commerce and your concern about increasing employment as well. Throughout your statement you made some reference in the colloquies to your hope of increasing tourism. That is an important source of dollars for us and employment. But nowhere in your statement did you speak with any regard about transportation and the importance of putting American goods on American transport for getting some share of American transportation facilities for American imports and exports.

Now you do have a responsibility for the American maritime, do you not?

Secretary DENT. Yes, sir, the Maritime Administration is part of the Department of Commerce. I am glad to say that at the present time the fleet is fully employed. We have more ships under construction as of the first of this year than any other time in peacetime history. There were 80 ships under contract or construction the first of January 1973.

Mr. CAREY. But I want to see those ships in American commerce carrying American goods in and out. Building ships doesn't mean they are going to necessarily add to American employment or merchant seamen. It is a different proposition entirely. I am sure you know what I am talking about. All those ships being built are not guaranteed to stay in American merchant service with American merchant seamen on board.

Secretary DENT. Over 50 are built under the MIRAD construction program. The others will be.

Mr. CAREY. When we negotiate subsidies and export subsidies of things of that kind, a number of nations involved in GATT have export subsidies that involve their own transportation costs and they insist upon the carriage of their commerce in their own bottoms. Will you be concerned about trying to equalize some of this so we get better American access to merchant jobs for the American seamen?

Secretary DENT. Absolutely; I am sure you are aware that under the Russian trade deal that one-third of the trade was to be carried in

American bottoms, if, in fact, they were available. To date we have not been able to, because the fleet has been fully employed, carry up to one-third we are due under that agreement.

Mr. CAREY. When we get an additional cargo which will result from our additional agricultural export, we can see to it a fair share of those will be carried on American bottoms, so we can help the merchant man as well as the farmers. I want to caution Secretary Butz, who I did not have the opportunity to speak to at any length, that this boom we have in American beneficial exports and trade in agricultural products may not always be as beneficial to us over the extended period. It was only in 1968 that we were worried in this country, only 5 years ago, about the possible explosion of meat imports. That is true, isn't it, only 5 years ago in 1968 we had to worry about slapping on import quotas because of the possible high intake of beef. It could happen again, couldn't it?

Secretary BUTZ. That's right. Whenever you get to the point where our price support program becomes operative and the CCC begins to acquire wheat, then you have to be careful the CCC doesn't become the reservoir of producers anywhere else in the world.

Mr. CAREY. I think you advised the President to change the import quotas and increase the intake of import dairy products. I want to tell you that every pizza cook who puts mozzarella and provolone cheese on the pizzas in this country is very thankful because the last thing we want after a hamburger shortage is a pizza shortage.

Secretary BUTZ. Thank you. I think we can put a little hamburger in that pizza, too.

Mr. BURKE. On behalf of the committee we want to thank you for giving Secretary Brennan so much time.

The Chair recognizes Mr. Waggonner.

Mr. WAGGONNER. I want to thank you three gentlemen for coming and making what I consider a very creditable appearance before this committee.

Secretary Brennan, in talking about the proposed individual adjustment assistance to the individual worker, you speak to the question of cash payment levels and their duration and you say that they will vary State by State and conform with the proposed Federal minimum unemployment compensation standards. Can you describe to me those proposed Federal minimum standards?

I am speaking to a paragraph on page 8 of your statement now.

Secretary BRENNAN. Mr. Waggonner, currently there are 18 States where the maximum weekly benefit under the Trade Reform Act would be higher than the maximum provided currently. Ten of these States, including such heavily industrialized States as California, Connecticut, Illinois, Indiana, Michigan, Ohio, New York, are States where we have a large proportion of our adjustment assistance cases at the present time. In general the high-wage worker in a high-wage State can receive a higher weekly benefit under the Trade Reform Act than he would under the current law. This would be some of the adjustments.

I would be very glad to supply for the record a comparison of weekly benefit amounts according to States, which may be clearer to you.

Mr. WAGGONNER. Mr. Chairman, if there is no objection, I would like for the Secretary to supply that for the record.

Mr. BURKE. Without objection that will be included in the record.

[The information referred to follows:]

ESTIMATED WEEKLY BENEFIT AMOUNTS, JAN. 1, 1974

(I) State	(II) Estimated State average weekly wage, fiscal year 1973 [1]	(III) Weekly benefit amount at average pay level (50 percent of (II))	(IV) Maximum weekly benefit amount (66⅔ of (II)) [2]
Alabama	$136	$68	$91
Alaska	234	117	156
Arizona	158	79	195
Arkansas	121	61	81
California	175	88	117
Colorado	160	80	107
Connecticut	168	84	112
Delaware	170	85	113
District of Columbia	172	86	115
Florida	142	71	95
Georgia	142	71	95
Hawaii	158	79	105
Idaho	133	67	89
Illinois	179	90	119
Indiana	164	82	109
Iowa	144	72	96
Kansas	138	69	92
Kentucky	146	73	97
Louisiana	149	75	99
Maine	131	66	87
Maryland	153	77	102
Massachusetts	160	80	107
Michigan	193	97	129
Minnesota	177	89	118
Mississippi	121	61	81
Missouri	157	79	105
Montana	135	68	90
Nebraska	136	68	91
Nevada	163	82	109
New Hampshire	137	69	91
New Jersey	175	88	117
New Mexico	133	67	89
New York	184	92	123
North Carolina	131	66	87
North Dakota	129	65	86
Ohio	171	86	114
Oklahoma	141	71	94
Oregon	154	77	103
Pennsylvania	158	79	105
Puerto Rico	96	48	64
Rhode Island	141	71	94
South Carolina	128	64	85
South Dakota	120	60	80
Tennessee	135	68	90
Texas	146	73	97
Utah	137	69	91
Vermont	138	69	92
Virginia	139	70	93
Washington	167	84	111
West Virginia	161	81	107
Wisconsin	159	80	106
Wyoming	135	68	90

[1] Estimates assume 5-percent increase over fiscal year 1972 average wages. Figures rounded to nearest multiple of $1.
[2] Maximums represent the sum of the maximum provided under the State unemployment insurance law and the supplementation of the individual's unemployment benefit provided for by the Trade Reform Act.

Mr. WAGGONNER. Secretary Dent, in talking about the U.S. trade picture, on page 2 of your statement you are talking about the so-called perverse price effect, I suppose. You said the booming U.S. economy generated strong import demand while the relatively restrained pace of business activities in many markets abroad provided less of a stimulus to our sales.

Now are you talking, first of all, about the developed nations or the underdeveloped nations?

Secretary DENT. Generally speaking, the developed nations whose economies were not expanding as rapidly as ours was last year.

Mr. WAGGONNER. Are you saying this because in those so-called developed industrialized nations such as West Germany, Japan, that those nations have had in recent years and do have now a rate of inflation which exceeds ours, is that the basis of that statement?

Secretary DENT. No. The basis was that of economic activity last year, the growth of their GNP. Nowhere did it approximate our growth of just under 7 percent. The failure of their economy to grow at our rate consequently failed to increase their demand for our exports at a commensurate rate, with the growth of their internal economy.

Mr. WAGGONNER. Inflation, of course, being a part, a factor in the growth rate of economy, you are saying then that even though, as Mr. Karth showed me an item here a moment ago, even though that in West Germany where they have an inflationary rate of about 7.5 percent, that with that larger inflation rate that they still have had a relatively lower growth rate in their economy than we have had?

Secretary DENT. That is correct. Yes, sir; but this year their economy has picked up its growth rate over what it was in 1972 and we anticipate this may be a stimulus which we did not have last year for our export trade.

Mr. WAGGONNER. Secretary Butz, a moment ago Mr. Vanik talked a little bit about foreign producers of beef needing some advance notice about what they could expect with regard to American markets. I have the same concern for American producers. If anybody is to get any advance notice about what to expect in American markets, just keep looking after these American producers.

I know beef is high, but the people who object to the price of beef don't say anything about the price of onions with no nutritional value in a relative way and they don't mind putting a quarter in that vending machine to get a Coca Cola and some of these other things. So it is high, but it is not any higher than anything else that has to do with our needs to date.

Secretary BUTZ. Amen.

Mr. WAGGONER. A moment ago, and I don't think there is a conflict, but I want to clear it up—you were talking about reaching full capacity by taking idle acres, set-aside acres, because of demands overseas and here at home for increased agricultural products and the fact that, well, the grain deal itself, I believe you used the figure, had allowed us to take 40 million set-aside acres and put them into production.

Now the Assistant Secretary a moment ago spoke of having reached full capacity. Now we are not saying, are we, that as far as agriculture production, I am talking about control crops, feed grains, beef, poultry, that sort of thing. We have not reached our full capacity to produce agricultural products, have we?

Secretary BUTZ. There are three areas for expansion. First, there are some additional acres that can be brought back, acres in a meadow and the like can be put to more intensive use.

Second, in your own State of Louisiana there is considerable room for expansion of cow-calf operations to increase beef numbers and this is taking place.

Third, the total area of reserve in agricultural technology remains yet to be more fully exploited.

Mr. WAGGONNER. The reason I asked this question, Secretary Rogers, when he was before us on the 9th, made a statement similar to the one you made today, you use the figure 30 percent. He used the figure 31 percent, there is no discrepancy there. You are all in the same ball park as far as I am concerned, that we were exporting about 31 percent. You say 30 percent of our agricultural production, and this, of course, accounts for a large part of well, our unfavorable area to say the least, of exports in our trade picture. Now you say we are exporting the equivalent of the production of 80 million acres per year.

Now what I am worried about is, are we creating problems for ourselves down the road and are we exporting too much now, or is there the danger in the future of exporting too much in the way of agricultural products, production?

Secretary BUTZ. Well, barring a crop disaster in this country, we will have no difficulty in meeting the rising level of eating in the United States plus the rising level of exports, too. If we have a major crop disaster, then we have to take another look. It is a new ball game.

Mr. WAGGONNER. Thank you, Mr. Chairman. Thank you, gentlemen.

Mr. BURKE. Mr. Karth is recognized.

Mr. KARTH. Thank you, Mr. Chairman.

Secretary Brennan, do you agree with DISC? Let me put it this way: Do you think the DISC provision in our Internal Revenue Code is good, not so good, it doesn't make much difference, or bad, which one of those four alternatives would you choose?

Secretary BRENNAN. As I understand it, it makes us competitive and at the present time I don't see any problem.

Mr. KARTH. Let me just say that I agree with you frankly. Incidentally, Mr. Secretary, and I assume you know it, but let me make it perfectly clear for those of you at the witness table, Mr. Waggonner and I are Democrats and the reason we sit over here with all the Republicans is that we don't have enough chairs on the other side of the chairman to accommodate all of the Democrats.

So I find myself in disagreement with my very able and distinguished colleague from Florida, Mr. Gibbons. He thinks DISC is giving foreigners a break. I really don't think so. I think that it is keeping American jobs in America. That is what I think. Frankly, I therefore disagree with the House of Labor in this country, too. I don't think that they can have it both ways frankly.

I don't think, on the one hand, we can complain about exporting American capital and, therefore, exporting American jobs. Then, on the other hand, insisting that we ought not to provide some incentives to keep American capital in America and American jobs in America.

Secretary BRENNAN. That is our concern, too, that we get the foreign sales facilities at home here instead of sending them abroad for the jobs.

Mr. KARTH. I guess what I am saying is that that fortifies Secretary Butz's comment to Mr. Gibbons that there is probably greater disagreement on this committee than there is between you three. On the other hand, let me say this. There is a very definite decisionmaker for all of us up here every 2 years. That is all we get is a 2 years' contract. I don't know what yours is.

Secretary BRENNAN. Day to day.

Mr. KARTH. Yours may well be shorter than ours. If it is from day to day, obviously it is, but every 2 years we go through Hades sometimes convincing American people, a half million over the average, that our positions are the proper ones and hopefully that that allows us to continue to be here to harass those of you who appear at the witness table.

Let me ask you another question, Mr. Secretary. I know that you are a very able and experienced and distinguished negotiator. Did you ever sign a long-term labor agreement with management where manage- retained the right, if their profits were not what they expected they should be or if they lost money for a certain period of time, that they could reduce the wages and other benefits in your contract, did you ever sign a labor agreement like that?

Secretary BRENNAN. No, sir; I never did.

Mr. KARTH. That is what concerns me about this bill, Mr. Secretary. Incidentally I was in the same business at one time that you were in and I was in the same business at one time that you were in and I was privileged to negotiate many contracts. I never signed one like that either. There is one section of this bill that bothers me. I am not so sure that our trading partners are going to be willing to negotiate away their artificial barriers. For that matter, even their tariffs or whatever, so long as we give the President the unilateral right that after all of these agreements have been negotiated, and we find out sometime later they are not quite as good for us as we thought, then he has the right to impose unilaterally a tariff on their products.

I am not sure that that is going to act as an incentive for our foreign trading partners to bargain with us in good faith. So we are going to give some thought to that particular provision. It may well be that we might want to change that.

Now, Secretary Butz, I think you do an extremely able job in representing the agricultural community. I think that you have done an extremely able job today. I can understand why you stress excessively the question of agricultural exports. But it appears to me that during the course of these hearings up to this point in time almost every witness from the administration has stressed agricultural exports as opposed to, for example, manufactured exports or the export of manufactured goods.

I am concerned about that because I am concerned about this country continuing to be an industrialized nation. Last year when Mr. Carey and I and others on this committee met with the OECD people and the Common Market representatives, they were of the opinion, and unanimously, I might say, of the opinion that the United States in the not too distant future becoming a service-oriented country and not an industrialized leader in the world.

So while I am concerned about agricultural exports, don't misunderstand me, and I can understand why you stress them excessively, I am concerned that everybody talks about them, I think to excess and, therefore, minimizes the need for this country to export or attempt to export in greater quantities manufactured goods because to that extent that means jobs to me.

I think we must agree, although there are many different kinds of judgments, I guess, on what national security means, I think as far as national security is concerned, the industrialization of this Nation

and keeping it the No. 1 industrialized Nation in the world, means more for our national security problem than dropping our bombs in Cambodia, for example. So I am interested in other aspects of this trade bill, other than stressing excessively, I think, the agricultural exports that you talked so eloquently about.

I would hope that the Secretary of Commerce and the Secretary of Labor would join and hopefully, too, they might even win some battles with you, Secretary Butz, if it comes to a point of difference as to which one ought to get some major consideration.

Secretary BUTZ. I sit beside one of the Nation's top bargainers here. Every time I get——

Mr. KARTH. I am glad to hear they are going to keep you in line and make sure that the administration does not continue to give excessive stress, as I said on several occasions now, to the exportation of agricultural products, albeit that is important indeed.

Secretary BUTZ. Let me say we don't mean to give excessive stress to that as you say. This is one of the areas of our real natural competitive advantage. We need to exploit it. I agree with you that we are losing our position in world trade in some of our manufactured products. This is a question of increasing the productivity in this country.

We have tripled our productivity in agriculture in 20 years. This is unmatched anyplace else in our economy. We have to stress it.

Mr. KARTH. Well, I can understand why you stress it, Mr. Secretary. You have done a good job of it. I don't think, however, in all of our talk about this trade legislation that we ought to stress agricultural products above and beyond everything else; in fact, almost to the exclusion of manufactured products.

That is what bothers me. I hope our Government, the executive branch, is cognizant of the need for this country to retain its tremendous industrial strength and to continue to expand that and make every effort to make it as productive as agriculture is, if it is not, and, therefore, to enhance its opportunity to compete in the foreign marketplace from the United States of America. Thank you, Mr. Chairman. I think I have taken my 5 minutes and haven't given the witnesses much time to respond.

Mr. BURKE. Before we recess Mr. Vanik has a comment to make.

Mr. VANIK. I want to express my gratitude to Mr. Karth. I think he touched one of the very important nerve centers on this bill when he indicated in our trade relationships the certainty of congressional action has to be measured against the volatile nature of Presidential discretion. I think this is a fundamental problem we have to deal with in the bill.

That is a drafting problem, something that we are going to have to resolve. When we return, I would like to hear from Secretary Dent on the Canadian automobile parts agreement. As I understand it, a great many of our automobiles today are made in Canada. We don't know the difference. Any car you buy, certain models are made in Canada and certain made in the United States.

On the other hand, American automobiles that were theoretically supposed to go over to Canada are paying about a 12-percent duty. I don't think that was the idea of the agreement. The agreement was that we would have an integrated automobile industry in the United States and that there would be a free movement both ways, and so when we

return, I would like to have some analysis of that agreement to see what the administration is doing about trying to eliminate the tariff that is charged by the Canadians on those automobiles that are made in the United States for use in Canada. We will get back to it, after lunch.

Mr. BURKE. Before we recess, I want to announce that the chairman has given me some questions to ask of the panel when we return.

The committee now stands in recess until 2 p.m.

[Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. BURKE. The committee will be in order.

I have a question here, Mr. Secretary, that was presented to me by the chairman, Mr. Mills. Secretary Butz, you are aware of the problem of high tariff barriers maintained by the European communities on imports of long grain American rice. In preparations for the coming multilateral negotiations, has your Department forwarded a request to the special trade representative that this high tariff barrier to exports of long grain American rice be placed on the agenda? If you have not made such a request, when will it be made?

Secretary BUTZ. We are fully aware of that problem. It is much easier to get other kinds of rice than that which has this high tariff on it. We have discussed this. It is being included in the agenda.

Mr. BURKE. Secretary Dent, this is my question now. That previous question was by Chairman Mills.

My question: Secretary Dent, on page 2 you say that the deterioration of our trade balance was due in part to the dollar devaluation of December 1971. What do you base this statement on? Could we have your analysis for the record?

Secretary DENT. Mr. Chairman, that is based on the fact that when a devaluation occurs you immediately are affected by an increase in the price of imports that come in right after the devaluation. There is a delay in the buildup of U.S. exports as their lower price makes them more market competitive. So that it takes a considerably longer time to gain that advantage whereas the disadvantage from higher prices comes almost instantly.

Mr. BURKE. Have you any estimate about what the trade deficit will be this year?

Secretary DENT. It will, in our opinion, be in the general area that we experienced last year, although present indications are that it should be on a little bit of the lower side.

Mr. BURKE. Could you be a little more specific? How much lower?

Secretary DENT. It is very difficult to speculate on these, Mr. Chairman. We believe the improvement will only be moderate.

Mr. BURKE. In other words, we could expect a deficit of up around $6 billion?

Secretary DENT. We expect some improvement but we do expect that by the fourth quarter of this year the devaluation which occurred in early February should result in an overall improvement on a quarterly and monthly basis.

Mr. BURKE. Could that be as a result of increased economic aid or increased military aid on exports?

Secretary DENT. No, sir. We believe that this would be due to the fact that the devaluation will make our goods more competitive offshore and will increase the export volume thereby.

Mr. BURKE. On the problems of some of these industries that have been disrupted since the 1962 Act, what recommendations is your Department going to make in connection with these industries?

Secretary DENT. Do you mean under the new legislation, or currently?

Mr. BURKE. Under the new legislation.

Secretary DENT. Well, after the new legislation has been passed, we will have to review the safeguard provisions as they come out of the House and Senate and see how they apply to these industries.

Mr. BURKE. Do you intend yourself to make any recommendations to the negotiators about some of these industries that have really been disrupted?

Secretary DENT. Yes, sir. As you are aware under the preference situation, we have reserved shoes, textiles, steel, and if I am not mistaken, watches as well, to be sure that that provision does not work to their detriment.

In addition, of course, between now and the start of the negotiations there will be a series of consultations with all industries, at which time the opinions of U.S. industry itself will be taken into account informulating the negotiating plans.

Mr. BURKE. With relation to the DISC provisions in the present law, don't you think there should be some legislation that would apply in the area where we have a shortage of materials here, on those materials that are short in supply?

I am referring to hides, for instance, Don't you think we should do something about giving DISC benefits to people who export hides when they are greatly in demand here in this Nation?

Secretary DENT. Well, Mr. Chairman, the DISC provisions are designed to increase employment, to increase investment in productive assets in this country, and to provide tax treatment for U.S. exporters more comparable to that provided for foreign exporters by their governments.

Mr. BURKE. I understand that.

Secretary DENT. I think it would be very undesirable for us to tamper with what is essentially a reasonable attempt to provide an environment for U.S. exporters which is comparable to that provided by our major competitors.

Mr. BURKE. Don't you think it is rather foolhardy for this Nation to be giving incentives to industries that are short in supply here for the needs of this Nation, such as we have experienced in the building materials, lumber, hides, and other items that have been exported and have caused the prices—for instance, on lumber the price of the average home here I understand just around Washington, D.C. has been increased $1,000 for a single home within the last 6 or 8 months as a result of this shortage of lumber. Of course in the tanneries many of them are almost driven out of business. There has been such a shortage of hides, why should this Government be giving any incentive to these people to have more exports?

Secretary DENT. First of all, Mr. Chairman, with respect to the lumber situation, I think that the major factor has been the tremendous

increase in demand where we have sustained for an 18-month period now the largest number of housing starts in our history. It is largely an incerase in demand rather than a shortage of a declining production of lumber in the country.

With respect to the DISC authority, I understand that the President is presently empowered to deny the application of the DISC provisions in short supply instances if he determines that this is necessary and desirable.

Mr. BURKE. Why wouldn't it be more desirable to write that into the legislation rather than to leave it to the President? He will be so busy during the next few years he might not have time to look into these things.

Secretary DENT. Mr. Chairman, while the DISC benefits are rather minimal, they are aimed at those who are creating additional productive capacity and jobs if they can relate this to the export market. I think that the benefits are hardly significant enough to change the balance, for instance, in the hides area where the margin of profit is so narrow. It would not make the differences between a very high export sale and none. As far as the DISC is concerned generally, I think it is essential that it not only be maintained but if we see an opportunity actually to improve it based in a review of the DISC operation, this is one of the ways to create not only more jobs but better jobs in America by investing in more productive machinery so that we can take advantage of the demand offshore for American goods.

Mr. BURKE. Secretary Brennan, with relation to the adjustment assistance, I believe somebody asked you a question earlier and you put your table in the record. Isn't it true that under this table the workers will get less weeks of adjustment assistance under the proposal than they do under the present law?

Secretary BRENNAN. That is true, sir. Do you mean the difference in the coverage period would be less here but it would make greater access for more people?

Mr. BURKE. If a fellow is unemployed for a full year that doesn't help him out much, if under the present law he could get 52 weeks and under this law he gets up as high as the State law allows. It seems you are giving him something on one hand but you are taking something away from him on the other hand, and it doesn't look like it is being liberalized enough.

You more than likely can't commit yourself too far on it, but I would think that the proper scale should be a 52-week participation on the part of the Federal Government on unemployment compensation.

Secretary BRENNAN. Well, Mr. Burke, what you are saying is correct. Under the new proposal it would go from 52 to 26 weeks. The proposed bill would provide for more and easier access for more people. When we go into the States, you do have different periods. A comparison, for instance, between 52 or 78 weeks and 26 weeks is misleading because a large proportion of the workers eligible under the current law receive benefits for less than 26 weeks. There are some that do go for 52; that is correct.

Mr. BURKE. They are going for 52 weeks up in Massachusetts, I can assure you. We have 187,000 people drawing unemployment compensa-

tion, I believe, as of last month. They are going for the full 52 weeks. In fact, we have just had an announcement by the administration that they are going to close down some defense installations up there that means another 13,000 are going to lose their jobs within the next 12 months. So we will more than likely go up as high as 8 or 9 percent unemployment in Massachusetts. A lot of this was caused as a result of imports of footwear, textiles, and electronics. It really did quite a job on our State. I think our State was hit as hard as any one throughout the Nation.

This concerns me because our welfare bill in Massachusetts has gone up to $1 billion, is going up to $1 billion this year. If we don't get any help from the Federal Government, who are creating these policies, bringing about this high unemployment, I don't see how we can really call this adjustment assistance when you are going to cut it down to 26 weeks.

Secretary BRENNAN. Mr. Burke, as Secretary Butz told you this morning, there are a lot of things that we didn't get in the bill that I would have liked. You happen to be touching on one.

Mr. BURKE. I know that; Secretary Butz is a very influential man in the Cabinet. He was able to defeat us on the hide bill in the House. This is what I admire about the administration. They are always able to speak out of two sides.

Secretary Butz had all the cattle barons with him.

Secretary BUTZ. Let me correct that. I didn't have a vote in the House. That was your colleagues.

Mr. BURKE. But you made a lot of speeches around the country. I read some of them. They really had those fat cat cattle barons well organized around the country. We just didn't have enough troops in there, that is true. But I could never understand the statement you gentlemen made here today that you are going to do what you believe is in the best interest of the Nation, when you could have this attitude as far as hides were concerned when the President and the Secretary of Commerce were trying to place this embargo on hides and you were on the other side. I think Representative Gibbons asked who he would appeal to. I was going to tell him he better appeal to you because you were very successful in that case.

Secretary BUTZ. Well, I had the help of the majority of your colleagues, I may say.

Mr. BURKE. I know why you had the help of the majority of my colleagues. We haven't just got enough votes in the area to overcome the rural votes and also the votes of those who were misled.

I think that concludes my 5 minutes of questioning. I have a question here for Secretary Dent from Congressman Rostenkowski, who cannot be here today. However, he had previously sent to you some questions which he hoped you would respond to in the record, if you have not yet completed your answers.

Secretary DENT. We have completed the answers and have delivered them to him. We will be glad to have him put them in the record, or we will do it.

Mr. BURKE. Without objection, the record will be held open at this point and they will appear in the record.

[The material referred to follows:]

THE SECRETARY OF COMMERCE,
Washington, D.C., May 11, 1973.

Hon. DAN ROSTENKOWSKI,
House of Representatives,
Washington, D.C.

DEAR MR. ROSTENKOWSKI: This is in response to your letter of May 9, 1973, requesting information to a number of questions about the present situation with regard to domestic availability and exports of ferrous scrap. As you can appreciate, given the limited time available, we have not been able to put together additional information for you, but we would be happy to do so, especially if you have further questions.

1. What has been the peak sales in any one year of ferrous scrap metal both for domestic use and sent into export?

The peak sales for domestic consumption were 36.9 million short tons in 1969, and peak export sales of 10.4 million tons occurred in 1970. Table 1 enclosed gives more detail on both export sales and domestic consumption for 1960–1972.

2. What do you expect as a total for this year?

According to the best information which we have been able to garner, including information received from our Embassies in major scrap importing countries, we presently expect scrap exports this year to reach a total of approximately 11 million tons.

3. Taking the most conservative figures we have an estimate of 53 million tons for 1973 or 7 million tons more than has ever been processed and sold in one year. Can the scrap dealers provide an additional 7 million tons of a usable quality of scrap metal?

This is a difficult question to answer with precision, but surveys of the scrap industry and our own analysis both indicate that scrap processors can both obtain sufficient material to meet this high demand, and have capacity in their processing plants to prepare it for domestic consumption and the export market.

4. What will be the inflationary impact of this heavy demand?

As you know, prices for ferrous scrap have increased over he last several months, although there was a decline in the period mid-February to mid-April. Based on the expected cooling-off of economic growth in the latter half of this year, and indications that the majority of scrap for export has already been shipped or prepared, we believe at this time, that the bulk of inflationary pressure may be behind us. However, I am deeply concerned about the extent to which increases in prices could lead to inflationary pressures within the steel and foundry industries and across the economy. Accordingly, the Department of Commerce is taking steps to obtain better information on export orders and shipments, and the Cost of Living Council is conducting a fact-finding survey of the scrap industry, gathering cost justification data bearing on recent price increases. Copies of the press releases referring to both of these actions are also enclosed.

5. What will happen if scrap dealers cannot provide the additional tonnage?

If scrap dealers could not provide the additional tonnage required, and if mills did not have sufficient inventory to carry over the period of scarcity, then some of them would undoubtedly have to limit operations. As indicated above, we think that this possibility is extremely unlikely.

6. Rather than gamble, why do you not place an immediate embargo on exports of scrap metal, and lift the embargo later in the year if the demand for scrap metal eases?

We view the establishment of an embargo on the export of scrap metal as a measure to be taken only in extreme circumstances and, based on present information and analysis, are confident that the scrap industry will be able to meet both domestic requirements and export demand without causing domestic shortages or additional price pressures. However, should conditions change, you can be assured that we will take whatever action is necessary to insure that domestic producers have an adequate supply of this material and that serious inflationary pressures are not allowed to develop.

I hope this information will be of help to you, and would be happy to discuss the situation with you further.

Sincerely,

GARY M. COOK,
Acting Deputy Assistant Secretary for
Competitive Assessment and Business Policy.

Enclosures.

TABLE 1.—SUPPLY OF IRON AND STEEL SCRAP AVAILABLE FOR U.S. CONSUMPTION AND EXPORT
[In thousands of net tons]

	Production of home scrap	Scrap users' net receipts (purchased scrap)[1]	Total New supply available for U.S. consumption[2]	Plus exports	Total U.S. supply	Total sales[3]	Exports as percent of: Total sales	Exports as percent of: Total U.S. supply
1957	43,996	31,086	75,082	6,864	81,946	37,950	18.1	8.4
1960	39,632	26,095	65,727	7,180	72,917	33,285	21.6	9.9
1961	38,475	25,305	63,780	9,714	73,494	35,019	27.7	13.2
1962	40,645	25,283	65,928	5,113	71,041	30,396	16.8	7.2
1963	44,655	29,431	74,086	6,364	80,450	35,795	17.8	7.9
1964	52,262	31,831	84,093	7,881	91,974	39,712	19.8	8.6
1965	55,213	35,804	91,017	6,170	97,187	41,974	14.7	6.3
1966	55,463	36,671	92,134	5,858	97,992	42,529	13.8	6.0
1967	52,312	32,654	84,966	7,635	92,601	40,289	19.0	8.2
1968	53,545	33,587	87,132	6,572	93,704	40,159	16.4	7.0
1969	56,287	36,929	93,216	9,176	102,392	46,105	19.9	9.8
1970	52,575	34,148	86,723	10,365	97,088	44,513	23.3	10.7
1971	49,177	32,870	82,047	6,256	88,303	39,126	16.0	7.1
1972	51,399	38,562	89,961	7,383	97,344	45,945	16.1	7.6

[1] Receipts minus scrap shipped, transferred or otherwise disposed of.
[2] Stock changes are not taken into consideration.
[3] Scrap users' net receipts plus exports.

Source: Bureau of Mines, U.S. Department of Interior—supply. Bureau of Census, U.S. Department of Commerce—exports.

[From the U.S. Department of Commerce News, Washington, D.C.]

Secretary Dent, "Extremely Concerned" About Rising Ferrous Scrap Prices, Seeks Better Export Information

Secretary of Commerce Frederick B. Dent today announced a reporting procedure is being established under which information on export shipments of ferrous scrap and pertinent data on export orders will be made promptly available to the Department. Export orders for less than 500 short tons and shipments against such orders, will be exempt from these reporting requirements. He indicated that assurances have been received from major scrap exporters that the exporting community can comply with this approach to reporting without undue burden.

The Secretary said he is "extremely concerned" about recent price increases in this material and the potential inflationary effects which such increases may have on the steel and ferrous foundry industries and the economy as a whole.

He reaffirmed his concern and the need for obtaining better and more up-to-date information on ferrous scrap in letters to several prominent leaders in the steel and ferrous foundry industries.

In these letters he stated:

"I am writing you about the problem which the United States iron and steel industry faces in rising prices for one of the industry's basic inputs—ferrous scrap. I am extremely concerned about the recent price increases in this material and the potential inflationary effects which such increases may have on your industry, and on the economy as a whole.

"Our analysis indicates that, although export shipments (which now account for approximately 20 percent of total sales of scrap) are an important factor in determining domestic prices, we do not have up-to-date information which allows us to quickly analyze fluctuations in export shipments as they occur, nor are we able to forecast future shipments resulting from long-term contracts. Accordingly, a reporting procedure is being established under which the ferrous scrap industry will begin reporting pending and subsequent export orders by tonnage, destination, and date of shipment, as well as information on export shipments as they occur, except for orders of less than 500 tons, and shipments against such orders.

"While this step will not decrease the price of ferrous scrap, it will provide us with the data we need to better understand and deal with this situation, which is of great concern to all of us."

[From the Cost of Living Council News, Washington, D.C.]

SCRAP METAL SURVEY

The Cost of Living Council today announced that it will conduct a fact-finding survey of the nation's largest producers and brokers of scrap iron and steel. The survey, to be conducted by the Internal Revenue Service, emanated from joint Commerce Department and Cost of Living Council discussions on the rising price of scrap iron and steel.

Council Director John T. Dunlop, commenting on the study, said: "Scrap iron and steel is an important basic component in the production of raw steel and iron. Naturally, the Council is concerned by the recent rise in scrap prices and the eventual impact that this could have on iron and steel prices.

The Internal Revenue Service will contact the major firms engaged in scrap processing and distribution in order to gather cost justification data bearing on recent price increases.

Cost of Living Council staff members will also participate in the survey in order to gather information on recent developments in the steel scrap industry. The Council plans to study the economic implications of current and prospective steel scrap supplies, demand conditions, the industry's overall capacity, and the influence of exports on the price of scrap.

Dr. Dunlop stressed that the survey should not be considered punitive nor necessarily the first step toward Council action on scrap steel prices. However, the information from this study could facilitate any action which might be necessary in order to alleviate price pressure in this industry. It is expected that the survey will be completed in June.

Mr. BURKE. Mr. Vanik.

Mr. VANIK. Thank you, Mr. Chairman.

Secretary Butz, I was wondering whether you might tell me the extent to which the CCC is funding export sales.

Secretary BUTZ. Well, at the present time very little. It is the first time in 25 years that we don't own any corn, any wheat, any grain sorghum, any cotton. We own some butter but we are not exporting it.

Mr. VANIK. I was wondering if you would tell me in a dollar amount what that represents.

Secretary BUTZ. Yes. Secretary Brunthaver is President of the CCC. May he respond?

Mr. VANIK. Surely.

Mr. BRUNTHAVER. To what extent are we subsidizing the exports?

Mr. VANIK. To what extent are you participating in dollars in the export programs that have been recently developed through the CCC? The question is addressed to the CCC.

Mr. BRUNTHAVER. We do not currently have any export subsidy programs by the Commodity Credit Corporation or the Department of Agriculture. These have all been discontinued. We do have a GSM-4 credit program that is used to selected countries in which we hope to develop a market for agricultural products.

Mr. VANIK. How much are you doing on that? How much selective credit have you used and to whom?

Mr. BRUNTHAVER. Let me supply that for the record, if I may.

[The material follows:]

CCC CREDIT FINANCING BY MAJOR USERS RANKED IN ORDER OF VALUE OF BUSINESS, FISCAL YEARS 1971, 1972 AND 1973

[Dollar amounts in thousands]

Countries	Value
Fiscal year 1971:	
Korea, Republic of	$62,797
United Kingdom	46,086
Romania	40,504
Philippines	39,046
Yugoslavia	38,880
Germany, West	27,232
Morocco	22,666
Poland	22,184
Greece	14,082
Japan	9,816
Republic of South Africa	9,353
Iran	8,740
Thailand	7,517
Norway	6,055
Tunisia	5,812
Ireland	5,193
Cyprus	3,165
Belgium	3,085
Netherlands	2,393
Liberia	2,120
Lebanon	1,868
Algeria	1,716
Guatemala	1,456
India	949
Subtotal	382,715
Other countries	10,083
Total	390,798
Fiscal year 1972:	
Korea, Republic of	65,175
Poland	37,470
Philippines	34,189
Yugoslavia	32,132
Peru	31,119
Iran	24,820
United Kingdom	19,975
Morocco	16,890
Romania	11,978
Greece	11,650
Egypt	10,884
Thailand	10,004
Republic of South Africa	9,680
Tunisia	7,414
Sudan	6,633
Pakistan	5,314
Fiscal year 1972—Continued	
Ireland	$3,333
Japan	3,326
Norway	2,513
Zaire (Congo. K)	1,858
Ecuador	1,794
Ghana	1,616
Bolivia	1,378
Algeria	1,143
Lebanon	995
Subtotal	353,283
Other countries	18,329
Total	371,612
Fiscal year 1973: [1]	
U.S.S.R.	68,767
Yugoslavia	52,203
Korea, Republic of	30,873
Peru	24,428
Philippines	22,260
United Kingdom–Northern Ireland	20,000
Iran	15,568
Poland	13,626
Egypt, Arab Republic of	8,007
Pakistan	6,116
Republic of South Africa	3,712
Chile	3,198
Greece	2,796
Dominican Republic	2,574
Thailand	2,171
Japan	2,142
Sudan	1,333
Belgium	1,326
Zaire (Congo)	1,255
Angola	927
France	910
Uruguay	840
Jordan	688
Hong Kong	682
Curacao	535
Subtotal	286,937
Other countries	51,262
Total	338,199

[1] 1st 6 months fiscal year 1973.

CCC EXPORT CREDIT SALES PROGRAM DISBURSEMENTS BY COMMODITY, FISCAL YEAR 1972

Commodity	Countries	Value (in millions)
Wheat	Iran, Korea, Morocco, Peru, Philippines	$114.8
Cotton	Korea, Philippines, Poland, Romania	79.0
Corn	Greece, Poland, Yugoslavia, Peru	42.4
Tobacco	United Kingdom, West Germany, Ireland, Poland	41.9
Soybean oil	Yugoslavia, Peru, Morocco. Iran	38.1
Barley	Korea, Iran, Poland	16.4
Rice	South Africa, West Germany	13.5
Cottonseed oil	Egypt, Poland	9.7
Tallow	Poland, Egypt, Korea	6.8
Other		9.0
Total		371.6

CCC exports credit sales program disbursements by country, fiscal year 1972

	Value (in millions)
Korea, Republic of	$65.2
Poland	37.5
Philippines	34.2
Yugoslavia	32.1
Peru	31.1
Iran	24.8
United Kingdom	20.0
Morocco	16.9
Romania	12.0
Greece	11.7
Other	86.1
Total	371.6

CCC CREDIT SALES BY COMMODITIES

[In thousands of dollars]

Commodity	Fiscal year					
	1968	1969	1970	1971	1972	1973[1]
Alfalfa seed			749		970	
Barley	1,548	6,153	4,758	15,611	16,368	1,515
Butter					1,461	
Cattle:						
Beef			557		206	
Dairy			13		618	148
Corn	17,178	9,881	29,916	27,166	42,447	84,301
Cotton, raw	47,914	46,252	48,222	58,667	79,004	27,744
Cottonseed oil			5,212	4,143	9,708	6,188
Grain sorghums	3,032	1,063		2,339	642	1,648
Lard			706	3,379		
Linseed oil			772	1,589	2,627	3,183
Prunes				345	286	184
Raisins			1,822	2,353	413	155
Rice	654	21,266	17,940	26,436	13,525	6,387
Rye				3,886	1,678	
Soybean oil	1,536	245	893	32,059	38,059	14,410
Soybean seed			18			
Tallow	1,528	401	8,005	11,343	6,784	1,173
Tobacco	14,071	11,682	47,714	76,587	41,892	23,209
Wheat	53,150	19,002	44,051	124,895	114,836	167,954
Total	140,610	115,945	211,346	390,798	371,612	338,199

[1] 1st 6 months fiscal year 1973.

Mr. VANIK. Was any of that supplied for the Soviet wheat deal?

Mr. BRUNTHAVER. Yes, sir. The agreement with the Russians stipulated that we would provide standard GSM-4 credit to them in amounts of $750 million, a maximum of $500 million to be open, the maximum that would be available at any point in time. This is a credit program in which they repay one-third plus interest each year.

Mr. VANIK. At what rate?

Mr. BRUNTHAVER. The interest is currently at 6⅛ backed by a U.S. bank letter of credit; otherwise it is 7⅛ percent interest.

[The following information was submitted:]

On May 16, the 6⅛ was changed to 7¼ for credits of 12 months or less on that portion backed by a U.S. bank; otherwise, it is 8¼. For credits of more than 12 months, the rates were changed to 7½ and 8½ respectively.

Mr. VANIK. In other words, you reduce the rate if they have a letter of credit from a bank that guarantees payment for them?

Mr. BRUNTHAVER. Yes; if it is backed by a U.S. bank, a guaranteed letter of credit.

Mr. VANIK. Now tell me this: Is there any Export-Import Bank money in the Soviet transaction?

Mr. BRUNTHAVER. Not that I am aware of, no.

Mr. VANIK. Now I will go back to Secretary Butz, Can you tell me what the total combined costs were for the Soviet transaction, including the export subsidies, the shipping subsidies, and now we have the CCC credit? Are there any other public costs that were involved?

Secretary BUTZ. No, sir; I am not aware of any. The CCC credit comes virtually at cost.

Mr. VANIK. It doesn't come at cost because the Treasury is borrowing money above 6⅛ percent.

Secretary BUTZ. The shipping subsidy, of course——

Mr. VANIK. That is Maritime.

Secretary BUTZ. That subsidy goes to any commodities like this that are carried in U.S.-flag vessels, not only to the Soviets.

Mr. VANIK. I understand.

Secretary BUTZ. The same way with the export subsidy. That was available to anybody who bought, including the Japanese.

Mr. VANIK. My question is, what is the total. Do you have the total?

Secreary BUTZ. I think Mr. Brutharer has some figures.

Mr. VANIK. How much per bushel and what was the total?

Mr. BRUNTHAVER. The export subsidy varied from a low of 4 cents a bushel to a high of 47 cents. The total export subsidy on wheat and flour for all countries this past year was $284 million. If you would like we can break out the part of that that applied on the Russian transaction.

[The material referred to follows:]

Based on present estimates, the export subsidy on wheat sales to the Soviet Union will approximate $124 million. The exact total will not be known until all claims for payments have been submitted at the close of the export period.

Mr. VANIK. Yes. I think that is important. The Soviets are apparently trying to raise $1 billion in Europe now to help complete payments on some of their purchases. Is there a possibility that we might have to extend credit to an even greater extent of more than is anticipated here——

Mr. BRUNTHAVER. No, sir.

Mr. VANIK [continuing]. To complete the transaction?

Mr. BRUNTHAVER. No, sir, we don't think so. No.

Mr. VANIK. The General Accounting Office indicates they didn't think we did very well. As I remember, we lost a half billion dollars in the subsidy and supplemental cost programs in carrying out the transaction.

Secretary BUTZ. The GAO examined that whole transaction and made a preliminary report. It was a question of judgment. There is considerable evidence that had we not had this export subsidy at the time we had it the Soviets would have bought less grain. Like the GAO my hindsight is 20–20 without glasses. Had we known at the time of the transaction everything we know now about it we too might have done something a little differently. We might have ended the

subsidy sooner. But at that juncture we had to operate on the basis of information available then as would the GAO, had they been doing the same thing.

I venture the opinion that had they been in our shoes they would have made precisely the same decisions we did at the time.

Mr. VANIK. But as far as their findings are concerned, you find no disagreement with them? Is there any dispute?

Secretary BUTZ. Well, yes, we do. First they indicate, or they infer at least that this was a bonanza for the Russians, but it was no more so than anybody else buying at the same time. Other countries buying at the same time did precisely the same thing. They indicate the subsidy was continued longer than needed. That is a moot question, a question of judgment. Perhaps it was. I don't know. I am not prepared to say.

Mr. VANIK. Do you expect to use the Export-Import Bank for any sales in the future?

Secretary BUTZ. To the extent that Export-Import Bank can finance on a legitimate basis the sales of agricultural products we certainly would have no objection to it.

Mr. VANIK. The thing that concerns me is that taxpayers subsidize the interest rates. The criteria for trade has an awful lot to do with credit and availability of credit and the terms on which credit is available. What I am hoping that we get out of this trade bill, Mr. Secretary, is some sort of a bringing together of the whole problem so that some responsible voices can look over the whole thing and know the impact of a sale of such a dimension as the Soviet transaction and fit it into the whole program. Because even in your department, there were scattered reports of what the facts were. They didn't seem to all be coming out of the same place.

Secretary BUTZ. Yes, sir. Let me point out that out of the total of nearly $11.5 billion in agricultural exports ending June 30, less than $1 billion involve concessional sales. The rest was for hard dollars. Of the hard dollars, less than $1 billion involved credit. The great bulk was cash. At the moment we make no use of export subsidies. We are cutting credit to a minimum. I think we are moving precisely along the route you suggest.

Mr. VANIK. That is encouraging. What do you have to say about the work of the Senate committee? The other day they passed out a new 5-year program. I see among other things that they provide minimum supports of 80 percent for dairy price supports. I try to fit that alongside of today's announcements that the import quota would be increased for dry milk. I find these two policies kind of at tangent with each other.

Secretary BUTZ. Our position is that we don't endorse that provision in the Senate bill. This is reported out by the Senate Agriculture Committee. It has yet to be acted on on the floor. The House committee under Chairman Poage is having hearings. We must have new farm legislation this year. We will oppose mandatory dairy price support levels at 80 percent of parity. At the present time we are at 75 percent and 80 percent would be above the current market price levels in dairy products.

With respect to the rather high minimum price goals that the Senate bill encompasses for corn, cotton and wheat, they are simply too high.

Under the provisions of that bill the cost of this program could conceivably run as high as $5 or $6 billion a year, which is very substantially above anything we have ever done in our most costly years.

Mr. VANIK. There are consumer concerns that the dairy herd may be slaughtered for beef and milk prices could just escalate and we might find ourselves facing higher prices for milk products as a result of one of the aftermaths of this policy. What are the prospects for that? Is there any danger?

Secretary BUTZ. There is always some culling of dairy cows. We have gone through a 22-year period with a substantial reduction in dairy cow numbers. But we have increased the productivity of the cows. The milk production is up substantially. We have moved into more efficient units. Of course you are always culling dairy cows and replacing them with heifers. This is a normal process.

Mr. VANIK. I hear a lot from bakers. They are complaining about the so-called tax they have to pay on wheat out of which they make cookies and bread. They tell me they are not asking to take this subsidy from the farmers, but to transfer the tax to the Treasury. The bread tax amounts to $400 million. How do they pay it?

Secretary BUTZ. Well, every domestic miller pays a processing tax of 75 cents a bushel on wheat processed for domestic consumption.

Mr. VANIK. Would that apply to a foreign baker?

Secretary BUTZ. No, sir. This is domestic. This is used to pay the so-called certificate payment to the wheat producers on that portion of their wheat that goes into the domestic market.

Mr. VANIK. Why should the baker pay a tax on flour?

Secretary BUTZ. Because the Congress passed the law.

Mr. VANIK. We ought to change that; shouldn't we?

Secretary BUTZ. I won't argue with you.

Mr. VANIK. You didn't tell me whether we ought to change that.

Secretary BUTZ. I think it should be. We are recommending a phase out of the income supplement payments of our farm program which would automatically eliminate the need for this. At the moment that produces $400 million which pays approximately half of the cost of our certificate payments to our wheat growers.

Mr. VANIK. They told me there were some terrible problems. They talked about caraway seed which is pretty important to me. I like rye bread. They tell me it has gone up from 38 cents a pound to $2.78 a pound. They tell me cinnamon has gone up, all the ingredients that go into cakes and cookies have gone up through the sky. They also say, if this tax is not abated, the baking industry is going to be a monopoly headed by ITT–Continental Bakery.

Secretary BUTZ. Part of the problem now is that the four big national bakeries, I am told, are so much in the production of bread that it makes it difficult for the industry to compete and you can only have a uniform price on the shelf as long as buyers are price conscious and the small bakers do have a problem, there is no doubt about that. I think their problem is one of the competitive structure within the industry itself.

Mr. VANIK. But they are entirely different products. The bread I buy is generally made by an independent. It is quality bread which is made a little differently. It doesn't squeeze from one end to another.

Secretary BUTZ. Some people like bread that squeezes.

Mr. VANIK. Yes; I know it.

Mr. CORMAN. Did I understand correctly that four bakers control most of the market for bread?

Secretary BUTZ. No. I said there were four large national baking concerns that are pretty efficient in the baking and distribution of bread. On-the-shelf bread is largely a price-competitive item. Either they must differentiate their product so they can charge more and in the absence of the ability to differentiate their product at a uniform price it is a difficult competitive situation. They are facing somewhat the problem the small grocery store faced and others faced. It is very real.

Mr. CORMAN. Does anybody have an estimate of how much of the total bread market is filled by those four?

Secretary BUTZ. Yes, sir. I can't give it to you. I can supply it for the record.

Mr. CORMAN. Thank you.

[The information requested follows:]

CONCENTRATION IN MANUFACTURE OF BREAD, CAKE, AND RELATED PRODUCTS

	1966	1967	1970	1971
Total value of production (in millions of U.S. dollars)	$5,007.2	$5,102.7	$5,549.0	$5,716.5
Percent of total value (4 major suppliers)	25	26	29	(1)

[1] Not available.

Source: U.S. Bureau of Census, a survey of manufactures: 1970; value of shipments and concentration. Publication: M 70 (AS)-9, USGPO, Washington, D.C., November 1972.

Mr. VANIK. In view of your plans and your very bold proposals to provide maturity to the agricultural industry, I would like to provide an amendment to this whole bill that would provide that wherever the word "articles" appears, I would like to add the language "and agricultural products". I want to give full recognition to the maturity of your industry.

How would you feel about wherever in this bill we use the word "articles" we use the words "and agricultural products"?

Secretary BUTZ. Aren't they an article?

Mr. VANIK. I don't know. A great deal of the programs are run in your department rather than in the framework of this bill. I want to make it clear that what we intend to do in this bill is provide an umbrella for the entire trade program of this country so all of it can be handled in one specific way with an overall management concept.

Secretary BUTZ. That was our intention. We didn't intend to separate agriculture.

Mr. VANIK. If that is the conception I think we ought to plan on transferring from your department the foreign sales section and putting it over into Commerce, so we have one department that handles the foreign trade business. Wouldn't that be a good idea, so that we can get a broad overall conception of the problem of trade?

Secretary BUTZ. Let's make the record clear that my department doesn't sell anything abroad. This is done through private trade, as in the Commerce Department.

Mr. VANIK. I know, but I want the program to have an overall administration. I don't want agricultural trade to be run separate and apart from the total trade of the country.

It seems to me that since it is an industry that is mature it should be treated like automobiles or steel.

Secretary BUTZ. It would be very unfortunate if we did not have coordination between our domestic and overseas sales program too. We might oversell ourselves.

Mr. VANIK. That is precisely the point that worries me.

Secretary BUTZ. You would not want the responsibility for administering corn and soybeans in the Commerce Department, would you?

Mr. VANIK. Not the production. I am talking about export sales.

Secretary BUTZ. I am talking about the need to have them coordinated.

Mr. VANIK. It seems to me we ought to have an umbrella under which the foreign trade program of the United States is administered. I think the more tightly we can consolidate the supervision and overall policy, the more likely we are to make a success of your program. That is just my point of view. You probably did not agree with that now.

Now, I would like to ask you one other question that bears on something very important to me. We keep getting more and more farm bills coming out. Farm bills also carry an added token now. It is usually an agricultural-environmental protection bill. The one in the Senate is the Agriculture and Consumer Protection Act of 1973. Our fear is that we are liable to be protected out of what little we have, as the King of Siam cried about.

Now, I would like to see in this bill a section that would be devoted and set aside for consumer protection. What would you say, Mr. Secretary, should be the overall objective of the Department of Agriculture.

Secretary BUTZ. Do you have the Senate bill there that you are referring to?

Mr. VANIK. Yes.

Secretary BUTZ. I think the overall objective of the Department of Agriculture is twofold. Obviously, we are historically an Agricultural Department, producer oriented.

When President Lincoln formed the Department of Agriculture in 1862 he called it a people's department. In those days we were largely a rural nation. But we also have another objective and that is to make sure that 210 million Americans are adequately fed, well fed, and economically fed. We have a great concern for them, too.

Mr. VANIK. So your purpose is to provide the essential food and fiber for the American people at fair and reasonable prices to the consumer and in a manner which will insure the prosperity and participation of the farmer in that prosperity?

Secretary BUTZ. That is correct.

Mr. BURKE. Could I interrupt?

Mr. VANIK. Certainly. You are the chairman.

Mr. BURKE. The Secretary of Agriculture, Mr. Butz, asked if he could leave here about 2:45. I thought that if you were finished questioning him we could allow any member to ask any question of the Secretary before he leaves.

Mr. VANIK. All right. My question is this: How would you react to a section in this bill that would deal with the protection of the rights of the consumer, that notwithstanding all of the language in the bill,

that there be an escape clause, a relief clause, that would assure the rights of the consumer will not be transgressed upon through any operation of this act and if it does the President will be exercised to allso use these tremendous powers that he has under the language of this bill?

Secretary BUTZ. It depends on what you mean by the rights of the consumer. If the rights of the consumer become extreme and unreasonable it may result in inadequate food supplies, higher prices. There are tradeoffs. You mentioned the environment, for example. I think the farmers are good environmentalists. But they are being impeded by the increasing numbers of chemical restrictions in the use of pesticides, for example, the recent banning of DES in feeding steers. While I think Food and Drug Administration had no choice with the Delaney amendment than to ban DES, I think it was an unfortunate decision. It will produce a higher cost of beef on the counter because we did not have any leeway for judgment. I guess the reason for that was that somebody thought it was protecting the consumer. In this case you protect him right out of his pocketbook.

Mr. VANIK. With appropriate safeguards there is room for that kind of a clause within the bill.

Secretary BUTZ. We have many safeguards now through the Environmental Protection Agency.

Mr. VANIK. I am talking about consumer protections.

Secretary BUTZ. I think these are provided through the Food and Drug Administration these are essentially consumer views.

Mr. VANIK. Thank you. I will yield to my colleagues.

Mr. BURKE. Just questions for Secretary Butz.

Mr. Pettis.

Mr. PETTIS. One quick question, Mr. Secretary. Do you see in the near future and maybe the long range any reverse migration from the city to the farm, with the farm situation improving?

Secretary BUTZ. No, sir; I don't think so. We have slowed down substantially the long time exodus from the farm. During the decade of the 1960's we were losing farms at the rate of 160,000 per year. That has been cut down to about 40,000 per year now. This will continue for a while at a continually slower rate.

Mr. PETTIS. No further questions.

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. I have a couple of quick ones for you, Mr. Secretary. What do the private farm organizations think of this proposal?

Secretary BUTZ. Basically they are in favor of expanded trade obviously. They expressed some fears about the President's authority to remove section 22, Import Quotas, for example. I can understand their fear in this respect but taken by and large I think the farm organizations support the proposals.

Mr. GIBBONS. The European farm prices were set last week by the European Community. Do you think that those prices are low enough to continue their commitment to moving people off the farm?

Secretary BUTZ. They will continue to move people off the farm over there especially in Germany and France. I think this move has been largely completed in Denmark and Holland. Holland has about 8 percent compared with our 5. Denmark has 12—and Germany is substantially higher than that. This will continue. I think the way

they set those prices in Europe represents a partial victory for us; grain 1 percent, dairy 5.5. Beef up 11, as I recall. This is a move in the right direction to encourage the production of animal proteins.

Mr. GIBBONS. Are the Japanese making any progress in the removal of their restrictions on U.S. farm products?

Secretary BUTZ. Yes, some in the last year. They have lifted their restrictions somewhat on the importation of citrus, eased the restrictions on pork. They bought it here in rather substantial quantities a few months ago. Likewise, on beef they are making some progress, not enough but they are making some.

Mr. GIBBONS. Is this permanent progress or will it last just while they have a shortage?

Secretary BUTZ. Japan will always be a food importing nation. With 110 million people on that little island they will always import food. I think these are permanent. As their eating levels go up and their incomes rise they will continue shifting to protein. They eat only 8 pounds of beef per person a year. They eat more fish. They will shift to more beef. That means a relaxation in the import restrictions in that important area.

Mr. BURKE. Any further questions of Secretary Butz?

Mr. VANIK. Just one question. With the movement of agricultural industry out of government support, are you able to point to any reduction in force in the Department of Agriculture?

Secretary BUTZ. Yes, sir, even without that I will point to a reduction in force in the Department of Agriculture. We are reducing this year, in the next fiscal year, by 4,000 people.

Mr. VANIK. Out of how many?

Secretary BUTZ. That may not be a great deal out of a total of 80,000, but it is a step in the right direction. We are moving in that direction, yes. I want to have our Department as efficient as it can be. I told our agency administrators that I want our Department to give a dollar's worth of government for every dollar taxpayers spend on us. We will do it two ways: reduce the total outlay and, second, reduce personnel.

Mr. BURKE. Secretary Butz, that concludes the questions of you. I understand the Assistant Secretary will stay.

Secretary BUTZ. Yes. Assistant Secretary Brunthaver will be here. You folks voted yesterday on the REA bill and it is being signed in the oval office and I have to be there.

Mr. BURKE. I hope you make it. I hope the traffic is lighter.

Secretary BUTZ. Thank you.

Mr. BURKE. Mr. Vanik, you still have the floor.

Mr. VANIK. Yes, I have some questions I left with Secretary Dent on the Canadian automobile parts agreement. We are still paying 15 percent on the export of American automobiles to Canada. Why don't we tell them we are going to terminate the agreement?

Secretary DENT. An annex to the automotive agreement specifies that only bona fide Canadian manufacturers may import automotive products duty free. This means that, in order to take advantage of the duty-free privilege, an individual in Canada must buy his car from an authorized dealer of the bona fide manufacturer. The provision has allowed Canadian dealers to sell both U.S. and Canadian-made cars at higher prices than they would be sold in the United States. Removal

of the restriction would help make North American cars cheaper for the Canadian consumer and would help both countries by slowing down the penetration of overseas imports in the Canadian market.

The initially weaker Canadian industry has now obviously adjusted to the competitive pressures of the integrated market, as evidenced by the dramatic improvement in their bilateral trade account. Under these conditions, the United States has told Canada it sees no reason for continued application of their restriction on individual imports.

Mr. VANIK. I know, but that was all considered as transitional. We have been moving. We are now in our eighth year of this agreement. It seems like our patience is certainly being worn out on the transitional phase of this.

Secretary DENT. The administration will continue to press the Canadians to eliminate this restriction.

Mr. VANIK. We had a favorable balance of $500 million in 1964. What is the deficit now?

Secretary DENT. The deficit last year was $99 million.

Mr. VANIK. $99 million?

Secretary DENT. Yes, sir.

Mr. VANIK. In 1971 it was $1,375 million.

Secretary DENT. No, that figure is based on census end use tables that are not designed to measure trade on all of the items under the agreement. The U.S. deficit in trade under the agreement in 1971 as reported in the President's annual report on operation of the Automotive Products Trade Act was $197 million.

Mr. VANIK. I have a staff letter here that was prepared by our staff. It says this: "On the basis of official statistics of the Department of Commerce, the U.S. trade with Canada in automobile products declined from a favorable balance of $555 million in 1964 to $1,375 million deficit in 1973." Now that doesn't add up to the figures that you give.

Secretary DENT. There is considerable discussion as to the appropriate way in which the value of the automotive trade between the United States and Canada should be arrived at. The figures which you have quoted, if I am not mistaken, are census figures which understate the value of U.S. export under the agreement because certain parts that enter Canada duty-free are not readily identifiable as automotive components in the export data. In the case of imports, census figures report the wholesale price of assembled vehicles which is a theoretical constructed figure that inflates the true value of the transaction.

The figures which I quoted above refer to the actual transaction values which are in truth, it seems to us, more accurate with respect to the money which changes hands.

Mr. VANIK. The ones you use are inter-company prices?

Secretary DENT. Transaction value; yes, sir.

Mr. VANIK. I would appreciate that you put your analysis of this discrepancy in the record.

Secertary DENT. We will be very glad to.

Mr. VANIK. So we can find out what the real state of affairs is on the automotive parts agreement. It is a matter of great concern to us.

[The following was submitted for the record:]

U.S.-CANADIAN AUTOMOTIVE TRADE STATISTICS

Trade figures for the U.S.-Canadian automotive trade as shown on page 16 of the Sixht Annual Report to the President on the Operation of the Automotive Products Trade Act of 1965 (6th APTA Report) show a deficit of $197 million for 1971 while the figures on page 137 in the Addendum, added by the Senate Finance Committee, and based on published Bureau of the Census data, show a deficit of $1,375 million. Data for the year 1972 (most recent available) show a deficit of $99 million or a deficit of $1,110.0 million using the same data sources as for the 1971 figures. The data on page 16 were compiled by the Bureau of Competitive Assessment and Business Policy (BCABP) of this Department, while the data in the Addendum were compiled by the Tariff Commission, based on this Department's Bureau of the Census data.

Imports. The Bureau of the Census publishes monthly statistics on quantity and value of imports of motor vehicles from Canada. These are based on constructed wholesale values prepared by the Bureau of Customs using data shown on import declarations filed by importers. Motor vehicle trade between the U.S. and Canada is almost entirely between the parent company and a subsidiary and the actual transaction values are from 15 to 20 percent below wholesale values. For the purpose of assigning import duties, the Bureau of Customs constructs wholesale values for the transactions. These constructed values with the duties charged are recorded on the import declarations and provided to the Bureau of the Census for compilation and publication monthly.

To assess the impact of the Automotive Agreement with Canada and prepare a required annual report on the operation of the Automotive Products Trade Act of 1965, the BCABP uses the original transaction values as a reflection of the actual magnitude of automotive trade between the U.S. and Canada. These data as shown on the company import declaration are tabulated monthly by the Bureau of the Census and forwarded to BCABP. The Bureau of the Census also publishes the transaction values quarterly in a special announcement in the FT-135, *U.S. Imports General and Consumption, Schedule A Commodity by Country.*

Exports. U.S. export data as published by the Bureau of the Census are not shown in the same amount of detail as are U.S. import statistics. Also, automotive parts covered by the agreement comprise a wide variety of products, some of which are not easily identifiable as automotive, and fall in other categories in our export statistics. For these reasons, it is not possible to measure separately the total U.S. export trade in automotive parts by using U.S. export statistics. For example, fittings for copper pipe if used for automotive assembly are identified in the United States import figures under TSUSA, Code 613.16, and include *only* automotive fittings imported from Canada. The Schedule B export classification for similar fittings (Code 682.26) *does not* separate automotive fittings from all other fittings of that type. Therefore, export product coverage cannot be made comparable to import product coverage, and an accurate measure of the difference in trade between imports and exports cannot be made. However, Canadian import classifications are comparable in coverage to U.S. import classifications and the Canadian imports of motor vehicles from the U.S. are valued at the transaction level. Therefore, BCABP uses the Canadian import figures as a measure of U.S. exports.

In summary, the values of U.S. imports of motor vehicles from Canada are tabulated by the Bureau of the Census at the transaction level and the wholesale level. BCABP uses the original transaction values to reflect the magnitude of U.S. automotive imports. U.S. export statistics are not comparable with U.S. import statistics. Canadian import statistics provide the same detailed coverage of automotive trade as do U.S. import statistics. Therefore, Canadian import statistics give a better measure of U.S. exports of automotive parts than do the less-detailed U.S. export statistics. For the foregoing reasons we believe that the BCABP figures on automotive trade with Canada are an accurate representation of the actual movement of goods under the U.S.-Canadian Automotive Agreement.

This method of computation has been used for three years. Prior to its use it was discovered with and approved by the Office of the Special Representative for Trade Negotiations and the Departments of State, Treasury, and Labor.

Mr. VANIK. Now, Mr. Secretary, there are certain unofficial import control programs now in effect, the wool and manmade fiber agreement

with Japan, the cotton textile agreement with Japan, that runs to September of this year, and the voluntary restraint arrangements on steel imports between the Common Market countries and Japan.

The President in his economic report to Congress this year stated—

> It is crucial that the movement to a more open trading system be comprehensive, including all forms of bargainers to trade. Among the major types of nontariff barriers that distort trade are quantitative import restrictions.

In view of the fact that the textile agreement with Japan expires in September, does the Department have any plans to renew this agreement despite the fact that it violates the President's desire to move toward a more open trading system?

Secretary DENT. The agreement to which you refer is the GATT multilateral cotton textile arrangement. This involves 31 nations, among which is Japan. The GATT council meeting in Geneva in April received a mandate to move forward with the negotiation of this from the viewpoint that it not only has created orderly marketing conditions where international chaos previously existed but furthermore has been very instrumental in expanding developed country market opportunities for exporting countries. The administration's policy is to negotiate a renewal of this multilateral agreement as well as to expand its coverage to include manmade fiber and wool products.

Mr. VANIK. Now, has the Department computed the cost to American consumers of the special trading arrangements that are involved in these several particular arrangements?

Secretary DENT. Actually, the cost of apparel and textiles has always been well under the consumer price index. It has lagged. The indications are that the cost, if any, is very slight.

Mr. VANIK. All right. Now, is there any way in which your department evaluates these trade packages, the Soviet wheat deal the various contracts underway for the provision of technical services, for the development of energy resources to the Soviet Union, the Pepsi-Cola deal?

Does your department have a way of analyzing what the effect of these transactions are to America?

The other day, for example, I said the Pepsi-Cola arrangement was a very strange one indeed, because first of all I wondered how Pepsi was selected over Coca-Cola, Dr. Pepper or the Un-Colas. I tried to figure out what this would mean to the United States, because under the agreement the company involved would be selling $5½ million worth of Pepsi-Cola to be bottled in Russia by Russian labor in a Russian facility.

The sirup would be made in West Germany with West German labor in a West German facility that is a subsidiary of the Pepsi-Cola company. For all that, we are going to have to absorb $13 million worth of Vodka. I tried to figure out what was the good of this for us. This was going to create Pepsi-Cola in Russia made with sirup from West Germany. Everybody is getting something tangible and we are paying out the $13 million for Vodka. Does your department analyze this kind of package to see what value it has to us?

Secretary DENT. This transaction was a private transaction between an American company and the Russian Government.

Mr. VANIK. All of them are. Under our system the Government doesn't sell anything. I want to know whether you evaluate the transaction to see whether it is good for us or not.

Do you do any studies of it? Are you going to do the work that the General Accounting Office does for us, for example, in some other areas? Are you going to analyze these transactions and decide whether they have been a net gain or net loss to the country so we can evaluate our bargaining capacity to see whether we are good bargainers or poor bargainers?

Secretary DENT. When you refer to whether we are good bargainers are you talking about whether an individual company's executives bargain well with a foreign government?

Mr. VANIK. Well, you see, it affects the entire populous because in exchange for this we are supposed to accept $13 million in Vodka.

Secretary DENT. Only if the American consumers wish to consume this.

Mr. VANIK. Don't you think there ought to be some sort of a trade evaluation? What is the net dollar value in the trade benefit of a large scale transaction like the Soviet wheat deal or like some of the others that are coming through?

Isn't there any way that your department could evaluate this sort of program to tell us, at least tell this committee, whether we are making good trade arrangements or whether they are bad?

Secretary DENT. I don't think that is up to the Department of Commerce to evaluate and report to the committee on actions of an individual management which would reflect upon them and their stockholders. It seems to me that we have a free enterprise system under which these private deals are made.

Maybe you and I do not like $13 million worth of vodka. It is up to the American consumers, whether they wish to take this or not.

Mr. VANIK. But you see at the same time the Department trumps up the great trade possibilities, the great business, the wealth that is going to flow to us because of our stretching out of trade. You say hurry up, let's get favored nations status, let's give the President this power quickly because we want to show how we are going to bring great wealth and prosperity to business in America.

I want to have someone in Government give this committee or give me some idea as to whether our bargaining is really that good, whether it produces what they say it does or whether it doesn't. We ought to have some way of measuring at least measuring the dollar inflow and outflow effect.

Can you tell me, for example, as the Pepsi-Cola transaction was recorded or as the Soviet wheat deal was recorded, was there a plus, and if so, how much was there, how much did it really amount to as a trading plus?

Secretary DENT. Mr. Vanik, the objective of the Department of Commerce is to open to American free enterprise opportunities around the world, hopefully so that they will take advantage of increasing our exports to the advantage of American workers, American investors and the overall state of our economy.

As far as the evaluation of private companies: negotiations are concerned, if it is totally in the private sector I don't think it is appropriate for us to report on each transaction to the Congress.

Mr. VANIK. Well, who can this committee count on for facts then? Where are we going to get our information? You are the factfinding and fact gathering agency. You ask businessmen to tell you a lot of very important questions every year. American businessmen have to

tell you how many kilowatts they use, how many cubic feet of space. You have all kinds of questions you ask our businessmen. You say these questions are important to the Government. I say to you that these questions in trade are equally as important to the American people and to the Government. Now if you have a right, as you exercise it, to probe into the affairs of every private business in the United States and ask a whole multitude of questions under penalty of the law, why then shouldn't you be able to ask some trade questions?

Secretary DENT. Many of these statistics which are asked for from business are done on a confidential basis. If we carry this fact-finding thing further should we be in a position to ask the Pepsi-Cola company how much they make in New Hampshire versus how much in Alabama?

Mr. VANIK. No. You can ask them the effect of their export operations and ask it confidentially so that when you get all the information together you can give us some kind of a report which might be a consolidation of many businesses' activities, so we won't break any rule of confidentiality.

What I know about the Pepsi-Cola deal is what I have read in the newspapers. I calculated the cost of it. I calculated the dollar flow and I don't see any advantage to the American people in the transaction. I don't think that it stands out as a very good example of the kind of business advantages that we will be engaged in. I think it made a very poor case for the support of this bill. But I frankly feel that your department, confidentially, ought to be able to collect this trade information.

Secretary DENT. We collect trade information by country and can tally the total balances, the outflow and inflow from each country. But we don't do it on a company by company basis.

Mr. VANIK. Do you do it on an industry by industry basis in the foreign area?

Secretary DENT. Certainly. We have breakdowns by agriculture, high technology, low technology.

Mr. VANIK. So you can give us that information on an industry by industry basis?

Secretary DENT. Within general sectors, yes, sir.

Mr. VANIK. Now, another question that concerns me is the extent of our foreign investment around the world. Now, this is handled by one of your divisions. I have a difficult time knowing at any given moment what the foreign capital investment of Americans is outside of the United States.

Secretary DENT. It is approximately $80 billion.

Mr. VANIK. Do we have any idea of how that breaks down?

Secretary DENT. Yes, we do. Thirty percent of it is in Western Europe. Thirty percent of it is in Canada. Twenty percent is in South America. The other 20 percent is scattered hither and yon.

Mr. VANIK. How much of it is in the advanced nations as distinguished from the Point Four countries?

Secretary DENT. Certainly the 30 percent in Canada, the 30 percent in Western Europe, that is 60 percent—I can't break down the 20 percent in South America. It depends on how you classify various countries. But in round figures I would say at least 75 percent is in the developed areas.

Mr. VANIK. Now, I have just one final question. This relates to another problem. The United States is the only industrialized nation in the free world that permits an export of its ferrous scrap. Since November of last year the price of domestic scrap has gone up $10 a gross ton.

Our shortage for this year may reach 5 million tons. This is going to mean increased prices for steel and steel products in the United States. Now can you tell me what your Department is doing, if anything, about this high degree of export and the effect that it will have on both supplies and costs in the United States?

Secretary DENT. Yes. We have held conferences with the steel industry on Monday and on Tuesday of this week. We had separate meetings with scrap exporters and scrap brokers. The scrap exporters have agreed to submit to us running reports every time they book an export order, on orders above 500 tons, both as to the quantity, the destination, and the month of shipment, so that we will be able to develop current figures as to the exports.

In addition to this, the Cost of Living Council has initiated through the Internal Revenue Service an analysis of the scrap industry to be certain that the recent price increase are justifiable based upon cost increases. Now we are very mindful of this situation and have weekly reports submitted to my office, both as to price trends and demand.

The tight situation is due to the high level of activity in our own domestic steel industry, the foundries and the rest in this country. Our domestic demand has increased more than offshore but of course the offshore demand is up very high. We are estimating that it will be in the area of 53 million tons of demand this year.

Mr. VANIK. Well, Mr. Secretary, I want to say that I very much appreciate your responses. My concept of this trade bill is that it should have a consumer section, that it should be a broad umbrella and that we ought to concentrate responsibility for the administration of this act in your department.

I know you probably can't respond to that because it is a matter of internal policy but I feel that the agricultural sales should be lifted from that department. All of the export business, if we are going to have an overall management program on foreign trade, it ought to be consolidated in one place so that all of the fact gathering and the total impact of the program can be tabulated and analyzed for the Congress and for the American people. I feel that this is something that we can't leave in the hands of a person in the White House. I would like to see this responsibility concentrated in the office of a member of the Cabinet.

It seems to me that this rightfully belongs in the Department of Commerce because you have authority and responsibility for our foreign commerce in all other areas, I feel that we ought to concentrate this responsibility under the leadership of your office. I hope you will be willing to assume that responsibility if we can work it out.

Secretary DENT. We certainly appreciate your vote of confidence. Thank you.

Mr. BURKE. Mr. Pettis will inquire.

Mr. PETTIS. Mr. Chairman, I know that the witnesses would like to finish as early as possible; therefore, I have submitted questions to Secretary Brennan and if he will supply answers to those questions, they

are technical in nature, we will need them for committee consideration later on, that will be satisfactory to me. I have no further questions for Secretary Dent. So I will yield back the rest of my time.

Mr. BURKE. Without objection, the record will be kept open.

Secretary BRENNAN. We will be glad to supply them for the record.

[The questions and answers follow:]

Question 1. Could you tell me what the maximum benefit level would be under your proposal in New York, Alaska, New Jersey and California? When the proposal becomes effective on July 1, 1975.

Answer. By the terms of the proposed benefit amount requirement, a State's maximum weekly benefit amount would be required to be at least two-thirds of the State's average weekly wage in covered employment, as computed for the first four of the last six completed calendar quarters prior to the effective date of the computation. Accordingly, a State's maximum weeky benefit amount on July 1, 1975, would depend on its average weekly wage during calendar year 1974.

The adjustment assistance provisions of the Trade Reform Act go into effect upon passage of that legislation. Assuming an effective date of January 1, 1974, a State's maximum weekly benefit amount on that date would depend on its average weekly wage during fiscal year 1973.

The following estimates as to Alaska, California, New Jersey and New York, assume an annual 5 percent increase in each State's wage level.

	Estimated average weekly wage		Estimated maximum weekly benefit amount (⅔ of State average weekly wage)	
	Fiscal year 1973	Calendar year 1974	Jan. 1, 1974	July 1, 1975
Alaska	$234	$246	$156	$165
California	175	186	117	124
New Jersey	175	185	117	123
New York	184	195	123	130

Question 2. Doesn't the proposal primarily benefit higher paid workers who may work in activities like construction eight months of the year and draw tax free unemployment compensation during the off-season? Doesn't this require all employers and ultimately their employees, given the economic incidence of the tax, to finance additional benefits for these higher paid employees?

Answer. This question would apply primarily to the proposed unemployment insurance bill rather than the Trade Reform Act. It is unlikely that construction workers would be affected by imports and become eligible for adjustment assistance, and the supplementary payments to workers under the Trade Reform Act would not affect unemployment insurance taxes since these supplements will be financed from general revenues.

Construction workers who earn weekly wages higher than twice the maximum weekly benefit amounts payable in their States would undoubtedly benefit from an increase in State maximums. Construction workers, however, in 1971, accounted for only 15 percent of all insured unemployed and even if all were entitled to the maximum weekly benefit amount (which is unlikely, since a substantial number have low average wages) they would still account for less than three out of every 10 claimants prevented by the State maximum from getting a weekly benefit amount equal to at least half of their usual wage. In 1971, more than half (52 percent) of all eligible claimants qualified for the maximum weekly benefit amount in their States.

Under present State laws embracing three-fifths of the covered workers, a worker earning average pay in the State (or better) is prevented by the State maximum weekly benefit amount from getting a weekly benefit amount of as much as half his weekly pay. Thus, requiring State maximum weekly benefit amounts to be at least two-thirds of the State's average weekly wage would be of greatest benefit to workers earning average or somewhat higher than average pay. Unquestionably the improved benefits that would result would have to be financed by taxes on the wages of all covered workers, including both high and low wage workers. Until now, the wages of all workers, including high wage

workers, have been taxed in order to provide a system of benefits that in most States have been adequate only for low wage workers. To the extent that the benefits provided all workers, when they are unemployed, are adequate, regardless of whether they are low wage or high wage workers, the entire economy benefits since purchasing power of the unemployed is better maintained.

Question 3. For nearly four decades we have had an unemployment compensation system that permits the States to respond to local needs and philosophies in prescribing conditions of eligibility, disqualification, benefit amounts, and duration period. Some States have dependency allowances, some States have formulae that provide minimum benefits and otherwise favor lower paid employees. In order to make the States pay specified amounts, won't you have to standardize virtually all of these aspects, or otherwise they could pay a higher benefit amount, but for a shorter duration, or make eligibility criteria more stringent, or change the disqualification rules? Even aside from this problem, won't the States that provide benefits beyond your standard, for a man with several dependents have an incentive to standardize the benefit formula to compensate for the additional costs the Federal standard will impose?

Answer. The thrust of this question goes to unemployment insurance proposals rather than the Trade Reform Act, which provides only supplementary or weekly payments in certain cases without any affect on the remainder of any State's unemployment insurance formula.

It must be emphasized that the proposed unemployment insurance benefit amount requirement would not specify the dollar amount to be paid by States. Up to the State maximum, each State would be required to pay an eligible individual a weekly benefit amount of at least half the individual's average weekly wage. States that wish to pay a weekly benefit amount greater than half the individual's wage to some categories of workers, such as low-wage workers or workers with dependents, or to all insured unemployed workers would continue to be free to do so. The maximum weekly benefit amount which the bill would require each State to provide is at least two-thirds of the State's average weekly wage in covered employment. Such a provision would gear each State's maximum weekly benefit amount to the State's wage level.

Nothing in the proposed benefit amount requirement would prevent any State from changing its present qualifying requirements for benefit eligibility, from revising its disqualification provisions within the limits now provided in the Federal Unemployment Tax Act (cf. sec. 3304(a)(5), (6), (7), (8), (9), and (10)), or from providing a different benefit duration formula or a lesser benefit duration maximum. The history of the unemployment insurance program over the years has reflected a general increase in the base period earnings required to qualify for benefits, reflective of the rise in wages over the years, greater restrictiveness of disqualification, and greater liberality in duration provisions. States have not, in the past, reduced duration when they increased their maximum weekly benefit amounts, and we don't expect them to do so in the future.

It can be argued that the additional cost of a higher maximum weekly benefit amount provides an incentive for a State to make cost offsetting changes in its law such as reduction of duration or elimination of dependents' allowances. Other considerations enter the picture, however, when such changes are considered by a legislature. For example, reducing duration means increasing that number who use up their benefits and are still unemployed and are potential welfare cases. Similarly, in States with dependents' allowances it would seem highly questionable that improved benefit maximums would trigger the abandonment of such allowances. Only eleven States have any form of dependents' allowances. In some of these States, dependents' allowances may have been adopted as a substitute for adequate benefits for all eligible individuals. In others, dependents' allowances reflects a family-oriented social philosophy that is widespread in the State.

Question 4. In your statement you indicate that you believe the experience with our Federal/State unemployment compensation system over the last four decades has been healthy. State discretion to respond to local need has been, as I said above, an important part of this. When the Administration is emphasizing decentralization through revenue sharing, block credits, and other programs, isn't it anomalous to attempt to centralize decision making processes in a program that we both agree has proved its merit over four decades? What will this do to State and Federal cooperation in the employment security area?

Answer. The extent of Federal-State cooperation in the unemployment insurance program has indeed been remarkable. The Federal Government has been

responsible for assuring that the essentials were provided so that the system could be established and operate. The States have had responsibility for most decisions about the nature of the program and for its operation and administration. To the extent possible within that basic framework the Federal Government has left decision-making to the States.

However, no system for compensating for wages lost because of unemployment can be effective unless the compensation provided is adequate in amount. In his July 8, 1969 message on unemployment insurance, President Nixon said: "Up to now, the responsibility for determining benefit amounts has been the responsibility of the States. There are advantages in States having that Freedom. However, the overriding consideration is that the objective of adequate benefits be achieved. I call upon the States to act within the next two years to meet this goal, thereby averting the need for Federal action."

Since 1969, the improvements in State benefit maximums, while significant, have been insufficient to achieve benefit adequacy for the great majority of insured workers. Only four States provide a maximum weekly benefit amount actually or approximately equalling two-thirds of the State average weekly wage in covered employment. Three out of five covered workers are in States in which the benefit maximum is less than half of the State's average weekly wage. More than half of the benefit claimants in 1970 and 1971, and 44 percent of the benefit claimants in 1972 got weekly benefits of less than half their usual weekly wages.

Thus the Administration has reluctantly concluded that Federal action is necessary in order to attain benefit adequacy in our unemployment insurance system.

We do not believe that Federal-State cooperation would be impaired by enactment of the proposed benefit amount requirement. The requirement is set in mathematical terms making its provisions precise and clear. No State will need to be in doubt as to whether it is in conformity. Consequently, no dispute should arise to create Federal-State frictions in the administration of the requirement. It has been our experience that when this is the case, Federal-State cooperation is most effective.

The existing readjustment program under the Trade Expansion Act of 1962 can be described as a principal-agent relationship between the Federal Government and the States in which the Federal Government furnishes the funds and the States pay the adjustment assistance. Thus, trade programs must be distinguished from the Federal-State partnership arrangements which characterize unemployment insurance. By moving towards merger of assistance to trade impacted workers with the general unemployment insurance program, the Administration is promoting the cooperative concept.

Question 5. I would like information about the additional costs associated with the new Federal benefit standard. The President's message indicated that "The new requirement would result in an average increase of 15 percent in costs to State pooled unemployment insurance funds." In the Labor Department's explanation of the new bill, you indicate that $6½ billion was paid out in unemployment insurance benefits in 1972. It would appear to me that, given a similar incidence of unemployment, the new program would impose something in the order of a billion dollars in additional payroll taxes.

What is your estimate as to the increased costs and the amount by which States would have to increase taxes on their employers to meet these new benefits the Federal Government is requiring?

Answer. The $6½ billion unemployment benefit expenditure of 1972 reflected an atypically high level of unemployment which we trust will not soon be repeated. Assuming somewhat more normal levels of insured unemployment over the next four year, it has been our estimate that adoption of the unemployment benefit amount requirement as it appears is the Administration's proposed Job Security Assistance Act would result in an average annual increase in State benefits payments of approximately $700 million. As you have indicated, this would represent about 15 percent of the unemployment benefits that would otherwise be paid by the States under the existing provisions of their laws.

That 15 percent is an estimated national average. State by State, the percentages of benefit cost increase would vary substantially. The States that already provide maximum weekly benefit amounts equal to two-thirds of the State average weekly wage—Arkansas, District of Columbia, and Hawaii—would have no benefit cost increase. Utah, whose benefit maximum is 65 percent of the State average is in virtually the same position. Another half dozen States have benefit maximums that are in the 60–65 percent bracket, as compared with the State

average weekly wage. In these States the benefit cost increases would be relatively small, substantially less than the national average. By contrast, those States whose maximum weekly benefit amounts are substantially less than half of the State's average wage level would probably have cost increases in excess of the national average of 15 percent.

The hazards of estimating the benefit cost impact of increasing a State's benefit maximum must be stressed. If all the claimants in a State were high wage workers who are getting the present benefit maximum and, under the revised provision, would get the higher maximum, the increased cost would be the dollar difference between the present and the proposed maximum for all those claimants' compensable weeks. By contrast, if all of a State's claimants were low wage workers, none of whom qualify for the present maximum, increasing that maximum by law would not add a dollar of benefit cost. The reality will, of course, lie somewhere between these two poles, depending on the mix of high wage and low wage claimants. That mix varies among the States and, within a State's experience, it varies from period to period.

No reasonable estimate is possible as to the impact of the proposed benefit amount on employer taxes. Although every State will have to meet the benefit cost increase that may be involved out of its State unemployment fund and all the State unemployment funds derive from employer taxes, the State funds vary considerably in size and adequacy, and those variations can be expected to persist. In some States, fund levels are so high that no tax schedule adjustment may be needed for a substantial period. In others, the fund is already at a level that requires revision of restructuring of the tax schedules to yield adequate revenue. An additional complicating factor in considering the tax impact in a State of an increased benefit maximum is the operation of the State's experience rating system. Experience rating provisions in State laws work to increase the tax rate of those employers whose workers most often become unemployed and draw benefits and to lower the tax rate of employers whose workers seldom or never experience unemployment. To the extent that claims at the increased benefit maximum level are filed by the workers of employers with low tax rates, the increased cost involved in a higher maximum will be met out of the taxes of the indivdual employers involved without affecting the tax rate level of all of the State's employers.

Mr. BURKE. Mr. Burleson?

Mr. BURLESON. No questions.

Mr. BURKE. Mr. Corman?

Mr. CORMAN. Mr. Secretary, I wonder if you have had a chance to reflect on my question. Maybe you can tell me something about the answer.

Secretary BRENNAN. Yes, sir; you asked what the comparison was of the Burke-Hartke bill with the administration's trade bill with respect to the protection for workers. We can submit to you a more complete comparison for the record than I am able to give you at this moment but I think I can hit some of the major points.

The main difference in the Burke-Hartke bill is that it imposes mandatory import quotas and sweeping taxation for foreign source income. The administration bill permits the President to impose quotas only after finding serious injury and provides less sweeping tax penalties.

Also we find that as for the adjustment assistance provisions in Burke-Hartke and the Trade Reform Act, Burke-Hartke keeps the same investigative system while our bill combines the investigative system and certification process in the Department of Labor. Consequently, we think the delivery of benefits will be faster under the administration bill. Our bill provides priority access to manpower and training programs and the Burke-Hartke bill does not. Our bill provides possible job search grants and Burke-Hartke does not. The Burke-Hartke bill provides higher benefit levels for some workers. This is true. Anything else we will be glad to supply to you for the record.

Mr. CORMAN. I think if you can stay flexible on that last point, you may find yourself negotiating before they finish this bill.

As I understand it although the Burke-Hartke makes trade restrictions mandatory under certain circumstances. the administrations bill permits the President to reach the same conclusion under the same facts. If that is not correct, please correct me. What I am trying to do is set the parameters of the discretion of the President.

Secretary DENT. The Burke-Hartke bill establishes quotas on the basis of the average imports during the year 1965 through 1969. One authority which the President has under the safeguard provisions is to establish quotas. There is no automatic rollback involved in it.

Mr. BURKE. Will the gentleman yield there?

Mr. CORMAN. Yes.

Mr. BURKE. What is involved in the President's powers of setting quotas? How far back can he go? As I read his bill he can go back to 1930.

Secretary DENT. On quotas.

Mr. BURKE. He can set any quota he wants to, any figure or level and at any tariff rate back to 1930. I think that might shock some of the audience but that is what the facts are.

Secretary DENT. The authority is selective in the trade bill of 1973. The other is mandatory.

Mr. CORMAN. Yes. My point, though, is that quotas are subject to congressional veto, but the parameter of his capacity within that quota structure enables the President to go at least as far as Burke-Hartke does go; isn't that correct? If he makes a decision that it is in the national interest that we have quotas there are no restraints on his suggesting quotas that are more restrictive than Burke-Hartke, of course, on the condition that he submit them to the Congress for a potential veto.

Secretary DENT. Under the act of 1973 the Tariff Commission has got to make an affirmative finding that conditions prevail whereunder the authority of the act the President can then take action.

Mr. CORMAN. Under the proposed legislation?

Secretary DENT. Yes. Before the President can take any action whatsoever, the Tariff Commission has got to find that serious injury or threat thereof is being incurred by the industry which is making the appeal.

Mr. CORMAN. The President has no authority to go beyond the recommendation of the Tariff Commission?

Secretary DENT. The Tariff Commission first investigates it and finds that serious injury or threat thereof exists. Then the determination of what action should be taken is at the Presidential level.

Mr. CORMAN. Let's take, for instance, a subject we sometimes heard about, let's take shoes. Let's assume the Tariff Commission makes a finding that there is damage to American labor because of the importation of shoes. Now, the degree of relief in the form of quotas given by the President doesn't have any relationship to the degree of damage proven to the Commission; does it?

In order words, we leave it to this discretion to ascertain what is sound?

Secretary DENT. That is correct. He has discretion as to the relief which will be accorded which is reported to the Congress in the President's annual report on the trade agreements program.

Mr. CORMAN. Now, is it always necessarily a first step that the Tariff Commission find injury before the President has any authority to impose quotas?

Secretary DENT. Yes. That is the first step in the safeguard procedure, that the industry, company, appeals to the Tariff Commission for a finding that injury exists or the threat thereof exists.

Mr. CORMAN. How long does that determination take under normal circumstances?

Secretary DENT. In round figures, usually about 6 months. But under the proposed legislation, 3 months. Then the President, if he receives an affirmative finding from the Tariff Commission has 60 days within which to make his decision. If it is a split decision on the part of the Tariff Commission he has 120 days.

Mr. CORMAN. If the Tariff Commission ascertains there is no injury, does the President have any authority from that point on to grant relief?

Secretary DENT. No; an affirmative finding has to come to him from the Tariff Commission.

Mr. CORMAN. Then I suppose the difference in this bill and Burke-Hartke is that we would be making a legislative decision concerning injury whereas under the administration's bill the Tariff Commission will make that decision.

Secretary DENT. That is correct.

Mr. CORMAN. Assuming the Tariff Commission finds that injury, the President has broad latitude in the way of establishment of quotas or whatever else he determines to be a proper remedy on the quotas, subject to the lack of congressional veto.

Secretary DENT. Part of your question also related to the tax impact of this?

Mr. CORMAN. Yes.

Secretary DENT. Now, the act of 1973 as submitted by the President does not contain tax action, but the Burke-Hartke Act would impose a current tax on all earnings offshore so that in effect our companies would be bearing a double burden. This is totally contrary to the practice of all of our offshore trading partners.

And in all probability, the taxation of earnings on a current basis would be contrary to the practice of all of our trading partners. It would put American offshore industries at a great disadvantage compared with their competition, and furthermore in my judgment would violate the general American philosophy of equal tax sharing.

Mr. CORMAN. As I understand, when the Tariff Commission reaches this initial decision which they must reach before we can have any kind of relief, there does not have to be shown that it is because of a concession granted at negotiations that the injury occurred.

Secretary DENT. That is correct. The 1962 act required an escape clause action to be based upon an earlier concession reducing tariffs. That was one of the main stumbling blocks to getting favorable decisions from the Tariff Commission. This was eliminated in the Trade Reform Act of 1973.

Mr. CORMAN. If the Tariff Commission finds, for instance, that 30 percent of the reason for trouble in an industry was from imports and then the other causes were all listed, but each of them less than 30 percent, they would have to certify that the industry was entitled to relief?

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Secrtary DENT. As long as it fulfills the prerequisite of primary cause.

Mr. CORMAN. Well, primary cause is, you list all of the causes, and the one that has the largest percentage is the primary cause. Am I interpreting that properly?

Secretary DENT. That is the way I would interpret it, but I would not apply percentages. There is no trigger mechanism.

Mr. CORMAN. At some point somebody has to make a decision.

Secretary DENT. It is a judgmental decision that has been delegated to the Tariff Commission.

Mr. CORMAN. Judgmental decisions are great if the judgment is great.

Perhaps it is. I hope you find a better mechanism than that, but I would rather think that we have a broad domestic industry that would potentially be entitled to protection under the new formula. We must think that, or we would not be changing the formula. We must have somebody that needs protection under the existing formula.

Secretary DENT. Well, I think it ties in with the general trend in the GATT negotiations. They hope to be able to negotiate a multilateral safeguard arrangement so that all nations in the world would have authority to move in the same direction under similar circumstances.

Mr. CORMAN. If the President gets a certification of an industry being damaged and decides to give tariff protection instead of quota protection, this is within the range of tools; isn't it?

Secretary DENT. That is correct.

Mr. CORMAN. There is no restriction on the amount of tariff at that point, isn't that correct?

Secretary DENT. That is correct.

Mr. CORMAN. There is no review by the Congress? There is no opportunity for veto by the Congress if he decides to grant the relief of increased tariff rather than import quota relief?

Secretary DENT. That is correct. However, if he decides not to take action, he must report to the Congress.

Mr. CORMAN. The tariff?

Secretary DENT. The Congress has, of course, the right to review it, but it is not required that the President obtain congressional approval in granting relief.

Mr. CORMAN. If the Congress changes the rate of the tariff, I assume we retain that, but we don't have the opportunity for veto of a tariff increase as we do have the opportunity for a veto of a quota.

Secretary DENT. That is correct with respect to tariff increases. There is no provision for veto of quotas either.

Mr. CORMAN. Looking at both import and export quotas, how much have a resorted to export quotas.

Secretary DENT. Well, there was an attempt to put hide quotas on for about a 3-week period in July, as I recall. We do have export controls over national defense-sensitive items going to eastern countries which is a decreasing amount of trade there. Other than that, I can't think of any.

Mr. CORMAN. Of course, I think it is a different consideration relating to the national defense portion. Has there been consideration of lumber export quotas? First of all, I am not sure how one ever gets

an export quota started. What is the mechanism. Assume for the moment that I think my suppliers are selling too much abroad. Where do I have to go and what do I have to show?

Secretary DENT. If you promise not to follow the advice, I will tell you. You write the Secretary of Commerce because he is the one who has the authority to put on export controls. When it comes to an item which involves agriculture, as logs do, then the matter has to be certified to by the Secretary of Agriculture as well. Now lumber, logs, and this ferrous scrap metal are items which have been currently under review.

Mr. CORMAN. Once you make the decision that an export quota is necessary, how do you administer it? Who is it that gets to sell what abroad?

Secretary DENT. You would have to review the market position as they existed prior to the application of the restriction.

Mr. CORMAN. Is it by sort of a licensing method?

Secretary DENT. Yes, export licenses.

Mr. CORMAN. That is predicated on establishing what you were selling before the quota became involved.

Secretary DENT. That is correct.

Mr. CORMAN. Now, for the imports, how do you anticipate deciding who gets to buy when there is an import quota? How do you anticipate administering that in that department?

Secretary DENT. Where there is an import quota on industrial products?

Mr. CORMAN. The President determines that there needs to be an import quota for whatever reason he can legally do that. How is this thing administered?

Secretary DENT. It is administered by having the Customs Bureau keep count on what comes into this country and when you bump against the ceiling, the remaining imports go into bond until the next period comes along where there is an opportunity to bring them into the United States.

Mr. CORMAN. Then it is first come, first served?

Secretary DENT. Yes, with respect to industrial products on which quotas have been imposed to date.

Mr. CORMAN. Is that true for the foreign seller and the domestic purchaser?

Secretary DENT. Well, the foreign seller is generally the responsibility of the foreign government, how they handle it.

Mr. CORMAN. But each transaction just takes its turn. Each one gets a number and they are acted on within the quota limitation.

Secretary DENT. Do you mean by the foreign country?

Mr. CORMAN. Let's assume for a moment that we decide to have a shoe quota. I am trying to figure out in my own mind what happens to the people who have been buying foreign shoes and selling them in this country.

Secretary DENT. The only control that we have is by the Customs Bureau when it lands in the U.S. port. As far as the distribution of the quota among suppliers in a foreign country is concerned, that is a matter for the exporting country. If a quota is established on *x* item, generally it is the responsibility of the foreign country to institute a licensing system or take the responsibility as to which of their ex-

ports come to the United States. Our concern solely is with the total quantity, the ceiling.

Mr. CORMAN. We have no concern about who the purchaser is or who the seller is. It is merely a matter of chronology as admitting in the quota that we decide we are going to let in?

Secretary DENT. Yes.

Mr. CORMAN. Is there any ground for the fear that when an import quota is imposed that we will find very large purchasers purchasing all available imports and eliminating a great number of small businessmen form the import business.

Secretary DENT. Generally speaking, one would expect that the pattern of trade which existed prior to this would continue. In other words, it is hard to visualize if 100 small suppliers had been buying *x* item offshore that because a ceiling was put on to prevent the growth of these imports that we would find five U.S. suppliers in control of the market previously enjoyed by 100.

Mr. CORMAN. But there would not be anything in our administration to prohibit this?

Secretary DENT. Nothing in the way we administer the import quotas, no sir.

Mr. CORMAN. I would think that once you have a quota that suddenly the goods you import take on a different value because you have a cap on supply. At that point I think it would be a great incentive for the large purchasers since they are competing with those other 99 people who are all buying their little bit, because there is no restraint on how much can be bought.

It is just how much can be sold here. Once you have an import quota then anyone who can capture that quota that he has no competition from other purchasers. Isn't that unfair for the small business community?

Secretary DENT. Well, it seems to me that one consideration a large company would have in trying to move in where they may not have been so prominent in earlier days is that this business is being built on what in all probability would be a short-term situation. If they are large, they probably have the resources to undertake a much more constructive commitment.

Mr. CORMAN. It just seems to me one of the controlling factors when you have a free market is the opportunity to sell, whereas, when you have a closed market, the only controlling factor is the ability to buy in the foreign market.

It seems to me even though it is a temporary thing that if the very large purchaser can absorb the market and freeze out the small importer, that even after the quota is gone, he may be in a very advantage-out position.

Is that an unfounded concern on the part of small businessmen?

Mr. BRUNTHAVER. In agriculture we run a quota system on cheese and nonfat dry milk. We use two control methods. In the cheese import situation we issue a license to importers so that the importer has a situation that he can handle. On the nonfat dry milk we have said that no buyer can purchase in excess of a certain amount so that the supply is distributed amongst large and small alike.

Mr. CORMAN. Why did you do that in the first place?

Mr. BRUNTHAVER. To assure that a single large buyer did not get access to all the imports.

Mr. CORMAN. In other words, you were fearful, when the import quotas went in, what I described to the Secretary might happen?

Mr. BRUNTHAVER. Yes.

Mr. CORMAN. If I could just generate the same fear on the part of the Secretary for all the other things we might put quotas on, I would be less uncomfortable about the bill.

You see their dilemma and how they solved it. I am just asking you if you think there may be a similar dilemma for you if we resort to quotas.

I don't know if we will resort to them, but there is an awful lot of this bill dedicated to that purpose.

Secretary DENT. The major commitment of this bill is to expand trade and to obviate the need for these types of arrangements. What you described is possible. As you well know, the safeguards applicable in this bill are to be phased out over a 5-year period with the option of applying for a 2-year extension.

I think that there is the possibility of this development, but within the timeframe and also within the overall objective of expanding trade worldwide and giving opportunity for U.S. products to be sold abroad that the risk may not be as great as you ascribe to it.

Mr. CORMAN. Mr. Secretary, I think the risk will be minimal if we look at the overall economy; however, I think the result might be disastrous if we look at the small business community.

A man who has five shoe stores is never going to buy very many shoes in a foreign market. If he finds, because of a quota, that somebody else bought up his available supply, he is not going to survive 7 years.

This is my concern: Really putting the small businessman where he has no place to go for relief, and there is no mechanism for giving him relief as there is that mechanism under the dairy quota system.

Secertary DENT. We have not seen the need to develop a quota system. If the situation as you describe it develops, we certainly would develop an equitable one. We are interested in the small businessman as well.

Mr. BURKE. Will you yield?

Mr. CORMAN. I will be glad to yield.

Mr. BURKE. Talking about the small individual owner of a shoe retail store, I would like to have the Secretary of Commerce give us some statistics on the growth of the retail outlets by the large corporations of this country and also the demise of the small independent shoestore, which has taken place in the past 7 years.

I find out in my area that the little corner shoestore is disappearing from the American market, and actually has disappeared at a much faster rate since the trade bill was put into effect than they did prior to that.

So I think your worries should be laid at rest because the small shoestore owner is practically extinct, and you are worrying about a dead horse.

Mr. CORMAN. Mr. Chairman, that may be true.

I am not at the moment arguing against import quotas on shoes.

The point is, once you establish the quota, that is how much of the domestic production market that is lost.

The second question is: Who is going to have the advantage of the part of the market that is the foreign market?

Mr. BURKE. The large shoe dsitributor in this country depends on imports. In my region most of the retail outlets are controlled by these

people who have these imports. They have trailer trucks going all over the country and they don't stop at any of these little shoestores. The little shoestore is limited right now in from whom he can buy and how he can meet the competition. It is the imports that are driving the little fellow out of the corner shoestore.

Mr. CORMAN. That may be correct. It is hard for me to follow it.

Anyway, there are no plans for licensing or establishing a priority or establishing some mechanism for retaining the existing outlets or existing markets if we adopt import quotas?

Secretary DENT. None have been developed. If, contrary to our anticipation, we foresaw such a necessity, we would, of course, develop a system that would be equitable.

Mr. CORMAN. What is the status of the textile voluntary agreements?

Secretary DENT. The textile agreements have never involved any rollbacks. All they did was to put a ceiling on the rate of textile imports into this country so that all those who were involved in the market, not only were qualified to stay in but also share in the growth of the market annually.

Mr. CORMAN. How do you administer that? How do you know, for instance, that J. C. Penney does not buy any more in the foreign market today than they did last year or that they get only that proportionate increase?

Secretary DENT. Under the textile agreement, each country that supplies the United States has a certain quantity which they may ship to the United States which has not been rolled back. They are the ones who are responsible for allocating the amount among their textile manufacturers that can come to the United States.

Our concern is when it hits the ceiling, that is all. The ceiling country by country, not total.

Mr. CORMAN. Let us assume that we decide there will be 1 million yards of textiles and last year J. C. Penney bought 800,000 but this year they are going to buy the 1 million.

Somebody was buying 200,000; but they are not doing it now. But that is of no concern to us, and there is no way to monitor it.

Am I analyzing it correctly?

Secretary DENT. That is correct.

There is a very free market and a highly competitive market.

Mr. CORMAN. The quotas removes at least something in that free market.

Secretary DENT. Would you repeat that?

Mr. CORMAN. Quotas remove something in the free market.

Secretary DENT. I am saying that the price level in the United States generally sets a level. Of course they are not going to pay a higher price in order to gain that additional 200,000 yards you mentioned.

Mr. CORMAN. Apparently the folks who sell cheese had that experience, or at least that fear, because they did set up a rather elaborate licensing system.

Secretary DENT. Sheets?

Mr. CORMAN. Cheese.

There is a famous saying in this committee that any native-born American age 35 can be President, but only a handful can be cheese-sellers.

That is what first brought a spark to my interest in how we are going to administer these things because there was this consideration when we went into the cheese import business.

If we could look at how the oil import system works, maybe that could give us some guidance.

You have a fixed number of barrels of oil that are permitted to be imported. Who gets to buy that?

How is that arrived at? First come, first served?

Secretary DENT. That has been lifted, as you know. There is no restriction on oil. There were things known as oil tickets which were distributed on the basis of historical purchases, if I am not mistaken.

Mr. CORMAN. At least our experience up to this moment with quotas has been that we have coupled them with some controls as to who had the advantage of quotas in this country, and we are anticipating that we will abandon that part of the Government's concern about import quotas if we adopt this bill?

Secretary DENT. No, sir. There was no statement whatsoever that we intend to abandon anything. The major thrust of this bill is to expand trade. When it comes to the safeguard provision, if necessary, we will adopt the most appropriate means of implementing whatever provisions the President decides to apply to the various industries concerned to see that equity is achieved.

Mr. CORMAN. Equity not only as to the domestic producer, but also as to the import purchaser?

Secretary DENT. That is correct.

Mr. CORMAN. Do we have any goal or objective as to what we think we ought to be able to move of our total GNP in exports?

As I remember now, we export about 4 percent of our GNP and import something less than 5 percent.

I realize our objective is to try to keep that as even as we can. Is there any objective?

Secretary DENT. Yes, sir. Last year we imported $55 billion worth of goods and our objective is to export what we bring in, if not to raise it a little above that.

Now, this rate will be growing in the days ahead, so you have a constant goal. But our goal is related to a surplus in our balance of trade.

Mr. CORMAN. But there is no goal as to how big we want to get that? Acknowledging we want to keep it balanced.

Secretary DENT. I think that depends upon the degree of appetite which the American consumer has for imported goods. The appetite has been voracious, $55 billion worth of it. We should achieve an export goal to equal that. It does not relate to the GNP. It relates to what we bring in, in my judgment.

Mr. CORMAN. Under that theory we would have reached our goal if we cut imports down to exports.

Secretary DENT. There again we would be denying our people that which they desire in the world market.

Mr. CORMAN. Yes; we necessarily do that every time we utilize the mechanism for either import quotas or tariffs.

To the degree they have an effect, we cut down what is available to fill our appetite.

It looks to me as though you are going to make a real effort to remove some of the roadblocks to our own exports, but there is no stated goal that we would like to increase imports and exports to 6 or 8 percent. Our only stated objective is to keep them even?

Secretary DENT. That is correct. We have to achieve a balance for the sake of monetary stability. At least a balance. Of course, a surplus is much more desirable.

Mr. CORMAN. That is what they all seem to think.

What tools does the President have under the bill to get another country to remove a nontariff barrier?

Let us take a simple one: Let us assume that the President gets very excited about our California oranges in Japan. The thing that keeps our oranges out are nontariff barriers, as I understand it.

What does the President's trade negotiator have in his arsenal of bargaining tools to get them to remove those nontariff barriers?

Secretary DENT. He has the authority to lower tariffs in another sector of trade to offset what burden this would put upon the Japanese economy. He has the authority to raise tariffs if in fact Japan's restrictions on oranges were unjustifiable or unreasonable. In other words, it is a combination of sticks and carrots. The stick would be used only under the most dire circumstances.

Mr. CORMAN. We have had the carrots at least through the Kennedy round, although the carrot is a little bigger, the tariff rates are so low now that there is not much carrot left.

Under the bill could the President's negotiators to the Japanese say, "Unless you remove the nontariff barrier against oranges, we are going to double the rate of tariff on clocks from Japan"?

Secretary DENT. He has authority to raise tariffs under the provisions for relief from unfair trade practices.

Mr. CORMAN. Item by item?

Secretary DENT. Yes, sir.

Mr. CORMAN. Where can the man whose life depends on importing clocks go to make his case that that should not happen to him?

Secretary DENT. Before any actions are taken under this authority public hearings probably would be held by the Trade Information Committee chaired by the Office of the Special Trade Representative.

After these hearings were held, the broad strategy would be developed.

Mr. CORMAN. In those hearings, is everybody in the industry going to know that what we are considering is an increase in tariffs on a specific product if in truth that may be resorted to?

Secretary DENT. Let me make clear, too, that when it comes to the matter of raising tariffs under title I of the act, this has got to be part of an overall trade agreement.

Mr. CORMAN. Then that is not a stick that he has available?

In other words, it is a stick he has available only if the Japanese tell him he can use it.

Secretary DENT. If you use the carrots to induce them in, then you have some sticks to hit them with behind to get them onboard.

Mr. BURKE. Mr. Corman, may I interrupt?

The Secretary of Labor has to leave. But I understand you are going to leave your deupty with us?

Secretary BRENNAN. If there are any other questions.

Mr. BURKE. Mr. Gibbons, do you have any questions of Secretary Brennan?

Mr. GIBBONS. No.

Secretary BRENNAN. Do you want me to leave the Deputy Under Secretary?

Mr. BURKE. Yes; in case there are any questions.

Are there any questions of the Secretary of Labor?

Mr. Waggonner?

Mr. Archer?

I think you can take your deputy, too.

Mr. GIBBONS. I have one question of the deputy.

Mr. BURKE. Mr. Gibbons has one question of the deputy.

Mr. GIBBONS. This is for either one of the gentlemen.

Do you keep any formal record of unit labor costs over there in the Department of Labor so that we can compare the unit labor costs of this country with those of other countries?

Mr. SEGALL. Yes, we do have a file of unit costs, and we do compare them with other countries.

Mr. GIBBONS. Is it very voluminous? I don't necessarily want to tackle something like the Sears Roebuck catalog.

Mr. SEGALL. If you would like, we can provide you with a quite legible chart comparing the changes in the unit labor cost over the past 10 or 12 years.

Mr. GIBBONS. Could we have that put in the record, say at the end of Mr. Corman's questioning of the Secretary of Commerce?

Mr. Chairman, would that be permissible?

Mr. BURKE. Yes; without objection.

Mr. GIBBONS. Could you send me a copy so I won't have to wait until the hearings are published?

Mr. SEGALL. Yes.

[The information follows:]

COMPARATIVE INTERNATIONAL LABOR COST AND PRODUCTIVITY[1]

The cost of producing goods in the United States relative to other countries is an important element in determining the flow of trade. Labor costs, in turn, account for a major portion of total costs. In 1971, for example, employee compensation amounted to 72 percent of the gross product originating from the manufacturnig sector.

Examination of trends in unit labor costs provides some insights into the trade competitiveness of the United States in relation to other countries. Indexes covering unit labor costs and related series for all manufacturing are available for the United States and ten other industrial countries and are summarized for the period 1960 to 1972 in the accompanying tables and charts. While these indexes do not provide a comparison of the levels of labor cost per unit of output, they do indicate whether the overall U.S. unit labor cost position in manufacturing is improving worsening in relation to our major trade competitors. They do not, however, necessarily reflect comparative trends for individual manufacturing industries or products.

TRENDS IN MANUFACTURING SINCE 1960

Over the entire period from 1960 to 1972, manufacturing unit labor costs, measured in national currencies, rose less in the United States than in any of the ten other countries. To a very large extent the overall good U.S. record is attributable to the first five years of the period plus a relatively favorable

[1] Source: U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C., Apr. 13,, 1973.

trend in the last two years. In the first half of the 1960's, U.S. unit labor costs declined while costs in Japan and Europe were rising. In the last two years, U.S. labor costs rose but at a much lower rate than those abroad. Between 1965 and 1970 U.S. unit labor costs increased at an annual average rate of 4 percent, which was substantially higher than the rates in most of the other countries. Unit labor costs reflect the relationship between hourly labor costs and productivity (output per man-hour). To the extent that increases in compensation are offset by gains in productivity, inflationary cost pressures are reduced.

Over the entire period, hourly compensation rose at a slower annual rate in the United States than in any of the other countries. The 12-year average rate of increase was 5 percent for the United States, 6½ percent for Canada, and 8 to 14 percent in Japan and the European countries. Within the period the rate of increase for the United States accelerated from a relatively low rise of 3.7 percent per year during 1960–1965 to over 6 percent per year since then. Even with the 6 percent per year rate of gain in the United States, the other countries still had greater increases since their rates also accelerated markedly, particularly in the last few years.

On the other hand, productivity (output per man-hour) in the United States rose less than in any of the other countries. Over the 12-year period U.S. productivity grew about 3 percent per year whereas the productivity gains for Canada and the European countries ranged from 4 to 7 percent per year. The gain for Japan actually exceeded 10 percent per year. Nevertheless, because the differences between the U.S. and other countries' hourly compensation gains were so much greater than the productivity rate differences, the U.S. unit labor cost increases were smaller than those of other countries. This was not true, however, during the 1965–70 period when the U.S. productivity gains were substantially lower than those abroad. In the last two years, the improvement in U.S. unit labor cost increase relative to those abroad reflects both the marked acceleration in productivity and the stability in hourly compensation increases.

The cost trends discussed above are based on measures expressed in national currencies of the 11 countries. They do not take account of the numerous changes in currency valuations that have occurred since 1960, including the dollar devaluation of December 1971. When cost changes are measured in U.S. dollars, most of the other countries show a higher rate of increase in unit labor costs than they show on a national currency basis. This is especially true for the last two years, when the 1971 dollar devaluation took effect. The annual rate of increase in unit labor costs from 1970 to 1972 was 1.4 percent for the United States, compared with rates ranging from 6 to 17 percent for the other countries, when calculated on a U.S. dollar basis.

COMPARATIVE LEVELS OF UNIT LABOR COST AND PRODUCTIVITY

Although the trend measures shown here are useful fo runderstanding the movements of labor cost, for internaitonal comparisons it is desirable to have measures of the levels of labor costs per unit of output for the economy and for individual industries. However, because of data limitations, these measures for the total economy cannot be derived, and absolute comparisons can be developed for only a few individual industries.

The only available study of comparative unit labor costs is one that the Department of Labor has completed, covering the primary iron and steel industry in the United States, Japan, and the three largest steel producing countries of Western Europe—France, Germany, and the United Kingdom. Even in this study, comparative data for Japan and the countries of Western Europe could only be presented in terms of ranges with high and low estimates, because of data gaps.

As can be seen in Table 3, the estimated labor cost to produce a comparable ton of steel products in 1971 was approximately 80 percent of the U.S. level in Germany, about 60–65 percent of the U.S. level in France and the United Kingdom, and only about one-third the U.S. level in Japan. Relative to the United States, this represents a slight lowering of unit labor costs in Japan and France since 1964, a small increase in the United Kingdom, and a signficant increase in Germany. The relative improvement for Japan is attributable to rapid productivity growth, whereas the relative improvement for France is attributable to the 1969 devaluation of the French franc. The large relative increase for Germany reflects primarily the upward revaluations of the German mark in 1969 and 1971. If the British pound had not been devalued in 1967, unit labor costs

in the United Kingdom would have risen substantially more relative to the United States.

Hourly labor costs in steel manufacturing have been rising faster in the foreign countries than in the United States and to 1971 ranged from about one-third the U.S. level in Japan and the United Kingdom to nearly 60 percent in Germany. These hourly labor cost levels will be higher, relative to the U.S. level, as a result of the further devaluation of February 1973. Steel productivity has also been rising faster abroad. Between 1964 and 1971, output per man-hour increased by only 8.6 percent in the United States, and 11 percent in the United Kingdom, compared with increase of around 40 percent in France and Germany and well over 100 percent in Japan. The comparative data for Japan are probably less precise than the data for the other countries. Nevertheless, productivity in the Japanese steel industry is certainly approaching the U.S. level if it has not exceeded it. Preliminary 1971 estimates for the other countries indicate that output per man-hour in the British steel industry was about half the U.S. level and that France had reached about two-thirds and Germany three-fourths of the U.S. level.

The comparative cost figures relate only to industry labor costs. Although labor costs are a sizable part of total costs in the iron and steel industry—about 40 percent in the United States—material and other costs represent a larger proportion of total costs, and it cannot be inferred from the results obtained for unit labor costs that differences in the other costs of production are of the same magnitude or even in the same direction. In addition, higher average unit labor costs in the iron and steel industry in the United States, as compared with Japan and Western Europe, by no means imply that this is true for every steel mill product.

Broad conclusions about comparative cost and productivity levels in all manufacturing industry cannot be drawn from the experience of a single industry such as iron and steel. For some industries, no significant import competition has developed and export markets have been expanded. In other cases, it is clear that import penetration has been rising, which is often regarded as an indication of substantially lower costs abroad. The currency realignments of late 1971 and early 1973 have, of course, improved the overall U.S. labor cost position. Whether this is a temporary or long-term gain will depend on future relative movements of labor cost and productivity both here and abroad.

TABLE 1.—RATES OF CHANGE IN UNIT LABOR COSTS IN MANUFACTURING, 1960–72

[Average annual percent change]

Item and country	1960–72	1960–65	1965–70	1970–71	1971–72
Unit labor costs in national currency:					
United States	1.9	−0.7	4.0	0.8	2.1
Canada	2.0	−.8	3.2	3.3	3.5
Japan	3.4	4.3	2.0	10.6	4.8
Belgium	3.1	3.3	1.4	8.9	3.8
France	3.5	3.8	3.8	4.5	4.6
Germany	3.3	3.0	2.6	8.9	4.9
Italy	4.8	6.3	3.9	13.8	8.9
Netherlands	4.8	5.6	2.8	10.5	8.0
Sweden	2.7	2.1	2.0	−10.1	5.5
Switzerland	3.0	6.3	.4	7.3	6.9
United Kingdom	3.6	2.3	3.6	7.3	4.1
Unit labor costs in U.S. dollars:[1]					
United States	1.9	−.7	4.0	.8	2.1
Canada	2.0	−2.8	3.7	6.8	5.4
Japan	4.1	4.2	2.2	14.0	20.2
Belgium	3.6	3.4	1.3	11.5	14.5
France	2.7	3.9	1.5	5.0	14.2
Germany	4.8	3.7	4.1	14.2	14.4
Italy	5.0	6.2	3.8	15.4	15.4
Netherlands	5.4	6.4	2.7	14.4	17.4
Sweden	3.0	2.1	1.9	11.8	13.2
Switzerland	3.6	6.2	.5	12.4	15.1
United Kingdom	2.1	2.2	−.4	9.5	5.4

[1] Data in national currency units adjusted for changes in exchange rates.

Note:—Percent changes computed from the least squares trend of the logarithms of the index numbers. Data relate to all employees in manufacturing (wage earners only in Switzerland, mining and manufacturing in Sweden). All 1972 figures and some of the figures for earlier years are estimates derived from preliminary or partial year data or from current statistical series that are less complete than those used for the longer term trends.

TABLE 2.—RATES OF CHANGE IN HOURLY COMPENSATION AND OUTPUT PER MAN-HOUR IN MANUFACTURING, 1960–72

[Average annual percent change]

Item and country	1960–72	1960–65	1965–70	1970–71	1971–72
Output per man-hour:					
United States	3.1	4.3	2.0	5.9	4.0
Canada	4.4	4.3	4.7	6.8	3.4
Japan	10.4	8.5	13.2	4.6	11.0
Belgium	6.6	5.3	7.9	4.6	8.5
France	5.8	4.9	6.0	6.6	7.2
Germany	5.8	6.3	5.7	4.7	5.5
Italy	6.0	6.8	5.3	3.5	3.6
Netherlands	7.2	5.5	8.9	6.2	7.0
Sweden	7.1	7.2	7.7	2.2	7.0
Switzerland	5.1	2.4	6.7	5.3	5.4
United Kingdom	4.2	4.0	3.9	5.6	7.6
Hourly compensation in national currency:					
United States	5.1	3.7	6.1	6.7	6.2
Canada	6.5	3.5	8.1	10.5	7.1
Japan	14.2	13.1	15.4	15.6	16.4
Belgium	9.9	8.8	9.4	14.0	12.6
France	9.4	9.0	10.0	11.4	12.1
Germany	9.3	9.5	8.4	13.9	10.7
Italy	11.1	13.6	9.4	17.8	12.8
Netherlands	12.4	11.4	11.9	17.3	15.5
Sweden	10.0	9.5	9.8	12.4	12.9
Switzerland	8.3	8.8	7.1	12.8	12.8
United Kingdom	8.0	6.4	7.7	12.1	12.0

Note: Percent changes computed from the least squares trend of the logarithms of the index numbers. Data relate to all employees in manufacturing (wage earners only in Switzerland, mining and manufacturing in Sweden). All 1972 figures and some of the figures for earlier years are estimates derived from preliminary or partial year data or from current statistical series that are less complete than those used for the longer term trends.

TABLE 3.—RELATIVE UNIT LABOR COSTS, HOURLY LABOR COSTS, AND OUTPUT PER MAN-HOUR IN THE IRON AND STEEL INDUSTRIES OF FIVE COUNTRIES 1964, 1969, 1970, AND 1971 [1]

[U.S.=100]

Item and year	United States	Japan		France		Germany		United Kingdom	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Unit labor cost (U.S. dollars): [2]									
1964	100	31	40	66	72	58	72	57	64
1969	100	25	32	56	60	51	64	52	58
1970	100	25	32	54	59	62	77	55	62
1971 [3]	100	28	35	59	64	69	86	61	68
Hourly labor cost (U.S. dollars): [2]									
1964	100	17	17	34	35	37	39	29	30
1969	100	26	26	38	39	43	45	28	29
1970	100	30	31	39	40	53	56	30	31
1971 [3]	100	32	33	41	42	56	59	31	32
Output per man-hour:									
1964	100	43	54	48	51	54	63	46	50
1969	100	82	102	65	69	71	83	49	53
1970	100	96	119	68	73	72	84	51	55
1971 [3]	100	93	116	65	70	68	80	47	51

[1] Excluding wire and wire products in the United Kingdom and wheels and axles in West Germany. The ranges in estimates do not allow for differences between the countries in the degree of verticle integration or the quality of steel produced.

[2] Indexes in national currencies adjusted for changes in prevailing exchange rates. The British pound was devalued by 14 percent in November 1967, the French franc was devalued by 11 percent in August 1969, and the German mark was revalued upward by 9 percent in August 1969. In May 1971, the German mark was floated and in August 1971 the U.S. dollar convertibility to gold was suspended and the currencies of other nations were allowed to float relative to the dollar. In December 1971, there was a realinement of currencies. The effect of the realinement relative to the U.S. dollar was to increase the values of the French franc and British pound by 8.6 percent, the German mark by 13.6 percent, and the Japanese yen by 16.9 percent. The changes in currency exchange rates since 1971 are, of course, not taken into account.

[3] Preliminary estimates.

Sources: Bureau of Labor Statistics, "An International Comparison of Unit Labor Cost in the Iron and Steel Industry, 1964: United States, France, Germany, United Kingdom," Bulletin 1580, 1968. Data for Japan are preliminary estimates from an unpublished study.

Chart 1. Rates of Change in Unit Labor Costs in Manufacturing, National Currency Basis, 1960-72

Percentage change per year

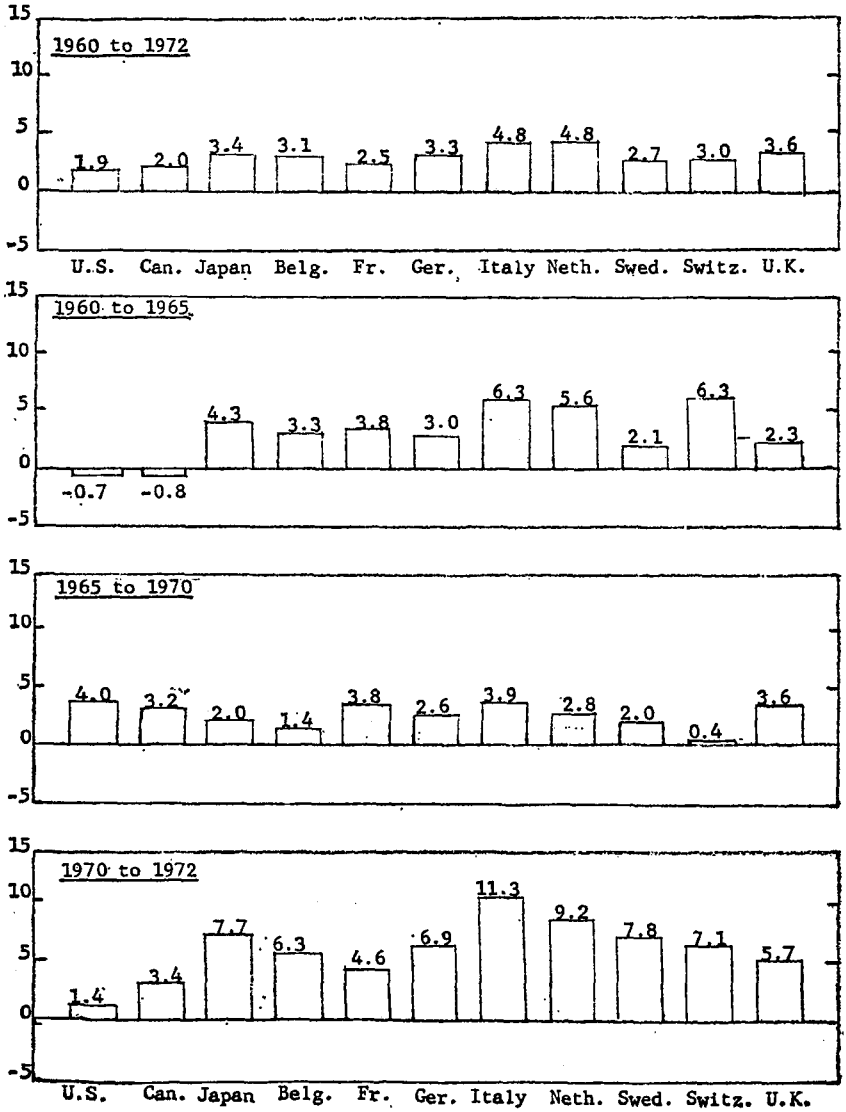


Chart 2. Rates of Change in Unit Labor Costs in Manufacturing, U.S. Dollar Basis, 1960-1972

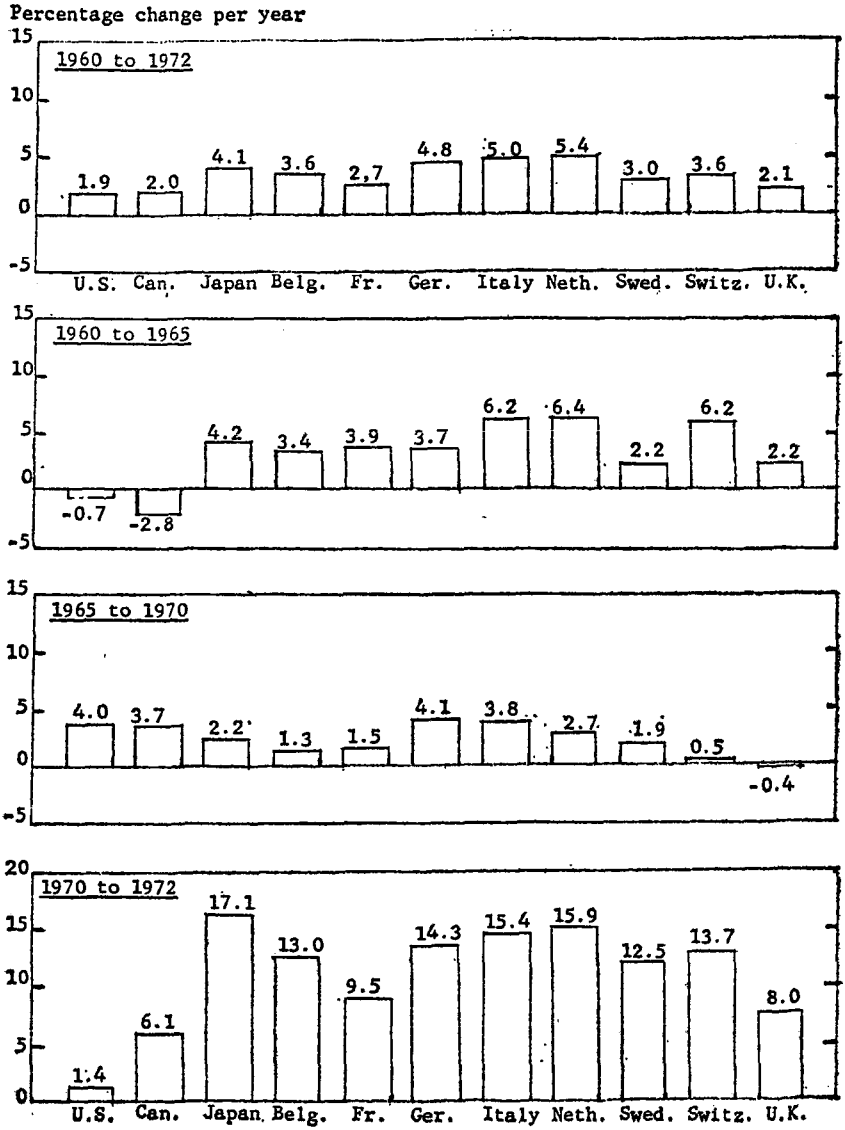


Chart 3. Rates of Change in Output per Man-Hour in Manufacturing, 1960-72

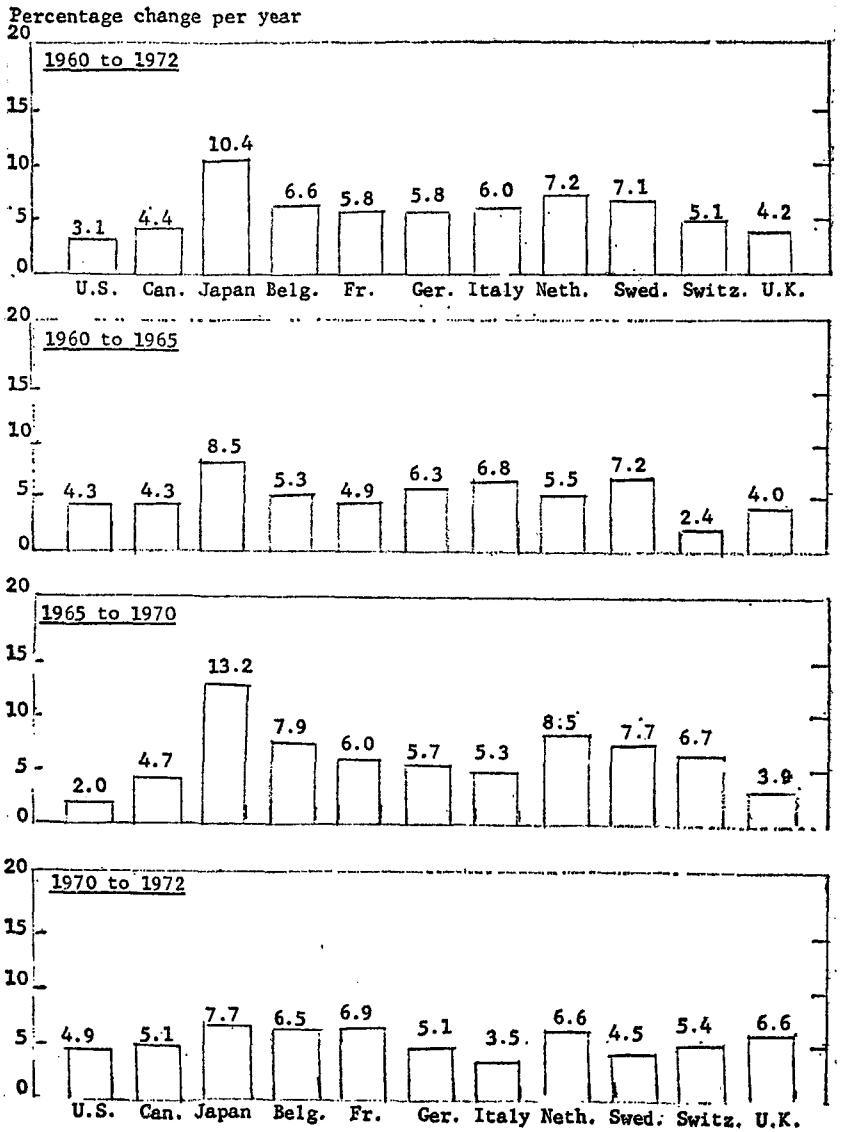
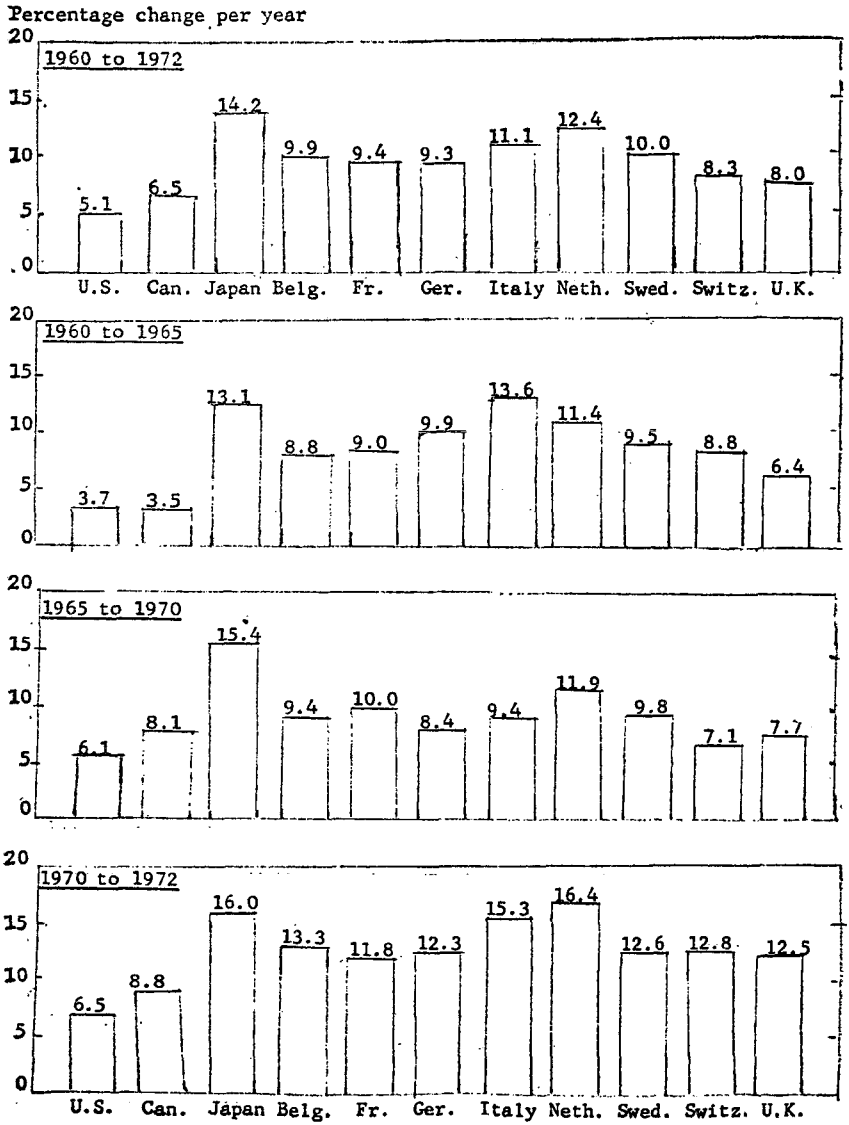


Chart 4. Rates of Change in Hourly Compensation in Manufacturing, 1960-72



Secretary DENT. Mr. Chairman, rarely do you find this degree of confidence by Labor, that they leave Commerce to take care of their interests.

Secretary BRENNAN. We trust you, Fred. I will leave my shillelagh here.

If we can be of any other help, Mr. Chairman, we will be glad to provide anything available.

Mr. BURKE. Thank you.

Mr. Corman, do you have some questions?

Mr. CORMAN. Yes, sir.

Mr. Secretary, with either voluntary import quotas or where we have government-imposed import quotas, I have grave concern not about the overall picture, but the impact on individuals in the community.

There is always a conflict among American businessmen. The conflict will be affected by what the President does in attempting to expand trade because we will be making concessions, or we will be imposing restrictions, and those things have a direct impact and a life-or-death impact on a few people.

I would hope that we might in this legislation evolve something in the nature of due process so that people within the business community at least have some opportunity to make their case when these decisions are to be made, because they really are very substantial from the point of view of individual entrepreneurs in this country.

Is that a fair worry?

Secretary DENT. I think we should always be worried about the businessmen.

I will give you some reassurance, however, in expressing the belief that the segment of American business which is probably the most enthusiastic for the passage of this legislation is the retail federation.

Mr. CORMAN. I am sure that they are convinced it will be used for freer trade, that is accurate.

I am not sure that some of the others would be as enthusiastic if they were as confident as the retailers that this will be a free trade bill.

It certainly lends itself to being free trade or fairly restrictive.

Depending on your audience, you stress which it is going to be.

Secretary DENT. I think if you will read the President's message that accompanied the bill, but more importantly look at his actions—during the first term—where he did so much to create a lowering of tensions around this globe, I think that his record would indicate that his leadership is headed in one direction, which is obviously to open up the world to all sorts of communication as well as commercial communication. I think that this is perhaps the most confidence-building thing in the record as to what his commitment is.

Mr. CORMAN. Let us look just a minute at our own nontariff barriers and what authority the President is going to have under this bill to negotiate those away in exchange for the removal of nontariff barriers abroad.

As I understand the situation, a substantial portion of our own nontariff barriers are a matter of State law. What authority is he going to have to negotiate those?

Secretary DENT. The bill involves authority to carry out any trade agreement related to methods of customs valuations; quantities on which assessments are made; and, with respect to marketing requirements of country of origins.

Now, beyond that, he would have to submit to the Congress any proposed nontariff barrier agreement for consideration before he signs

it and, after he signs the agreement involving the removal of an American nontariff barrier, the Congress would be given an additional period during which they might nullify this action.

Mr. CORMAN. I understand that the State of Oregon in its effort to clean up its highways now prohibits the importation into that State of beverages in nonreturnable containers.

I would assume that some exporting countries would consider that a rather significant nontariff barrier.

Do I understand correctly that if the President wanted to negotiate away that Oregon law, he could do it, subject to a possible veto on the part of the Congress, but there is nothing that Oregon can do about it if the President acts and we fail to veto?

Secretary DENT. I can give you a commonsense judgment. I am not a lawyer. The President is negotiating for the Nation as a whole and not on a State-by-State basis. If it was a national law, he could do it. I do not believe he is empowered to negotiate State law by State law.

Mr. CORMAN. Does anybody else at the table have a different view about that?

Secretary DENT. We will get a legal judgment for the record.

Mr. CORMAN. Certainly I know it is at the level of a treaty which could supersede State law. I think it would be useful for us to know the degree of sanctity of a Presidential determination, assuming that the Congress does not veto.

Secretary DENT. We will be glad to get an opinion for the record, sir.

Mr. CORMAN. In other words, the "Buy American" laws, at least they are talked about by a great number of our trading partners as being worrisome nontariff barriers.

I would like to know for the record whether or not the President will have the authority to negotiate those away?

[An opinion on this subject is included in a letter submitted by the Department of Justice to Chairman Mills, at p. 326.]

Mr. CORMAN. Mr. Secretary, do you keep any statistics in conjunction with your trade centers as to how many of the participants are small business entities, how many are large?

Secretary DENT. Yes, sir.

Mr. CORMAN. I wonder if we can have those.

Secretary DENT. I will be glad to.

[The information follows:]

INFORMATION ON TRADE CENTER PARTICIPANTS

The start of the program in June 1961 through FY 1973, 19,666 U.S. firms have participated in various Trade Center events around the world; 6,878 of them have been small firms, 8,166 have been considered medium in size, and 4,622 are large firms.

We divide the size for statistical purposes at the following levels: small firms are those with $1 million or less in sales; medium firms are those with $1 million–$50 million in sales; and large firms are described as those over $50 million in sales.

In addition, the percentage of participation by new-to-market and new-to-export firms in Trade Center exhibitions has increased from 29.9 percent in FY 1971 to a present Trade Center average of 49.4 percent.

Mr. CORMAN. Thank you very much.

Mr. BURKE. Mr. Brotzman.

Mr. BROTZMAN. No further questions.

Mr. BURKE. Mr. Archer.

Mr. ARCHER. No further questions.

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. I have a couple of questions.

Mr. Secretary, do you consider the value added tax to be a nontariff barrier? For instance, the rebate of the French value added tax?

Secretary DENT. That is subject to a great deal of discussion. It is actually authorized by the GATT so that it is a legal remission under the GATT agreement.

Mr. GIBBONS. I realize that. But it certainly seems when you consider their system of taxation versus ours, it is a terrific advantage to them so far as exports are concerned. Their value added tax is so high. When you consider that our goods going in there have to pay a border tax, which can be seen as a sort of reciprocal value added tax, I just wonder whether you think the value added tax, specifically the French value added tax, operates as a nontariff barrier.

Secretary DENT. As I say, it is legal, under the GATT agreement. Part of the negotiating authority would involve a review of all of the existing authorities under that agreement, and this might be one of the things which would be discussed.

Mr. GIBBONS. What about the American selling price?

What does the administration's bill do about the American selling price?

Secretary DENT. This bill has, as one of the nontariff barrier authorities which the Congress is being asked to grant to the President, authority to deal with methods of customs valuation, and the ASP comes under that authority.

Mr. GIBBONS. Assuming we do pass this bill, then the President would have discretionary authority to get rid of the American selling price. Is that right?

Secretary DENT. He has the authority on customs valuation.

Mr. GIBBONS. I am glad to see you keeping such good records on the DISC provision. You report how many new DISC's there are. Are you going to issue any annual statements as to how much export business they are doing or anything like that?

Secretary DENT. The Treasury Department has responsibility for the DISC.

Mr. GIBBONS. So that we can see how these operations are broken down, I hope.

Of these DISC's you are talking about; how many of them are from existing industries and how many of them are from new industries or new trades?

Secretary DENT. I can't give you that, but where DISC is involved and is utilized by an industry, whether it is existing or a new industry, the purpose for which deferral of the tax payment is accorded relates entirely to the activities of that business for export purposes, so that, in effect, even if it were a company founded in 1800, they can obtain a deferral of taxes only as long as they continue to use their tax-deferred earnings in their export business or related activities.

Mr. GIBBONS. I am not sure that you and I agree on that interpretation of the DISC, but we will put that one off a little longer.

Of course, our country has done some good things as far as expansion of tourist trade is concerned, and I think we can do a lot more.

Secretary DENT. We agree with you.

Mr. GIBBONS. Let me give you some practical hints just based on my recent observation of the road signs we have.

Are you responsible for all the road signs on the interstate highways?

Secretary DENT. No, that is the Department of Transportation.

Mr. GIBBONS. Oh, well, maybe you can pass this on.

First of all, the blue and white signs are much more visible to the average motorist. They can pick them up a lot sooner. Some of us are red-and-green colorblind, and these green signs don't help us at all, or only help us a little. The blue and white ones stand out better, particularly at night. The international travelers will find it a lot easier to read the sign that, instead of saying food and lodging, has a picture of a knife, and fork, and a bed. The Europeans' road signs are far superior to ours.

Maybe, when you are discussing what can be done to promote international tourism in the country, you should consider that some simple things like that would make the country a lot more hospitable to the foreign visitor.

Mr. Corman asked so many good questions I think I'll leave it at that.

I think you have handled yourself extremely well here, Mr. Secretary. It is nice working with you.

Mr. BURKE. Are there any further questions?

I would just like to ask you, Mr. Secretary—I don't like to hold you too long—on the elimination of the American selling price, what effect do you think that will have on the rubber footwear industry?

Secretary DENT. It depends entirely on the circumstances under which the negotiations go forward. Obviously, the American selling price is not going to be negotiated away without adequate compensation for it.

Mr. BURKE. I am concerned about the declining footwear industry. You are asking in this bill for permission to eliminate this American selling price which would adversely affect the rubber footwear people. I was wondering how bad that would affect them and whether or not they can stand it.

Secretary DENT. We will be glad to try to get up a projection for you if you would like, to the best of our ability.

Mr. CORMAN. Mr. Chairman, might that be one of the tools available to negotiate away one of those horrible nontariff barriers on oranges?

The way you answer that may win you one vote and lose you one vote.

Mr. BURKE. Here is what bothers me in this bill. Is it not true that our negotiators before they left the GATT agreement, more or less made a commitment to our trading partners that they would come back with the elimination of the American selling price?

Secretary DENT. You mean in 1962?

Mr. BURKE. No; in 1967.

Secretary DENT. The authority existed to involve in the negotiations the American selling price. This was involved. It had to be approved by the Congress. It was not approved, and consequently we failed to realize the benefits which the negotiators had negotiated in return for that.

Mr. BURKE. You and I know that it had to be approved by Congress and an attempt was made; it was defeated; and now they seem to be coming through the back door again and trying to eliminate it again, without coming out with all the facts.

Secretary DENT. How could you possibly think it is the back door when it is written in a bill that is sent by the President of the United States for the Congress to consider and vote on? This is the front door, if I have ever seen one.

Mr. BURKE. In the provisions that you call for here, the only thing you say, that Congress can have 90 days to disapprove.

Secretary DENT. No, sir. The customs valuation is part of the bill which, if passed, as submitted today, will give the President authority without coming back.

Mr. BURKE. If he had the power today, he would eliminate the American selling price, and yet we talk about these hardheaded negotiators. The hardheaded negotiators all seem to be on the other side of the table.

We seem to have all the softheaded negotiators. And apparently they made a commitment that, "We will come back with the American selling price eliminated."

Then they apparently thought it would sail through Congress, but it did not; it was stopped.

I have talked to some of those members up in New Jersey, just to give you a little idea of some of the problems you are going to have. They are quite upset about it, about this provision being in the bill.

I have talked to the members from Wisconsin. They are quite concerned about what you are going to do to the dairy industry.

I have talked to some members out in California. They are concerned about the wine industry.

You can read this literature right down the line.

I think you people have to come in here with some assurance besides the rhetoric of these "hardhearted negotiators." I listened to that in 1962; I thought it was on the level. I sat here and really believed it.

I listened to Secretary Hodges telling us about the great adjustment assistance that they were going to give.

In fact, Mr. Flanigan was here the other day, and he practically made a statement here that indicated that the shoe industry did very well under the Adjustment Assistance Act and provisions of the law.

The truth of the matter is that less than 5 percent of the cases have been settled favorably for the footwear industry.

There is not a footwear company in my whole congressional district, and there are over 15 or 18 of them that have gone out of business, that has gotten any adjustment assistance.

They talk about giving the President all this power. There is a case down there now, in the White House. It was acted upon the Tariff Commission back in January of 1971, a 2–2 tie vote. He is still sitting on it down there.

You know, you are asking for an awful lot of things in this bill.

Secretary DENT. Mr. Chairman, we now have a $6.3 billion trade deficit. The President feels it essential that we move ahead with hardheaded negotiations to see that American business and labor have an opportunity to participate in offshore markets.

I know whereof you speak, having served as an industry adviser during the Kennedy round, and they did not listen to me any more

than they did to you. Hopefully, the totally different picture that we now have, with the dollar that has had to be devalued twice, with the trade deficit, that we must move ahead to open up markets for American production.

If I might also add, there has been considerable discussion this morning about agriculture, stressing its portion of the American export market. During the lunch hour we checked, and manufactured goods in 1960 made up 64 percent of our total exports; by 1965 they had grown to 65 percent; and in 1972 they had grown to 68.6 percent.

Of this total, 80 percent are involved in the high technology area. So there has been some disparagement of what we might get for American labor and business, in stressing the agricultural elements of the negotiations.

It is our intention certainly to expand American markets for manufactured goods.

Mr. BURKE. I certainly hope you are successful in doing it because if we do not increase our exports with the predictions made by those who testified during the tax reform hearings on the needs of oil, where they are going to accelerate to as high as $25 billion more a year, we have a $10 billion trade deficit on the other goods, and then to have $25 billion more in oil, this country is headed for some real trouble.

That is why I would like to get some explicit information, I hope we can get it in executive session.

If they are going to continue to open up the flood gates and open them wider on goods that we don't need and let them glut the market—and I am talking about textiles—I think you are acquainted with that industry—and I am talking about the footwear industry; I am talking about the sporting goods industry; I am talking about the electronics and all the others—if they are going to let such imports come in with the gates wide open, and then we try to find we need $25 billion more in oil, we are going to be in a mess.

I don't think I will be around here at the time when we reach that collision we are heading for, but you don't have to be an economist to figure it out.

I think a seventh or eighth-grade schoolchild could understand that you can't increase imports of oil an additional $25 billion a year and have a $10 billion trade deficit on the other goods and have this country survive economically.

Secretary DENT. Mr. Chairman, the objective of this effort to pass the Trade Reform Act of 1973 is to open up the flood gate which has restrained American goods from going offshore, so that we can achieve at least a balance, if not a favorable trade balance.

We now have this $6.3 billion deficit which is intolerable.

Mr. BURKE. I cannot understand why everybody says we are about to turn the corner, and the imbalance is going to shift, and then on the other hand, we have been testifying before this committee and other committees of Congress that they are going to need all this additional oil.

If we are going to have all the imports of oil that we are going to need, and if it is going to run up to a total of $25 billion a year, I don't know where the administration or any of the spokesmen for the administration can come up here and make these wonderful predictions.

What are we going to sell overseas in the place of the oil we have to buy?

How can we continue to leave the flood gates open on textiles, shoes and electronics, sporting goods, glass—you name it? There is a whole list of them.

How can we continue to let all those goods come into the market and then buy all the oil, and the people of the United States have $35 billion a year to send overseas more than they are getting back here? They will wind up with all of our money.

Secretary DENT. This administration undertook two devaluations which have resulted in a change since they took office of approximately 44 percent in the value of the deutsch mark; the yen, if I am not mistaken, is revalued to the tune of 37 percent; these initiatives as well as trying to open up the flood gates outward to encourage exports from this country.

As I say, 80 percent of our exports have been in the high technology area and perhaps this is the way that we have to keep the country moving under full steam, see that the incentives are before us to build plants and buy equipment, to invest in research and development, to keep this kind of export effort moving forward successfully.

Mr. BURKE. Secretary Shultz practically intimated the other day that these two official devaluations were good for the country.

I asked him, if they were so good for the country, why didn't we do it again.

The devaluations, despite all the rhetoric we have heard about it, have caused a great deal of suffering in Continental United States.

After those devaluations took place, then we saw the prices go up, and we hear the bankers talking that they have to increase the interest rates; they have to offset that loss over there.

You know who is going to pay for it. Right here in America.

Secretary DENT. Mr. Chairman——

Mr. BURKE. Devaluations do not stop at the shoreline. I don't think you believe it, nor anybody else in this administration believes it.

It is going to be very costly to the people of the United States. You and I know it.

Now, the question is: If they are good for the country, why don't we have another one?

Secretary DENT. Surgery is good if you need an appendectomy. But because you feel better when your appendix is out, you don't go in and get your gallbladder unless it is indicated that you need to.

Mr. BURKE. Would you care to make a prediction right now whether or not there will be another devaluation within the next 18 months?

Secretary DENT. I do not make any predictions. I agree with you that devaluations are unfortunate and should only be faced up to when essential. This last one was occasioned in large measure by the announcement of our trade deficit and, if we can get on with the negotiations and open up the outward export floodgates, maybe we will avoid the necessity for having to go through this.

Mr. BURKE. They are telling us that they have to buy all this oil. How are you going to create any feeling of confidence on the part of our trading partners if they know we have to buy billions of dollars more of oil and the deficits are going to increase?

Secretary DENT. The Japanese have to buy more than 90 percent of their oil from the Mideast, and Europe is depending on the Mideast

for about 80 percent. Our dependency on offshore oil is considerably less than our trading partners'.

The President's energy message was designed to encourage the development of our domestic resources, the oil reserves on the Continental Shelf, more use of coal, the opening up of the Alaskan reserves which would replace at least 30 percent of our offshore oil needs. We have energy in this country. We have to get on with its development, see that the incentives are kept before the American businessman to develop these for our benefit. At the same time, we will be importing more.

Mr. BURKE. That still does not answer my question to you: How can we give out the impression that we are going to improve our balance of trade when the predictions are on the part of the spokesmen that we might increase our purchases of oil to as high as $25 billion a year?

My question is: How can we buy all this increased amount of oil, and at the same time allow the floodgates to be opened as they have been opened since the 1962 agreements on other merchandise that employs people?

In other words, who is going to be around to work to make the money to buy the products that we need?

Secretary DENT. You and I are on the same side, Mr. Chairman, in appraising the seriousness of the energy problem.

Mr. BURKE. I hope we are.

Kith that, I think we ought to conclude.

Are there any other questions?

Mr. CORMAN. Yes, sir. Maybe the American Federation of Retailers had better read that last statement.

Secretary DENT. I am talking about having Americans being equipped to purchase.

Mr. CORMAN. I did want to ask about the American selling price.

May it be removed country by country under this proposal?

Secretary DENT. I think it would be subject to the most-favored-nation provision so that, if it comes off, it would come off across the board.

Mr. CORMAN. As a practical matter, if we assume for the moment the Congress denied the President the authority, he still has authority to reduce tariffs; so, whether or not we are really retaining the American selling price does not really make any difference; does it?

Secretary DENT. Yes, it does.

Mr. CORMAN. Why?

If you are going to have a 5-percent duty on the American selling price or a 7-percent duty, without it, and it is the same number of dollars, if you give the President the authority, unrestrained, to fix the tariff rate, why does he need the authority to remove the American selling price?

Secretary DENT. I think the question arose here about the border tax remission.

If we adjusted tariffs to make up for that, we would soon forget that that provision had been made and it would still be a thorn in our side.

So that, as long as this nontariff barrier exists, the thorn is going to be in our trading partners' side. It is a matter of principle.

Mr. CORMAN. I am not suggesting that that come out of the bill, but I am asking if it is not correct that from the point of view of the dollars involved the President has the authority to make the same adjustment, with or without the American selling price other than the one factor that it will still annoy them?

He can fix the tariff rates so that they pay the same duty with or without the American selling price under this bill?

Secretary DENT. You might be able to achieve the same monetary effect, but as far as trade negotiations are concerned, a nontariff barrier would persist although the combined effect might result, as you say.

Mr. CORMAN. My consultant tells me that the French make rubber shoes, too, so don't give that away just for oranges, get some of that California wine into France, too.

Mr. GIBBONS. Mr. Chairman, I wanted to explain why we could not take it out of the devaluation. You said if one devaluation was good, and two was better, why not do it a third time?

It is not within our control, Mr. Chairman. We can't devalue unilaterally just to gain an export advantage. If we try to devalue unilaterally and the other countries don't agree that this is justified, they will just slide their currency value down compared to ours.

You know, we come out of the same rat hole we went in. It has been advantageous for us to devalue. But devaluation is something we can't do unilaterally without justification.

Mr. Gross yesterday, on the floor, was raising all kinds of protest about the devaluation. You know, if you walk up and lay American dollars on the line for a French hotelkeeper, and he says, "I don't want those things," it does not make any difference what the Congress does. It is a matter of what the Frenchman will give you for those dollars.

That is the way it works. We cannot devalue unilaterally just because we want to sell more exports.

Mr. BURKE. Of course, but as you realize, they had bushel baskets of our dollars overseas and they did not know what to do with them.

If we keep giving them more bushel baskets of dollars, they will keep piling up until they smother in them.

Mr. GIBBONS. That is a great piece of American fiction—that they don't know what to do with American dollars over there. They like them, they use them. They use them as the basis of the reserves for their currencies. They use them to balance accounts with. They invest them. They do quite well with them.

If you brought them all home in 1 day, if you could do that miraculous thing, you know, the stock market would drop down for a couple of days and maybe for a year it would be slightly depressed, but it would not hurt anything permanently.

This is a big piece of American fiction, about all those dollars sloshing around that they don't know what todo with them.

Mr. BURKE. My goood friend from Florida has not been looking at the prices that have gone up since devaluation here in America. He has not read the financial pages and the statements by the Federal Reserve Board and the other people.

Mr. GIBBONS. I am doing well by it.

Mr. BURKE. I am glad you are doing well. People in my district are not doing so well.

Mr. GIBBONS. It is so cold up there. Come down to Florida; that is where it is.

Mr. BURKE. I am surprised that my good friend from Florida thinks that the devaluation of the dollar is practically meaningless——

Mr. GIBBONS. No; I don't think it is meaningless.

Mr. BURKE [continuing]. that it would only slightly affect the stock market and a few other things. This is the type of rhetoric that we have been listening to which is so damaging to the American posture in the world. It is just unfortunate because I don't believe that devaluation is meaningless.

I believe it affects every man, woman, and child in the country. It affects all of us.

The stability of that dollar is challenged: it has been challenged. I think it is a serious problem.

One of the basic causes is the deficit in trade. One of the basic causes of the devaluation of the dollar is the deficit in trade. But the moment of truth is coming now.

We are going to see it during the next few years. Let us see what happens when we have to buy $25 billion more of oil and see whether this country can allow an $800 million deficit in the shoe industry.

Mr. GIBBONS. You are not going to hook me on that oil thing because we have followed a stupid Federal policy on oil ever since before World War II, a policy that I didn't have anything to do with and have voted against consistently since I have been on this committee.

This is the reason we are out of oil.

Mr. BURKE. I am merely pointing out to you that if we are compelled for our needs to buy $25 billion more in oil, we are not in a position to keep the gates open and glut the market here on textiles, shoes, electronics, and all the other goods. We will only be able to buy those things we need.

We will only be able to buy what we need. We are faced with this energy crisis. We have to take a look at the imports. We will buy what we need, but we should not buy what we don't need because, if we do, we will exhaust this country of all of its money.

It is just as simple as that.

Mr. GIBBONS. I only want to close this dialog by pointing to that picture over there. That fellow in the gold frame—Mr. Hawley of the Smoot-Hawley days—is straightening up. He is flying right now.

Mr. BURKE. These are serious problems, Mr. Secretary. So, I hope you will take them back with you.

We want to thank you very much for your appearance. And also the Department of Agriculture.

Secretary DENT. Thank you, Mr. Chairman.

[Statement of Hon. Henry Kearns, President and Chairman, Export-Import Bank, follows:]

STATEMENT OF HENRY KEARNS, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman, Members of the Committee, it is a pleasure for me to appear before you during your consideration of the Trade Reform Act of 1973.

Fifteen years ago it was my privilege to discuss at length our country's external trade with this Committee. Since that time, in public and private life,

world trade has been my full time occupation. In my current capacity as head of the Export-Import Bank of the United States, this involvement has been most comprehensive. In our consideration of some 5,000 transactions per year (in FY 1972 there were actually 5,477 transactions) in 137 world markets, a continuing kaleidoscope of international commerce passes in our review. Eximbank's staff is encouraged to travel extensively to all markets so that we may learn the up-to-date facts about our country's trade, its potentials and its competition.

I personally have visited 51 countries since assuming my responsibilities at the Bank, and thus I believe we do have a thorough understanding of the world's marketplace.

My latest trip, just concluded, lasted six and one-half weeks, and covered 11 markets, including Australia, Western Pacific countries, the Soviet Union and Poland. On this trip, in 270 separate events, in contact with more than 4,000 people, which included heads of states, government officials, private bankers and businessmen, the current U.S. trade posture was clearly revealed. Deep, frank discussions unmistakably showed the unlimited potentials for U.S. exports today—in my opinion the most promising trade prospects since the days of reconstruction.

In our changing world, no element is more pronounced than commerce among the nations, probably one of the greatest forces for good ever seen by man. With world trade volume increasing at an average of 11.6 percent per year, the challenge to us in the United States is unlimited. We simply must exploit the potentials and overcome the impediments.

Over the past two years we have observed a seemingly persistent U.S. trade deficit. Yet the latest trade figures recently released for the month of March 1973 are highly encouraging. The rate of import increase has been significantly reduced, and exports for the second consecutive month were at an annual rate exceeding $60 billion. I am convinced that with the measures and efforts already taken by the President, with the adoption of the legislation now under consideration by your Committee, and with active public involvement, we will see an unprecedented period of export expansion. This will provide good jobs for millions of Americans, substantial income and diversification for business and industry, and massive tax revenues for the Federal Government.

As a result of the President's leadership, major trading nations are now in the process of updating the free world monetary system. The outmoded monetary relationships from the Bretton Woods Agreement have been realistically adjusted through revaluation and devaluation. To some, this has forecast only gloom, and some have continued their dire predictions on the economic trade future of this country. I dissent strongly from this view, and I do so because of the experience we have had at Eximbank over the past four years, and from my intensive discussions with buyers and sellers in the United States and abroad.

Among the impediments to the realization of the full trade potentials are the multitude of barriers imposed by the governments of our trading partners. All countries desire to protect their own and at the same time to sell excess production abroad. Today, however, the measure of astute government can hardly be the degree to which trade has been slowed or prevented, but rather it will be a reflection of the benefits that accrue to the people.

We Americans are increasingly aware of our needs for energy, minerals and other types of primary products. It is clear that the wherewithal to buy this increasing flow must come very largely from the sale of our products and services abroad. Early passage of the legislation before you will increase the ability of the United States producer to benefit from the explosive expansion of world commerce.

Among the factors on which I base my conviction for great trade opportunity are: (1) the volume of world trade is destined to accelerate significantly as industrial countries must import more primary products and as developing countries improve their quality of life and emerge into a more productive era; (2) more public and private buyers have the ability to purchase as a result of their increased export sales and from vastly expanded credit facilities; (3) transportation and communications offer the means to market and deliver to a degree hitherto unknown; (4) there is a very high respect for U.S. products, their quality and standardization, packaging and service, and the full range of items produced by a multiplicity of companies; (5) services to buyers and suppliers by the Government were never better; (6) most important, U.S. products are now price competitive in nearly all categories and comparative inflation rates of competing countries tend to increase this advantage.

These factors all converging at one time provide a golden opportunity for the United States trader and an awe-inspiring challenge of his ability. If we fail to fully exploit this combination of economic circumstances, it will most certainly be to the detriment of the economic future of our country.

To exploit fully this golden opportunity, United States negotiators in the upcoming trade discussions must have a thoughtful and comprehensive set of rules and the maximum possible cooperation of the legislative and executive branches. These negotiators must be able to speak with conviction on behalf of the United States so that their bargaining position will not be inferior to representatives of other industrial countries.

It is a "must" that we give our negotiators wide latitude, especially in attempting to remove nontariff barriers which discriminate against the sales of United States goods and services in several countries.

For a long period following the conclusion of World War II, the United States enjoyed a beautiful seller's market. We were the exclusive producer of many products, especially those of high technology and the result of advanced research. Today, however, there are few products indeed that are available only from our country. Even commercial jet aircraft and nuclear power equipment, hallmarks of our exclusive heyday, are coming in for competition from several quarters. We at Eximbank deal with this increasing competition every day. It is my firm belief that a market in hand should be vigorously protected and nurtured while at the same time exploration continues for new markets.

The legislation pending before you, H.R. 6767, further authorizes the President to grant "most favored nation" treatment to countries when it is determined that such action is in the national interest of the United States. This authority is of significant importance. Private and public negotiators are increasingly exploring the possibilities of increased trade with the Eastern bloc countries. We have reached a decisive stage in our relations with the Soviet Union, Poland and Romania. The economy of the Soviet Union especially complements the economy of our own great country in many respects. The Soviets have very large reserves of certain raw materials and basic products which are now needed and will be increasingly needed in the United States. At the same time, we have the high technology, equipment and know-how that the Soviet Union needs to further its economic development. Potentially, the trade between our two countries can grow to significant proportions and probably can do so at a very rapid pace. Mutual benefit can be assured through careful analysis and persistent negotiations, but it is unrealistic to believe that one-way trade can long endure.

Mr. Chairman, I strongly urge prompt enactment of H.R. 6767 to make it possible for the United States to take full advantage of the almost limitless opportunities now available in the growing world markets. We must have total Government and private business cooperation, with bold, forward-looking programs vigorously implemented. This legislation, together with the intelligent and forthright initiatives taken by the President to stimulate U.S. exports, will reverse the balance of payments decline and will enable the United States to fully participate in the golden era of rapidly expanding trade.

[The following was received for the record:]

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., June 21, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives.

DEAR MR. CHAIRMAN: We are pleased to have this opportunity to provide your Committee with information which we have developed on matters pertinent to the Trade Reform Act of 1973.

Over the past 3 years we have reviewed and reported on a number of trade promotion and selected functional trade activities carried out by the Departments of State, Commerce, and Agriculture and on the export financing activities of the Export-Import Bank of the United States. Although the observations, conclusions, and recommendations from these earlier reviews are not particularly germane to the Committee's present deliberations, we think that the actions taken by the Departments of State and Commerce on our report findings indicate the renewed vigor with which these agencies are trying to improve the Nation's trade balance. State and Commerce have replaced the relatively passive and low-level approach to trade programs noted in our earlier reviews with an imaginative, aggressive, and more innovative approach to the Nation's export expansion objectives.

The new approach should give some perspective on what the executive agencies are capable of accomplishing with appropriate leadership and in an environment conducive to optimizing the results of their efforts in the trade field.

A little over a year ago, we initiated a review of foreign non-tariff barriers (NTBs) to U.S. exports. The gradual reduction and elimination of some tariffs have focused attention on NTBs because of their relatively greater significance as impediments to U.S. exports and to harmonious relations with our major allies and because of the uncertainty concerning the U.S. Government's capacity to deal with these issues. In addition, the commitment to a major new round of trade negotiations, which emerged from the Smithsonian Agreements, required the Executive branch to submit new legislative proposals to the Congress, focusing a great deal of attention on NTBs. Although our review is still in process, we have developed information which impacts directly on several sections of the present bill and which might be useful to your Committee in considering the legislative proposals.

Incidentally, our reviews have focused primarily on export expansion activities, and, except for a report on procurement program policies (B-162222, dated Dec. 9, 1971), we have not assessed the Government's capability to measure the trade impact of domestic NTBs. In our buy-national procurement report we examined the considerations involved in permitting Federal agencies to pay up to 50 percent more for domestic products over comparable foreign products, to protect domestic interest and to improve the U.S. balance-of-payments position.

Recognizing the need for coordinating economic and trade policies with overall national objectives, we recommended that the Director, Office of Management and Budget, initiate a reporting system to assist in evaluating the effectiveness of buy-national procurement program policies in terms of balance-of-payments benefits and additional costs.

Although the Office agreed that more information would be desirable, it stated that its limited capabilities did not justify the relatively high costs of developing and implementing the recommended action. We think this case provides some insight into the complexities involved in assessing the impact of various U.S. NTBs.

We submit two enclosures for your consideration.

Enclosure I presents our preliminary conclusions and recommendations from our examination of the U.S. Governments capacity to collect, analyze, and act and foreign NTB information.

Enclosure II presents our analysis of those sections in the Trade Reform Act which deal with the organizational capabilities analyzed in our NTB review.

We trust you will find the material useful in assessing the bill. Please call on us if we can assist you further.

Sincerely yours,

ELMER B. STAATS,
Comptroller General of the United States.

Enclosures—2.

ENCLOSURE I

RESULTS OF GAO'S REVIEW OF FOREIGN NONTARIFF BARRIERS TO TRADE

WHY THE REVIEW WAS MADE

We reviewed the Government's system for identifying, analyzing, and acting on NTB data because of its importance in improving the trade environment for U.S. business.

The executive branch is preparing for and will soon conduct major multilateral trade negotiations which will include amelioration or removal of NTBs.

The Congresss role in the planning, conduct, and results of these negotiations is crucial because of its authority to regulate U.S. foreign commerce. A basic congressional consideration is its confidence in the executve branch's capacity to deal with these complex matters.

The review was not intended to analyze the substantive characteristics or trade effects of NTBs but to examine the capacity of the U.S. Government system for collecting and analyzing data on foreign NTBs to U.S. exports. This required identifying and evaluating the various sources of NTB data (U.S. industries and trade associations, U.S. embassies and missions, and foreign importers of U.S. products) and the relationship between these sources and the Government's trade policy organization in Washington—the Departments of Commerce and State and the Office of the Special Representative for Trade Negotiations (STR).

Implicit in this focus on the data system is the conviction that adequate data is prerequisite to the satisfactory resolution of NTB issues; that the timing, substance, and effect of diplomatic representations to foreign governments on their NTBs depend significantly upon the volume, timeliness, and quality of data available to the Government.

SCOPE OF REVIEW

To test the capability of the Government's information collection, analysis, and decisionmaking system in coping with NTBs to trade, we selected five NTBs or potential NTBs to examine, and held interviews with over 100 business and Government officials.

These NTBs are of current concern to trade policy officials and have a significant, thought in most cases unquantified, impact on U.S. export interests. Four involve standards issues, one involves licensing restrictions, and one we uncovered during our investigation involves Government procurement. The standards cases are particularly prominent because of the heightened interest and Government activity associated with this NTB category.

CONCLUSIONS AND RECOMMENDATIONS

Our case studies and interviews disclosed that improvements are needed in the management information system to help achieve U.S. trade objectives. In summary, improved information collection and analysis can:

Enhance the data base on those NTBs which impact adversely on U.S. exports;

Induce representations which are more opportune, appropriately intense, well informed, and properly directed;

Provide appropriate information on trade damage or trade diversion and permit the Government to utilize empirical data rather than relying on subjective sources of information or trade policy officials' intuitive judgments;

Assist in the priority-setting process by providing the Government with reliable trade damage data;

Enhance the prospects of concluding NTB negotiations with economic advantage to the United States;

Make the system (1) less susceptible to pressure exerted by industry on NTBs of minor trade impact and (2) more likely to commit personnel and resources consistent with the importance of the NTBs in question.

We submitted the following detailed observations and recommendations to State, Commerce, and STR, to enhance their ability to make effective diplomatic representation on NTBs identified by the system and to improve the U.S. response to certain NTB issues expected to be raised during the upcoming negotiations.

Between headquarters and diplomatic posts

Embassy officials responsible for NTB reporting are generally burdened by required reporting and other recurring responsibilities imposed by Commerce and State. These responsibilities, contained in Commerce's Trade and Investment Program, State's Current Economic Reporting Program (CERP), and the Foreign Service Manual, include industry reports, economic trend reports, and numerous specialized reports. Because these responsibilities take considerable time they detract from the officials' ability to identify and analyze NTBs. Reducing these responsibilities would afford reporting officers greater flexibility to develop their workload and provide more time for soliciting NTB information and analysis from governments and local importers. Therefore, we proposed that State and Commerce reassess reporting and other responsibilities to allow officials more time to develop higher priority NTB data.

Embassy officials are often not sufficiently informed about the identity and depth of Commerce and State concern with NTBs and are understandably reluctant to initiate reports or devote time to analysis of NTBs. To assist U.S. representatives abroad, we proposed that the alert portion of the CERP and other program material be revised to provide more detail and guidance on the NTBs deserving priority attention.

Such a revision could be accomplished by providing an agreed-upon operational definition of NTBs; identifying priorities by country. NTB category, and product area; and specifying the level of detail required for embassy analysis of NTB operations and negotiability.

We believe that diplomatic posts could be brought more directly and effectively into preparations for the upcoming trade negotiations if the STR provided them with its tentative NTB priority list; this would follow the gen-

eral instructions on foreign decision making and general negotiating priorities already provided them. Commodity and geographic specialists have examined the list, and the embassies could provide a more direct and, we believe, a more effective input. To obtain greater benefit, the list should identify priorities by country; NTB category and product area; and, in the case of the European Economic Community, by region.

Because embassy officials are not fully informed about the technical details resulting from State and Commerce analyses of embassy NTB reports, they cannot measure the reports' relevance. It is understandable, therefore, that embassy officials are not fully confident of their role and tend to approach NTB identification and analysis defensively. We proposed that every effort be made to regularly inform embassies of all pertinent, general, and specific developments which affect U.S. relationships with a host country.

This would require providing posts with three types of information:

Specific information on internal policy reviews by Commerce and State, records and results of interdepartmental Trade Staff Committee meetings, technical analyses of NTBs previously reported by posts, and management reviews.

More general information, including copies and analyses of current trade legislation; the status of agencies' discussions on NTBs, tariffs, safeguards and any other likely subject for the upcoming negotiations; recent Presidential decisions and their implications for trade policy; and relevant reports by other agencies.

Periodic acknowledgement and advice, from all Washington end users, on the pertinence, timeliness, and thoroughness of embassy NTB reports.

Between embassies and importers

The success of these proposals is contingent upon changes in certain attitudes we observed among embassy personnel. Some posts are presently capable of applying a renewed system effectively, while others have not exhibited the initiative necessary to exploit increased flexibility. As a necessary first step, we proposed that State and Commerce impress upon embassy officials their responsibilities to actively solicit NTB information and analysis from local importers on a priority basis, rather than waiting for importers to complain, and to maintain contacts within foreign governments which would enable posts to provide their own analyses.

State and commerce should also identify those scheduled reporting and other responsibilities which could be deferred pending completion of the NTB reports for the upcoming negotiations. Embassies should also be instructed to seek trade damage data and, when possible, documented case studies of foreign NTBs.

NTB information and analyses might be solicited from local importers in a number of ways:

Embassy officials should engage in more active and effective public relations so that importers could consider the post a source of satisfaction for NTB complaints.

The posts should annually poll local importers, with confidentiality insured, about the type and significance of NTBs confronted and the measures taken by importers and exporters to adjust to these restrictions and recommendations for appropriate Government action.

Posts should accelerate efforts to meet importers personally, either at trade fairs and other large gatherings or through interviews arranged specifically for soliciting NTB information.

We believe the cumulative effect of these actions would engage the expertise located in or accessible to diplomatic posts, thus enhancing identification and analysis of NTBs.

Between Government and industry

The present dialogue between Government and industry is intermittent and ad hoc. Changes are needed to induce a continuous flow of pertinent information from industry directly to trade policymakers. If industry were engaged more directly in this process, its support for negotiating strategies and outcomes should improve. The Government, by upgrading the analysis of NTB operations, trade effects, and potential export performance, could develop the exhaustive information necessary to reach logical and defensible positions on NTBs with demonstrable effects on U.S. exports. Diplomatic priorities could be assigned to NTBs having the most severe trade impact, and the United States could avoid expending its diplomatic capital on minor NTBs. We proposed that the

Secretaries of State, Commerce, and Agriculture and the STR establish procedures for consulting industry associations and individual firms on the identity, operations, and trade impact of each NTB identified by various sources.

Such consultations should be pursued through formal committees consisting, in industry, of technical exports, export managers, and executives; and, in government, of commodity specialists from Commerce and Agriculture and trade policy officials and trade negotiators from Commerce, State, and STR. Government representatives should be from an appropriately high level to insure industry a visibly significant input.

We recognize that certain industry sectors and individual firms, because of their investments abroad, may not maintain an interest in exporting and, therefore, in NTB identifications and analysis. Thus, before forming the above-mentioned committees, we proposed that Commerce, in conjunction with the Office of Management and Budget, initiate a thorough analysis of the structure and specifically of the export interest of various firms and associations to identify those industry participants most likely to contribute meaningfully to the industry-Government dialogue.

As noted earlier, the upcoming trade negotiations have stimulated considerable thought and discussion on improving industry-Government contacts, and Commerce has developed proposals for a system of industry-Government consultative committees to obtain industry technical inputs, advice, and support. These proposals wisely recognize the need for early consultations with business executives, offering them a visible indication that their advice will reach the Government officials responsible for the actual bargaining. The proposals also recognize the diversity of expertise available in private industry and the instruments necessary to tap this expertise.

Within Washington agencies

The proposed committee system does not insure the quality of information required for a rational NTB decisionmaking system. Contacts with industry must be continuous, meetings must be scheduled, and industry data must be scrutinized. The role of the commodity specialists, with their technical expertise and industry contacts, is crucial and must be changed to allow them to concentrate on obtaining and verifying industry analysis of trade issues generally and of NTBs in particular. We proposed that the Secretary of Commerce consider assigning several commodity specialists representing all relevant product categories to purely international trade work within the Commerce Department's Office of International Trade Policy.

These specialists should be impressed with their broad responsibilities for soliciting information and analysis from all sources, to carefully validate industry data, and to develop negotiating priorities on the basis of the interests of all groups affected by NTBs.

The foregoing proposals are intended to create a decisionmaking system conducive to timely and thorough applications of all relevant and available expertise toward establishment of NTB priorities and the development of NTB solutions.

Enclosure II

GAO Analysis of Trade Reform Act of 1973

In light of our NTB review, certain comments on the Trade Reform Act of 1973 seem appropriate. We have confined our comments to those sections which implicitly assume the existence of, or specifically provide for, certain organizational capabilities analyzed in our review. We preface these remarks with a general comment that the improvements suggested in enclosure I are relevant less for any specific section than for the general thrust of the bill. The delegation of broad powers to remove or erect import barriers, either in consonance with or in departure from U.S. international obligations, emphasizes the need for confidence in the executive branch's organizational capabilities. The broader the powers delegated, the greater is the need for the improvements recommended.

TITLE I. CHAPTER I.

Section 103—Nontariff barriers to trade

This section contains a statement of congressional support for Presidential efforts to reduce, eliminate, or harmonize NTBs. These negotiations could take the form of agreements on particular NTBs or general principles applicable to

all or a category of NTBs; the latter could also provide guidelines for specific agreements.

The section *specifically requests* only a limited grant of prior authority because of the heterogeneity of NTBs, their basis in domestic statute, and the impossibility of predicting the types of agreement or legal techniques required for immentation. Therefore, three alternate procedures are contemplated:

(1) Prior grant of authority, in cases involving methods of customs valuation; establishment of quantities on which assesments are made; and the marking of country of origin. Such authority is likely to result in eliminating, presumably in exchange for significant foreign concessions, the American Selling Price (ASP), the Final List, and the Wine Gallon method of assessment, NTBs about which our trading partners have protested. The Administration argues that these particular NTBs are closely associated with tariffs and that discretion to eliminate them would be necessary for the President to fully exercise his tariff authority contained in section 101. Probably more significant, however, is that congressional support for eliminating ASP, in particular, would signal to our trading partners our resolve in confronting NTBs and would provide considerable flexibility to the President in obtaining meaningful concessions in return.

(2) Continuation of existing procedures, including Presidential authority to complete agreements when implementing legislation is not necessary; completion of an international agreement and its submission to the Senate as a treaty; or completion of an ad referendum agreement and its submission to the Congress. Such procedures may be appropriate in NTB cases involving flexibility in Presidential administration of the relevant statute or in cases in which consultation with foreign governments would permit minor adjustment to harmonize certain administrative regulations.

Although the Administration has informally assured the legislative branch that this authority is narrow in range and that it intends to submit the vast majority of NTB agreements to the Congress under the veto procedure (see following paragraph), Administration officials were unable to specify which U.S. NTBs would be susceptible to elimination through these procedures. This lack of specificity probably reflects the inherent difficulties of predicting the outcome of future bargaining; however, it may also reflect the lack of policy planning and NTB priority setting described in enclosure I.

Because of the breadth of authority the President is requesting; the Congress may wish to require prior notification on the modes of ratifying and/or implementing NTB agreements resulting from the negotiations. Such a commitment could be based on the preparatory discussions now taking place within the General Agreement on Tariffs and Trade, and could be subject to periodic revision as the final shape of NTB negotiations emerges.

(3) Provision at Presidential option, in cases he deems necessary or appropriate, for notifying and submitting NTB agreements and implementing orders to both Houses of Congress for possible veto within 180 days. Unless either House disapproved the agreement, it would automatically become effective. We might point out in this regard that the standard of "majority of the authorized membership of that House" could require a greater number of votes in either House than either of the phrases "a majority" or "a majority of those present and voting" which are frequently used in matters such as these. The veto procedure would also reverse the legislative process, with the proposed agreement becoming effective unless the Congress specifically disapproved. It should also be emphasized that this procedure is *optional*, and that the President would reserve the right to implement NTB concessions by executive agreement if such concessions did not, in his opinion, require new legislation. Litigation would then become the only method of challenging such an agreement should section 103 receive congressional endorsement. Here again prior notification to the Congress, indicating which U.S. NTBs the President believes could be eliminated through a purely executive process, would seem appropriate and feasible.

We raise this issue because many U.S. NTBs are entirely legal and legitimate internationally and result primarily from efforts mandated by the Congress to promote certain domestic objectives. The trade-inhibiting effects of such measures are purely incidental, and the Congress may wish to insure that such measures cannot be bargained away or compromised without adequate congressional scrutiny.

Assuming that this exercise of Presidential option is narrowly circumscribed, we do have some questions regarding the veto procedure, which apparently will become the principal vehicle for ratification of NTB agreements. Timing here is crucial; the 180-day period contemplated by the bill would appear adequate only

if the agreements are submitted as negotiated and at intervals which would permit close examination of agreements, the domestic implications of which may appear obscure at first. On the other hand, forwarding of NTB agreements separately might deprive the Congress of the perspective necessary to assess the degree of overall reciprocity ultimately achieved. The successful functioning of the proposed Joint Committee on Foreign Trade may ameliorate these problems, but some advance commitment from the President on the identity and the timing of NTB submissions to the Congress under the veto procedure would also be useful.

We make these suggestions not only to assist the Congress in examining the results of NTB negotiations but also to induce a closer scrutiny of NTB priorities by the executive branch. Enclosure I identifies a variety of weaknesses in this priority-setting process resulting from inadequate information collection and analysis; a more prominent congressional role might convince the executive branch to strengthen this process.

CHAPTER II—HEARINGS AND ADVICE CONCERNING NEGOTIATIONS PURSUANT TO TITLE I

Subchapter A—Title I, prenegotiation requirements

This entire subchapter is identical in substance to the parallel Trade Expansion Act provisions, except for section 112b. The prenegotiation provisions contemplated by section 111 apply only to actions under section 101 and therefore do not apply to the NTB authority embodied in section 103.

Section 111—Tariff Commission advice

This section requires that the resident publish, and furnish the Tariff Commission with, a list of articles being considered for concessions under section 101. The commission must, within 6 months, render its judgements on the probable economic effects of proposed concessions. The list would exclude articles already subject to import relief measures. Public hearings must be held during the Commission deliberations, but its advice to the President would be confidential. The advice is not binding but must be conveyed to the President before he commits the United States to any agreement.

The section does not apply to NTBs because Tariff Commission expertise does not extend to this area and because the economic effects of NTB concessions are notoriously difficult to estimate. We would note however, that various weaknesses identified in enclosure I prevent the Government from achieving the best possible estimated of NTB trade effects. Section 112 provides for departmental advice on this issue, and GAO's proposals would enhance the capacity of these departments to render such advice. The exactitude of the advice could not equal that available from the Tariff Commission on the effects of tariff reductions, but it would assist the Government in deciding which possible NTB concessions to withhold from negotiations and which might ultimately result in valid applications for import relief.

Section 112—Advice from departments

This section requires the President, before entering into the trade agreements under sections 101 and 103, to seek information and advice from the Department of Agriculture, Commerce, Defense, Labor, State, Treasury, and the Interior; STR; and other agencies as appropriate. The section also provides for exemption of Government-industry consultations from the Federal Advisory Committee Act requirements relating to open meetings and public participation, to protect confidential information from public disclosure with attendant advantages to our trading partners. Although such an exclusion from public meetings appears necessary and reasonable, the Congress might consider some action to insure full representation during such consultations from all domestic interests potentially affected by the changes in U.S. law which will result from the negotiations. This would appear particularly important for standards, which may both restrict trade and protect the public health and safety. Because various foreign governments believe that certain U.S. standards have impeded their trade and because of current GATT discussions in a Standards Code of Conduct, representation, particularly from consumer groups, would appear to be warranted.

Before approving this section, the Congress might also note the criticism of the government-industry dialogue on NTBs mentioned in enclosure I. This dialogue has been ineffective, and the Congress might consider legislating certain revisions as a prelude to the negotiations.

TITLE III—CHAPTER ONE

Section 301—Responses to unfair foreign import restrictions and export subsidies

This section, in addition to revising and expanding section 252 of the Trade Expansion Act, directs the President to gather data about foreign unfair trade practices, and in so doing to provide an opportunity for any interested party to inform the Government about such restrictions. This requirement, an obvious prerequisite to successfully applying retaliatory authority, should be scrutinized in light of our findings of significant weaknesses in the NTB information system.

Mr. BURKE. This concludes our meeting.

The committee stands adjourned, to meet at 10 a.m. Monday morning.

[Whereupon, at 4:20 p.m., the committee adjourned, to reconvene at 10 a.m., Monday, May 14, 1973.]