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 13 of 15

(June 8, 11, 1973)

Printed for the use of the Committee on Ways and Means

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COMMITTEE ON WAYS AND MEANS

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TRADE REFORM

FRIDAY, JUNE 8, 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.

Our first witnesses this morning are representatives of the fruit, vegetable, poultry and eggs, and milk industries, a joint presentation by Mr. Patterson and Mr. Oberti, California Association. Will you gentlemen please come to the desk. The Chair observes that our fine colleague from California, Mr. Sisk, is in the room.

We are pleased to have you with us.

STATEMENT OF HON. B. F. SISK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. SISK. I am pleased to be here. I will not impose on the time of the committee other than to state I have with me this morning——

The CHAIRMAN. Let me say, first, before you begin, to your distinguished friends at the table with you, they don't hurt their cause when they bring you with them to the committee.

Mr. SISK. Thank you. Let me say these two gentlemen are very good personal friends of mine, but they are particularly good friends of California agriculture. They are here this morning representing the olive industry. So it is, Mr. Chairman, with a great deal of pleasure that I introduce to you Mr. "Pat" Patterson and Mr. Jim Oberti, who will present the testimony on behalf of a bill which a number of us from California have introduced, H.R. 3368, including some members, of your committee as cosponsors. It is our hope and desire that the committee might in its wisdom see fit to make H.R. 3368 a part of the new trade bill.

So, Mr. Chairman, I appreciate very much this opportunity to present these two distinguished witnesses.

The CHAIRMAN. Mr. Sisk has discussed this matter with me in the past. We are pleased to have you gentlemen here with him to further explain it to us, if you will.

Mr. SISK. Mr. Chairman, I beg to be excused. I have another committee meeting I have to attend.

The CHAIRMAN. You are not under oath, so we will not keep you. Thank you for coming. We are pleased to have you with us. You are recognized.

STATEMENTS OF GORDON K. PATTERSON, CALIFORNIA OLIVE ASSOCIATION, ACCOMPANIED BY JAMES OBERTI, PRESIDENT, AND MELVILLE EHRLICH, COUNSEL; AND WILLIAM A. MILLER, VICE PRESIDENT, DURKEE CONSUMER FOODS, GLIDDEN-DURKEE DIVISION, SCM CORP.

SUMMARY

Canned ripe olives account for approximately 92 percent of the total value of the California table olive crop and this is the item on which the domestic industry depends for its very existence.

The domestic industry is presently threatened by importation of California-style canned ripe olives from foreign olive producing countries. Samples of this item have already been shipped to domestic markets by foreign olive processors.

The California olive industry has developed a proposal, embodied in H.R. 3368, to resolve conflicting interests of domestic and foreign olive processors. This proposal is satisfactory to Spain, the major exporter of olives to the United States, as evidenced by an exchange of correspondence filed with this Committee.

H.R. 3368 should be of benefit to all and of detriment to none. It increases the duty on California-style olives, a unique domestic product not now imported in any substantial quantity; it decreases the duty on Spanish-style olives not produced domestically in substantial quantity; it benefits the domestic and foreign olive industries as well as consumers; and it simplifies the presently confusing tariff classifications of olives.

This Committee is urged to approve H.R. 3368 and incorporate it in the overall trade bill presently under consideration.

Mr. PATTERSON. My name is Gordon K. Patterson. I am vice president of Early California Foods, Inc., Visalia, Calif. I am a past president of the California Olive Association and am making this statement on behalf of the association. The California Olive Association is a nonprofit trade association, whose members account for virtually all of the processing of olives in the United States. A list of the members of this association has been filed with this committee.

I am accompanied by Mr. James Oberti, senior vice president of Tri-Valley Growers, manager of the Oberti Division, the present president of the California Olive Association and by Mr. Melville Ehrlich, our counsel. I am also accompanied by Mr. William A. Miller, vice president of the Processed Food Division, Durkee Division of the SCM Corp., a principal importer of Spanish-style olives.

We are appearing before this committee to present testimony in support of H.R. 3368, a bill which was introduced by Representatives Corman and Pettis of this committee and cosponsored by nine other members of California congressional delegation, for the purpose of amending the U.S. tariff schedules with regard to olives.

I am testifying in support of this legislation from the point of view of producers and processors of California-style canned ripe olives and Mr. Miller will present testimony in support of this proposed legislation from the point of view of importers of Spanish-style green olives.

Virtually all of the olives produced in the United States are grown and processed in the State of California. I have filed a statement with this committee containing data as to the acreage, size of crop, persons employed in growing and processing, and the value of the crop. I will not now repeat the data already on file with this committee.

But I do want to emphasize that of the entire value of the 1971–72 table olive crop, approximately 92 percent of the table crop value was utilized for California-style canned ripe olives.

What stands out loud and clear from the statistical data is the fact that the California-style canned ripe olive is the lifeblood of the domestic industry, upon which the industry depends for its very existence. This is the unique product which has been entirely developed by the domestic industry, which has spent millions of dollars in promoting the product and gaining consumer acceptance.

It is therefore quite obvious that any threat to the California-style canned ripe olive is not merely a threat to a product but a threat to the existence of the domestic olive industry.

It should first be noted that the domestic olive industry holds this segment of the market not because it can produce this product cheaper than foreign competitors and not because there is any secret in the process. It holds this segment of the market primarily because foreign olive processors have not yet seen fit to move into this segment of the market in commercially significant quantities.

To date, the Spanish olive industry, which accounts for over 90 percent of the imports of olives, has devoted itself almost exclusively to the commercialization of its unique Spanish-style green olives, primarily pimiento-stuffed olives. However, because of the abundant olive production in the Mediterranean Basin and particularly in Spain, the California olive industry has been gravely concerned for many years about the serious adverse economic effect which would result from the large-scale importation of California-style canned ripe olives.

Because of the abundance of olives in Spain and the extremely significant differences in labor, production, and processing costs, Spain's potential for exporting California-style canned ripe olives to domestic markets has constituted and does constitute a threat to the existence of the domestic olive industry. The domestic industry has been living for years under the sword of Damocles.

The threat of and the potential for large-scale importation of California-style ripe olives under the present inadequate tariff has already had an inhibiting effect on the domestic industry. Olive orchards take many years after planting to become commercially bearing. Despite the increasing population and growing consumption of canned ripe olives, the threat and potential for destructive imports of canned ripe olives has inhibited investments in additional orchards and packing facilities. It is easy to understand that olive growers are extremely reluctant to make an investment in additional orchards, when there may be no market when the orchards become commercially bearing.

The development in recent years of an olive-packing industry in Spain has increased the threat to the California growers and processors. The Spanish packing operations have thus far been devoted almost entirely to the packing of Spanish-style green olives. But a move to the packing of California-style canned ripe olives could be accomplished quite readily at relatively little expense. There is no secret about the process of making canned ripe olives. It is a relatively simple process and, unfortunately, could provide a country which has excess olive production, such as Spain, with a ready market for some of its excess production.

Foreign plants are already capable of producing California-style canned ripe olives. From time to time in recent years, there have been sample shipments of California-style canned ripe olives from foreign olive processors. The samples already shipped here clearly demonstrate that some foreign olive processors not only have the equipment and the ability for producing California-style canned ripe olives, but are already thinking in those terms.

This is fact, not mere fear or imagination. The threat to the domestic industry is immediate and real. In the past, as pointed out in some detail in my statement filed with this committee, the California olive industry joined with importer-packers of Spanish-style green olives in seeking legislation in the hope of gaining some degree of protection for the domestic industry.

However, by 1970, it became increasingly apparent that such legislation had little prospect of passage. It became increasingly apparent that the U.S. Congress was not likely to adopt a tariff structure which would require the Spanish industry to ship its unique product to the United States in bulk to be repackaged here in consumer containers.

Because of this situation, the California olive industry examined all the possibilities of developing a means to reconcile the diverse interests of the California and foreign olive industries. After consultation with Spanish Government officials, the California olive industry developed what we believe to be a fair and reasonable solution, which has been embodied in H.R. 3368. This solution is to encourage each industry to do what it does best. It encourages the domestic and foreign industries to produce and market their respective unique olive products. At the same time, it safeguards the California industry against massive imports of California-style canned ripe olives from surplus foreign olive production.

It accomplishes this result by increasing the duty on California-style canned ripe olives to a level sufficient to compensate for differences in production and processing costs. At the same time it compensates for this tariff increase by lowering the tariff on Spanish-style olives, which are not produced domestically in substantial quantities. H.R. 3368 also simplifies the tariff classifications of olive which are now confusing and subject to disputes.

As a result of the conferences and exchange of views with Spanish Government officials, the California Olive Association, on May 1, 1970, wrote to the Commercial Counselor of the Embassy of Spain, forwarding a draft of a bill, now before this committee as H.R. 3368, incorporating the association's proposal and requesting the views of the Spanish Government. A copy of this letter is attached to the statement which I have filed with this committee.

After consideration of this proposal and under date of June 1, 1970, the Spanish Embassy wrote to the association, incorporating in its letter a policy statement from the Spanish Commerce Ministry outlining the Spanish Government's position and stating that it had no objection to the California proposal as drafted.

In that letter, after reviewing previous legislative proposals to which the Spanish Government strongly objected, the Spanish Ministry said that the presently proposed legislation represents a new approach and a means of amicably resolving this serious problem which threatens Spanish-American relations and that it removes the threat which previous proposals posed to the increasing cooperation and friendship which the Spanish and United States Governments have been developing.

The Spanish Embassy concluded its letter by saying:

We appreciate the interest and initiative which the California industry has taken with respect to attempting to develop an amicable means of reconciling the interests of the California and Spanish olive industries in a manner worthy of the friendship and respect which exists between the United States and Spain.

A copy of this letter is attached to the statement which I have filed with this committee.

In summary, the proposed legislation incorporated in H.R. 3368 is satisfactory to the California olive industry and there is no objection on the part of the Spanish Government. We believe H.R. 3368 provides a fair and equitable solution to the olive tariff problem, with benefits to all and detriments to none. It encourages the foreign and domestic industries to continue to do what they do best.

It increases the duty on California-style canned ripe olives, which is a unique domestic product not now imported in commercial quantities, thereby providing the assurances necessary for the existence and the orderly development and possible expansion of the California olive industry.

It decreases the duty on Spanish-style olives, primarily pimiento stuffed olives, which are not produced domestically in substantial quantities, thereby benefiting foreign exporters, importers, and consumers of olives.

It simplifies the classification of olives in the U.S. tariff schedules, to remove confusion and to avoid disputes. It eliminates a long-standing tariff dispute which has adversely affected commercial relations between the United States and the principal foreign supplier of olives.

In conclusion, we respectfully but strongly urge committee approval of H.R. 3368 and urge that it be incorporated in the overall trade bill which this committee is presently considering.

[Mr. Patterson's prepared statement and supplemental material follow:]

STATEMENT OF GORDON K. PATTERSON, ON BEHALF OF THE CALIFORNIA OLIVE ASSOCIATION

My name is Gordon K. Patterson. I am Vice-President of Early California Foods, Inc., P.O. Box 71, Visalia, California 93277 and I am a past President of the California Olive Association.

This statement is made on behalf of the California Olive Association, a non-profit trade association, whose members account for virtually all of the production and processing of olives in the United States. A list of the members of the Association is attached to this statement.

I am accompanied by Mr. James Oberti, Senior Vice-President of Tri-Valley Growers, Manager of its Oberti Olive Division, who is the present President of the Association, and by Mr. Melville Ehrlich, our legal counsel. I am also accompanied by Mr. William E. Miller, Vice-President of the Processed Food Division, Durkee Division of the SCM Corporation, a principal importer of Spanish-style olives, who intends to testify before this Committee.

We are appearing before this Committee to present testimony in support of H.R. 3368, a bill which was introduced by Representatives Corman and Pettis of this Committee and co-sponsored by nine other members of this Congress, for the purpose of amending the United States tariff schedules with respect to olives.

I will present testimony in support of this legislation from the point of view of producers and processors of California-style canned ripe olives and Mr. Miller will present testimony in support of this legislation from the point of view of importers of Spanish-style green olives.

BACKGROUND OF THE CALIFORNIA OLIVE INDUSTRY

Virtually all of the olives produced in the United States are grown and processed in the State of California. In California, there are some 32,000 acres devoted to the production of olives and over 2500 commercial olive growers. Over 2000 persons are permanently employed in the cultivation and harvesting of the olive crop with employment exceeding 10,000 at the peak of the season. Additional thousands are employed in the processing and sale of California olives. The California olive canners operate packing plants representing a capital investment of millions of dollars.

It takes many years after planting before an olive tree bears fruit for commercial harvest and olive trees, in many instances, are bearing on acreage which is not suitable for the production of other crops. Further, olive canning is done in plants specifically designed for canning olives, which is a completely different process than the canning of other fruits or other crops. There is no other use to which an olive canning plant can be put and if the plant is not used for olive canning, the only remaining use would be the shell of the building itself.

The statistics compiled by the California Olive Administrative Committee demonstrate that the canned ripe olive is the lifeblood of the California industry, upon which it depends for its very existence.

In the 1971–1972 crop year, of the total olive crop of 55,000 tons, canned ripe olives utilized 39,600 tons. Of the total table olive crop valued at $7,453,800, canned ripe olives accounted for $6,850,800. Thus approximately 92 percent of the value of the entire table olive crop was utilized for canned ripe olives. This is clearly the mainstay of the domestic olive industry. Without this outlet for California-style canned ripe olives, the domestic olive industry could not exist.

The California-style canned ripe olive is a unique product which has been entirely developed by the domestic industry. Millions of dollars have been spent in promoting the product and gaining consumer acceptance. As a matter of fact, the California olive industry is presently operating an industry advertising program financed by assessments under a Federal Marketing Order.

OLIVE IMPORTS AND DANGER TO THE DOMESTIC INDUSTRY

It has been shown that the domestic industry depends for its existence on the California-style canned ripe olives. But it is most important to realize that the domestic olive industry holds this segment of the olive market not because it can produce this item cheaper than its foreign competitors, but because it can produce this item better than its foreign competitors, and not because there is any secret in the process.

To date, there has been no importation of California-style canned ripe olives in any commercially significant quantities. The Spanish olive industry, which accounts for over 90 percent of the imports of olives, has devoted itself virtually entirely to the commercialization of its unique Spanish-style green olives, particularly pimiento stuffed olives, and most of the remaining imports have been of Greek-style olives from Greece. However, because of the abundant olive production in the Mediterranean basin and particularly in Spain, California olive growers and packers have been gravely concerned for many years about the serious adverse economic effect which would result from the large scale importation of California-style canned ripe olives from Spain. Because of the abundance of olives in Spain and the extremely significant differences in labor and production costs, Spain's potential for exporting California-style canned ripe olives to the United States has constituted and does constitute a threat to the very existence of the California olive industry.

The potential for the importation of the California-style canned ripe olives under the present inadequate tariff, has inhibited investments in additional orchards and packing facilities to meet the growing consumption of canned ripe olives in this country. It is difficult to justify the investment of planting new orchards, which take years to become commercially bearing, when there exists the strong and present danger that imported olives can take over the market. Thus, the California olive industry has for years and is now living under a clear and present threat to its very existence, which has inhibited the development and commercialization of its product and will be forced to continue to do so unless this legislation is enacted.

The development in recent years of an olive packing industry in Spain has increased the threat to the California growers and processors. Although the Spanish packing operations have thus far been devoted almost entirely to the packing of Spanish-style green olives, a move to the packing of California-style canned ripe olives could be accomplished quite readily at relatively little expense. There is no secret about the process of making canned ripe olives. It is relatively simple and, unfortunately, could provide a country with excess olive production, such as Spain, with a ready market for some of its excess production.

We know that there are foreign plants already capable of producing California-style canned ripe olives. From time to time in recent years, there have been sample shipments of California-style canned ripe olives to the United States from foreign olive processors. The samples already shipped here clearly demonstrate that some foreign olive processors not only have the equipment and the ability for producing California-style canned ripe olives but are already thinking in those terms.

This is fact, not mere fear or imagination. The threat to the domestic industry is immediate and real.

EARLIER LEGISLATIVE PROPOSALS

In the hope of safeguarding the California olive industry from the disastrous effects of importation of California-style canned ripe olives from Spain, the California industry, in the mid-1960's, joined with importer-packers of Spanish-style green olives in seeking legislation to raise the duty on all olives imported in containers of less than 9 pounds. While such legislation would not completely prevent the importation of California-style canned ripe olives from abroad, it would, at least, have subjected them to higher costs in repacking them after arrival in the United States.

By 1970, however, it was becoming apparent that such legislation had little real prospect of passage. A growing number of domestic importer-packers of Spanish-style green olives, including a number of members of the California olive industry who imported and repacked Spanish-style green olives, were importing ever increasing quantities of Spanish-style green olives bottled in Spain in consumer size packages. The switch to importing bottled Spanish-style green olives turned out to have little of the adverse effect on importing-distributing operations that had been feared, and, indeed, proved to be more economical, as Mr. Miller will discuss in his testimony. Moreover, it was becoming increasingly apparent that the United States Congress was not likely to adopt a tariff structure which would require the Spanish industry to continue to ship its unique product in bulk in order to have it bottled in the United States.

CALIFORNIA INDUSTRY PROPOSAL

With this background, the California olive industry gave considerable thought to developing a means of reconciling the diverse interests of the California and Spanish olive industries. After consultation with Spanish government officials, the California olive industry developed what we believe to be a fair and reasonable solution, which has been embodied in H.R. 3368. This solution is to encourage each industry to do what it does best—to produce and market their respective unique olive products—while at the same time safeguarding the California industry against massive imports of California-style canned ripe olives from surplus foreign olive production.

This result is accomplished by increasing the duty on California-style ripe olives which are produced in this country to a level sufficient to compensate for differences in production costs and compensating for their tariff increase by lowering the tariff on all Spanish-style olives, which are not produced domestically in substantial quantities, from the high Smoot-Hawley tariff levels that have been applicable since 1930. At the same time, the proposal incorporated in H.R. 3368 simplifies the tariff classifications relating to olives, which were somewhat confusing and subject to dispute.

On May 1, 1970, the California Olive Association wrote to the Commercial Counsellor of the Embassy of Spain, forwarding a draft bill incorporating the Association's proposal and requested the views of the Spanish government. A copy of this letter is attached to this statement as a part of this statement and marked Exhibit A.

In response, under date of June 1, 1970, the Spanish Embassy forwarded to the Association a policy statement from its Commerce Ministry outlining the

Spanish Government's position and stating that it had no objection to the California proposal as drafted; and pointed out that it was a solution "worthy of the friendship and respect which exists between the United States and Spain." A copy of this letter is attached and made a part of this statement and marked Exhibit B.

Receipt of this letter was acknowledged by the California Olive Association by letter dated June 3, 1970, a copy of which is attached and made a part of this statement and marked Exhibit C.

The proposed legislation referred to in the exchange of correspondence is now before this Committee as H.R. 3368.

EFFECT OF H.R. 3368

We believe that H.R. 3368 provides a fair and equitable solution to the olive tariff problem that for many years has plagued relations between the United States and the principal foreign supplier of olives. It adopts the principle of comparative advantage by encouraging the respective industries to continue to do what they do best, while at the some time affording some degree of assurance to the California industry against massive imports of California-style canned ripe olives produced from surplus production abroad.

H.R. 3368 should be of benefit to all and of detriment to none.

It increases the duty on California-style canned ripe olives, which is a unique domestic product not now imported in any substantial quantity, thereby providing the assurances necessary for the orderly development and possible expansion of the California olive industry.

It decreases the duty on Spanish-style olives, primarily pimiento stuffed olives, which are not produced domestically in substantial quantities, from the Smoot-Hawley tariff level applicable since 1930, thereby benefiting foreign exporters, importers and consumers of Spanish-style olives.

It simplifies the classification of olives in the United States tariff schedules, to remove confusion and avoid disputes.

It eliminates a long-standing tariff dispute which has plagued commercial relations between the United States and the principal foreign supplier of olives.

We therefore respectfully urge Committee approval of H.R. 3368 and urge that it be incorporated in the overall trade bill which the Committee is presently considering.

MEMBERS OF CALIFORNIA OLIVE ASSOCIATION

Bell-Carter Company, Berkeley, California
California Canners & Growers, Wyandotte Olive Division, San Francisco, California
Cristo Fusano & Sons, Sylmar, California
Early California Foods, Inc., Los Angeles, California
Lindsay Olive Growers, Lindsay, California
Maywood Packing Company, Corning, California
Olive Products Company, Oroville, California
Tri-Valley Growers, Oberti Division, San Francisco, California

EXHIBIT A

CALIFORNIA OLIVE ASSOCIATION,
San Francisco, Calif., May 1, 1970.

Mr. RAIMUNDO BASSOLS
Commercial Counsellor, Embassy of Spain,
Washington, D.C.

DEAR MR. BASSOLS: For several years the California Olive Association and its members have been deeply concerned about the serious adverse economic effect upon the California olive industry which would result from the large-scale importation of California-style olives from Spain. Although Spain has not yet begun to export any significant quantities of such olives to the United States, it is clear that Spain is the principal potential foreign supplier to the United States market.

In California there are over 2500 olive growers with over 32,000 acres devoted to the production of olives. The California olive canners operate packing plants representing a capital investment of millions of dollars. Over 2,000 persons are permanently employed in the cultivation and harvesting of the crop and employment at the harvest peak exceeds 10,000. Additional thousands are employed in the processing and sale of California olives.

Because of the abundance of olives in Spain and the significant difference in costs of production in Spain and in California, we cannot help but view Spain's potential for exporting California-style olives to the United States as a threat to the future welfare of the California olive industry. In addition, this threat inhibits investment in additional orchards to meet the growing consumption of olives to fill the normal future needs of our industry.

In order to protect the future of our industry, in recent years we have joined with the importer-packers of Spanish-style green olives in seeking to obtain legislation raising the import duty on all olives imported in containers of less than 9 pounds as well as legislation subjecting imported olives to U.S. marketing orders and to Section 22 of the Agricultural Adjustment Act. We hoped that such legislation would serve to safeguard our industry from the disastrous effect which would result from the importation of California-style olives from Spain. Also, some of our members import and repack Spanish-style olives. These members have shared the concern of other importer-packers that the increasing importation of bottled green olives from Spain would have an adverse effect upon their importing, repacking and distributing operations. We wish to make it clear, however, that we joined in these legislative efforts in order to protect our industry and not with the purpose of harming Spain or its olive industry.

During the past few years, imports of bottled green olives from Spain have increased rapidly. Hardly any bottled green olives were imported from Spain three years ago, but this year bottled Spanish olives are expected to account for over 25 per cent of the olives imported from Spain by quantity and over 45 per cent of the value of the imports of Spanish olives. Some of our importer-packer members were required to make some initial adjustments, but the increased importation of bottled Spanish olives has not had a significant adverse effect upon their operations. Like most other importer-packers of Spanish olives, these members are importing and distributing increasing quantities of bottled Spanish olives.

These members have found it to be more economical to buy Spanish olives bottled in Spain and we believe it has come to be recognized both in Spain and in the United States that traditional importer-packers of Spanish olives can play an important role in the importation and distribution of Spanish olives bottled in Spain. Moreover, because of their different taste and texture and the lower price of California-style ripe olives, Spanish olives do not compete directly with California-style olives and there can be an advantage to marketing and distributing these two products together.

Nevertheless, the abundance of olives in Spain and the capability of the Spanish olive industry to produce and export California-style ripe olives to the United States, continue to pose a threat to our industry.

In the last year, we have pointed out this problem to you. You have recognized the serious problem which this situation causes our industry. We have recognized the natural desire of the Spanish industry to bottle it unique product in Spain.

Because of the above circumstances, we have given considerable thought and consideration to developing a means by which these diverse interests of our respective olive industries may be reconciled. We have developed what we believe to be a reasonable solution to this problem. Enclosed herewith is a draft of proposed compromise legislation which we believe can serve to safeguard the interests of both the Spanish and the California olive industries. We intend this proposed bill to take the place of the Tariff and Marketing Order bills currently pending before the Congress. The introduction of this bill would avoid the necessity of our industry supporting those bills, which would so adversely affect the Spanish industry.

Before proceeding to attempt to obtain the introduction of the compromise measure, we would be interested in obtaining the benefit of any views or comments of your Government with respect to the enclosed draft legislation. We would appreciate hearing from you with respect to this matter.

Sincerely,

BRUNO A. FILICE,
President.

[91st Cong., 1st sess.]

PROPOSED LEGISLATION

H.R. ——

IN THE HOUSE OF REPRESENTATIVES

(Date)

(Names of persons introducing bill) introduced the following bill: which was referred to the Committee on Ways and Means.

A BILL

To amend the Tariff Schedules of the United States with respect to the rate of duty on olives.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subpart B of part 9 of schedule 1 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by deleting TSUS Items Nos. 148.40 through 148.56 inclusive and by inserting in lieu thereof immediately after, and subordinate to, the superior heading, "Olives, fresh or prepared or preserved:" the following new provisions:

"148.40	Fresh, or imported for further processing into California-style olives.	15¢ per lb	15¢ per lb.
	Prepared or preserved:		
148.45	Dried	2.5¢ per lb	5¢ per lb.
148.50	California-style	15¢ per lb	15¢ per lb.
148.55	Otherwise prepared or preserved, including Spanish-style olives.	15¢ per gal	25¢ per gal."

SECTION 2. California style olives, as referred to in the first section of this Act, are olives known as black ripe olives or green ripe olives which: (1) are processed from olives that are not fully matured from which the bitterness have been removed by a caustic solution and which, in the case of those known as black ripe olives have been darkened by oxidation to a color ranging from reddish-brown to black; (2) are packed in brine in containers and then preserved by heat sterilization; and (3) have a pH of 6.0 or greater. "California-style" does not include "Spanish-style" olives, which are classified in 148.55.

SECTION 3. The amendment made by the first section of this Act shall apply to articles entered, or withdrawn from warehouse, for consumption on or after sixty days after the date of enactment of this Act.

EXHIBIT B

SPANISH EMBASSY,
Washington, D.C., June 1, 1970.

Mr. BRUNO A. FILICE,
President, California Olive Association,
San Francisco, Calif.

DEAR MR. FILICE: Thank you for your letter of May 1, 1970 with regard to the position of the Spanish authorities concerning proposed U.S. legislation affecting olive tariffs. We have forwarded your letter to the Spanish Commerce Ministry and have received from the Ministry the following statement of policy with respect to this issue:

"The position of the Spanish authorities with respect to the proposed legislation affecting Spanish olive experts to the United States is clear and has been formally stated to the United States Government on several occasions. There are currently two types of bills pending before the Congress of the United States which could gravely affect Spanish olive exports. The first type of bill would raise the duty on olives imported in containers of 9 pounds or less to 50% ad valorem, a duty which is more than four times the current duty on such imports. The second type of bill would subject Spanish olive exports to the United States to United States agricultural marketing orders, a particularly odius form of non-tariff barrier, pursuant to which the size, quality and quantity of olives which Spain could export to the United States would be controlled by United States producers and also would authorize the imposition upon Spanish olives of fees (other than duties), quotas and even complete prohibition of their importation.

The Spanish authorities are completely and inalterably opposed to the adoption of such legislation by the Government of the United States. The adoption of either type of such legislation by the United States would constitute a serious violation of the solemn international obligations undertaken by the United States Government pursuant to the General Agreement on Tariff and Trade. In the Kennedy Round negotiations, the United States, in negotiations with Spain, agreed to bind the duties applicable to olives classified in Tariff Schedules of the United States Items Nos. 148.44 and 148.50 at 20 cents per gallon and 30 cents per gallon respectively. Moreover, it was understood by both countries that any change in the United States tariff on these olives which discriminated or differentiated between bulk and bottled olives would be subject to indemnization by the United States or retaliation by Spain pursuant to Article XXVIII of the General Agreement on Tariffs and Trade.

Since the Kennedy Round, the Spanish authorities have on several occasions expressed to the Government of the United States their concern over the serious threat which these two types of bills affecting Spanish olive exports poses to Spanish-American relations. The value of United States exports to Spain is almost triple the value of Spanish exports to the United States and Spain's trade deficit with the United States is in the order of $400 million a year. Moreover, olives constitute Spain's second largest export to the United States and account for about 15% of the value of Spain's exports to that country. The adoption by the United States of either of these types of legislation affecting Spanish olive exports would have a serious adverse economic effect upon the Spanish olive industry and particularly upon Western Andalusia where both that industry and the joint Spanish-American military facilities at Moron and Rota are located.

Given Spain's balance of payments situation, such action would also seriously inhibit Spain's ability to purchase United States exports. The foregoing facts clearly demonstrate the seriousness of the threat which such legislation poses for the future of relations between Spain and the United States.

With respect to the draft of legislation proposed by the California Olive Association in their letter of May 1, 1970 to the Spanish Commercial Counselor in Washington, we believe it represents a new approach to the olive problem which exists between the United States and Spain and appears to offer a means of amicably resolving this serious problem which threatens Spanish-American relations. The draft legislation suggested by the California Olive Association proposes that the United States duty on California-style olives be increased to 15¢ per pound and that in return for its loss of a potential market for the export of California-style olives, Spain would in turn be compensated by a reduction in the duty on Spanish olives to 15¢ per gallon. In addition, the draft bill would simplify considerably the United States tariff provisions relating to olives, which in their present form are confusing and subject to considerable dispute.

Because of the deterioration in the olive oil market in recent years, the Spanish olive producers have had to consider the large United States market for California-style olives as a potential market for its olive production. While there may be some doubt as to whether the tariff reduction on Spanish-style olives proposed by the California industry is adequate to compensate for the loss of this potential market, the proposed reduction is not unreasonable. Moreover, the draft bill offers the advantage of removing the threat which the other bills pose to the increasing cooperation and friendship which the Spanish and United States Governments have been developing between their respective countries.

In view of the situation set forth in the facts outlined above, the Spanish authorities would not object to the draft bill suggested by the California Olive Association as long as it remains completely clear that "Spanish-style" olives will not be reclassified into TSUS No. 148.50 of the bill which applies to "California-style" olives since the section applicable to Spanish-style olives in the bill is TSUS No. 148.55 which includes TSUS Nos. 148.44 and 148.50 of the tariff currently in effect, which are bound in GATT. On the other hand, it would not be appropriate for these authorities to support such legislation or otherwise attempt to intervene in the internal affairs of another country. If the United States Administration wishes to propose such a compromise measure as a means of resolving this problem, we would be pleased to discuss this matter further with them."

We appreciate the interest and initiative which the California industry has taken with respect to attempting to develop an amicable means of reconciling the interests of the California and Spanish olive industries in a manner worthy of the friendship and respect which exists between the United States and Spain.

Very truly yours,

RAIMUNDO BASSOLS,
Commercial Counselor.

EXHIBIT C

CALIFORNIA OLIVE ASSOCIATION,
San Francisco, Calif., June 3, 1970.

MR. RAIMUNDO BASSOLS,
Commercial Counselor, Embassy of Spain,
Washington, D.C.

DEAR MR. BASSOLS: Thank you for your letter of June 1, 1970 responding to our letter of May 1, 1970 with respect to the proposed legislation for olive tariffs.

With respect to the position contained in your letter, we wish to assure you that our association will not attempt to obtain any reclassification or modification of the Tariff Schedules of the United States or any other measure which would restrict the access of Spanish style olives to the United States market.

We appreciate your cooperation in this matter, which is of great interest to both the Spanish and domestic olive industries.

Sincerely,

BRUNO A. FILICE,
President.

The CHAIRMAN. We thank you, Mr. Patterson, for bringing to the committee this presentation of your views. Is Mr. Oberti to add to your statement?

Mr. OBERTI. No, sir, that is it.

The CHAIRMAN. All right; Mr. Burke will inquire.

Mr. BURKE. While I realize your recommendations will help the olive growers in California, it doesn't do anything to help the bottlers up in my area. At the present time I have complaints from people up there who are in the bottling business that these olives are being imported in bulk and in small 2-ounce jars at the same rate of duties. This means that all those jobs are being exported over to Spain.

I notice in Canada they haven't lost any bottling business, although we have lost 20 of them since 1965. They have gone to Spain, but in Canada they have not been forced to shut down one bottling operation. The reason is that Canadian tariffs, on the one hand, impose no duty whatsoever on bulk olive imports, and on the other hand, imposes 17.5 ad valorem duty on green olives imported in glass containers. Why should we be any more generous than our Canadian partners?

Mr. PATTERSON. I think Mr. Miller in the next presentation has some coverage of this subject as an importer.

Mr. BURKE. Is he the next witness?

Mr. PATTERSON. Yes, sir.

Mr. BURKE. Do you think it is fair for this country to allow the same weight on duty on a 2-ounce jar as they do on a 650-pound wooden cask? That jar has a value. The cap has a value. It seems to me that some of our bottling plants are just going over there to Spain.

Spain is subsidizing them. They are giving them all kinds of breaks over there. All we are doing is further encouraging the move of these plants overseas. Now you people grow the olives in California. Good luck to you. What about up in the urban areas like mine where they have a bottling plant and these Spanish bottlers are taking over all the markets? This market was created by the American bottlers. They went out into the grocery stores and into the markets around the country and got the goods on the shelf and got the people accustomed to buying them.

Suddenly the Spanish people come in with their small jars of olives produced with low wages and practically no import duty. They are able to take over a whole market and drive hundreds and thousands of people out of their jobs here. Now I think that the California people have to be a little realistic. If we are going to get something done around here, it is not a one-way street just all in the favor of California growers.

There are other areas in the country. My former colleague, Jackson Betts, had bottlers in his district that are going out of business. I think we lost 20 bottling plants in this country since 1965 as a result of this new trade policy. What do you recommend that we do about it?

Mr. PATTERSON. Well, I would say this, and I recognize the pressures that are in the question. Mr. Oberti and my own company and others in California also had bottling plants. At once time we opposed the importation of the bottled olives. However, events do not stand still. The Spanish bottling in the trade has developed quite fast in the last half a dozen years and today most of the imports are coming in bottled.

We have recognized the reality. We no longer use our bottling line for green olives to any great extent in our plant. We have made other moves to bottle other items in that particular facility. We think this bill, in my understanding, would not change the status quo, whatever reduction in duty is on bulk as well as bottles. So it doesn't change any present conditions. That is my understanding.

Mr. Miller may be able to answer more fully than I have.

Mr. BURKE. It doesn't go far enough. It doesn't give our people up our way any assistance. In fact, I have a plant up there that employs close to 300 people and they are about to close down. In fact, if some change isn't made, they are going to close down. We have about 7.2 percent unemployment in our area.

The Federal Government is helping us out by closing all the defense installations up there, that will bring us up to about 8 percent. Our trade policy is adding fuel to the fire. I don't see why we don't do the same thing the Canadians do, just let the bulk olives come in free and put a 17.5 percent ad valorem tax on the bottled olives. That would at least keep some people working.

These countries are going to take over your industry, too. They are just starting. You are trying to make a deal with these people, but believe me you can't do it. They will take your eye teeth away from you before you are through.

Mr. PATTERSON. We always run that risk perhaps, but we feel like we have to move in order to try to work out some workable arrangement based on the realistic facts of this situation. In the industry I would say that we would not want to see all duty dropped on bulk. This would be injurious to our California people.

We are here representing them. I think it would be rather unfortunate. That is just our personal opinion.

Mr. BURKE [presiding]. We will have to come up with some better answers because your proposal doesn't answer the problem. The present situation is just contributing to losing more bottling plants.

Are there any questions?

Mr. DUNCAN. First, may I say that Mr. Pettis asked me yesterday if I would convey to you gentlemen and the subsequent witnesses his regrets at not being able to be here today to welcome you. He had a speaking engagement in California that he could not cancel. He is a very valuable member of this committee.

I know he would like to have been here.

You mention the fact that you have 32,000 acres devoted to production of olives. Has that been on the increase or decrease in recent years?

Mr. PATTERSON. It has increased some in recent years, mostly young plantings. Of course, there has been a general increase since the founding of the industry some 50 or 60 years ago. It is a gradual growth in acreage.

Mr. DUNCAN. Has your yield per acre increased also?

Mr. PATTERSON. Yes, I would say so, over the long period. There have been no sudden increases per acre in recent years, however.

Mr. DUNCAN. You mentioned the fact that you have 2,000 permanent employees. Has that remained rather stable through the years or has that increased?

Mr. PATTERSON. That is pretty stable. That is employees in the plant and in the growing and processing.

Mr. DUNCAN. Thank you very much. Thank you, Mr. Chairman.

Mr. BURKE. Does that complete your statement?

Mr. PATTERSON. Yes, sir.

Mr. BURKE. Did somebody else want to testify here?

Mr. PATTERSON. Mr. Miller.

Mr. BURKE. At this point I would like to ask unanimous consent to insert in the record a statement by the Green Olive Trade Association and have it appear in the record immediately following the statement of this gentleman here. Without objection it is so ordered that the record will be kept open at that point.

STATEMENT OF WILLIAM A. MILLER

Mr. MILLER. My statement is rather brief. I am submitting an entire copy of it for your record.

My name is William Miller. I am vice president of the Consumer Foods Division of Glidden-Durkee Division of the SCM Corp. of Cleveland, Ohio, one of the principal importers of Spanish-style green olives. I am appearing here this morning to present testimony in support of H.R. 3368 from the point of view of an olive importer.

We would like to congratulate the California Olive Association on its fine statement and for its efforts in developing the proposal presently before this committee as H.R. 3368. We believe that the proposal developed by the California Olive Association makes eminent good sense and should put an end to the olive tariff problems which have embroiled the olive trade for almost a decade. We wish to take this opportunity to offer a few additional comments in support of H.R. 3368 from the point of view of importers of Spanish-style green olives.

SPANISH-STYLE OLIVES

By way of background, the Spanish-style green olive, or "Sevillana" style olive, is a unique product of the western Andalusian region of Spain around Seville, where it has been produced for centuries by the aderezo process which imparts the salty pickled flavor for which this style of olive is famous. Because of their substantially different taste and texture, Spanish-style green olives are not directly competitive with California-style ripe olives. Indeed, a number of U.S. distributors and processors market and distribute these two products together. Total U.S. consumption of both of these products has increased substantially over the years, with the principal limiting factor being the substantial year-to-year variations in olive crops.

IMPORTS OF SPANISH-STYLE OLIVES

The unique Spanish-style olive has been imported into the United States for over 100 years. Our company has been importing this product for almost 50 years. Until recent years olives were Spain's leading export to the United States and are presently that country's second leading export to this country.

In 1972 the United States imported 16.2 million gallons of olives valued at $47.3 million from Spain out of total U.S. olive imports of 17.7 million gallons valued at $50.2 million. Thus, Spanish olives accounted for over 92 percent by quantity and 94 percent by value of total U.S. olive imports, with Greek-style olives accounting for most of the remainder.

The export and import of Spanish olives is a fairly widely dispersed and highly competitive business. In 1972 Spanish-American olive trade was handled by over 70 Spanish exporters and over 100 U.S. importers. No individual importer or exporter accounts for as much as 15 percent of the total olive import trade.

EARLIER LEGISLATIVE PROPOSALS

Until mid-1969 virtually all Spanish-style olives were imported in large barrels and repacked in bottles in the United States. Perhaps this will answer some of your questions, Congressman Burke. At that time an olive packing industry began in Spain which started shipping Spanish-style olives to the United States already bottled. This caused considerable concern among importers of Spanish-style olives, including our own company, who feared that, with the advent of bottling operations in Spain, the function of the traditional importer-packer would soon become obsolete and the Spanish olive industry would begin selling directly to the supermarkets and wholesalers. Consequently in 1966 we joined with other importer-packers and the California industry in seeking legislation to increase the duty on olives imported in containers of less than 9 pounds to a prohibitive level.

Within a few years it became apparent that there was little serious prospect that in this day and age the Congress would adopt legislation forcing the Spanish to ship their unique product 4,000 miles to be bottled in the United States—it was like trying to get Congress to adopt tariff changes to force the French to bottle their champagne or their wines here.

It came to be realized that such a proposal was as unnecessary as it was unreasonable. Our fears that we as importers and distributors would be replaced by direct sales of Spanish bottled olives to supermarkets and wholesalers proved unfounded. Spanish-bottled olive exporters needed, and indeed welcomed, the important distribution and marketing functions performed by the traditional importers.

By 1970 a growing number of domestic importer-packers of Spanish-style olives, including our company, had begun to import ever-increasing quantities of Spanish-style bottled olives. We found that the switch to importing Spanish-bottled olives had no adverse effect upon our operations as we had originally feared, indeed it proved to be more economical. The cost-saving derived from eliminating the duplicative export and import packing of the olives considerably outweighed the higher ocean freight rate applicable to the bottled product and permitted us to offer a better price to the consumer. Moreover, because U.S. packing had been done by machine, the change had no appreciable effect upon employment level.

The transition from bulk to bottled olive imports is now almost complete. Approximately half of all Spanish-style olives are now being imported already bottled. It is expected that the percentage will be about 60 percent by the end of this year and not likely to increase significantly beyond that because of the bulk olive requirements of institutional purchasers and private brand labeling operations.

The olive-importing business has readily adjusted to the importation of bottled Spanish olives. In the case of our company, the change to importing bottled olives has proved to be a decided benefit rather than the detriment we once anticipated. Judging from what we are seeing in the marketplace, it has also proved to be of benefit to other Spanish olive importers, as well as to the olive consumer.

H.R. 3368

As we stated at the beginning of our testimony, we believe that the California olive industry proposal incorporated in H.R. 3368 makes eminent good sense. Since 1930 this country has continued to maintain the high Smoot-Hawley tariff on Spanish-style olives, a product which is not produced in any significant quantities in this country. Inasmuch as revenue raising has long since ceased to be the reason for the existence of our tariffs, there can be little justification for continuing to maintain a higher tariff for imports of Spanish-style olives than the average tariff applicable to imports as a whole. It unnecessarily increases our costs and consequently the prices which we must charge the consumer. In this time of high and rising food prices, you can be sure that any action taken by this committee which will permit lower prices for olives should be most welcome by the housewife.

We believe that the California olive industry proposal for increasing the tariff on California-style olives in return for lowering the tariff on Spanish-style olives to be fair and reasonable and in the best tradition of the reciprocal trade policy which this country has maintained since the early 1930's. Moreover, from the correspondence between the California Olive Association and the Spanish Embassy, which Mr. Patterson has submitted for the record, it is clear that Spain, the only significant supplying country, will not object to the reciprocal raising and lowering of olive tariffs proposed by the California industry.

We believe that the approval of H.R. 3368 can provide an appropriate settlement of the tariff problems which have embroiled the olive trade for almost a decade and eliminate a longstanding tariff problem that has plagued commercial relations between the United States and its principal foreign olive supplier. At the same time the proposal developed by the California industry should serve to assure against the development of olive tariff problems in the future.

H.R. 3368 is clearly of benefit to all and of detriment to none. We respectfully urge that this committee give favorable consideration to H.R. 3368 and include it in the overall trade legislation which it ultimately reports out to the House of Representatives.

Thank you, gentlemen.

[The statement of the Green Olive Trade Association follows:]

STATEMENT OF THE GREEN OLIVE TRADE ASSOCIATION

The Green Olive Trade Association is filing this statement in opposition to House Bill H.R. 3368 because it has strong reason to believe that this bill, if enacted, will destroy many American firms which process and bottle "green" or "Spanish style" olives.

The avowed purpose of H.R. 3368 is to protect American growers and processors of black ripe olives, also known as "California style" olives. H.R. 3368 proposes to protect American growers and processors of black ripe olives by increasing the customs duties on black ripe olives from 15 cents per gallon to 15 cents per pound. But H.R. 3368 proposes, also, to change the duty on "green" or "Spanish style" olives. It proposes to lower the customs duty on "green" olives from non-communist bloc countries from 30 cents per gallon to 15 cents per gallon.

This lowering of the duty of by 50% on "green" or "Spanish style" olives would increase substantially imports of *pre-bottled* green olives from Spain, to the severe detriment of the American businesses which package green olives in glass containers. It would also cost thousands of Americans who work in the green olive bottling industry their jobs.

American businesses which package green olives in glass jars are competing against imports of pre-bottled green olives from Spain. In addition to the lower wages paid in Spain, Spanish exporters of pre-bottled green olives have been receiving astronomical subsidies from the Spanish government. Every Spanish company exporting green olives in glass jars receives an array of subsidies that average between 14% and 18½% of the export value of his product. In some cases the subsidy is 20% of export value. These subsidies are described in more detail in the appendix to this statement. It is clear, from any viewpoint, that the subsidies have given Spanish companies an unfair competitive advantage over the American bottler of green olives.

The impact on the American green olive bottling industry has been devastating. The combination of high subsidies and low wages have enabled Spanish companies to underprice their American competitors by approximately 25% on many green olive products. In 1966, imports from Spain accounted for less than 1% of the sales of green olives in glass jars in the United States. By the beginning of 1972, the market share of the Spanish import had increased to 36%. At present, the Spanish import has captured 46% of the American market. In 1966, there were approximately 65 American bottlers of green olives. Since 1966, more than 20 of these companies have terminated their green olive bottling operations in the United States. It is expected that most of the remaining American companies which package green olives in glass jars will have to shut down their operations in the next few years if they do not receive some relief against the subsidized competition from Spain.

The table printed below illustrates the severe impact Spanish imports have had on the American green olive bottling industry. It should be noted that the Spanish government instituted most of its subsidy programs to Spanish green olive bottlers in 1966:

	1966	1971	1972
Imports from Spain of "green" olives in glass jars (in kilos)	Negligible	45,895,908	52,794,369
Market share in United States of "green" olives imported from Spain in glass jars, (percent).	Less than 1	36	46
Number of firms bottling "green" olives in the United States	65	50	44

The tariff schedules of the United States do not distinguish between olives imported in *bulk* form and olives imported in *glass* jars. Since American bottlers depend upon imports for their supply of bulk olives, their product is burdened with the same customs duties as is the highly subsidized Spanish product.

By contrast in Canada, Canadian bottlers of green olives have not been forced to shut down their bottling operations. The reason is that Canadian tariffs, on the one hand, impose no duty whatsoever on *bulk* olive imports and, on the other hand, they impose a 17½% ad valorem duty on green olives imported in *glass* containers. This Canadian approach has the effect of offsetting most of the subsidies granted to the Spanish bottlers.

We urge the Congress to recognize the serious and special problems of the American green olive bottling industry. First, we recommend that the tariff schedules of the United States be amended to afford separate treatment to "black ripe" or "California style" olives on the one hand, and to "green" or "Spanish style" olives on the other.

Second, we recommend that as to "green" or "Spanish style" olives, the tariff schedules of the United States be amended in accordance with the successful Canadian example. The elements of such an amendment are (a) the elimination of all duties on "green" or "Spanish style" olives imported in *bulk* containers, and (b) the imposition of a substantial ad valorem duty on imports of "green" or "Spanish style" olives imported in *glass* containers. In order to offset the high subsidies and low wage scales available to Spanish companies, we recommend that the ad valorem duty on imports of green olives in glass jars be set at 17½ percent.

We, therefore, adamantly oppose the bill, H.R. 3368, in its present form. The very lives of ~~American firms which~~ bottle green olives are indeed at stake. We petition Congress to amend the customs duties on "green" or "Spanish style" olives in accordance with the urgent needs that we have expressed in this statement.

Appendix—Subsidies Granted to Spanish Imports of Bottled Green Olives

Spanish companies which pack green olives in glass jars have taken advantage of the array of subsidies which were instituted in 1966 by the Spanish government. Among these subsidies are the following:

(1) *A direct cash subsidy from the government of Spain* (Called the "Desgravacion Fiscal"). This subsidy is styled as a "tax rebate," but in fact, it is a direct cash payment from the government equal to 12% of the gross value of any green olives exported from Spain in glass containers.

(2) *The export investment reserve.* This is a tax exemption available to all Spanish exporters. Spanish bottlers can shelter from Spanish corporate income taxes up to 50% of their profits earned from exports by reinvesting these profits in any aspect of their green olive processing, bottling or exporting businesses.

(3) *Government loans to finance exports.* The Spanish government offers special low interest loans to all Spanish companies which export green olives in glass jars. Such exporters of bottled green olives may receive a loan as high as 40% of the value of their gross export sales.

(4) *A 7½% tax credit on purchases of new equipment manufactured in Spain,*

(5) *An industrial government zone program under which substantial subsidies are accorded to businesses which establish plants within designated geographic areas.* One of these zones was established around Seville, the major olive growing area in Spain. Under this program, Spanish bottlers of green olives have received the following:

(a) a direct cash subsidy equal to 10% of the total investment made within the special zone;

(b) a low interest government loan of up to 70% of the total investment made within a special zone;

(c) a 5-year 20% straight line depreciation rate on any buildings or equipment located within a special zone;

(d) a 95% reduction of several Spanish taxes for the first 5 years of business operations within a special zone;

(e) a 95% reduction of customs duties on raw materials and equipment during the first five years of business operations within a special zone.

The aggregate of these subsidies gives each Spanish company exporting green olives to the United States a minimum subsidy of from 14.2% to 18.5% of the gross value of all green olives exported in glass jars. Since United States customs duties are the same on both bulk and bottled olives, these subsidies give Spanish bottlers at the very minimum a 14.2% to 18.5% advantage over American firms. To offset both these subsidies and the lower wage scales which benefit Spanish imports, we urge that a 17½% ad valorem duty be imposed on imports of "green" or "Spanish style" olives in glass containers. At the same time, since American firms depend upon bulk imports of green olives, "green" or "Spanish style" olives should be admitted free.

American firms have over several years developed the market in the United States for green olives. Through a broad array of subsidies, however, Spanish imports are threatening to capture that market. Since 1966, the United States market share of Spanish imports has risen from less than 1% to 46%, while more than 20 American firms have shut down their bottling operations in the United States. Immediate relief is essential if the American green olive bottling industry is to survive.

Mr. Burke. Are there any questions?

Now the Spanish Government gives a subsidy and it is styled as a tax rebate, but in fact it is a direct cash subsidy from the Government of Spain equal to 12 percent of the value of green olives exported from Spain in glass containers. Because of U.S. custom duties isn't it true that the duties are the same for both bulk and bottled olives?

Mr. Miller. I believe that is so, yes.

Mr. Burke. So this subsidy actually gives the Spanish bottlers a 12-percent advantage over the American bottlers. Why do you think that should take place?

Mr. Miller. I am afraid it just exists.

Mr. Burke. What is fair and equitable about the Spanish Government giving these people a tax rebate and then they are able to ship their bottled olives into this country at a 12-percent advantage over the American bottler.

Mr. Miller. It is just the way it exists, sir.

Mr. Burke. You state your concern about the increase in price, but yet it is all right for the California olives to maintain a higher price, but the other olives should be looked at a little bit differently.

Mr. Miller. I don't think it is really quite equitable to compare the California olive with the Spanish olive. It is two different animals completely.

Mr. Burke. I know that. I am an authority of olives, particularly the small ones. But you are a little inconsistent in what you are saying here, because actually what is happening up in our area, the bottled Spanish olives are taking over the entire market and their prices are going up. We find that the Spanish bottled olive people are selling these bottled olives directly to the supermarkets.

Mr. Miller. That is not so, sir.

Mr. Burke. Why do they send their buyers over to Spain?

Mr. Miller. Why does who send their buyers over to Spain?

Mr. Burke. Representatives of these large supermarkets?

Mr. Miller. I happen to be very familiar with that. They send them over in the course of normal quality control checks. They want to see what their sourcing is and whether they are adhering to the standards of the industry, of the supermarket industry, and whether they are producing a good quality product.

I don't think it is uncommon for supermarket buyers to visit their suppliers at any time.

Mr. BURKE. I am not criticizing them for doing it.

Mr. MILLER. I would rather commend them for it.

Mr. BURKE. I don't think the impression should be left here that they are not doing it.

Mr. MILLER. I would suggest it is to the credit of the supermarket industry to be very interested in their sources.

Mr. BURKE. I have friends in the supermarket industry and they tell me the reason they buy direct is that they save money. They knock out the middle man, the American bottler. They come in on a low duty. They have every advantage in the world.

Mr. MILLER. Congressman, I don't really want to be controversial with you, but I know of no supermarket that is buying directly from Spain without a U.S. company being involved.

Mr. BURKE. Of course, they have a U.S. company involved, but it is usually one of their own branches that are doing the buying.

Mr. MILLER. No, sir. I am sorry. If you can give me a specific of a supermarket that is buying directly from Spain, with no involvement with a U.S.-affiliated company, I should be very interested in knowing who it is.

Mr. BURKE. I will give you the names of some of the plants like Libby and a few others who have closed here and gone over to Spain.

Mr. MILLER. Yes, sir, we are one of those who closed down and do not have an olive packing facility in this country.

Mr. BURKE. What you did, you laid off a lot of American workers, went over there and opened your plant in Spain to do the bottling over there. That is what I am complaining about.

Mr. MILLER. I am sorry, sir, we did not do that. In the instance of our company, and in the instance of Libby, although I can't speak for them, we are of sufficient size that we were able to relocate these people into other employment within our company.

Mr. BURKE. Now you talked about it would be ridiculous to expect the French people to ship their champagne and wine over here in bulk. Do you know that there are many countries in the world today that expect to ship over all of their alcoholic liquors in bottles and take away the bottling jobs in this country in that industry?

This is not only in the olive industry, but it is spreading to all industries. This happens to be a small group here, but when we close down all these bottling plants and all these packaging plants, where are these people going to get jobs to buy the olives and alcoholic beverages and all the other things that they will bottle overseas? Who is going to have jobs to buy the goods?

Mr. MILLER. I am sorry, sir, I am here on behalf of olives, not whisky.

Mr. BURKE. I know. This is a trend that is taking place in the country. We are doing away with all the factories, and we are going to have everything come in here as a finished product. All the packaging and bottling will be done over there. There will be nothing to be done here outside of a few service groups. As a good friend of mine said, we will all be life insurance salesmen selling each other life insurance.

Mr. MILLER. In this case I think the ultimate consumer, in the instance we are referring to, is the overall interest.

Mr. BURKE. What is the price of a 2-ounce bottle of olives shipped here from Spain? Would you submit for the record how they compare with the American bottling plant, 2-ounce olives? They are selling at the American selling price, isn't that true?

Mr. MILLER. Yes, sir.

Mr. BURKE. In other words, the consumer isn't saving a penny.

Mr. GIBBONS. Maybe the American price comes down.

Mr. BURKE. That is exactly right.

Mr. GIBBONS. I would suggest that when your competitor starts selling something a lot cheaper than you, you either go out of business or you bring your price down.

Mr. BURKE. Just a minute, I have not yet yielded.

Mr. GIBBONS. I thought you had.

Mr. BURKE. They have crushed out all the competition and all the prices are going up.

Mr. GIBBONS. Would you yield?

Mr. BURKE. Yes.

Mr. GIBBONS. I think we ought to save all these "high technology" jobs for New England. I don't know what else you can do up there, but cut granite and sell life insurance. I guess you have to have the jobs of taking olives from a big jar and putting them in a small jar.

Mr. BURKE. We have to have some jobs. I know my colleague from Florida doesn't worry. You have the benefit of the military installations, but we are trying to hold on to as many jobs as we can.

Mr. GIBBONS. There ought to be some good back-breaking jobs up there in the fall.

Mr. BURKE. If you indulge in a little unemployment for a while, it might change your thinking.

Mr. GIBBONS. It might.

The CHAIRMAN. Mr. Karth.

Mr. KARTH. Mr. Chairman, first of all, I think you ought to be commended for being able to absorb those employees who otherwise would be disemployed by moving your bottling organization elsewhere, but I would like to ask, how much would your employment have been increased had you not moved the bottling operation elsewhere?

Mr. MILLER. I would have to speculate that there would have been no increase in employment because the trend of the industry was toward machine packing rather than by hand packing. As a matter of fact, even prior to our closing of our bottling operation, our employment was on a constant decline because of mechanization.

Mr. KARTH. Don't you employ people in the bottling plants overseas or do they run themselves automatically?

Mr. MILLER. They are highly automated, but of course we do employ people.

Mr. KARTH. How many people do you employ?

Mr. MILLER. It varies seasonally. I would say our average annual employment is somewhere in the nature of 100.

Mr. KARTH. That is for your own company.

Mr. MILLER. Yes.

Mr. KARTH. How many employees do you have in the total manufacturing operation of your company?

Mr. MILLER. In the total manufacturing operation of the division of the company of which I am responsible, we have about 1,900.

Mr. KARTH. So this would be a substantial percentage at that, wouldn't it?

Mr. MILLER. Yes, sir.

Mr. KARTH. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Gibbons.

Mr. GIBBONS. I have no more questions.

The CHAIRMAN. We thank you, Mr. Miller. We appreciate your statement very much. We appreciate your response to our questions.

[The following was submitted for the record:]

SCM GLIDDEN-DURKEE,
Cleveland, Ohio, June 15, 1973.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Comittee on Ways and Means,
Longworth Office Building, Washington, D.C.

DEAR MR. MARTIN: I am writing for the purpose of clarifying the record with respect to two points which were raised in the questioning following my testimony before the Committee on Friday, June 8, 1973, in support of H.R. 3368 to revise the tariffs applicable to olives.

At the outset of the questioning, I acknowledged that there was a 12 per cent tax rebate on bottled olives exported from Spain (see transcript, page 3637). However, in reviewing the record, it appears that the question was meant to suggest that this rebate was a subsidy giving Spanish olive bottlers a 12 per cent advantage over American bottlers of this product. This simply is not the case for the following reasons:

(1) While the tax rebate on the export of bottled olives from Spain is 12 per cent, as I indicated, the tax rebate on olives in bulk is 11 per cent. The 1 per cent difference in the export rebate on bottled olives versus bulk olives is certainly more than justified by the additional indirect taxes which bottlers in Spain must pay for their bottling operations, including, especially, the indirect taxes applicable to their purchases of bottles and caps.

(2) The export tax rebates applicable to both bottled and bulk olives are not a subsidy, but rather a rebate of the indirect taxes borne by these products in the country of origin or exportation, a practice clearly permitted by Article VI, page 3, or the General Agreement on Tariffs and Trade, and used by most countries in the world that rely heavily upon indirect taxes.

The second point in need of clarification relates to the questions regarding Spanish bottled olive exporters selling directly to large supermarkets. (See transcript, pages 3637, 3639.) I had understood these questions to relate to the direct sale of bottled olives to supermarkets without the involvement of U.S. companies and answered accordingly. However, as regards bulk olives, two supermarket chains, A&P and Safeway, have for many years now been large purchasers and importers of Spanish-style olives, which they in turn bottle in the United States. These firms have, however, in recent years begun to import increasing quantities of Spanish-style olives already bottled; but these purchases of bottled olives are made through other U.S. importing companies.

In order that the record may be clarified as regards these two points, I would appreciate it if this letter could be incorporated in the record following my testimony.

Very truly yours,

WILLIAM A. MILLER,
Vice President, Consumer Foods Group.

The CHAIRMAN. Mr. Lobred is our next witness.

Would you give us your name and address? We will be glad to recognize you.

STATEMENT OF LEONARD K. LOBRED, SECRETARY-TREASURER, U.S. NATIONAL FRUIT EXPORT COUNCIL

Mr. LOBRED. I am Leonard K. Lobred. I am employed by the National Canners Association in Washington, D.C. I am secretary-treasurer of the U.S. National Fruit Export Council, representing producers and processors interested in increasing the exportation of fresh fruits and fruit products.

The CHAIRMAN. We are glad to have you with us, sir. You are recognized.

Mr. LOBRED. Thank you. The U.S. National Fruit Export Council is in its 20th year of activity in support of a policy of freer and more open international trade to be achieved on the basis of negotiations for mutual advantage. Some of the member organizations are submitting statements to this committee on their own behalf. This statement is presented on behalf of the following organizations:

California-Arizona Citrus Industry: Pure Gold, Inc., Redlands, Calif.; Sunkist Growers, Los Angeles, Calif.
California Canning Peach Association, San Francisco, Calif.
California Grape and Tree Fruit League, San Francisco, Calif.
Canners League of California, Sacramento, Calif.
Cranberry Institute, South Duxbury, Mass.
DFA of California, Santa Clara, Calif.
International Apple Institute, Washington, D.C.
National Canners Association, Washington, D.C.
National Red Cherry Institute, East Lansing, Mich.
Northwest Horticultural Council, Yakima, Wash.
Pineapple Growers Association of Hawaii, Honolulu, Hawaii.
Texas Citrus and Vegetable Growers and Shippers, Harlingen. Tex.
Texas Citrus Mutual, Weslaco, Tex.

I do not appear as the direct representative of any of them, but only for the group, on matters of common concern affecting the exportation of fruit and fruit products—fresh, dried, and canned. None of these products is price supported. None is the subject of a U.S. export subsidy. None is protected by an import quota. Exports of fruits and fruit products including tree nuts contributed $529 million to the U.S. balance of payments in 1972.

TRADE REFORM ACT

The U.S. National Fruit Export Council gives its unqualified support to the proposal in section 301 of H.R. 6767 to enlarge the President's authority to respond to unjustifiable or unreasonable foreign import restrictions or export subsidies which reduce U.S. exports.

The U.S. National Fruit Export Council also supports the administration's request for new authority (chapter I of title I of H.R. 6767) to negotiate tariffs and nontariff barriers—but with the admonition that this authority be used vigorously in behalf of U.S. agricultural exports. This appears to be the President's intent, but we know that past efforts in this area have been most unsatisfactory to agriculture and the fruit industry in particular.

The Fruit Export Council requests that the Congress exercise its oversight function strongly during the negotiations to assure that the U.S. negotiators utilize all of the rights and powers at their command.

FOREIGN IMPORT RESTRICTIONS

Exports of U.S. fruits and fruit products are impeded by protectionist measures in a number of countries. Most of the import restrictions are of long standing. France and the United Kingdom limit imports of fruits and fruit products by means of import quotas, continuing in effect since World War II. As members of the European Community, they are no longer entitled to maintain their national import restrictions. Japan has continued since her entry into the GATT in 1955 to maintain import quotas, initially but no longer justified under the rules of the GATT, on a number of fruits and fruit products even though its trade balance with the United States shows a favorable surplus. It is well known that the EEC during the last 15 years has introduced a series of reference prices, variable levies, and minimum import prices on fruits and fruit products as substitutions for, or in addition to, fixed tariffs. Other countries in other parts of the world, including Latin America, restrict imports of U.S. fruits and fruit products through NTB's and discriminatory practices, notwithstanding their GATT obligations to liberalize.

It is noteworthy that the only public hearings held by the executive branch pursuant to section 252(d) of the Trade Expansion Act, since its enactment more than 10 years ago, were initiated by two of the groups affiliated with the Fruit Export Council. The California-Arizona citrus industry in 1970 sought U.S. Government action under section 252 to obtain MFN treatment for U.S. citrus in the EEC. The National Canners Association in 1970 sought U.S. Government action under section 252 to obtain the elimination of the EEC variable levy on calculated added sugars in canned fruits. Both of these proceedings. as well as the many informal representations made by Fruit Export Council members on these and other illegal barriers, have had little effect.

We consider that the EEC trade restrictions should be eliminated in the current negotiations under GATT article XXIV:6 concerning Community enlargement, and that the manner in which the EEC resolves these trade problems should be observed closely as an indication whether the EEC will in fact be ready for meaningful negotiations on agricultural trade when major negotiations get under way this fall.

We support the new section 301 including its enlargement to expressly include export subsidies within its scope. We regard the existing section 252 and the proposed section 301 as important assertions by the United States of its right to be treated fairly in international trade. We support the new authority in the hope that its re-enactment, in language of which the executive branch is the author, will strengthen the resolve of the executive branch to obtain fair treatment for U.S. exports in furtherance of U.S. trade agreement rights.

TARIFF NEGOTIATIONS

Major trade negotiations have been held under GATT auspices in 1948, 1951, 1958, 1962, and 1967. In retrospect, the Kennedy round negotiations gained little or nothing in the way of improved market access for U.S. horiticultural products in the principal markets of Western Europe and Japan.

The Fruit Export Council is obligated to take a position highly critical of the results of U.S. efforts to date in the field of trade negotiations. The Fruit Export Council has no desire to deviate from its position of support for a policy of improving market access through reciprocal concessions, but in all candor we must assess the results of that policy in relation to U.S. trade in horticultural products as having been far short of what was rightfully expected.

CONCLUSION

If history has a lesson for the Fruit Export Council it is that the enactment of new trade legislation cannot be expected by itself to provide one iota of improvement in current international trade conditions. Members of the Fruit Export Council have been aware for years that the United States is not accorded market access rights to which it is entitled, and is not treated fairly in international markets, and that such problems are largely the result of the gap between enunciated policy—legislation—and executed policy—executive action.

Members of the Fruit Export Council are obliged again to put our faith in the good intentions and negotiating skill of our Government in the hope that meaningful improvements in market access for U.S. fruits and fruit products will be obtained.

We thus endorse the new section 301 authority to act on unjustifiable or unreasonable foreign import restrictions, and the general negotiating authority in chapter I of title I of H.R. 6767.

The Fruit Export Council also urges that the Congress cooperate closely with the executive branch with the view of assuring that the United States will obtain fair treatment and improved conditions of market access.

The CHAIRMAN. We thank you again for coming to the committee and presenting your views. We appreciate it.

Mr. Schneebeli.

Mr. SCHNEEBELI. I hope that 2 years from now your export council will have more confidence in and be more optimistic about our trade policy. I am hopeful it will improve, and I am hoping your reaction will be more favorable.

The CHAIRMAN. Are there any further comments or questions? If not, again we thank you, sir.

Mr. John Van Horn is our next witness.

Will you identify yourself for our record? We will be glad to recognize you, sir.

STATEMENT OF JOHN VAN HORN, PAST PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE, AND ASSISTANT VICE PRESIDENT, SUNKIST GROWERS, INC., ACCOMPANIED BY JULIAN HERON, COUNSEL

Mr. VAN HORN. My name is John M. Van Horn. I am assistant vice president of Sunkist Growers, Inc., and past president of the California-Arizona Citrus League, both organizations domiciled in Sherman Oaks, Calif. With me at the table is Mr. Julian Heron, counsel.

The CHAIRMAN. We welcome you. You are recognized.

Mr. VAN HORN. This statement is made on behalf of the California-Arizona citrus industry, by the California-Arizona Citrus League, whose membership represents handlers and growers of more than 90 percent of the California-Arizona citrus fruit produced and marketed in fresh and processed form. This statement is also made on behalf of Sunkist Growers, Inc. On behalf of the industry, the league has requested the opportunity to testify in support of the President's foreign trade proposals.

The California-Arizona Citrus League joins with the U.S. National Fruit Export Council in its support of the principle of reciprocal trade as the cornerstone of U.S. foreign trade policy. The California-Arizona citrus industry has developed, over a long period of years by diligent marketing efforts, a substantial export market for both fresh and processed citrus products, the maintenance of which is absolutely essential to a healthy economic situation within the industry. We recognize that in order to export products of its industries, a nation must be prepared to purchase from its trading partners.

We are opposed to the continued imposition by trading partners of the United States of import quotas, the variable levy system and other nontariff barriers as well as unreasonable high tariffs. In the same vein, we urge any solutions that are warranted in instances of severe competition within the United States be found other than through the imposition of quotas and other nontariff barriers through special legislation. We support the President's tariff proposals now pending before this committee including its provisions for: (1) Authority for new negotiations; (2) Relief from disruption caused by fair competition; (3) Relief from unfair trade practices; (4) International trade policy management; and (5) Trade relations with countries not enjoying most-favored-nation treatment.

The California-Arizona citrus industry is vitally dependent upon its export markets as shown in exhibit 1 attached. For the 8-year period ending 1971–72, exports represented 28.3 percent of total shipments of fresh citrus from California and Arizona. During the subject period this proportion varied from a low of 25.3 percent to a high of 32.4 percent. Currently the dollar value of citrus and citrus products exported by the California-Arizona citrus industry exceeds $125 million annually. The maintenance of this level of exports is a crucial importance to the continued economic health of the California-Arizona citrus industry.

For these reasons the California-Arizona Citrus League strongly urges adoption of the President's trade proposals.

The California-Arizona citrus industry has long supported the reciprocal tariff policy pursued by the United States since the Trade Agreement Act of 1934. The President's proposals now before this committee are a logical continuation of that program and provide proper balance for the consideration of industries unduly subjected to competition from imports as well as providing legislative authority for a continuation of the basic reciprocal trade agreement program.

NONTARIFF BARRIERS

Since 1962, the United States has experienced increasing problems, particularly in the agricultural export field, with nontariff barriers maintained by its trading partners. Its protest of these nontariff barriers would become a hollow platitude if the United States were to yield to the temptation to enact similar proposals which provide for increased quota protection for U.S. industries.

Agricultural trade is particularly vulnerable to this type of retaliation and certainly the current efforts of the United States to secure the removal or reduction of nontariff barriers in those countries which can provide significant market opportunities for products of U.S. agriculture will be seriously jeopardized.

An example from the California-Arizona citrus industry will serve to illustrate the opportunities for U.S. agricultural exports and increased dollar exchange earnings which can result from the removal of nontariff barriers by our trading partners. The following data were presented in March of 1968 with respect to U.S. exports of fresh lemons to Japan through 1966–67, and updated in this presentation through 1971–72:

U.S. exports of fresh lemons to Japan

[Thousands of 76-lb. boxes]

1957–62 (average)	97
1962–63	127
1963–64 (liberalized, May 1964)	430
1964–65	506
1965–66	712
1966–67	832
1967–68	1,067
1968–69	1,149
1969–70	1,547
1970–71	1,748
1971–72	2,343

Source: Foreign Agricultural Service and Bureau of Census, Department of Commerce.

These data indicate that in the third full year of liberalization U.S. exports of fresh lemons to Japan had increased by almost nine times the average of the 5-year period 1958–62. Total exports of fresh lemons to Japan for 1971–72, the most recent completed export year, reached a total of 2,343,000 of 76-pound box equivalents, over 4 times the level of the first full year of liberalization and over 24 times that of the 1958–62 preliberalization average.

More recently, Japan has liberalized the importation of fresh grapefruit. Following liberalization in July 1971, substantial increases in the level of U.S. exports of grapefruit to Japan have occurred. However, Japan unjustifiably continues to maintain quotas on fresh oranges and concentrated citrus juices in violation of the rules of the General Agreement on Tariffs and Trade. The United States has been negotiating for the removal of these restrictions, but there has been no success to date.

THE EEC AND THE LEVY SYSTEM

The European Economic Community presents a special and very serious problem of nontariff barriers. The United States attempted in the GATT negotiations conducted pursuant to authority of the Trade

Expansion Act of 1962 to secure modification of the community's reference price—levy system of protection for its agriculture. Reference prices, levies, and export subsidies are a combination of devices which can be used to totally exclude imports from outside countries and to protect price levels within the domestic market by dumping on the world markets supplies in excess of that which can be consumed by the home market. The logical end of the imposition of such devices, by the EEC or by other countries, is a virtual strangling of foreign trade and the creation and/or perpetuation of inefficient producing industries with the country using such devices.

The EEC presently applies customs duties, intervention prices, export refunds, basic price, buying-in price, reference price, and quality standards to citrus. Threshold prices and variable levies are currently applied to cereals, butter, cheese, skim milk, beef, veal, other livestock products, and olive oil.

DISCRIMINATORY TRADE AGREEMENTS

Prior to the inception of the Common Market, the United States and Italy competed in the principal markets of Western Europe on the same basis except for those advantages related to geographic location, varietal differences of fruit, and other similar economic factors. The California-Arizona citrus industry pointed out the disadvantage at which it was placed by reason of the formation of the Common Market in a "Statement of Position on GATT Negotiations," submitted before the Committee on Reciprocity Information in September 1964. Since that time, Greece, another Mediterranean citrus producer, has become an associate member of the Common Market; and an association agreement has been entered into with Turkey.

More recently, the Common Market has negotiated with Tunisia and Morocco for a reduction in the common external tariff on citrus of 80 percent, and with Spain and Israel for a reduction of 40 percent. The United States, joined by other citrus-exporting countries of the world—not including the Mediterranean Basin countries—in the fall of 1969 protested before the GATT these discriminatory reductions in duties, for which the EEC had requested a waiver of the GATT rule against such discriminatory reductions. Because of the strong protest of the United States and other countries, the EEC withdrew its request for a waiver. It however instituted 40 percent tariff reductions for Spain and Israel in 1970 and have continued them to the present. To add insult to injury, the EEC, in spite of its open violation of the most favored nation provision of the General Agreement on Tariffs and Trade, instead of eliminating the discrimminatory treatment, increased it by making the 40-percent tariff reduction applicable to the three countries of Egypt, Lebanon, and Cyprus. In addition to this, the EEC made the discriminatory and damaging tariff reductions applicable to imports from those seven countries not only to the original six members of the EEC, but also to the three new members of the EEC. As if this were not enough, it is now reliably reported that the five countries enjoying a 40-percent tariff reduction will have that tariff reduction increased to an 80-percent reduction to match the preference currently enjoyed by Tunisia and Morocco. All of this is being done without any regard for the EEC's members contractual agreement expressed in GATT to treat the United States and other countries equally. In view of this, one must wonder whether or not the EEC has any intention of responding to U.S. requests at any negotiation.

CURRENT NEGOTIATIONS RESULTING FROM THE ENLARGEMENT OF THE EUROPEAN ECONOMIC COMMUNITY

At the present moment, negotiations have been underway in Geneva, Switzerland, since March 12, 1973, resulting from the enlargement of the EEC to include the United Kingdom, Denmark, and Ireland. The United States has certain rights in these negotiations expressed in article 24 of GATT. Simply, in the agricultural sector, the United States is entitled to receive concessions from the EEC as a result of the import duties in the United Kingdom, Ireland, and Denmark increasing. For example, the duty in the United Kingdom for fresh oranges is an ad valorem equivalent of 5 percent. The duty in Ireland is zero and in Denmark the duty is zero. The duty in the EEC is 15 percent for the period April 1 through October 15 and 20 percent for the remainder of the year. Thus the duty for U.S. citrus exported to the United Kingdom, Ireland, and Denmark will increase unless progress is made during the 24:6 negotiations in Geneva. To this point in time, the EEC has not shown any inclination to respond in a meaningful way to the negotiations. The EEC apparently is going to try to delay these negotiations so as to frustrate the legitimate interests and goals of the United States.

The Congress will undoubtedly wish to watch the progress, or lack of it, resulting in Geneva to determine whether or not to grant additional negotiating authority. If the EEC is not willing to negotiate, then whether or not the United States has negotiating authority is only academic. The same principle applies to Japan which has seemed up to this point to be unwilling to make any move to do away with its illegal quotas.

EXTENSION OF SECTION 252 OF THE TRADE EXPANSION ACT OF 1962

The California-Arizona citrus industry supports the extension of section 252 of the Trade Expansion Act of 1962 to nonagricultural commodities and specifically urges the Congress to emphasize that congressional policy directs the use of that authority to keep the channels of trade open. The history of the use of section 252 of the current Trade Expansion Act by private industry should be considered by this committee. In 1970, the California-Arizona Citrus League filed a request to appear before the Trade Information Committee to make its views known on the illegal preferences of the EEC. That hearing involved Tunisia, Morocco, Spain, and Israel. The special trade representative then testified in 1971 before the Senate Agriculture Subcommittee on Agricultural Exports that the entire Cabinet agreed that the preferences granted by the EEC were illegal and damaging U.S. fresh citrus exports.

In 1973, the league requested a second hearing under section 252 as the result of the three new preferences granted to Lebanon, Egypt, and Cyprus. As of this date, the preferential arrangements are still in existence and continue to damage fresh citrus exports from the United States. It is true that the EEC made a minor downward tariff adjustment for a limited period in 1971, 1972, and 1973. However, this tariff adjustment does not extend beyond this year and did not eliminate the discrimination. Thus, to knowledgeable observers, it appears that the EEC intends to disregard most-favored-nation treatment for the United States in the future. This is a matter that this committee and Congress should take under careful consideration in considering trade legislation.

In conclusion, we would like to point out the reason this committee should give added weight to the California-Arizona Citrus League's testimony. As you know, the California-Arizona growers have worked hard to increase and expand exports of fresh citrus to the present $125 million level. This level of exports has been reached through hard work, sound business planning, and vigorous promotional and sales efforts. The California-Arizona industry does not receive any type of direct Government subsidy as do many of the growers in nations competing for the same markets. In spite of the subsidies provided growers of foreign nations, our industry has been able to compete successfully to the present time. The future is uncertain. That is the reason we are here today testifying in support of the administration's trade legislation. We urge your swift enactment of that legislation.

[Additional material submitted for the record follows:]

Exhibit 1

PERCENTAGE OF FRESH CALIFORNIA-ARIZONA CITRUS SHIPMENTS DIRECTED TO EXPORT 1964-1972

Year	Total Fresh Shipments	Fresh Export Shipments	Percent
	--- Metric Tons ---		
1964-65	1,327,360	336,005	25.3
1965-66	1,377,340	385,730	28.0
1966-67	1,415,590	407,320	28.8
1967-68*	955,825	258,145	27.0
1968-69	1,427,830	385,390	27.0
1969-70	1,440,835	423,895	29.4
1970-71	1,349,715	377,230	27.9
1971-72	1,480,615	479,570	32.4
8 year Average	1,346,889	381,661	28.3

* Frost and Flood Destroyed Production

Sources: Orange, Lemon and Desert Grapefruit Administrative Committees and California Crop & Livestock Reporting Service. Canadian exports were estimated.

Exhibit 2

BEFORE THE

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

TRADE INFORMATION COMMITTEE

DOCKET NO. 73-1

BRIEF OF

CALIFORNIA-ARIZONA CITRUS LEAGUE

California-Arizona Citrus League
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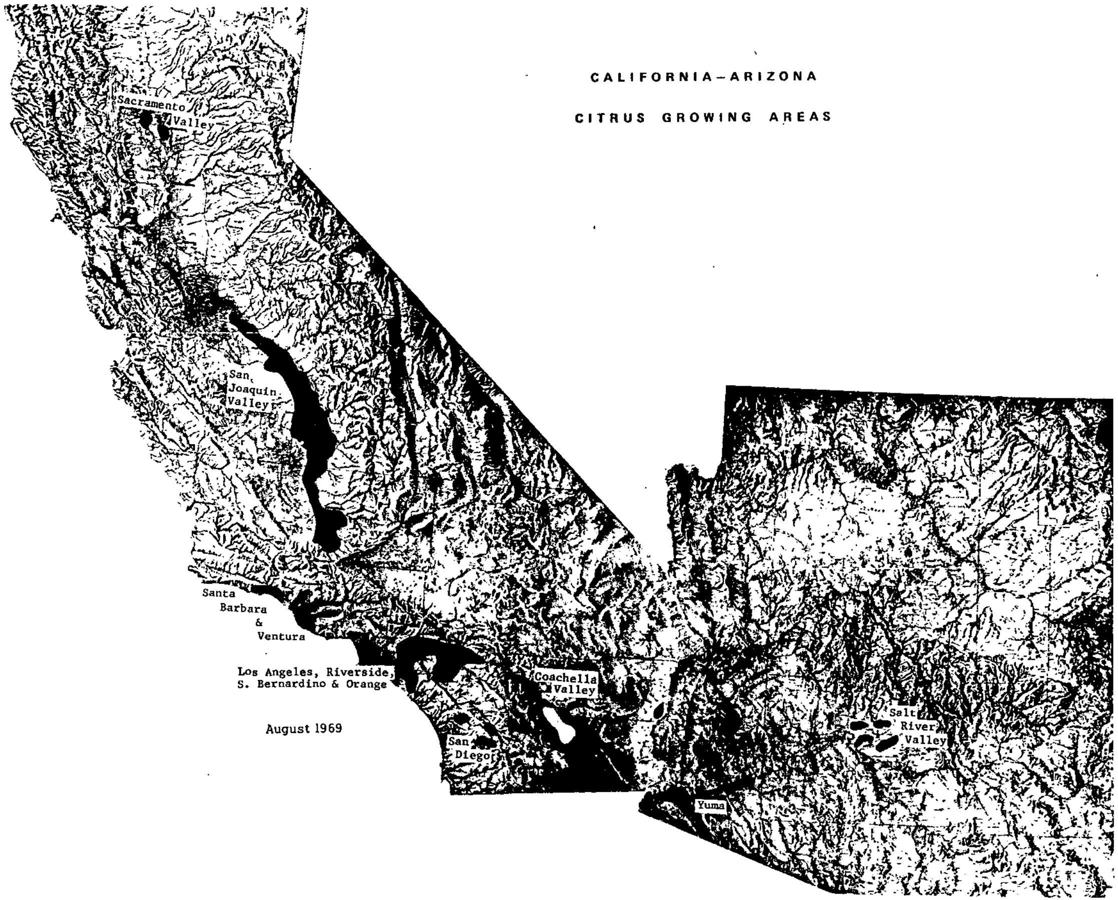
February 2, 1973

CALIFORNIA—ARIZONA

CITRUS GROWING AREAS



August 1969

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BEFORE THE

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

TRADE INFORMATION COMMITTEE

DOCKET NO. 73-1

BRIEF OF

CALIFORNIA-ARIZONA CITRUS LEAGUE

I. The Applicant

This brief is filed by the California-Arizona Citrus League (hereinafter referred to as the "League"). The League is a voluntary non-profit trade association composed of marketers of California-Arizona citrus, largely cooperatives, which represent approximately 90% of the 12,500 citrus growers in California and Arizona. These growers produce oranges, lemons, grapefruit, and tangerines. The League speaks on behalf of the industry on matters of general concern such as legislative, foreign trade, and other similar topics. Representatives of the League have devoted substantial time and effort to the promotion of exports, and through the League and other organizations, the California-Arizona citrus industry has concerned itself with matters relating to international trade since the early 1920's.

On the basis of this background and current developments relating to international trade in citrus, the League determined to request a public hearing pursuant to Section 252 (d) of the Trade Expansion Act of 1962 to provide the President with its views concerning foreign import restrictions affecting citrus. (See Appendix A).

II. Request for Hearing

In accordance with Section 252 (d) of the Trade Expansion Act of 1962, the League requested that a hearing be held to receive its views concerning the discriminatory acts of the European Economic Community (hereinafter sometimes referred to as "EEC") which unjustly and in a discriminatory fashion restrict United States commerce in fresh citrus fruit. The particular trade arrangement involved is the agreement signed on December 18, 1972, by the EEC and the United Arab Republic (hereinafter sometimes referred to as "Egypt"). Additionally, the EEC signed preferential agreements with Lebanon on December 17, 1972, and with Cyprus on December 18, 1972. All three new agreements grant 40% tariff reductions on fresh oranges, lemons and grapefruit. (See Appendix B.) In connection with negotiating these and other agreements, the EEC is in the process of renegotiating its previous discriminatory agreements with Spain, Israel, Tunisia and Morocco. It is anticipated that the renegotiation of these latter four agreements may result in increased preferences to Spain and Israel on fresh citrus. If this occurs, then Egypt, Cyprus, and Lebanon would also receive an increased preference. Information concerning the seven citrus producing countries mentioned is included in this brief, since any consideration of international trade in citrus would be incomplete without a discussion including these seven citrus exporting Mediterranean countries.

On January 1, 1973, the United Kingdom, Ireland and Denmark become part of the European Economic Community. The resulting effect on international trade in citrus will also be discussed in this brief. It is necessary to consider this since the discriminatory preferences will apply to the three new EEC importing countries which currently have either a zero duty or very low duty on fresh citrus.1/ (See Appendix C)

III. Introduction

The citrus products involved herein are fresh oranges, lemons, and grapefruit. Trade in United States produced fresh

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1/ Ireland and Denmark have a zero duty on fresh citrus. The United Kingdom's tariff on fresh oranges is 5% ad valorum from December 1 - March 31 and £ 0.175 per 112 pounds net weight from April 1 - November 30. The specific duty has had an ad valorum equivalent of 4% to 5.3% over a period of time.

citrus will be additionally restricted by the new discriminatory agreements particularly during that period of the year in which supplies of citrus are available from both the United States and Mediterranean producing countries.2/

Imports of oranges represent approximately 99 percent of total consumption with the EEC exclusive of Italy.3/ The EEC is the largest citrus importing area in the world. Lebanon, Cyprus, Egypt, Morocco, Tunisia, Spain and Israel have the production capabilities to supply, during their marketing seasons, more than the total import needs of the enlarged EEC. Because of this fact and because of their geographical proximity, these countries must be considered collectively as a competing source of supply for the important EEC market.4/ Included as Appendix D is a map showing the EEC relative to the seven Mediterranean supplying countries.

This brief documents the conditions which require the President to take necessary remedial action pursuant to the provisions of Section 252 of the Trade Expansion Act of 1962.

2/ The period during which fresh oranges are available from both the United States and Mediterranean producers extends from February through July.

3/ Italy is the only EEC member that produces citrus. FAO, CCP:CI 72/5, p. 3 April 7, 1972. Italian oranges and lemon production satisfies domestic consumption. Italy imports grapefruit.

4/ <u>The Citrus Economy & Feasibility of International Market Arrangements</u>. Jurgen Wolf, FAO Vol. 14, No. 9 September 1965.

U.S. fresh citrus trade is unjustifiably restricted, by the EEC's violation of Article I, which is the Most Favored Nation Provision (hereinafter sometimes referred to as "MFN"), of the General Agreement on Tariffs and Trade (hereinafter referred to as "GATT"). This violation exists as a result of the four previous agreements between the EEC and Tunisia, Morocco, Spain and Israel and the new agreements with Egypt, Cyprus and Lebanon.5/

The illegal agreements with Tunisia and Morocco date back to August 1969. The current signed preferential agreements with Spain and Israel became effective in October 1970.6/ The new agreement with Egypt began January 1, 1973.

The League submits that the preferential duties granted are not only violations of the Most Favored Nation Provision of GATT, but are also discriminatory, preventing expansion of trade on a mutually advantageous basis, and are policies unjustifiably restricting United States commerce.

The significance of these agreements transcends fresh citrus fruit which was the basic reason for their creation. If the agreements covering fresh citrus fruit are allowed to continue, they will establish a dangerous trade precedent that

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5/ The agreements between the EEC, Israel, Spain, Tunisia and Morocco were the subject of a previous 252 hearing in August of 1970. See Trade Information Committee Docket No. 70-1.

6/ Spain and Israel received a 40% preference during the 1969-70 season before signing the current agreement in October 1970.

will give the EEC a license to deal arbitrarily in the Mediterranean basin. Certainly, the United States has not participated in GATT with any understanding that international trade in fresh citrus could be regulated in a manner that resembles a Mediterranean cartel. Until 1969, United States fresh citrus was permitted to enter the EEC on the same basis as its major competitors.7/

The preferential agreements have a disruptive effect on the international supply of fresh citrus. The preferred market position of Mediterranean basin citrus producers has already encouraged the citrus industries in Israel, Spain, Egypt, Cyprus, Lebanon, Tunisia and Morocco to expand their production. This enables increased export sales to the EEC.8/ Countries, such as the United States, Brazil and South Africa, which the EEC does not favor have sustained damage in the form of reduced sales to the EEC since the discriminatory preferences bagan in 1969.

Since the United States has already stated publicly that the four agreements with Tunisia, Morocco, Spain and Israel are illegal and have damaged U.S. citrus exports, the documented

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7/ From 1964 to 1969, Israel enjoyed a 40% preference on grapefruit exported to the EEC. However, until 1969 that preference was extended on an MFN basis to all grapefruit exporting nations.

8/ Rotterdam Auction daily sales catalogs, 1970-1972.

illegality of those agreements will not be further discussed.9/ The discussion of those four agreements will be limited to the adverse economic impact on the domestic citrus industry.

IV. World Citrus Production and Trade

World trade in fresh citrus represents a substantial portion of the flow of international trade in agricultural commodities and has been the subject of detailed analysis by the Food and Agriculture Oreganization (hereinafter referred to as "FAO"), of the United Nations. Total annual exports of fresh oranges (including tangerines), for the three year average from 1964-1966, were 4,159,000 metric tons with the United States, South Africa, Brazil and Mediterranean basin nations contributing the major portion of the supply. International trade in fresh citrus is highly competitive and is projected by FAO to become even more competitive in the years ahead. FAO's estimate of orange supplies available for export by 1980 is 9,373,000 metric tons in contrast with its estimate of demand at constant prices on the part of importing countries at 8,651,000 metric tons. Particularly significant is FAO's estimate of the supplies available from the United States for export of 388,000 metric

9/ FAO, CCP:CI 72/5, p. 12, April 7, 1972; Hearing before Senate Subcommittee on Agricultural Exports on "Problems Incurred in Exporting Fresh Citrus Fruits to European Economic Countries," pages 124, 125-127.

tons in 1980, as compared with an average of only 149,000 metric tons from 1964 to 1966.

The EEC Member States as IMPORTERS and producing countries receiving the benefits of the EEC tariff preference schemes as EXPORTERS dominate world trade in fresh oranges. (See Table I).

TABLE I

Significance of EEC Preference Scheme in World Trade in Oranges (including Tangerines)

	1964-66 Average		Projected 1980	
	Production	Net Trade (Imports)	Production	Net Trade (Imports)
	--- per cent of world total ---			
EEC:				
Six 1/	5.4	(47.2)	5.9	(42.3)
Three 2/	0.0	(15.3)	0.0	(11.9)
Total	5.4	(62.5)	5.9	(54.2)
MED.:				
Assoc. 3/	3.3	2.7	3.2	3.6
Pref. 4/	18.3	59.9	16.5	56.9
Other 5/	1.9	5.2	1.2	2.5
Total	23.5	67.8	20.9	63.0

1/ France, Germany, Italy, Netherlands, Belgium and Luxembourg
2/ Denmark, Ireland, United Kingdom
3/ Greece, Turkey
4/ Cyprus, Egypt, Israel, Lebanon, Morocco, Spain, Tunisia
5/ Algeria

Source: FAO-CCP:CI 72/4, March 13, 1972

Appendix E is a map of the world showing the principal citrus exporting nations and Appendix F identifies the principal citrus importing nations. It will be noted that the EEC member countries constitute the largest single market in the world for fresh oranges, accounting for 62.5% of imports during the period 1964 to 1966. Aside from Hong Kong, Japan, and Canada, countries in Western Europe are the only significant market available to the United States for the export of its citrus and accounted for 35% of the exports of fresh citrus from the United States during the period 1963-64 to 1966-67.

Comparisons herein are made based upon the period 1964-66 as used by FAO in its most recent study. This period will hereinafter be referred to as the "base period" in the review of the seven countries benefiting from the said preferences. The same period will also be applied to the United States.

Tunisia, located on the southern shore of the Mediterranean and east of Morocco, has been producing citrus since before World War I. However, only recently has the commercial production of citrus in Tunisia increased significantly. With its hand-cultivated garden plantings, tree population is high with many groves having 150 trees per acre.10/ These close plantings result

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10/ The Citrus Industry, Vol. 1, Revised Edition, Division of Agricultural Science, University of California, Berkeley, 1967. The average planting in the U.S. is approximately 85 trees per acre.

in higher yields per acre, particularly in the early years of the bearing life of the tree. The majority of Tunisian citrus is exported in fresh form. France, Tunisia's traditional market place, accounted for 98% of all Tunisian exports of fresh citrus in 1956. Since that time, Tunisia has widened the distribution of its fresh citrus exports somewhat, as reflected by the fact that in 1970 through 1972, 90% of its exports were to France, with the remainder going primarily to Eastern Europe.11/ Based upon FAO projections for 1980, it is estimated that Tunisian orange production will have increased to 120,000 metric tons or 35% over the base period with supplies available for export increasing from 35,000 metric tons to 60,000 metric tons in 1980. (See Table II)

11/ Les Exportation D'Agrumes Du Bassin Mediterranean, Situation 1968-1969, Commission des Etudes Economiques du C.L.A.M., Nice, October 13, 1969; and Les Exportations D'Agrumes Du Bassin Mediterranean, Situation 1971-1972, Commission des Etudes Economiques du C.L.A.M., Nice, 9-10-72.

TABLE II

Actual and Projected Production and Consumption of Oranges (including Tangerines)

Area	1964-66 Average			Projected 1980		
	Production	Consumption	Net Trade (imports)	Production	Consumption	Net Trade (imports)
	--- thousand metric tons ---					
EEC:						
"Six" 1/	1,444	3,108	(1,965)	2,401	5,441	(3,040)
"Three" 2/	0	637	(637)	0	854	(854)
Total	1,444	33,745	(2,602)	2,401	6,295	(3,894)
MED:						
Assoc. 3/	698	584	114	1,300	1,042	258
Pref. 4/	3,835	1,343	2,492	6,690	2,606	4,084
Other 5/	406	189	217	500	324	176
	4,939	2,116	2,823	8,490	3,972	4,518

1/ France, Germany, Italy, Netherlands, Belgium and Luxembourg
2/ Denmark, Ireland, United Kingdom
3/ Greece, Turkey
4/ Cyprus, Egypt, Israel, Lebanon, Morocco, Spain, Tunisia
5/ Algeria

Source: FAO; CCP:CI 72/4, March 13, 1972.

Moroccan citrus production has increased dramatically during the past 25 years, jumping from 28,500 metric tons in the late 1930's to 588,000 metric tons in the base period. During the base period about 80% of Moroccan orange production was exported in fresh form. A large portion of Moroccan exports of fresh citrus have been to France. Also Morocco has been expanding its exports to outher countries, especially to the Netherlands, West Germany and the USSR.12/ The estimated increase of Moroccan production by 1980 from the base period is 121% and, according to FAO estimates, 80% of that production is expected to be exported.

Israel is the major citrus exporter of the Middle East. Israel's groves are modern and mechanically tilled and the industry is in a position to utilize the benefits of scientific experimentation.13/ Fresh citrus exports are not only the principal market for Israeli citrus production, but also represent Israel's largest source of foreign exchange. Exports of citrus from Israel are under the control of a quasi-governmental agency known as the Citrus Marketing Board of Israel. During the base period, exports accounted for over 80% of Israel's total fresh orange marketing. It is estimated that orange production will increase by 62% between the base period and 1980 and that exports will utilize at least three-fourths of production.

12/ Citrus Exports, C.L.A.M., 1970-1972 Annual Reports

13/ Supra, Footnote 10.

Spain is the largest citrus producing country in the Mediterranean area and is the world's largest exporter of fresh citrus. Because of its location, adjoining France on the south, it has easiest access to the EEC, from a transportation point of view, with the principal markets of Paris, Antwerp, Rotterdam, and Hamburg being from only 48 to 72 hours away by truck or rail.

Spain's largest market within the EEC is West Germany, followed by France, and the Benelux nations. More than three-fourths of all Spanish orange exports are to countries within the expanded EEC. It was predicted as early as 1960 that Spain would make every effort to maintain and increase its position within these markets and seek special trading arrangements.14/

During the base period Spain exported approximately 68% of its total orange production. It is anticipated that Spain's production will increase by 48% from this same period to 1980 and while the percentage available for export will drop slightly, the total volume of orange exports will increase significantly.

Egypt has been rapidly expanding both production and export marketing.15/ Citrus production in Egypt is located along the Nile delta, which is located between Cairo and Alexandria.

14/ Ibid.

15/ "Big Developments on the Egyptian Citrus Front", Fruit Trade Journal, April 3, 1971.

While citrus has been grown in Egypt for centuries, it has only been since 1952 that a serious industry-wide effort has been made to become competitive in the world market. For example, in the last six years, over seven new packing houses have been constructed and it is predicted that there will be 20 by 1976. A quick glance at exports of Egyptian oranges will rapidly show the progress being made. See Table III.

TABLE III

EXPORT OF ORANGES FROM EGYPT

Avg.	1962-63/1966-67	22,000 tons
	1967-68	38,000 tons
	1968-69	76,000 tons
	1969-70	86,000 tons
	1970-71	90,000 tons
	1971-72	100,000 tons
	1972-73	130,000 tons projected

Source: Supra, Footnote 11

Egypt uses modern packing house equipment and chemicals such as TBZ and diphenyl to assist in getting its fruit to export markets. Currently most of Egypt's fresh orange exports go to Eastern Europe, especially Russia. Of those that go to Western Europe, the exports are directed primarily to England, Germany, Holland, Scandinavia, and France. Egypt also is beginning to export lemons to the EEC. Egyptian citrus exports are sold through a Government monopoly known as El Wadi Agricultural Export Company. Exports consist of both navels and Valencia Late.

The citrus production of Cyprus has increased five fold from the late 1930's to the base period of 1964-66, increasing from a level of approximately 20,000 metric tons to 99,000 metric tons. During the base period over 70% of the orange production of Cyprus was exported in fresh form and almost 60% of this production has been directed to the members of the expanded EEC. According to the FAO estimates, by 1980 the citrus production of Cyprus is expected to increase 268% and 82% of the total production will be directed to exports.

Exports of oranges from Lebanon have ranged from 80,000 to 93,000 tons from 1962 through 1970. In 1971, they increased dramatically to 132,000 tons and in 1972 were 109,000 tons. It is expected that 125,000 tons will be available for export in 1973. Nearly all of Lebanon's orange exports have gone to nearby markets in Jordan, Syria and Near East non-producing countries. About half of Lebanon's production is consumed in its domestic market. During the base period, production of oranges was 148,000 tons, and is expected to increase by 60% to 240,000 tons by 1980.

As previously noted, the principal citrus producing areas of the world are the United States and the Mediterranean region, including the countries of Tunisia, Morocco, Spain and Israel, Egypt, Cyprus, and Lebanon, which have just been reviewed. While citrus production has been increasing in virtually all producing areas, the increases in the Mediterranean in particular have been greater than those in the United States, with the result that the United States' share of world production has fallen from 40% to 25% during the past 30 years.16/ During this same period, the Mediterranean's share of world production has been steadily rising from 25%. Although production is fairly evenly divided between the two major producing areas, the Mediterranean and the United States, the majority of fresh citrus exports originate in the Mediterranean area--with over 50% of this area's production being exported. This represents approximately 75% of total citrus shipments throughout the world to importing countries, with the bulk of the remainder of the shipments being divided between the United States, South Africa, and Brazil.

The EEC is the most important market area for Mediterranean basin citrus producing countries; and it is also the single most important overseas market for U.S. citrus. The California-Arizona citrus industry has been vigorous in its efforts to increase fresh citrus exports to the EEC. The trend of exports of fresh

16/ Supra, Footnote 4. In addition to footnote four, it must be kept in mind that fresh oranges are available from both the United States and Mediterranean producers from February through July.

citrus from California-Arizona from 1925 to the present is shown below in Table IV.

Table IV

Exports of California-Arizona Fresh Citrus

Year	Metric Tons	Year	Metric Tons
1924-25	55,700	1949-50	192,020
1929-30	62,450	1954-55	349,500
1934-35	165-830	1959-60	300,600
1939-40	127,750	1964-65	336,000
1944-45	228,400	1969-70	423,900

Source: Sunkist records projected to California-Arizona citrus industry total.

During the development of its citrus export markets, the United States was able to compete in the principal markets of Western Europe, now incorporated in the EEC, on generally the same basis as other suppliers insofar as tariffs and other governmentally imposed trade restrictions were concerned. The California-Arizona citrus industry pointed out as early as 1962 that the creation of the EEC itself placed the United States and California-Arizona citrus growers at a competitive disadvantage with Italy for example, one of the original "six".17/ This disadvantage was extended

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17/ University of California Conference in Foreign Trade, D. F. McMillen, 1962.

subsequently as Greece and Turkey entered into association agreements with the EEC and more recently with the extension of preferences to Tunisia, Morocco, Israel, Spain, Cyprus, Egypt and Lebanon.18/ It is not necessary to review the possibility that EEC itself may not have been organized pursuant to GATT criteria, in order to examine the EEC's agricultural policy. The protectionist attitude of the EEC toward its agriculture is a well documented fact, and the agreements under consideration herein constitute an extension of that agricultural policy to non-EEC member countries now being brought in under the EEC umbrella. It is clear that the EEC intends not only to protect its own agriculture, but also the agriculture of major third country suppliers of products not grown in sufficient quantity within the EEC to achieve self-sufficiency. It is accomplishing this objective in a manner which discriminates against other third country fresh citrus suppliers such as the United States, Brazil, and South Africa. Additionally, the EEC has announced its intention to extend these preferences to other Mediterranean producers.19/ This protectionism of agriculture and its extension to selected third countries is in sharp contrast with the intent of the Treaty of Rome, pursuant to which the EEC was formed, which in referring to trade

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18/ In total, the EEC has extended agreements of one kind or another to 43 countries. It is expected that soon the number of countries will increase as areements are developed with commonwealth

19/ European Community, No. 134, May 1970; No. 133, April 1970; No. 131, February 1970; No. 127, Sept. 1969; No. 123, May 1969.

between the EEC and third country suppliers states as follows:

> "Article 18 -- Member States hereby declare their willingness to contribute to the development of international commerce and the reduction of barriers to trade by entering into reciprocal and mutually advantageous arrangements directed to the reduction of customs duties below the general level which they could claim as a result of the establishment of a customs union between themselves.
>
> "Article 110 -- By estalishing a customs union between themselves the Member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers.
>
> The common commercial policy shall take into account the favourable incidence which the abolition of customs duties as between Member States may have on the increase of the competitive strength of the enterprises in those States."

V. The California-Arizona Citrus Industry

The citrus industry within the United States has experienced substantial growth in acreage and production and this growth is projected to continue in the future. According to FAO estimates, United States production of all citrus will reach 13,500,000 metric tons by 1980, as compared with an average of 6,689,000 metric tons for the period 1964-1966. During the base period, Florida accounted for 68% of total U.S. citrus production with California-Arizona accounting for 30% and the remainder of 2% being in Texas with minor production in Louisiana.

However, California-Arizona is the principal source of fresh citrus exports from the United States, accounting for an estimated 80% - 85% of total overseas exports in recent years.

The development of the export market has been an integral part of the growth and expansion of the California-Arizona citrus industry. The earliest exports of fresh citrus date back to 1892 with significant volume being first attained in the 1920's.20/

Exports were further expanded after World War II to the present level of 479,600 metric tons in 1971-72. It is significant that these established export markets were regained after World War II with assistance from the Federal Government.

In addition, since 1960, the California-Arizona Citrus League has had the cooperation of this Government in the continued expansion of the League's citrus export markets through the FAS-California-Arizona Citrus League market development project, pursuant to which P.L. 480 funds in the amount of $2,145,000 have been spent in assisting the industry in its trade expansion programs from 1960 to December 31, 1972. These funds were matched by industry expenditures of approximately $7,980,000 during the same period. As a result of these and other efforts, exports of fresh citrus from California and Arizona have represented 28% of its total fresh fruit shipments

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20/ California State Board of Horticulture, 1892, P. 330-331.

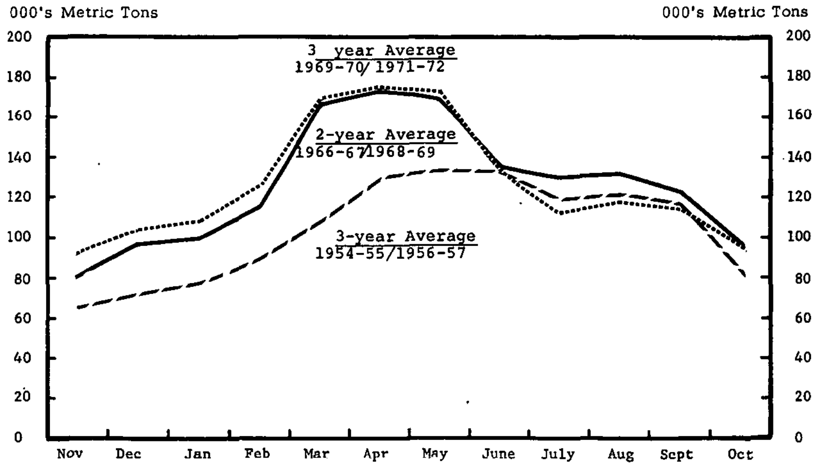
during the eight years 1964-65 to 1971-72 with individual years ranging from a low of 25.3% to a high of 32.4%. (See Appendix G) Of these exports, 67% were to overseas markets. During the period 1964-65 to 1968-69, 50% of the overseas exports went to the EEC. Now that the discriminatory preferences have been in effect since 1969, shipments to the original EEC member countries constituted only 30% of overseas exports during 1971/72. When the three new EEC members are included, overseas exports to the EEC amount to 35%.

The California-Arizona citrus industry is experiencing a resurgence of plantings and production. Significant acreage reductions were made in the 1950's, principally due to pressure of low returns, loss from quick decline (Tristezza), and opportunities for subdivision in established producing areas. The California-Arizona citrus industry currently has approximately 361,000 acres of citrus under cultivation with employment in the growing, harvesting, packing and marketing functions totaling approximately 37,000 individuals.

The new plantings that have been made since the mid-1950's are concentrated largely in the Central California and Desert Valley producing areas, the harvesting seasons for which are somewhat earlier than in the older established producing areas of Southern California. These plantings have been made possible by the availability and extension of water supplies developed through Federal and State reclamation and irrigation projects. In many instances citrus fruit is the only crop which has the production and income potential to utilize effectively these sources of irrigation water. The shift of producing areas referred to above will result in the need to initiate shipments into export markets earlier in the marketing season than in the past. Chart I below illustrates the changing volume and seasonal pattern of orange harvests between 1954 and 1972.

CHART I

VOLUME OF CALIFORNIA-ARIZONA ORANGE CROP HARVESTED EACH MONTH



*1967-68 was a severe frost year resulting in crop loss.

Source: Orange Administrative Committees

The California-Arizona industry has developed on the basis of an expectation of continuing demand in both domestic and export markets. Projecting the growth of this industry to 1977-78, the production of oranges is expected to total 2,067,200 metric tons. If the California-Arizona industry is to maintain the same percentage of utilization in export channels as has prevailed in the immediate past, total exports of fresh citrus from California-Arizona will have to increase from the level of 479,600 metric tons for 1971-72 to a level of 600,000 metric tons in 1977-78.

Examining the current economic status of the industry, it is clear that with the existing levels of production the industry would suffer severe economic consequences, were it to lose any significant part of its fresh citrus exports.

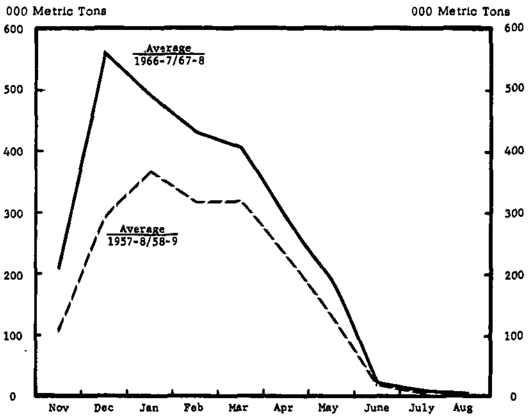
VI. World Marketing Seasons

As described earlier, production in the Mediterranean area has increased faster than it has in the United States and has resulted in increased volume being exported in all months of their marketing season. During the months of March through June, volumes shipped by Mediterranean suppliers have increased by 58% from 700,000 metric tons to 1,100,000 metric tons between 1957-58 and 1971-72.21/ Chart II below illustrates this rapid growth.

21/ Monthly data was not available for this time period for Greece, Turkey, Lebanon and Egypt. Therefore, this section does not include information on those countries.

CHART II

FRESH ORANGES (Including Tangerines, etc.)
EXPORTS FROM MEDITERRANEAN COUNTRIES TO WORLD MARKETS



See: Appendix H

Source: Food & Agriculture of the United Nations, Bulletin of Economic Statistics

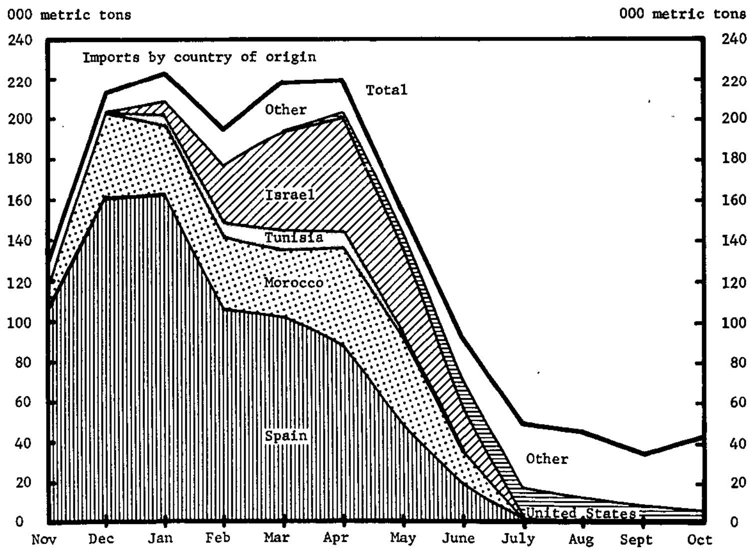
In recent years a growing share of these increased shipments have been kept in storage in the European markets and have been sold later in the season than was normal. It is expected that, as production further increases in Mediterranean countries, their marketing season will be further extended in the EEC through use of storage facilities and extension of the harvesting period.

Chart III on page 25 illustrates the monthly imports of both California-Arizona and Mediterranean oranges into the EEC.

It is readily seen that even though the EEC markets are of great importance to the California-Arizona industry, the overwhelming competition from Mediterranean sources of supply will make it extremely difficult, if not impossible, to maintain a market position under conditions of preferential tariff reductions to Mediterranean competitors. Combined with an earlier availability of supplies from California-Arizona, the extension of the Mediterranean season has and will continue to intensify competition in the critical months of April through July. Extending preferential tariffs to the Mediterranean countries constitutes a serious discrimination against the California-Arizona industry within the EEC market, particularly from the beginning of the California-Arizona export season in late February until approximately late July or early August.

Charts IV through VII clearly illustrate the difficulty suppliers from California-Arizona are having in maintaining a market position under conditions of preferential tariff reductions to Mediterranean suppliers.

CHART III
MONTHLY EEC IMPORTS OF FRESH ORANGES
1966-67



Source: GATT Spec (69) 129 (EEC provided figures)
See: Appendix I

AUCTION: ROTTERDAM, HOLLAND
QUANTITIES OF ORANGES SOLD

CHART IV

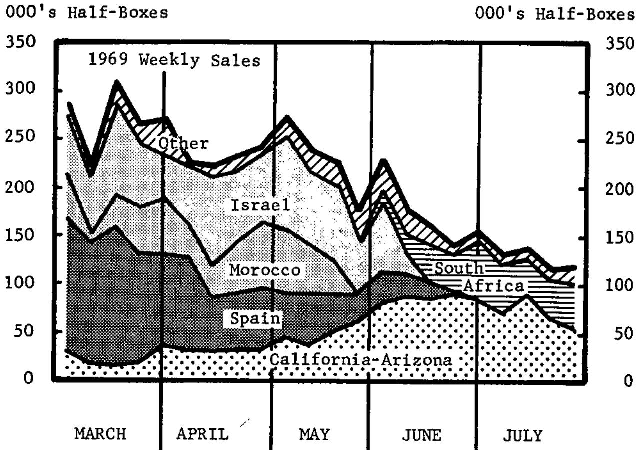
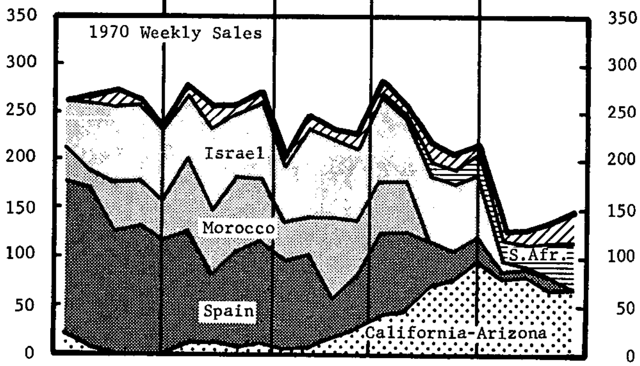


CHART V



Source: Rotterdam Auction Catalogs

AUCTION: ROTTERDAM, HOLLAND
QUANTITIES OF ORANGES SOLD

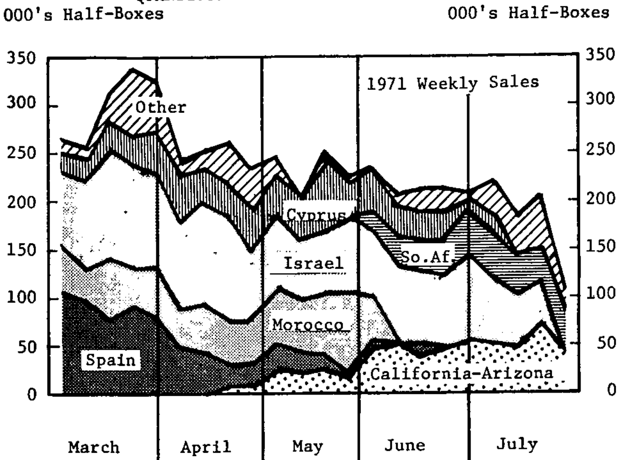


CHART VI

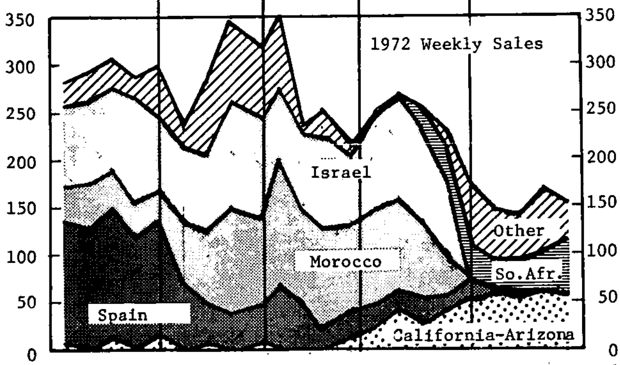


CHART VII

Source: Rotterdam Auction Catalogs

*Freeze in Spain 1971

VII Effects of the Tariff Preference

The association agreements provide that when oranges originating in Tunisia and Morocco are imported into the EEC, they shall be subject to only 20% of the common external tariff applicable to like products. These citrus items are included in EEC tariff heading 08.02A. The preferential agreements with Cyprus, Egypt, Lebanon, Morocco and Tunisia provide for the payment of only 60% of the common external tariff on like products. FAO comments on EEC preferential arrangements for citrus fruit imports are given in Appendix J.

Table VIII below relates the two degrees of preference 80% (Morocco and Tunisia) and 40% (Cyprus, Egypt, Lebanon, Spain and Israel) to the CXT of 20% during the period October 16 to March 31, the CXT of 15% during the period April 1 to May 31, the CXT of 5% during the period June 1 to September 30 and the CXT of 15% during the period October 1 to October 15 to a carton of oranges with an average C.I.F. value of $5.00 per carton.22/ On the basis of this average value, the application of these preferential rates result in duties of only 4% ad. valorum or 20¢ per carton on imports from Tunisia and Morocco, and a duty of 12% ad. valorum or 60¢ per carton on imports from Cyprus,

22/ The preferences are understated because the average price per carton of U.S. competitors is less than the U.S. average price per carton of $5.00

Egypt, Lebanon, Morocco and Tunisia. Compare those duties with the duty on imports from non-preferred third countries of 20% ad. valorum or $1.00 per carton at that value. The preferences are 80¢ and 40¢ respectively per carton.

TABLE VIII

Computation of Tariff Preferences

	U.S.	Morocco & Tunisia	Cyprus, Egypt, Lebanon Spain and Israel
			16 October to 31 March
Tariff	20%	4%	12%
Dollars*	$1.00	20¢	60¢
Preference per carton	-0-	80¢	40¢
			1 April to 31 May
Tariff	15%	3%	9%
Dollars*	75¢	15¢	45¢
Preference per carton	-0-	60¢	30¢
			1 June to 30 September
Tariff	5%	1%	3%
Dollars*	25¢	5¢	15¢
Preference per carton	-0-	20¢	10¢
			1 October to 15 October
Tariff	15%	3%	9%
Dollars*	75¢	15¢	45¢
Preference per carton	-0-	60¢	30¢

* Average C.I.F. price of $5.00 per carton is used.

The extension of the tariff preferences to the Mediterranean suppliers by the new member countries will make exporting to the United Kingdom, Ireland and Denmark more difficult as the new member countries introduce the common agricultural policy for fruits and move toward alignment with the CXT. Tariffs will rise substantially in the three new member countries from their present low levels to the complex and significantly higher CXT of the Community.23/ Only those suppliers which have not been extended preferential reductions - the United States, South Africa and Brazil - will pay the full duty.

The tariff levels for the United States, South Africa and Brazil will increase by as much as 300% in the United Kingdom from 5% to 15%. In Ireland and Denmark the increase will be from 0 to 20% in the winter. This will result in increased cost of up to $1.00 per carton for countries without preferential arrangements.24/ The application of the significantly higher rates will force the import traffic to be directed to those suppliers now enjoying a tariff advantage by virtue of the EEC preferences.

It is crystal clear that these unjustified agreements granting preferential duties to selected countries on oranges and lemons not only constitute rank discrimination against the

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23/ Supra, Footnote 1

24/ Average C.I.F. price of $5.00 per carton is used.

United States and other non-preferred third country suppliers, principally South Africa and Brazil, but also will restrict future U.S. commerce with the EEC. Further, this is precisely the situation contemplated by Congress when it enacted Section 252 of the Trade Expansion Act of 1962.

These tariff reductions are accompanied by a so-called price maintenance scheme, but this does not remove the competitive disadvantage which accrues from the reduction in duties. In fact, the price maintenance scheme has already caused damage to the U.S. overseas markets in several ways. If the price maintenance scheme is successful with the result that prices received by preferred producers are higher than they otherwise would have been, this scheme and the lower duty will have served to further increase their net return. This added return will result in additional plantings and expansion of production, which will further increase the competitive disadvantage which California-Arizona exports must face. On the other hand, if the reduction in duty is not passed back to the ultimate producer, the discriminatory margin will serve as an inducement for traders to seek out sources of supply in the favored countries at the expense of third countries not so favored. As preferential treatment stimulates increases of supplies in the Mediterranean area, their marketing period will be further extended, as much as possible, to take advantage of this special treatment accorded their product moving into the EEC.

As a consequence of all of the factors influencing the competitive ability of the Mediterranean area suppliers, heavy supplies from these four countries originally receiving the illegal preferences have been found in the EEC during the past three years for almost six weeks longer than their historical marketing period. It should be repeated that the degree of preference involved is significant. The tariff assessed on U.S. citrus is 5 times that assessed on the citrus of Tunisia and Morocco, and 1.7 times that of Cyprus, Egypt, Israel, Lebanon and Spain.

However, the damage caused by the price/maintenance scheme has not been limited to the EEC market. In order to avoid falling below the applicable minimum (the reference price), and thus having their preference suspended until the situation is corrected (see Appendix K), the Mediterranean suppliers have been able to divert shipments to the United Kingdom whenever supplies within the EEC approached a level which would cause a temporary loss of their EEC preference.

Now that the United Kingdom has joined the Common Market and the "safety valve" has been removed, several damaging alternatives may result. The preferential suppliers can market without any restraints when the minimum prices are not in effect. Therefore, there may be a tendency for the preferential suppliers to withhold some supplies from the market until after the applicable reference prices expire on April 30. Their marketing season may extend even further into the summer months.

In addition, there may now be a tendency for the Mediterranean suppliers to divert those supplies which previously were directed to the United Kingdom to other markets in order to continue to lessen the possibility of compensatory levies with the EEC. These supplies could be diverted to important U.S. markets such as Canada or several in the Far East (e.g. Hong Kong or Japan) and even to the United States.

The last and most probable alternative is that the Mediterranean suppliers will extend their marketing season in the Community and will also divert supplies to important U.S. markets.

VIII The Applicable International Agreement

Having documented the damage being sustained by the California-Arizona citrus industry, the United States will wish to determine what method is available to remove the existing discrimination. This involves examining both the General Agreement on Tariffs and Trade which is international and the Trade Expansion Act of 1962 which is domestic. GATT is only as effective as its members desire it to be, whereas the domestic law can be applied unilaterally.

The applicable international agreement governing trade is GATT. The preferential agreements between the EEC, Egypt, Cyprus and Lebanon violate the Most Favored Nation provision of that agreement which is the foundation of international trading rules.

A. Most Favored Nation Treatment

Article I of GATT provides, with certain exceptions not applicable to the agreement discussed herein, that when a preference is given to one country by a contracting party, that preference automatically is extended to all other GATT contracting parties. If the preference is not extended, then a violation of the Most Favored Nation provision occurs. Because of the importance of the MFN principle, the applicable portion of Article I is set forth and is as follows:

> "1. With respect to customs duties and charges of any kind imposed on or in connection with importation or payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favour, privilege, or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

The principle of MFN has been the backbone of U.S. trade policy. In fact, the Special Representative for Trade Negotiations in his report to the President dated January 14, 1969, said:

"A basic tenet of U.S. policy since the early 1920's has been to follow, and to insist that other countries follow, a policy of unconditional most-favored-nation (MFN) treatment--that is, nondiscrimination in international trade.

"There have been sound reasons for this policy. In the first place, as the world's greatest trading nation, the United States has much to gain from the assurance that its own exports will be permitted to compete in foreign markets on equal terms with those of any third country. To be assured of this treatment, it must guarantee MFN treatment to others."

More recently, the Honorable Peter G. Peterson stated in "A Foreign Economic Perspective" dated December 27, 1971, at page 20:

"The United States has long supported the multilateral, non-discriminatory approach to the management of international economic relations, as opposed to bilateralism and discrimination. The United States has global economic interests: it thrives best in a world of nondiscrimination. The American interest is not solely economic, however. Nationalism is politically divisive, whether practiced militarily or economically. The United States has tried to encourage the development of an international system which would contain divisive economic nationalism and exclusive regionalism, so that political as well as economic relations might operate to the general benefit of all countries."

There are four items which must be considered in determining if there has been an MFN violation. The first three are items contained within the MFN provision and are (1) contracting parties, (2) advantage, favor, privilege or immunity, and

(3) product. The fourth item is whether any other provision of GATT grants an exception to and immunity from the MFN. These items will be considered in the order listed.

1. Contracting Parties

A contracting party is a nation who has agreed to the terms of the GATT and become a participating country. Of the countries involved in this brief only Belgium, France, Luxembourg, Netherlands, United Kingdom and the United States were original contracting parties. Denmark, The Federated Republic of Germany, Ireland, Israel, Italy and Spain have beome GATT contracting parties by accession under Article XXXIII. Cyprus became a contracting party by accession pursuant to Article XXVI. Tunisia and the United Arab Republic have acceeded provisionally and are not yet contracting parties. Morocco is not a GATT member although it does have observer status. Lebanon at one time was a contracting party, but then withdrew. It now has observer status.

2. Advantage, Favor, Privilege, or Immunity

The EEC has given an advantage, favor, and privilege to Egypt, Cyprus and Lebanon by granting them on fresh oranges, lemons and grapefruit, a 40% reduction in the common external tariff. This enables those countries to export citrus to the EEC at advantageous prices resulting in discrimination against citrus from nonpreferred areas. This discrimination against some GATT contracting parties is unjustified.

The EEC previously admitted that MFN applies. In the beginning, the EEC granted a preference to Israel on grapefruit in July, 1964. The duty rate resulting from that preference was extended by the EEC to all GATT contracting parties pursuant to the MFN clause. This has not been done in the present case and indicates the EEC's willful disregard of Article I of GATT.

3. Product

The products involved are oranges, lemons and grapefruit as previously discussed hereinbefore. For the purposes of GATT the oranges, lemons and grapefruit exported from the United States, Morocco, Tunisia, Spain, Israel, Egypt, Cyprus and Lebanon are identical. There can be no question that the items concerned in the preferential and discriminatory agreements between the EEC and the seven countries involve like and directly competitive products to those exported by the United States.

The MFN of GATT would thus apply to EEC orange, lemon and grapefruit imports unless affirmative exemptions have been obtained under the provisions of GATT. This means that the United States and all other citrus producing countries are entitled to the benefits of the preferences extended. Even Spain

Israel, Cyprus, Lebanon and Egypt are entitled to the same preference received by Tunisia and Morocco.

B. Article XXIV is not Applicable to the Discriminatory Agreements

Article XXIV of the GATT is entitled "Territorial Application-Frontier Traffic-Customs Union and Free-Trade Areas." The EEC, acting in accordance with the terms of this article, could establish a free-trade area or a customs union which would be exempt from the application of the MFN. The present agreements do not and do not attempt to establish a customs union or free-trade area in accordance with Article XXIV. Article XXIV, paragraph 4, of GATT states principles of customs union and free trade areas in the following terms:

> "4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories."

1. Customs Union

Before determining whether or not the EEC is trying to establish a customs union with any of the three countries concerned, it is necessary to determine what a customs union is. A customs union has three basic characteristics. First, trade restrictions between the union members must be substantially eliminated. Second, uniform duties and other regulations of commerce with non-union members must be established. A third criteria is that the duties and other restrictions on trade on the non-union GATT parties to and from the customs union must not be on the whole higher or more restrictive than the general incident of the duties and regulations prior to the formation of the customs union.

If the criteria described above are met and the countries involved are GATT contracting parties, then the exclusion from the MFN is automatic. In this case, Egypt and Lebanon are not contracting parties to GATT and there can be no automatic exemption.

The agreements signed between the EEC and Egypt, Cyprus and Lebanon contain no provision or schedule for the formation of uniform duties and other regulations of commerce with non-union members or in other words a common external tariff. This, of course, is one of the very basic items to any actual customs union.

The agreements with Cyprus, Lebanon and Egypt do not resemble a customs union and a customs union potential is made impossible by those countries existing relations with other countries.

2. Free Trade Area

To establish a free trade area the countries within the area must eliminate the duties and restrictions on substantially all the trade between the member countries. There is no requirement that a uniform external tariff be established in connection with the trade between the members of the free trade area and non-members. The EEC announcement concerning these agreements indicates that a free trade area was formed.25/ The possibility that the agreements between the EEC and Cyprus, Egypt and Lebanon could be considered to have established a free trade area is prevented by the fact that customs duties and regulations are still in effect. There is no provision or schedule for the elimination of existing tariffs. The duty charged by the EEC on citrus from these three countries is an illustration that a free trade area does not exist.

3. Interim Agreements

There is one other section of Article XXIV which needs to be mentioned although it has no application to the instant agreements. Article XXIV of the GATT provides for interim agreements which lead to the formation of either a customs union

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25/ Joint Press Releases, 2166 e/72 (Preise 109); 2158 e/72 (Preise 104); 2157 e/72 (Preise 103) or free trade area. In the present case, the EEC could not seriously assert that the agreements were qualifying interim agreements. Neither of the agreements have any formalized plan to form either a customs union or a free trade area. The 5-year agreements do provide that further negotiations should take place beginning 18 months before the agreements terminate. However, there is no requirement that the negotiations must be concluded in a reasonable time or that a free trade area or customs union must be established.

Since the preferential agreements do not fall within an exception to the MFN and do not comply with the MFN, they are violations of it. The EEC is openly violating MFN as to the rest of the GATT contracting parties. At the same time the EEC was careful in Article 4 of the agreements to specifically preserve for itself MFN treatment from Lebanon, Cyprus and Egypt as to any preference either of those countries might extend. (See Appendix K).

United States Law Requires Presidential Action

The Trade Expansion Act of 1962 states that the purpose of the Act is, among other things:

> "...to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of United States agriculture...[and] to strengthen economic relations with foreign countries through the

> development of open and non-discriminatory trading in the free world..." 19 U.S.C. § 1801.

The Trade Expansion Act of 1962 (hereinafter referred to as "TEA") gave authority to the President to take certain actions when the purpose of the TEA was frustrated by the actions of foreign nations.

The President is directed by the TEA to take certain action when the conditions discussed in this brief exist. The President is directed by 19 U.S. C. § 1882(a) whenever unjustifiable foreign import restrictions oppress the commerce of the United States or prevent the expansion of trade on a mutually advantageous basis to:

(1) take all appropriate and feasible steps within his power to eliminate such restrictions,

(2) refrain from negotiating the reduction or elimination of any United States import restriction under 19 U.S.C. § 1821(a) in order to obtain the reduction or elimination of any such restrictions, and

(3) notwithstanding any provisions of any trade agreement under the Trade Expansion Act and to the extent the President deems necessary and appropriate, impose duties or other import restrictions on products of any foreign country or instrumentality establishing or maintaining such foreign import restrictions against United States agricultural products, when he deems such duties and other import restrictions necessary and appropriate to prevent the establishment

or obtain the removal of such foreign import restrictions and to provide access for United States agricultural products to the markets of such country or instrumentality on an equitable basis.

The President is also directed by 19 U.S.C. §1882(b) whenever a foreign country or instrumentality, the products of which receive benefits of trade agreement concessions made by the United States, engages in discriminatory or other acts or policies unjustifiably restricting United States commerce, the President shall, to the extent that such action is consistent with the purposes of 19 U.S.C. §1801 suspend, withdraw, or prevent the application of benefits of trade agreement concessions to products of such country or instrumentality, or refrain from proclaiming benefits of trade agreement concessions to carry out a trade agreement with such country or instrumentality.

The President is also directed by 19 U.S. C. § 1882(c) whenever a foreign country or instrumentality, the products of which receive benefits of trade agreement concessions made by the United States, maintains unreasonable import restrictions which either directly or indirectly substantially burden United States commerce, to the extent that such action is consistent with the purposes of 19 U.S.C. §1801 and having due regard for the international obligations of the United States, to suspend, withdraw, or prevent the application of benefits of trade agreement concessions to products of such country or instrumentality or refrain from proclaiming benefits of trade agreements concessions to carry out a trade agreement with such country or instrumentality.

As can readily be seen, the Congress intended that when U.S. commerce is unfairly burdened the President is to take certain definite steps. For that reason, the conditions which must exist and the steps to be taken were clearly outlined in the TEA. While a GATT violation is not a necessary prerequisite for the President to invoke 19 U.S.C. § 1882, a violation of GATT does illustrate the lengths to which some countries will go to unfairly restrict U.S. commerce and discriminate against it.

CONCLUSION

It is submitted that the foregoing facts concerning the California-Arizona citrus industry's trade with the EEC will substantiate the finding that the duty preferences extended by the EEC will reduce the demand for California-Arizona citrus as the EEC citrus requirements are increasingly supplied by Tunisia, Morocco, Israel, Spain, United Arab Republic, Algeria and Cyprus. Damage will also accrue to South Africa and Brazil. While in the U.S. the citrus industry alone may feel the immediate impact of this discriminatory policy, other U.S. commerce will no doubt be seriously affected. If the challenge to these agreements is not successful, then the EEC and other GATT members will have carte blanche to violate, at will, the Most Favored Nation provision of

GATT. Therefore, it is respectully requested that the President exercise the authority of his Office on behalf of United States commerce and the League to persuade the EEC to rescind the discriminatory agreements. It is fair and reasonable to request that the EEC extend the preferences granted to all citrus producing GATT members as required by GATT or rescind the agreements.

In following this path, the United States will have the support of all non-Mediterranean citrus producing countries as well as all other nations interested in preserving the Most Favored Nation principle in GATT. The only other alternative is for the United States to retaliate under the provisions of 19 U.S.C. §1821.

Respectfully submitted,

D. J. McMillen

California-Arizona Citrus League
Van Nuys, California

VERIFICATION

STATE OF CALIFORNIA)
) SS:
COUNTY OF LOS ANGELES)

D. F. McMillen, being first duly sworn, deposes and says that he is the President of the California-Arizona Citrus League and, as such, is authorized to verify this brief on behalf of CACL, that he has read the foregoing brief and exhibits attached hereto and that the same are true to the best of his belief, information and knowledge.

D. F. McMillen

D. F. McMillen
President

Subscribed and sworn to before me this 25th day of January, 1973.

Stanley H. Haberkorn

Stanley H. Haberkorn Notary Public

My commission expires
Dec. 15, 1974

OFFICIAL SEAL
STANLEY H. HABERKORN
NOTARY PUBLIC - CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY
My Commission Expires Dec. 15, 1974

APPENDICES

Appendix A - Section 252 of the Trade Expansion Act of 1962

Appendix B - Portion of EEC-Egypt preference Agreement granting tariff reductions on fresh citrus

Appendix C - Article 108 of the Treaty of Accession, January 22, 1972

Appendix D - Map of EEC and Mediterranean countries receiving preferences

Appendix E - Principal Export Citrus Producing Nations

Appendix F - Principal Citrus Importing Nations

Appendix G - Percentage of fresh Califonia-Arizona citrus shipments directed to export

Appendix H - Fresh orange exports from Mediterranean countries to world markets

Appendix I - Monthly orange imports into EEC

Appendix J - Developments in National and International Citrus Policies

Appendix K - Suspension of preferential tariffs in the EEC

Appendix L - Portion of EEC-Egypt agreement where EEC obtains Most Favored Nation treatment from Egypt

Appendix A

76 Stat.] PUBLIC LAW 87-794-Oct. 11, 1962

CHAPTER 6 -- GENERAL PROVISIONS

Sec. 251. MOST FAVORED NATION PRINCIPLE.

Except as otherwise provided in this title, in section 350 (b) of the Tariff Act of 1930, or in section 401(a) of the Tariff Classification Act of 1962, any duty or other import restriction or duty-free treatment proclaimed in carrying out any trade agreement under this title or section 350 of the Tariff Act of 1930 shall apply to products of all foreign countries, whether imported directly or indirectly.

Sec. 252. FOREIGN IMPORT RESTRICTIONS.

(a) Whenever unjustifiable foreign import restrictions impair the value of tariff commitments made to the United States, oppress the commerce of the United States, or prevent the expansion of trade on a mutually advantageous basis, the President shall--

(1) take all appropriate and feasible steps within his power to eliminate such restrictions.
(2) refrain from negotiating the reduction or elimination of any United States import restriction under section 201(a) in order to obtain the reduction or elimination of any such restrictions, and
(3) notwithstanding any provision of any trade agreement under this Act and to the extent he deems necessary and appropriate, impose duties or other import restrictions on the products of any foreign country or instrumentality establishing or maintaining such foreign import restrictions against United States agricultural products, when he deems such duties and other import restrictions necessary and appropriate to prevent the establishment or obtain the removal of such foreign import restrictions and to provide access for United States agricultural products to the markets of such country or instrumentality on an equitable basis.

(b) Whenever a foreign country or instrumentality the products of which receive benefits of trade agreement concessions made by the United States--

(1) maintains nontariff trade restrictions, including variable import fees, which substantially burden United States commerce in a manner inconsistent with provisions of trade agreements, or

(2) engages in discriminatory or other acts (including tolerance of international cartels) or policies unjustifiably restricting United States commerce,
the President shall, to the extent that such action is consisten with the purposes of section 102--

(A) suspend, withdraw, or prevent the application of benefits of trade agreement concessions to products of such country or instrumentality, or
(B) refrain from proclaiming benefits of trade agreement concessions to carry out a trade agreement with such country or instrumentality.

(c) Whenever a foreign country or instrumentality, the products of which receive benefits of trade agreement concessions made by the United States, maintains unreasonable import restrictions which either directly or indirectly substantially burden United States commerce, the President may, to the extent that such action is consistent with the purposes of section 102, and having due regard for the international obligations of the United States--

(1) suspend, withdraw, or prevent the application of benefits of trade agreement concessions to products of such country or instrumentality, or
(2) refrain from proclaiming benefits of trade agreement concessions to carry out a trade agreement with such country or instrumentality.

(d) The President shall provide an opportunity for the presentation of views concerning foreign import restrictions which are referred to in subsections (a), (b), and (c) and are maintained against United States commerce. Upon request by any interested person, the President shall, through the organization established pursuant to section 242(a), provide for appropriate public hearings with respect to such restrictions after reasonable notice and provide for the issuance of regulations concerning the conduct of such hearings.

Appendix B

Article 6

1. Les produits suivants, originaires de la RAE, sont soumis, à l'importation dans la Communauté, à des droits de douane égaux à 60% des droits du tarif douanier commun:

No du Tarif douanier commun	Désignation des marchandises
ex 08.02 A	Oranges fraîches
ex 08.02 B	Mandarines et satsumas, frais; clémentines tangerines et autres hybrides similaires d'agrumes, frais
ex 08.02 C	Citrons frais

2. Pendant la période d'application des prix de référence, les dispositions du paragraphe 1 sont applicables à condition que, sur le marché intérieur de la Communauté, les prix des agrumes importés de la RAE soient, après dédouanement, compte tenu des coefficients d'adaptation, valables pour les différentes catégories d'agrumes et après déduction des frais de transport et des taxes à l'importation autres que les droits de douane, supérieurs ou égaux aux prix de référence de la période concernée, majorés de l'incidence du tarif douanier commun sur ces prix de référence et d'une somme forfaitaire de 1,20 unité de compte par 100 kilogrammes.

3. Les frais de transport et les taxes à l'importation autres que les droits de douane, visés au paragraphe 2, sont ceux prévus pour les calculs des prix d'entrée visés au règlement n° 23 portant établissement graduel d'une organisation commune des marchés dans le secteur des fruits et légumes.

Toutefois, pour la déduction des taxes à l'importation autres que les droits de douane, visées au paragraphe 2, la Communauté se réserve la possibilité de calculer le montant à déduire, de façon à éviter les inconvénients résultant éventuellement de l'incidence de ces taxes sur les prix d'entrée, suivant les origines.

Article 7

1. Les produits suivants, originaires de la RAE, sont soumis, à l'importation dans la Communauté, aux droits de douane du tarif douanier commun réduits dans les proportions indiquées en regard de chacun d'eux:

N° du Tarif douanier commun	Désignation des marchandises	Taux de reduction %
08.02	Agrumes frais ou secs:	
	D. Pamplemousses et pomelos	40
	ex E. Autres:	
	Limes et limettes	40

2. En cas de perturbation ou de difficultés dans la commercialisation des produits des sous-positions du tarif douanier commun ex 08.01 G (mangues), 08.02 D (pamplemousses et pomélos) et ex 07.01 H (oignons frais ou réfrigéres), notamment en ce qui concerne la qualité de ces derniers produits, des consultations ont lieu au sein de la Commission mixte afin de trouver des solutions aptes à y remédier.

Appendix C

Accession Treaty

TITLE III. EXTERNAL RELATIONS

Chapter 1. Agreements of the Communities with Certain Third Countries

Article 108. [Application by New Members of Treaties with Third Countries]

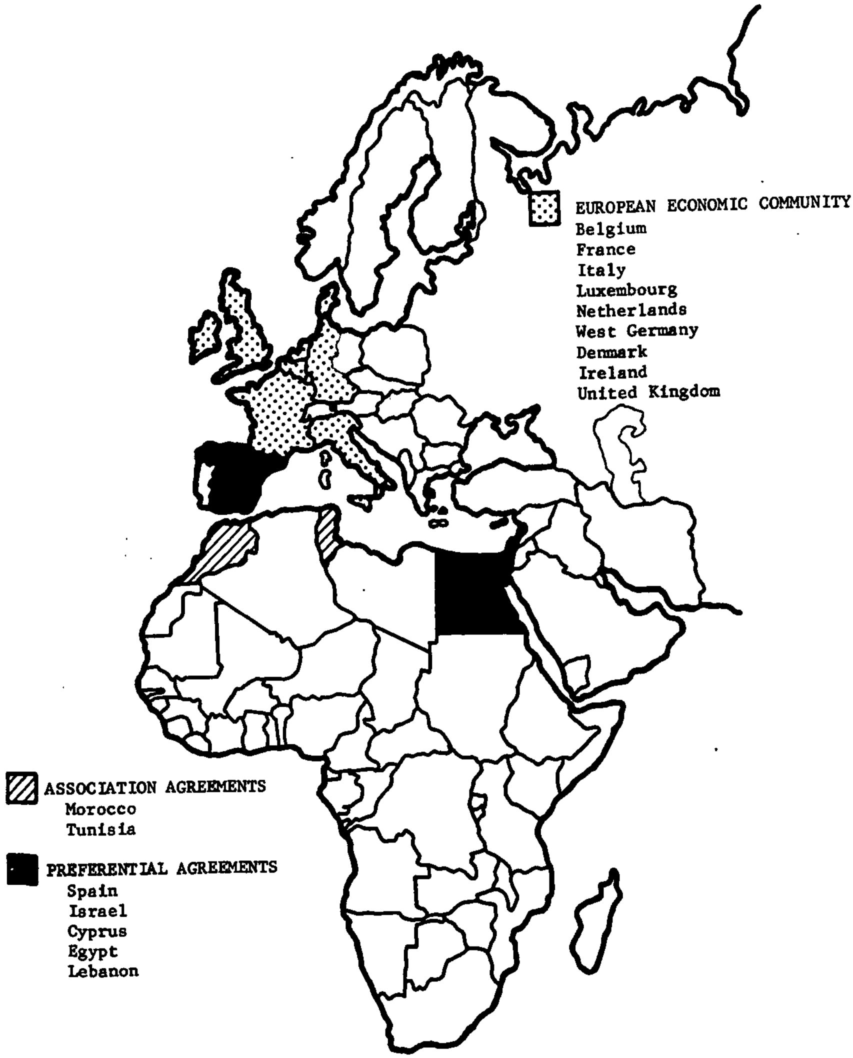
1. From the date of accession, the new Member States shall apply the provisions of the agreements referred to in paragraph 3, taking into account the transitional measures and adjustments which may appear necessary and which will be the subject of protocols to be concluded with the co-contracting third countries and annexed to those agreements.

2. These transitional measures, which will take into account the corresponding measures adopted within the Community and which may not extend beyond the period of validity thereof, shall be designed to ensure the progressive application by the Community of a single system for its relations with the co-contracting third countries as well as the identity of the rights and obligations of the Member States.

3. Paragraphs 1 and 2 shall apply to the agreements concluded with Greece, Turkey, Tunisia, Morocco, Israel, Spain and Malta.

Paragraphs 1 and 2 shall also apply to agreements which the Community concludes with other third countries in the Mediterranean region before the entry into force of this Act.

Appendix D



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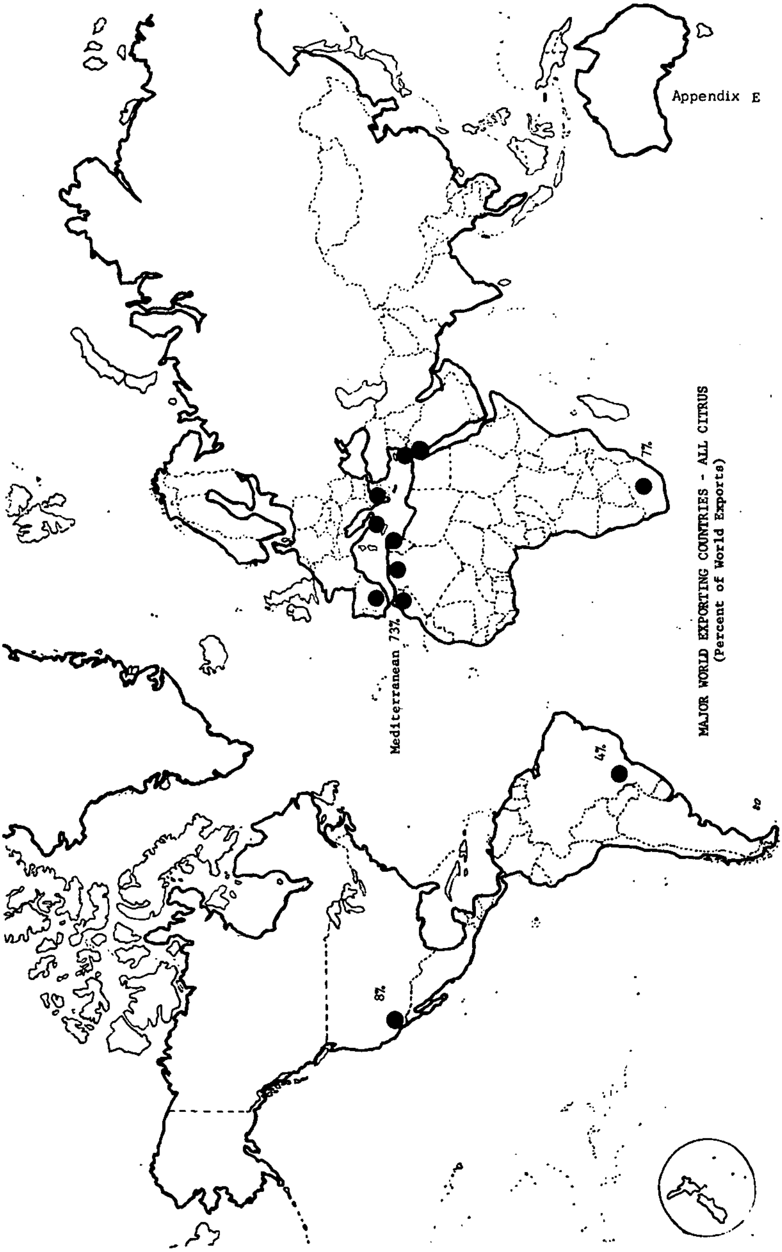
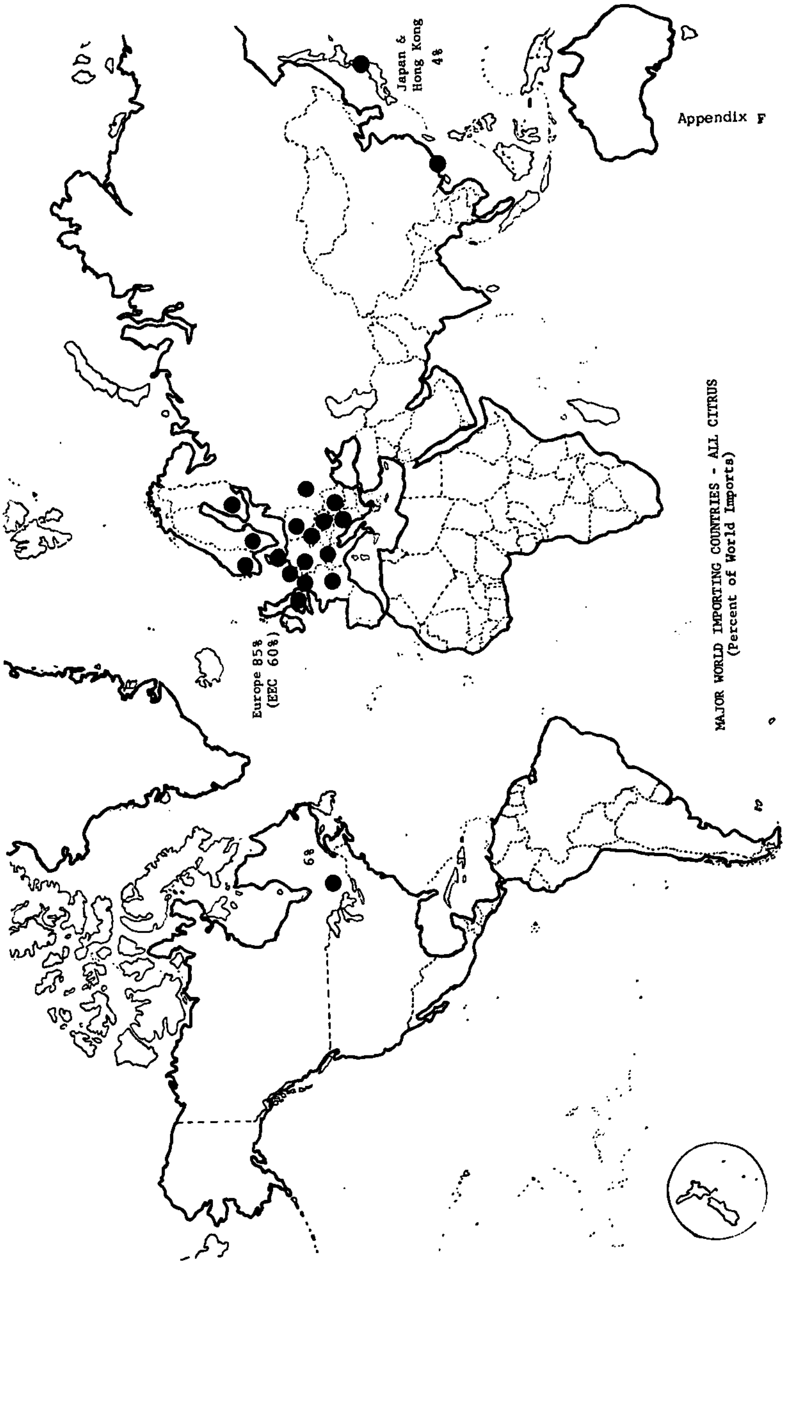
Appendix E



MAJOR WORLD EXPORTING COUNTRIES - ALL CITRUS
(Percent of World Exports)

Appendix F



MAJOR WORLD IMPORTING COUNTRIES - ALL CITRUS
(Percent of World Imports)

Appendix G

PERCENTAGE OF FRESH CALIFORNIA-ARIZONA
CITRUS SHIPMENTS DIRECTED TO EXPORT 1964-1972

Year	Total Fresh Shipments	Fresh Export Shipments	Percent
	----- Metric Tons -----		
1964-65	1,327,360	336,005	25.3
1965-66	1,377,340	385,730	28.0
1966-67	1,415,590	407,320	28.8
1967-68*	955,825	258,145	27.0
1968-69	1,427,830	385,390	27.0
1969-70	1,440,835	423,895	29.4
1970-71	1,349,715	377,230	27.9
1971-72	1,480,615	479,570	32.4
8 Yr. Average	1,346,889	381,661	28.3

*Frost and Flood Destroyed Production

Sources: Orange, Lemon and Desert Grapefruit Administrative Committees and California Crop & Livestock Reporting Service. Canadian exports were estimated.

Appendix H

FRESH ORANGES (Including Tangarines, etc.)

EXPORTS FROM MEDITERRANEAN COUNTRIES TO WORLD MARKETS

000's of Metric Tons

	1957-8	1958-9	Average	1966-7	1967-8	Average	1970-1	1971-2	Average
October	8.6	8.0	8.3	38	10	24.0	46	1	23.5
November	115.2	102.7	109.0	358	254	306.0	385	341	363.0
December	324.2	282.7	303.4	511	524	517.5	477	576	526.5
January	384.9	368.8	376.9	483	480	481.5	567	523	545.0
February	338.3	320.5	329.4	398	491	444.5	449	488	468.5
March	335.3	318.2	326.8	425	422	423.5	391	458	424.5
April	214.0	257.4	235.7	333	251	292.0	357	336	346.5
May	133.2	140.3	136.7	153	176	164.5	167	259	213.0
June	23.1	17.1	20.1	25	28	26.5	19	63	41.0
Total Oct.-June*	1,876.8	1,815.7	1,846.3	2,724	2,636	2,680.0	2,858	3,045	2,951.5
Greece, Turkey Lebanon and Egypt	81.2	58.3	69.7	227	227	227.0	346	351	348.5
Total CLAM Countries	1,958.0	1,874.0	1,916.0	2,951	2,863	2,907.0	3,204	3,396	3,300

* Includes: Spain, Morocco, Algeria, Tunisia, Italy, Israel (incl. Gaza) and Cyprus.

Sources: 1957-58/1958-59 Derived from C.L.A.M. Annual Totals and FAO, UN percentage distribution by month. Commiddion des Etudes Economiques du C.L.A.M., "Les Exportations D'Agrumes Du Bassin Mediterranien" Annual 1971-72 and 1967-68.

Appendix I

1966-67

MONTHLY EEC IMPORTS OF FRESH ORANGES

	Country of Origin				
	Spain	Morocco	Tunisia	Israel	United States
	------------------Metric Tons------------------				
November	107,436	8,154	33	44	271
December	160,548	42,005	--	744	34
January	163,058	33,591	5,391	7,376	19
February	106,886	33,751	8,555	28,510	30
March	102,464	33,523	8,402	49,612	139
April	88,948	47,305	7,800	56,261	2,409
May	48,402	44,265	2,646	41,439	7,644
June	19,134	15,704	438	22,280	13,229
July	2,790	367	198	772	13,858
August	120	14	--	4	12,990
September	--	15	--	3	8,787
October	562	35	--	1	5,602

Source: GATT (69) 129 (EEC provided figures)

Appendix I

1966-67

MONTHLY EEC IMPORTS OF FRESH ORANGES

Month	Total
November	128,648
December	213,709
January	223,057
February	194,205
March	218,435
April	219,146
May	154,071
June	92,217
July	49,008
August	45,414
September	34,830
October	42,853

Source: GATT (69) 129 (EEC provided figures)

Appendix J

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
ORGANISATION DES NATIONS UNIES POUR L'ALIMENTATION ET L'AGRICULTURE
ORGANIZACION DE LAS NACIONES UNIDAS PARA LA AGRICULTURA Y LA ALIMENTACION

CCP: CI 72/5
7 April 1972

COMMITTEE ON COMMODITY PROBLEMS

INTERGOVERNMENTAL GROUP ON CITRUS FRUIT

Fifth Session
Catania, Sicily, 3-8 June 1972

DEVELOPMENTS IN NATIONAL AND INTERNATIONAL CITRUS POLICIES

B. Preferential arrangements

27. Preferential arrangements continue to concern mainly the Commonwealth area and the EEC. With the entry of the United Kingdom into the European Economic Community contemplated for January 1, 1973, however, the country would terminate its membership of the Ottawa Agreement effective 31 December 1977, i.e. at the end of the five years' transitional period. At present fresh citrus fruit and citrus products grown and manufactured in and consigned from Commonwealth countries and the Republic of South Africa to the United Kingdom, Canada and New Zealand are admitted free of duty or at preferential rates.

28. The EEC grants exemption from the common external tariff for fresh citrus fruit at present as follows:

(a) Produce from the 18 states of Africa and Madagascar associated under the Yaounde Agreement enjoy the same preferences which the Six grant each other;
(b) Intra-community treatment is granted to shipments from overseas departments and dependent territories including Surinam and the Netherlands Antilles;
(c) Citrus exports from Greece, excluding grapefruit, benefit from duty free access to the Community. The formerly granted exemption from possible countervailing charges, however, was terminated on 30 June 1969;
(d) Produce from Turkey enjoys a reduction of the external tariff of 40 percent for oranges and 50 percent for lemons, mandarins, satsumas, clementines and similar;
(e) Imports from Libya and Somalia have free entry into Italy;
(f) Citrus imports from Morocco and Tunisia, excluding grapefruit, enuoy an 80 percent reduction from the common external tariff;
(g) Produce from Israel is imported at a duty 40 percent below the full rate;

(h) Spanish oranges, lemons, mandarins, satsumas, clementines etc. enjoy a 40 percent tariff reduction;
(i) Most Algerian goods are treated in France as if they were imports from other member states, while Italy treats Algerian products as imports from any third country. In the Benelux countries and the Federal Republic of Germany Algeria enjoys some preferences.

29. The tariff preferences granted to the various Mediterranean countries are based on a decision taken in October 1967 according to which the Community wished to maintain the equilibrium between the suppliers of citrus fruit in this area. Thus, following the conclusion of the agreements with Tunisia and Morocco, tariffs for Israel, Spain and Turkey were also cut by 40 and 50 percent respectively. The preferences came into force simultaneously on 1 September 1969. At the same time the Community requested the contracting parties of GATT to grant a waiver under article XXV of the agreement which, however, was opposed by a number of other citrus exporting countries, particularly the United States. They felt that granting of preferential tariffs in particular to Israel and Spain without the conclusion of an agreement to form a customs union constituted a violation of the most favored nation clause of article I of the agreement. The EEC, therefore, withdrew its application for a waiver with regard to the preferences granted to Israel and Spain and effective 20 April 1970 reintroduced the full common external tariff rates for these two countries. However, on 1 October 1970 the preferences were granted again under new agreements which had been concluded in the meantime.

Appendix K

SUSPENSION OF PREFERENTIAL TARIFFS IN THE EEC*

	Season	Country of origin	Period of application
Oranges	1969/70	Israel	9-11 Feb 1970
		Spain	9 Feb - 15 March 1970
		Morocco	25 Feb - 2 March 1970
	1970/71	none	
	1971/72	Spain	12 Jan - 2 Feb 1972
		Israel	13 Feb - 18 Feb 1972
		Spain	13 Feb -
Mandarins, clementines, etc.	1969/70	none	
	1970/71	Spain	24 Nov - 4 Dec 1970
		Tunisia	4 Feb - 1 March 1971
		Spain	5-10 Feb 1971
		Spain	27 Nov - 7 Dec 1971
		Spain	12-27 Jan 1972

Source: Food and Agricultural Organization of the United Nations CCP:CI 72/5

* This illustrates periods of time when the specified countries failed to receive preferential benefits because of failure of their citrus exports to comply with adjusted reference prices.

Appendix L

Article premier

Le présent accord a pour objet de promouvoir l'accroissement des échanges entre la Communauté Economique Européenne et la RAE et de contribuer ainsi au développement du commerce international.

TITRE I
LES ECHANGES COMMERCIAUX

Article 2

1. Les produits originaires de la RAE bénéficient à l'importation dans la Communauté des dispositions figurant à l'Annexe I.

2. Les produits originaires de la Communauté bénéficient à l'importation en RAE des dispositions figurant à l'Annexe II.

3. Les Parties Contractantes prennent toutes les mesures générales ou particulières propres à assurer l'exécution des obligations déooulant de l'accord.

Elles s'abstiennent de toutes mesures susceptibles de mettre en peril la réalisation des buts de l'accord.

Article 3

Sous réserve des dispositions particulières propres au commerce frontalier, le régime appliqué par la RAE aux produits originaires de la Communauté no peut, on aucun cas, être moins f favorable que celui appliqué aux produits originaires de l'Etat tiers le plus favorisé.

Article 4

Dans la mesure où sont perçus des droits à l'exportation sur les produits d'une Partie Contractante à destination de l'autre Partie Contractante, ces droits ne peuvent être supérieurs a ceux appliques aux produits destinés à à l'Etat tiers le plus favorisé.

Article 5

Les dispositions des articles 3 et 4 ne font pas obstacle au maintien ou à l'établissement par la RAE d'unions douanières ou de zones de libre-échange, ainsi que d'accords ayant pour but l'intégration économique régionale, pourvu que ceci n'ait pas pour effet de modifier le régime des échanges prévu par l'Accord et notamment les dispositions concernant les règles d'origine.

Article 6

Est interdite toute mesure ou pratique de nature fiscale interne établissant directement ou indirectement une discrimination entre les produits d'une Partie Contractante et les produits similaires originaires de l'autre Partie Contractante.

Article 7

Le régime des échanges appliqué par la RAE aux produits originaires de la Communauté ou à destination de la Communauté, ne peut donner lieu à aucune discrimination entre les Etats membres, leurs ressortissants ou leurs sociétés.

Mr. BURKE [presiding]. Are there any questions?
Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. Your testimony mentioned that Japan maintains a quota preventing any significant sale of fresh oranges from the United States. Do you have an estimate of the demand for fresh oranges in the event the quota is removed?

Mr. VAN HORN. We have studied this question at length, Mr. Duncan. We would estimate that within 5 years, basing it on our previous experience with lemons and grapefruit, within 5 years of the lifting of quotas, that we would probably export 10 million boxes of oranges a year into Japan proper, at somewhere between $75 million and $100 million annually.

Mr. DUNCAN. What is the reason for Japan maintaining its quota?

Mr. VAN HORN. To protect its domestic production of the Mekong, Manshu Mandarin oranges produced there during the winter and spring.

Mr. DUNCAN. Can you give us an amount of damage to the citrus industry in California and Arizona sustained as a result of the preferences on fresh citrus granted by the EEC?

Mr. VAN HORN. Our best estimate, sir, is that since the imposition of the discriminatory tariffs to competing countries from 1969 to present, that we have sustained damage to the extent of approximately $20 million.

Mr. DUNCAN. If the Economic Community determines to live up to its GATT obligations to grant most favored nation treatment to the United States, then will the citrus industry in California and Arizona and elsewhere be able to increase sales within the Economic Community?

Mr. VAN HORN. We certainly feel that we will, yes.

Mr. DUNCAN. You have surveyed that?

Mr. VAN HORN. Definitely.

Mr. DUNCAN. You know which direction you are going? What possibility is there for increased sales of citrus to Russia now that Russia purchases lemons from you?

Mr. VAN HORN. We are very optimistic about increasing our sales to Russia and other countries which the United States enjoys a détente. We have just completed the shipment of three shiploads or 300,000 cartons of lemons to Russia. Our representatives have just returned from negotiating with them. We are very confident that further sales can be effectuated there.

Mr. DUNCAN. Does the U.S. citrus have a high enough quality to meet competition in leading markets; is it of the highest quality?

Mr. VAN HORN. We certainly believe that it does and our customers do. The only way we can even hold a foothold in the European Economic Community is because of the quality of our product, despite the discrimination.

Mr. DUNCAN. Is that one of the reasons Japan doesn't want to compete with you for oranges from the United States?

Mr. VAN HORN. We believe that is the case.

Mr. DUNCAN. A better quality of fruit?

Mr. VAN HORN. Exactly.

Mr. DUNCAN. Thank you.

The CHAIRMAN. Mr. Karth.

Mr. KARTH. Mr. Chairman, I have just one question. I note a sense of urgency in your message to the committee. Do you consider it to be urgent that the United States enter into negotiations with our trading partners on these matters?

Mr. VAN HORN. We definitely do, sir.

Mr. KARTH. How long do you think it would take to consumate such negotiations on the basis of historical practice?

Mr. VAN HORN. I would have to leave that to the negotiating team. Do you mean to reduce discrimination?

Mr. KARTH. Yes; to negotiate a trading agreement, the end result of which would be fair trade, and the elimination of some of those practices that you refer to. Historical evidence indicates that it takes 3 to 5 years. Do you think you can wait that long?

Mr. VAN HORN. We certainly hope we don't have to wait that long, but I think the 24.6 negotiations underway now would definitely have a bearing on the speed with which this could be accomplished.

Mr. KARTH. What if the Congress wrote a reciprocal fair trade act and if would be effective upon the signing by the President, that certainly would expedite the situation, maybe by several years. Do you think that would be a better way to approach this matter?

Mr. VAN HORN. I think that would be another way. I am not competent to determine which would be the best way. We want to accomplish the speediest way.

Mr. KARTH. A bill written by this committee, I assume, would be the speedier way. Thank you.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Sir, I notice from your exhibit 1 that both in metric tonnage as well as percentage, your export market looks favorable in 1971–1972. You have the highest percentage, and over 8 years your average is almost 100,000 tons more.

So your recent trend is favorable. Does the new agricultural agreement of the EEC militate against further increases, or how do you stand?

Mr. VAN HORN. Yes; these export percentages, of course, include exports to all countries, not just the EEC.

Mr. SCHNEEBELI. I realize that. But I thought your picture was going to be just the opposite. You are increasing in percentage and in tonnage according to the latest figures, so your case isn't as grim as I thought it might be.

Mr. VAN HORN. Do you have exhibit 2 there?

Mr. SCHNEEBELI. Yes.

Mr. VAN HORN. If you look at page 26 and page 27, you will see that the quantity which goes into the Rotterdam auction, which is our largest European Common Market, has sharply decreased.

Mr. SCHNEEBELI. But your overall shipments are increasing both in actual tonnage as well as percentage of the market. So your overall export picture is very bright.

Mr. VAN HORN. If you take the total in countries where they are not discriminatory, of which Canada is a present market.

Mr. SCHNEEBELI. Where are most of your shipments made overseas? Where do you ship most of your 32 percent?

Mr. VAN HORN. A large portion, some 14 percent, goes into Canada.

Mr. SCHNEEBELI. That is 14 percent out of the 32 percent?

Mr. VAN HORN. Yes, sir. That is 14 of the 28 percent in 8 years' average.

Mr. SCHNEEBELI. So half of it goes to Canada?

Mr. VAN HORN. Yes; this represents all commodities, not just oranges.

Mr. SCHNEEBELI. I realize that you are talking about citrus fruit all over the world.

Mr. VAN HORN. Right. The largest fresh lemon market for first grade fruit is Japan. We have a tremendous market in oranges in Hong Kong, to a lesser degree in Singapore. Then, of course, we have good markets in the Scandinavian countries and in England, Ireland, and Denmark.

Mr. SCHNEEBELI. I am amazed that almost one-third of your total production is shipped overseas. I would think, with the bulk transportation costs, that you couldn't compete too well. I congratulate you.

Mr. VAN HORN. Thank you. We would like to ship a larger amount.

Mr. SCHNEEBELI. I don't blame you, but you are in a pretty good position.

The CHAIRMAN. Mr. Burke will inquire.

Mr. BURKE. With relation to this discrimination from the EEC country, I notice you people represent the California-Arizona Citrus League. What about the citrus growers in the other sections of the country? Are they concerned about this discrimination of our trading partners in Europe?

Mr. VAN HORN. I would certainly think they would be. As I understand it, Florida, of course, and Texas have both advised Congress and the administration of their opposition to the discriminatory tariff preferences of the EEC and recommended doing away with the preferences for other countries.

Mr. BURKE. I am referring to the references you give to other countries.

Mr. VAN HORN. They have both testified that they are discriminatory.

Mr. BURKE. Thank you.

The CHAIRMAN. Mr. Gibbons.

Mr. GIBBONS. Mr. Chairman, I am familiar with the problems that we have with the EEC and Japan, but could you tell me, do we have any barriers against the importation of citrus products into this country?

Mr. VAN HORN. We have customs duties, but no other barriers.

Mr. GIBBONS. How much does that amount to?

Mr. VAN HORN. One cent a pound.

Mr. GIBBONS. Do you think we could be willing to get rid of that if we could get some of these other concessions worked out?

Mr. VAN HORN. I think that is quite possible.

Mr. GIBBONS. Have you in the industry discussed that?

Mr. VAN HORN. We have discussed this possibility; yes.

Mr. GIBBONS. Have you ever discussed it with any of my people in Florida?

Mr. VAN HORN. I haven't personally. I am sure some of our representatives have.

Mr. GIBBONS. I wish you would take it up with them. I am sure it will be at issue somewhere along the line, perhaps not in this bill, but in the next that comes up.

Mr. VAN HORN. We will be happy to.

Mr. GIBBONS. I was under the impression there were some other restrictions on the importation of fruit into this country, such as health standards. These are what we call nontariff barriers. Can you tell us what they are?

Mr. VAN HORN. They are sanitary restrictions. One example would be the importation of Japanese unshus into this country.

Mr. GIBBONS. How about from South or Central America?

Mr. VAN HORN. Yes; mainly to do citrus canker. The Japanese mandarins are only permited in Alaska, Washington, Oregon, Montana, Idaho, and Hawaii. They are not permitted any intrastate shipments from those States because of the fear of citrus canker.

Mr. GIBBONS. You don't have that fear in your part of the country, but it is a problem in other parts.

Mr. VAN HORN. That is correct.

Mr. GIBBONS. Why is that?

Mr. VAN HORN. The nature of ambient conditions, atmosphere.

Mr. GIBBONS. I knew it was bad in California, but I didn't know it was that bad. It kills the canker out there; is that it?

Mr. VAN HORN. That is right.

Mr. GIBBONS. This is not the place to go into all the details of it, but every time we ask somebody to give up a barrier, I always find those on the other side saying, well, you have a few. Will you give them up too? I think we have to look at this realistically. I appreciate your discussing it. Thank you.

Mr. VAN HORN. Thank you.

The CHAIRMAN. Are there any further questions? If not, we thank you, Mr. Van Horn.

Dr. J. O. Kamm.

Mr. Schneebeli.

Mr. SCHNEEBELI. Dr. Kamm, two of my colleagues from Ohio have asked me to welcome you to this committee: Congressman Mosher, who was unable to be here today because of an Oberlin College trustees meeting, and Congressman Clancy, of this committee. They both are aware of your activity, and they say you have a very fine statement to present. Welcome to this committee.

STATEMENT OF J. O. KAMM ON BEHALF OF NATIONAL ASSOCIATION OF GREENHOUSE VEGETABLE GROWERS, ACCOMPANIED BY ELLIS HOAG

Mr. KAMM. I have with me Ellis Hoag. We are both greenhouse operators and growers, and we are representing the National Association of Greenhouse Vegetable Growers.

The CHAIRMAN. We are glad to have you with us today, both of you. We appreciate Mr. Schneebeli's presentation of you. You are recognized.

Mr. KAMM. I am speaking on behalf of the National Association of Greenhouse Vegetable Growers, the Ohio Greenhouse Vegetable Association, the Cleveland Greenhouse Vegetable Growers Cooperative Association, the Grand Rapids (Michigan) Greenhouse Industry, the Hamilton County (Cincinnati) Greenhouse Association, and the Toledo Greenhouse Association. We are both operators of greenhouses near Cleveland, Ohio, where I am producing tomatoes.

VIEWPOINT ON AGRICULTURE

For national security, health, and welfare of our citizens, we must have a strong and prosperous agricultural industry. A constant food supply is essential, and a qualified, well-trained labor force available at all times.

The emphasis placed upon food produced currently in the United States supports this statement. The phenomenal growth of the entire U.S. economy has been possible due to the efficiency of American agriculture. The American housewife spends only 17 percent of her family income for food. For the best interests of our citizens, we believe a strong U.S. agriculture must be maintained.

We believe that a strong U.S. trading policy will benefit the producers of agricultural products, but such a trade policy must encourage and protect the producers of such commodities as tomatoes and other vegetables. We cannot become dependent on foreign countries for our food supplies. If tomatoes grown in foreign countries are allowed to be shipped into the United States and sold at prices based on the wages paid to their workers, U.S. tomato growers in Florida, California, Texas, as well as local State growers and the highly specialized greenhouse tomato growers, will be forced out of business. This would be a loss to the Nation, a loss to the people that own and operate the greenhouses and a loss to the many workers who depend on the vegetable greenhouse for a living.

The experiences of the U.S. greenhouse tomato industry illustrates the problem which can occur when imports are permitted to enter this country with little consideration given to local market conditions.

Greenhouse vegetable production is one of the most specialized forms of commercial agriculture in the United States today. At the present time, there are over 87,120,000 square feet of land in the United States covered with greenhouses for the production of tomatoes. Bibb and leaf lettuce, cucumbers, watercress, and radishes. These 2,000 acres of greenhouse provide 320 million pounds, which generate $102,400,000 annually to our economy. About 500 acres are concentrated in Ohio. The tomato is the leading crop produced in vegetable greenhouses in the United States. Horticulturally speaking, the greenhouse tomato is grown to perfection and has the finest quality of any tomato grown in the world.

The greenhouse industry has an investment of approximately $200 million in plants and equipment. Over the years, the greenhouse tomato grower has had to face the competition from Florida, Texas, California, and other areas where tomatoes are raised out of doors. We have welcomed this competition. By using the latest scientific know-how and good managerial ability, greenhouse growers have been able to meet this competition.

Manufacturers of hard goods have some control over the market and the maketing period for their products, but the greenhouse vegetable grower, as well as the outdoor farmer, has very little control over this phase of the business. Greenhouse tomatoes are perishable and they must be sold soon after harvest. An oversupply of a perishable crop at harvest can result in low wholesale prices. Since the crop is sold during a relatively short period, low prices can be disastrous to the individual grower. Due to the present trade policy, the tomato imports, primarily from Mexico, are heaviest during our marketing period. The effect of our present trade policy will be discussed later.

Our greenhouse tomatoes come to market between March 1 and the end of June. This is the period that they are flowing in from Mexico.

We have surveyed some of our representative greenhouse grower members regarding production costs during 1972. The average gross cost for producing greenhouse tomatoes was $2.32 per 8-pound basket, or 29 cents per pound. The average wholesale price was $2.56 per 8-pound basket, or about 32 cents per pound, leaving only 24 cents per 8-pound basket, 3 cents per pound, 0.11 cents per square foot, or approximately 4.4 percent on original investment to cover management and profit.

Not just the profit, but the management compensation and salaries of the managers. Many of our managers are the owners and, therefore, they are operating the greenhouse, working along with the employees, so their salary is in that 4.4 percent. Obviously, on a return of this nature, we cannot stay in business, we cannot meet the demand of society, and we cannot attract young people to enter the field of agriculture as an occupation. The following chart shows the average wholesale prices of greenhouse tomatoes from 1960 to 1972:

1960	$2.02	1967	$2.06
1961	1.88	1968	2.47
1962	1.93	1969	2.40
1963	2.01	1970	2.15
1964	2.16	1971	2.63
1965	2.02	1972	2.56
1966	2.01		

These go from $2.02 in 1960 down to $2.56 in 1972. These wholesale prices should be compared with the official OPA price of $2.52 per 8-pound basket during World War II. We are selling at those prices today.

Our production costs, as in most industries, have increased rapidly since 1959, but the wholesale prices which we receive have not increased in proportion. Actually in terms of the buying ability of the dollar, the prices have decreased.

A survey of representative growers in our industry indicates labor costs have more than doubled during the past 10 years. Other increases over this period are taxes, repairs, containers, fuel, and other supplies.

A large proportion of cost is natural gas or oil or coal, and these costs have zoomed in the passing months. In spite of increased yield per acre, through improved production technology and the use of labor-saving equipment, we are unable to increase our gross income to offset these increased costs. The increased quantity of tomato imports has been one of the factors affecting these wholesale prices.

The imports of Mexican tomatoes in 1970 have increased 58 percent over 1967, 65 percent over 1968 and 27 percent over 1969. Since 1963 there has been an increase of 133 percent.

The following tables summarize the imports from Mexico:

	Million pounds
1963–64	303, 684
1964–65	324, 716
1965–66	392, 760
1966–67	436, 268
1967–68	401, 852
1968–69	547, 000
1969–70	708, 720
1970–71	608, 636
1971–72	638, 049

In 1963–64, there were 303 million pounds brought in. I won't read each of these, but in 1971–72, there is 638 million pounds. They have more than doubled, coming across the border into this country in the last 8 years.

The import of tomatoes from Mexico and other foreign countries during the past 10 years has been our greatest competition. The tomatoes grown in Mexico are allowed to be shipped into the United States at very moderate tariffs even though Mexico has no established minimum wage for its employees. Why should our farmers be punished and penalized by highly competitive production from areas having such very low schedules of wages?

Our greenhouses have operated over the years without any Federal subsidy of any kind. They have cooperated in every respect in connection with all labor regulations, not only on the basis of wages, but on safety measures, social security, and other benefits. Therefore, the cost of production per unit is very high compared with that of the imported product, particularly from Mexico.

To illustrate the wide discrepancy in labor costs, a recent U.S. Department of Agriculture publication reported that the wage for unskilled labor (in Mexico) including social benefits, is approximately $2.90 for a 10-hour day, or 29 cents per hour. At the present time, most of our members are paying hourly rates equivalent to and in many cases more than the Mexican daily rate.

According to this same U.S. Department of Agriculture report, about 75 to 80 percent of these tomatoes are imported in the United States during February, March, April, and May. These months coincide closely with the months when greenhouse tomatoes are in production. If we would include the Mexican shipments for December and June—other important greenhouse tomato production months—over 80 percent of the Mexican tomatoes could be coming on our markets when greenhouse tomatoes are also being marketed.

In summary, I want to state: The rapid increase of fresh tomato imports has severely affected the tomato industry. If this trend continues, and recent reports indicate that it will, the future of this important vegetable industry is in jeopardy unless some changes are made in the U.S. trade policy during critical market periods. Certain specialized areas of the U.S. agriculture need help.

Greenhouse tomato growers in the United States are unable to meet the competition from tomatoes produced with low-cost labor in Mexico and then shipped to the United States for sale in the retail stores in our metropolitan areas.

To illustrate the effect of these imports on wholesale prices, the experience during the 1968 spring tomato season can be cited, as an example. Disease and related production problems during early spring—1968—reduced the Mexican tomato production. The imports of tomatoes from Mexico for February through May were about 50 percent less than imports for comparable periods in previous years. The wholesale prices received during a 10-year period. In 1969 when the size requirements were limited because of the marketing order in Florida, shipments from Mexico were curtailed and the wholesale prices received were just slightly lower than 1968. In 1970 there were more tomatoes shipped into the United States from Mexico and greenhouse wholesale prices were lower, but this in no way affected the cost to the consumer.

Retail prices remained relatively unchanged because margins widened at the retail level for the supermarket operator.

This spring, Mexican shipments have been at all time highs during our shipping season and the average wholesale price for the first 26 days of May 1973 has been $2.28, which is below our cost of production.

The greenhouse vegetable grower uses labor throughout the year. In addition to the millions of dollars he pays for supplies, the taxes which he pays are much higher than many other phases of agriculture since most of the businesses are located near metropolitan areas. A recent survey of our members indicated their local taxes will average near $2,750 per acre. As mentioned earlier, we have more than 500 acres of greenhouses in Ohio alone. The money spent by U.S. greenhouse growers is reinvested in our local communities, in our States, and in our country. Also the greenhouse employees pay taxes, support their community, and are gainfully employed 12 months out of the year. The majority of greenhouse workers own their homes, drive automobiles, and send their children to school and college. His counterpart in Mexico works for less, doesn't in many cases, own a home or car, and works with his children in the field on a seasonal basis. We, in our small way, are contributing to full employment.

Our Government is involved in the Appalachian District in Grafton, W. Va., with low-cost loans in an effort to get gainful employment in the greenhouse industry for these people. If the volume of Mexican imported tomatoes is not curtailed, such Federal effort will not only fail, but there will be an additional 60 percent of the employees of the greenhouse industry who will have to be rehabilitated with other related industries being affected by the loss of the greenhouse industry in this country.

Our support industries, such as maintenance, packaging, supplies, fuel, insurance, etc., all add to this country's economy. As small businessmen, we are contributing to make the U.S. economy strong.

We recommend the following: We believe a successful greenhouse vegetable industry is in the best interests of the consumer. To have a strong industry, some protection must be given to the U.S. greenhouse industry from the unlimited imports of tomatoes from foreign countries.

The greenhouse growers of America support all international trade that is done on a fair and equitable basis and such trade should be encouraged, but when imports are greatly increased from countries having very low wage rates, the situation must be reviewed.

1. Since about 80 percent of the tomatoes from Mexico are being imported during the local greenhouse market season, we believe first an adjustment should be made on the duties during this shipping season.

2. To prevent destruction of the entire greenhouse vegetable industry, we believe a daily quota system should be established to regulate the imports of tomatoes. We are convinced that unrestrained planting and importing of tomatoes will result in complete disaster of the tomato industry in the United States. These tomatoes are sold today and often substituted for American-grown tomatoes. The housewives don't know where they are grown.

3. Tomatoes sold at retail are not required to be labeled by country of their source. Imported tomatoes are usually repacked locally with local U.S. packaging addresses. This is deceptive as a retail buyer has no knowledge of the real source of such tomatoes. Since quality is often related by the retail buyer to this source, the greenhouse operators are often adversely affected by this deception.

If no protection is provided and we were to become dependent upon foreign countries as a source of fresh food supplies, the day may come when they will dictate to our country and its citizens the price we will have to pay for food. As a result of this, we may become so dependent upon foreign countries that this will affect every other aspect of our living conditions.

The imports of fresh fruits and vegetables is increasing so rapidly every year that, as a result, we are discouraging our people from entering this field of agriculture. This has happened to many other departments of agriculture in the past, that is the production of corn, grains, cattle, etc., and has jeopardized the whole economy. It will be extremely difficult once lost, to rebuild this segment of our agriculture.

Thank you, Mr. Chairman, for this opportunity to present our viewpoints on a very serious problem affecting the future of the greenhouse tomato industry in the United States and for the opportunity to have our testimony included in the proceedings of this hearing.

The CHAIRMAN. Dr. Kamm, we thank you for bringing to the committee the views you expressed.

Mr. Schneebeli.

Mr. SCHNEEBELI. My two colleagues said you are very enthusiastic about your subject. I will give them a report. I particularly admire your statement that greenhouse tomatoes have the finest quality of any tomatoes grown in the world.

On page 4, you give us average wholesale prices of greenhouse tomatoes. What is the current price?

Mr. KAMM. $2.28.

Mr. SCHNEEBELI. I don't understand that. It must be the only food in the United States that is down in price.

Mr. KAMM. Yes; our prices this year are down largely because of the flood of the Mexican tomatoes.

Mr. SCHNEEBELI. It is down from last year?

Mr. KAMM. Yes.

Mr. SCHNEEBELI. What percentage of our total consumption comes from Mexico? You talk about doubling imports from Mexico.

Mr. HOAG. Possibly 25 percent.

Mr. KAMM. This is a fresh-fruit market.

Mr. SCHNEEBELI. Is this the only area where they compete with you in large measure?

Mr. KAMM. That is right.

Mr. SCHNEEBELI. What percentage of your total production is tomatoes?

Mr. KAMM. About 85 percent.

Mr. SCHNEEBELI. Then it is the major product and a matter of grave concern.

Mr. KAMM. Yes. The other products are interim products between the season of tomatoes. We utilize the greenhouses because of the investment. The cost of these houses is well over $100,000 per acre.

Mr. SCHNEEBELI. Unfortunately, your season coincides with the Mexicans.

Mr. KAMM. That is correct.

Mr. CHAIRMAN. Are there any further questions? If not, we thank you very much.

Mr. Buford W. Council. If you will identify yourself for our record, we will be glad to recognize you, sir.

Mr. Gibbons.

Mr. GIBBONS. Mr. Chairman, may I have the pleasure of introducing these two fine and distinguished gentlemen from Florida agriculture?

I know of their views and know of their reputation of being successful businessmen in my area.

The CHAIRMAN. Thank you.

STATEMENTS OF BUFORD W. COUNCIL, PRESIDENT, AND WAYNE HAWKINS, MANAGER, PRODUCTION AND MARKETING DIVISION, FLORIDA FRUIT & VEGETABLE ASSOCIATION

Mr. HAWKINS. I am Wayne Hawkins. I am manager of the Production and Marketing Division of the Florida Fruit & Vegetable Association.

Mr. Council and I would like to make short statements supporting the brief filed previously.

The CHAIRMAN. You are recognized.

Do you want this statement inserted at the conclusion of the remarks you make?

Mr. HAWKINS. Yes, sir.

Mr. COUNCIL. My name is Buford W. Council, from Ruskin, Fla. I am president of the Florida Fruit & Vegetable Association, past chairman of the Florida Tomato Committee, and one of the vanishing breed, an American farmer.

I am part of a family farming operation engaged in the growing of tomatoes, citrus fruits, and cattle. My brother, three nephews and I operate a farm located on the west coast of Florida that has been in production since 1910.

Our farming operation affects a great number of people, as is true of many farms in this country. We provide employment for about 100 regular workers in our vegetable, fruit, and cattle operations and several hundred more during the harvesting and processing seasons.

As president of the association, I receive numerous complaints from many growers and other organizations who are being adversely affected by the mounting imports of fresh fruits and vegetables from low-wage countries. The brief previously filed by the association documents this trend and my comments today will attempt to summarize some of the more general statements in the brief.

Our biggest competitor is Mexico who used to be predominantly a winter producer of tomatoes. They have extended their season to include a fall, winter, and spring tomato crop and tremendously increased volume not only in tomatoes but in many of the other vegetable crops exported to the United States. I can also see where the increasing production of citrus in Mexico will adversely affect Florida producers in the future. This was evidenced to some extent this season with the increased imports of tangerines.

Foreign producers may have some basic costs of production similar to ours, but they have a very unfair advantage over our producers in the great disparity that exists in their costs for labor, taxes, and other obligations which have been heaped upon the Florida producer by own own Government.

Our workers are paid good wages and make more in one hour than a Mexican worker does in a day. The common belief that the Mexican worker is inferior to our worker is a farce. In fact, we employ a number of American-Texas-Mexicans who are very good workers. Mexico has the benefit of having the same kind of workers who are Mexican nationals that were considered to be very productive workers under the Bracero program. In order to keep good workers in competition with the demand from other industries, we must pay higher and higher wages which Mexico does not have to do, because it has an overabundance of workers.

Most Mexican tomatoes are imported as vine ripened, and when excess quantities cross the border unsold, they are consigned into the United States market. Because of their ripe and soft condition, they must be sold for whatever price they will bring—which results in a very disorderly marketing situation. Prices for good tomatoes are even lowered, creating a depressed market.

As a grower and past chairman of the Florida Tomato Committee, the administrative body of the Federal Tomato Marketing Agreement and Order for Florida Tomatoes, I voted, along with other members of the committee, to place regulations on Florida tomatoes that would create orderly marketing conditions for our domestic producers.

Under section 8E of the Agricultural Marketing Agreement Act of 1937, imports of similar commodities must meet the same regulations. These regulations, however, were challenged in one court after another by the Mexican producers under the guise of the Nogales importers and are virtually useless today. We need quantitative controls on imports in order to maintain orderly marketing conditions for both foreign and domestic fruits and vegetables. The President has had this authority under section 204 of the Agricultural Act of 1956 but has failed to use it even though he was requested to do so.

To illustrate this point and show that the Florida producer is not the only one thinking this way, I would like to read excerpts from a letter I wrote to Mr. Howard Worthington, Deputy Administrator for International Trade, USDA Foreign Agriculture Service, on April 24, 1972, concerning a conversation I had with a large Mexican tomato grower. Quote:

The Mexican growers have always been extremely hospitable to Florida tomato growers visiting in their production areas, and when a Mexican grower wishes to visit Florida production areas, we return the courtesy. On April 14th I was asked to be host to a young tomato-grower from Mexico. I met him at the airport and we spent most of the day touring tomato fields, packing plants, and so forth.

He is of Greek descent and attended college in the United States. He speaks perfect English, so communication was no problem. His family is one of the most powerful and respected in Mexico. Their operation is a large one. This year they have for export 1,500 acres of pole tomatoes, 1,000 acres of cucumbers, also poled; 1,000 acres of bell peppers; and large plantings of eggplant, beans, and so forth. They finance themselves and have their own sales organization in Nogales, Ariz.

In the course of discussing the mutual problems of all tomato growers, I kept pressing for his opinion of what was the basic cause of the terrific expansion and overproduction in Mexico. His answer was: Many Americans believe that growing tomatoes in Mexico is like having a "license to steal." Wealthy "Gringoes" in high income brackets with an income tax problem are standing in line to invest in Mexican tomato growing companies. If the venture is a loss, he has lost money that he would have had to pay in Federal income taxes anyway. If the venture is successful, he still writes it off as a loss in relative safety; because the U.S. Internal Revenue Service cannot check a Mexican grower's books. He can reinvest or keep his profits in a numbered account aboard. He said 80 percent of the Mexican tomato production money is American.

Our country encourages Americans to invest in underpriveleged countries, but I don't think this is exactly what was intended.

Another point he brought out is that Mexican tomato-producing companies are taxed on gross returns rather than net profits as American companies are. Therefore, the Mexican Government is interested in bringing in as much foreign capital as possible. This creates more jobs for farmworkers, and brings in more taxes on gross returns. Mexican companies are naturally interested in profits and suffer from low prices and overproduction. This is basically his opinion of the cause of the problem.

I then pressed for his solution to the problem. He said if a way could be found to stop the tax evasion abuse I have described above, it would help. He said what should be done, and I use his words, "is for 'Big Daddy Uncle Sam' to sit down and figure out," using U.S. Government historical records, the number of pounds on a prorated monthly basis, that the United States needs from Mexico; then let them fight among themselves as to how they would fill the quota.

He said he realized he was oversimplifying his solution. This would have to be done on a very high government-to-government level, with complete integrity and trust on both sides. Provisions would have to be made for sharing of market expansion, raising monthly limits in case of a freeze in Florida, or excessively high prices, and so forth. His thinking was that this type of arrangement would be in the best interests of both the United States and Mexican growers.

He said for the United States to set the amounts to be imported and enforce them would relieve a big enforcement problem there, and provide an easy answer to new companies wishing to start growing tomatoes. He expressed concern that Americans, after this arrangement was made, might start overplanting and create an oversupply situation. Neither of us could come up with an easy answer to this possibility, but I pointed out that American production has been relative stable and predictable.

End of quote.

A solution to our problem is contained in the "Fresh Fruits and Vegetables Market-Sharing Act of 1972," H.R. 5413 and H.R. 1500, which is being considered by this committee. It would give the foreign producer a fair share of our market and at the same time assure the American producers of a share of the market for his own commodity. I urge the committee to favorably consider this market-sharing concept and make it a part of any general trade bill that is approved as a result of these hearings.

If legislation of this type is not enacted soon, we will not only be forced out of business in the crops which are so vulnerable to foreign competition from Mexico and other low-wage countries, but consumers will become entirely dependent on foreign sources for these food products. This has been the trend in the oil industry for the past several years, and you can see where we are today. Without gasoline, you can walk; but without food, you are dead.

Thank you, Mr. Chairman and members of the committee, for your consideration of my views in these hearings.

The CHAIRMAN. We thank you, Mr. Council.

You are recognized, Mr. Hawkins.

STATEMENT OF WAYNE HAWKINS

Mr. HAWKINS. Mr. Chairman, members of the committee, and fellow citizens, my name is Wayne Hawkins. I am manager of the Production & Marketing Division of the Florida Fruit & Vegetable Association, a trade association representing growers who produce more than a majority of the fruits and vegetables grown in the State of Florida. I am also general manager of the Florida Sweet Corn Exchange, the Zellwood Sweet Corn Exchange, the North Florida Growers Exchange, and the South Florida Vegetable Exchange, all marketing exchanges organized under the Agricultural Cooperative Laws of Florida.

I prepared a statement in behalf of the association which has already been submitted to the committee, and respectfully request that it be made a part of the record.

The CHAIRMAN. Without objection, it will be included in the record.

Mr. HAWKINS. Due to the short time allocated, I will attempt to briefly summarize this statement and outline some of the major points.

The statement accurately portrays the existing conditions of the Florida vegetable and tropical fruit industries and illustrates the tremendous impact on these industries by import of fruits and vegetables from Mexico and other low-wage countries.

It is pointed out that imported fruits and vegetables are unrecognizable by the housewife or other American consumers. The products to a large degree are the same varieties produced in Florida, and since the migration of American capital and management to the south, the cultural practices are also very similar.

This points out the fact that we no longer have the great technological advantages that we once enjoyed. Any new development or breakthrough in production, packaging, or marketing is readily available to Mexico and our other competitors south of the border. Our universities are full of students and technicians from foreign countries, and it has been a longstanding policy of our Government to send scientists and technicians to these countries to teach them proper production, handling, and marketing practices.

Although the American consumer cannot distinguish the difference between a tomato, bean, pepper, squash, cucumber, and so forth, produced in Mexico from one produced in Florida, the Mexican producer has continually blocked efforts of the association to have legislation passed that would require labeling of these commodities as to the country of origin. This action in itself leads one to believe that there must be some difference in cultural practices, handling methods or the various chemicals used in production.

Efforts of the association have been successful in having legislation introduced during recent sessions of Congress that would permit a market-sharing arrangement with other countries.

An example of this is H.R. 5413 introduced by Representatives Haley, Rogers, and Bafalis; and H.R. 1500, introduced by Representative Frey. This legislation would allow foreign countries to export products to the United States and at the same time assure the American producer of a share of the market for his commodity, which increases the demand for labor and stimulates the economy.

It is important to realize that vegetable and fruit producers in Florida claim a share of the produce market in the United States solely because of Florida's geographical location. During any period or season when vegetables can be produced in abundance in areas to the north of Florida, it rapidly becomes unprofitable to produce commercial vegetables in Florida.

Our farmers, therefore, find themselves with productive seasons based on the climatical limitations of other areas within the United States. To permit an increasing volume of foreign fruits and vegetables to be imported during our season will eliminate the only productive period available to Florida producers and, in turn, cause many people to become unemployed. The Florida Department of Agriculture estimates that one out of every three people who work in Florida derive at least part of their income from agriculture. A large majority of them are unskilled and would experience difficulty in obtaining other employment.

Our statement has figures showing the U.S. imports—for consumption—from Mexico for a number of vegetable commodities and Florida production figures for the same items for a number of years. A careful study of these figures reveals tremendous increases in imports from Mexico and relatively stable or decreasing amounts of production in Florida.

This in itself reflects a sick industry, since a healthy one should at least reflect increases to meet the increased demand created by the increase in population.

Unlike agricultural producers in many States, Florida producers have relied very little on Federal assistance in the form of price supports. Instead, the various commodity groups have organized within each specialty field and have raised money from their own ranks to actively expand markets and promote the consumption of their products. These groups have spent large sums of money on advertising and promotional campaigns. Continued foreign imports at present levels undoubtedly will disrupt market channels recently created as a result of these promotional activities.

Several commodity groups have used and are presently using State or Federal marketing agreements and orders as an effective tool in stabilizing the market. In all cases, attempts are made to satisfy the needs of the consumer as well as to assure the producer of a fair price for a quality product. The costs of these programs have been paid entirely by the commodity groups involved. Continued heavy influx of imports will destroy these successful programs, resulting in abandonment of farming operations by many producers.

We urge this committee to recommend some type of import control other than the present tariff structure. The volume of fresh winter vegetables and melons imported from Mexico into the United States has increased rapidly since 1960, illustrating the fact that thet present tariff rates are not sufficient to protect the domestic producer.

With the present tariffs, the Florida producer cannot remain competitive with the foreign competition we are receiving today. For instance, the average prevailing wage for farm labor in Mexico is approximately $2.88 per day for a 10-hour day. This compares with the Florida agricultural wage rate of $3.18 per hour for all piece-rate workers in January 1973.

Additionally, foreign employers are not required to carry insurance or supply many more of the so-called fringe benefits that are now considered normal operating procedure in the United States. Broader means of controls must be considered if agriculture is to maintain its economic contribution to Florida.

Consideration should be given to legislation designed to regulate the flow to market of goods from foreign countries by use of quantitative controls, import quotas, or market-sharing arrangements that will protect the American producer and consumer. The end results should not be designed to gouge the consumer, but shoud be designed to assure the American housewife of an adequate supply of fresh fruits and vegetables at a reasonable price and assure the American producer of the right to supply a portion of these commodities during our seasons of production.

The association is aware of the fact that in order to export, we must import; however, it does not follow that we must submit our industries to highly destructive imports. The United States is a better market for is not created by driving some of our major industries to stagnation by unrestricted imports that undersell our own producers.

The standard of living enjoyed by citizens of the United States did not come about by accident. Our economy is geared to high wages and so forth, but the chain is broken when you force the American producer to pay high wages and then bring in goods produced in low-wage countries to compete with his commodity on the open market.

Realizing that the world trade picture is currently in a state of flux, and that changes and adjustments in marketing circumstances undoubtedly will occur in future years, the Florida Fruit and Vegetable Association would like to go on record as firmly opposing any action that would encourage more foreign agricultural products being imported into the United States from low-wage countries, without adequate protection.

Such a move at the present time would be at the direct expense of agricultural interests in Florida and the United States, and any temporary economies which might possibly be realized by the consumer would be more than offset by increased costs of another nature, including the displacement of persons now employed in the agribusiness complex.

What is needed is a national policy that is comprehensive in its scope and fully coherent—one that does not work against the interests of the American employee or his employer. Our Nation's greatest asset is her agricultural productive capacity. As an economic segment, agriculture receives less than its fair share of our national wealth. We strongly urge favorable consideration of legislation similar to H.R.

5413, which will assure the domestic producer of a market for his product, and at the same time, permit foreign countries to share this market. American consumers and domestic labor will benefit which, in turn, will be beneficial to the total economic position of the United States.

Our statement covers in detail the position of the tropical fruit and vegetable industries of Florida concerning foreign trade and tariff matters. If there are any questions that need to be answered after the committee has had the time to review the statement or if additional information is needed, we will be glad to assist in any way possible.

On behalf of the Florida fruit and vegetables industries, I would like to express our sincere thanks and appreciation to the Ways and Means Committee for permitting us to make this statement.

[The prepared statement follows:]

STATEMENT OF THE FLORIDA FRUIT & VEGETABLE ASSOCIATION

FOREWORD

The purpose of this statement, prepared by the Florida Fruit & Vegetable Association, 4401 East Colonial Drive, Orlando, Florida, a trade association representing growers who produce more than a majority of the fruits and vegetables grown in the State of Florida, is to submit the views of the Florida Fruit and Vegetable Industry concerning foreign trade and tariff matters. The nature and economic importance of Florida agricultural enterprises will be briefly explained. Comments will be made concerning increasing imports from Mexico and other Latin American countries and the effects these imports have on American labor. An attempt will be made to document the efforts of the Association to remedy unfair competition in past years and, finally, information will be filed stating the position of the Florida Fruit and Vegetable Industry concerning the "Trade Reform Act of 1973" and the "Fresh Fruits and Vegetables Market-Sharing Act of 1972" as contained in H.R. 5413 and H.R. 1500.

PREFACE

There is a great need for a new United States foreign trade policy that is reasonable, fair and dynamic. It must not be based on the selfish aspirations of any particular area or industry but, instead, must serve to protect the jobs of Americans whose source of livelihood is removed or threatened by foreign competition.

For many years, the Nation has been experimenting with the strange philosophy of inviting progressively greater volumes of assorted alien commodities to be marketed in this country, irrespective of their effect on this Nation's employment situation and irrespective of our balance-of-payments position. The free trade doctrinaries have prevailed because they have been able—through the masquerade of promise and concession—to divide industry against industry and section against section each time that opportunity for enactment of sensible trade legislation is in the making.

As a consequence, steadily increasing imports have forced a number of domestic producers out of business, taking a steady toll of jobs all across the country which, in turn, has stunted the growth of new manufacturing and processing businesses that otherwise would hold great potential in communities where unemployment now abounds. For the sake of this country's present and future economy, a sane foreign trade policy is imperative.

Our present foreign trade policy is somewhat confusing since the United States, a relatively new but very successful nation, is trying to change the policies of other older nations who are far more experienced in the field of foreign trade, regardless of their economic stature. We favor and should strive for truly reciprocal trade with the proper restraints necessary to prevent serious injury to our national industries, just as other nations have been doing and are doing today.

The value of our foreign export trade in 1970 was no more than four percent of our Gross National Product, far less than that of other nations. The Florida Fruit and Vegetable Industry is not impressed by the worn-out cliche of those who fall within this volume of business, that any trade restrictions, though reasonable they may be, will bring about mass retaliation from our foreign trading partners and create a trade war of catastrophic proportions. Sensible regulation of our foreign trade certainly will not lead to this end. Past experience has shown us that other countries will buy from us only that which they want and need.

It is our desire that the Committee on Ways and Means of the House of Representatives will take a hard look at "The Trade Reform Act of 1973" and will also receive and analyze testimony from representatives of all industries detrimentally affected by import competition. Not only agriculture but the shoe, domestic petroleum, steel, textile, machine, tool, glass, pottery and the multitude of other industries suffering under the impact of cheap foreign competition must unite together if the situation is ever to be corrected.

The present tariff schedules are not sufficient to protect American industry in too many instances—yet, many of these will be further reduced or eliminated if free trade advocates have their way. The United States is the greatest nation in the world, even with all of its foreign give-away programs. However, it is time that consideration be given to the American producer. The Florida fruit and vegetable producer cannot compete with imports from countries that have very low wage rates. The great technological advantages once enjoyed by American producers are disappearing because we share them with our competitors at the expense of the American taxpayer. Unfortunately, the producer cannot operate on a deficit budget like the federal government. He must pay his debts or go out of business. In order to pay his debts, he must be able to market his products at a reasonable profit. It has reached the point where this can be done only wtih protective tariffs or implementing an import quota or market-sharing type programs that will assure him of a market for his commodity.

Current policies of the federal government seem to be inconsistent and, therefore, place the agricultural producer in an impossible position. On the one hand, every attempt seems to be to force the producer to increase his production costs. This phase includes the imposition of higher wages and taxes, stricter laws and administrative policies concerning labor and the use of insecticides, the payment of more and more welfare and unemployment—which depletes the available work force—and the position taken by the Department of Labor restricting the use of off-shore or bracero workers for harvest purposes. On the other hand, attempts are constantly being made to reduce or remove present duties and tariffs, forcing the American producer to compete with foreign countries which have substandard levels of living as compared with the United States.

If the producer of food materials stops producing, the United States could rapidly lose its position as the best-fed nation in the world and citizens could actually starve to death in the "land of plenty." Many people who depend on agriculture for their livelihood will be out of employment, not to mention the serious effects that further imports would have on our balance of payments, or the fact that in due course of time, the American people's dependence on many important food items would be at the mercy of the frivolities or caprice of foreign governments.

The present fuel shortage in this country is an excellent example of what can happen if you depend too heavily on imports. The Washington Post on Thursday, April 19, 1973, quoted Sheikh Ahmad Zaki Yamani, one of Saudi Arabia's most influential leaders as saying his country will not significantly expand its present oil production unless Washington changes its pro-Israeli stand in the Middle East. You can park your automobile and walk if you are forced to; but what will happen if the present trend continues and we end up depending on foreign countries to supply our food and we run out of fresh fruits and vegetables in this country? You can't very well stop eating!

Cheap labor and relief from high taxes will lure American producers to foreign countries if imports continue to increase from countries that have substandard levels of living as compared to the United States. The technological advantages that prevailed in the United States in past years are quickly diminishing, largely due to educational programs sponsored or supported by our own government, not to mention the United States capital and technicians that have been sent abroad. A close check of our land-grant colleges will reveal many foreign students majoring in agricultural-oriented fields. Hardly a month passes that the Florida

Fruit & Vegetable Association is not called upon by some branch of government to entertain foreigners interested in our methods of production and marketing. The information obtained by research projects at both the state and federal level is also rapidly available to our foreign competitors.

NATURE OF FLORIDA AGRICULTURE

Florida has a diversified agriculture, including the production of a wide variety of fruit and vegetable crops as well as livestock and sugar cane. The Florida Department of Agriculture reports that one out of every three people who work in Florida derive at least a part of their income from agriculture. Florida is known as the "Nation's Winter Vegetable Bowl," as well as the Nation's Citrus Center, since there are several months of each year during which Florida is the sole domestic supplier of many fruits and winter vegetables. It is important to realize that vegetable and fruit producers in Florida claim a share of the produce market in the United States solely because of Florida's geographical location.

During any period or season when vegetables can be produced in abundance in areas to the north of Florida, it rapidly becomes unprofitable to produce commercial vegetables in Florida. Our farmers, therefore, find themselves with productive seasons based on the climatical limitations of other areas within the United States. To permit an increasing volume of foreign fruits and vegetables to be imported during our season will eliminate the only productive period available to Florida producers and, in turn, cause many people to become unemployed. A large majority of them are unskilled and would experience difficulty in obtaining other employment.

The production and marketing costs for our products are relatively high and the risks which include weather hazards are great. Labor is the largest single cost item involved in producing and marketing our crops. Obtaining an adequate supply of capable harvest labor and meeting competition of imports from foreign countries who have an abundance of cheap labor have rapidly become two of the greatest problems facing most producers. The availability of cheap labor has encouraged foreign producers, primarily producers in Mexico, to ship more produce into this country.

Appendix A shows the United States imports (for consumption) from Mexico (by months) for strawberries and selected fresh vegetables for the past fifteen years. This information was obtained from the Foreign Agricultural Service, Fruit and Vegetable Division, Commodity Analysis Branch, U.S. Department of Agriculture, and reflects the tonnage of beans, cucumbers, eggplants, melons, onions, peas, peppers, squash, strawberries and tomatoes brought into the United States in direct competition with Florida products.

A careful study of these figures reveals tremendous increases in imports in most commodities. Figures for the 1972–73 season are not complete; therefore, statistics for the 1971–72 season will be used to illustrate examples of the tremendous increases in imports from Mexico in the past five to ten years.

The increased imports listed in Appendix A become more meaningful when you compare these tremendous increases with the production figures for the same Florida products for the past five or ten years. Appendix B shows the acres planted and harevsted, the production, the average unit price and the total value of several selected commodities. The source of this information is Florida Agricultural Statistics, Vegetable Summary, Florida Crop & Livestock Reporting Service, Florida Department of Agriculture, 1222 Woodward Street, Orlando, Florida 32803. Appendix C is a booklet entitled "Florida Shipments 1971–72 Seasons, Fruit and Vegetable," from the Federal-State Market News Service, P.O. Box 19246, Orlando, Florida 32814.

A careful study of Appendices B and C reveals that Florida production has remained relatively stable for the past ten years. Some commodities are off slightly, others are up slightly, but most have rather constant production figures. This in itself reflects a sick industry. A healthy industry should at least reflect increases to meet the increased demand created by the increase in population.

It is true that per capita consumption of fresh fruits and vegetables remains rather constant but it is also true that the population of the United States is increasing rapidly. This in itself should increase the demand. The Florida producer feels that this increase in demand should be supplied by the Florida producer and not by a country that places numerous trade blockades on the United States.

Domestic producers and shippers are subjected to high labor costs, including workman's compensation, social security, and other prevailing benefits for laborers which are costly and frequently nonexistent in foreign countries. These items have a "multiplier" effect upon high wages in the United States while foreign countries compete for the most part free of these obligations and with fractional wage levels as compared to our own. It is unreasonable to impose on the domestic producer fixed and escalating labor costs created mainly by governmental authority without the benefit of some protection against foreign imports. American producers' laborers and, ultimately, the consumer are certain to be the victims of such an inconsistent policy.

Florida's agriculture brings in market receipts of more than one billion dollars per year to agricultural producers. If you consider the total agri-business complex, it amounts to more than five billion dollars annually which far surpasses tourism, the State's supposedly number one commodity. Thousands of jobs are created by the production, harvesting, processing, handling and marketing of Florida agricultural products, and this employment figure is multiplied by agribusiness firms dealing in services and supplies.

Florida's total agricultural picture includes a citrus crop which provides more than 75 percent of the total United States consumption; winter vegetable supplies which are vital to the Nation's health and welfare; important dairy, beef cattle, poultry and egg industries; field crops and nursery products; a large number of producers of tropical fruits and plants; a dynamic sugar cane industry; as well as other important agricultural industries.

Efficient vegetable production in Florida depends upon a more or less continuous operation during the fall, winter and spring seasons with the tropical fruit industry taking up the slack in the summer. Each season or period is an integral and vital factor in the overall vegetable operation within the State as there is an interdependence of one season upon the other for labor, equipment, marketing specialists and efficient farm operators. If you remove or weaken one season or period in Florida by creating a situation that encourages imports of certain commodities which, in turn, limits our production, it has a direct bearing and influence on the activity and success of the preceding, as well as the succeeding season, the effects being clearly reflected in employment and levels of earnings.

The production of agricultural products, particularly fresh fruits and vegetables, is quite different from any other industry. For some commodities, the seasons are very short. The producer has only a few weeks to market his product and due to the high perishability of most items, storage is out of the question. This prevents him from averaging his profit or loss over long periods of time. If he is placed in a position to compete unfairly, then he has no chance of recovering later.

Also this Committee should be reminded of the fact that the very nature of agricultural production does not lend itself to long periods of stable prices. Producers not only need, but are entitled to, higher prices at certain times in order to compensate for losses due to disasters, weather conditions, market gluts, etc. If imports prevent these peak prices at times, it places the producer in an unrecoverable position.

Practically all of Florida's agricultural commodities currently have some tariff protection, although the tariff in most cases is not enough to provide adequate protection. However, any further lowering of tariff rates would encourage a greater influx of foreign products which are already undermining the marketing picture at the expense of Florida producers. To reduce or remove tariffs on fruit and vegetable commodities imported from Mexico and the Caribbean would certainly undermine and possibly destroy Florida's leading industry.

Unlike agricultural producers in many states, Florida producers have relied very little on federal assistance in the form of price supports. Instead, the various commodity groups have organized within each specialty field and have raised money from their own ranks to actively expand markets and promote the consumption of their products. These groups have spent large sums of money on advertising and promotional material. Continued foreign imports at present levels undoubtedly will disrupt market channels recently created as a result of these promotional activities.

Several commodity groups have used and are presently using state and federal marketing agreements or orders as an effective tool in stabilizing the market. In all cases, attempts are made to satisfy the needs of the consumer as well as to assure the producer of a fair price for a quality product. The costs of these programs have been paid entirely by the commodity groups involved. Continued heavy influx of imports will destroy these successful programs, creating in many cases chaos which will lead to heavy unemployment and abandonment of farming operations by many producers.

A good example is the Florida Tomato Industry which is presently operating under a federal marketing order. One provision of this order permits the tomato producer to impose grade and size restrictions on his product in an effort to improve quality and assure the consumer of a better product. Section 8(e) of the Agricultural Marketing Agreement Act of 1937 (as amended) provides for the same restrictions to be placed on imports from foreign countries.

Mexican producers, under the guise of Arizona importers, have fought this section of the Act in one federal court after another for the past several years, preventing the Florida tomato grower from using this marketing aid. Also Mexican tomatoes that do not meet the requirements of Section 8(e) are permitted to be transported across the United States and sold in Canada. The Florida producer cannot sell his off-grade tomatoes and the Mexican shipments to Canada have destroyed a valuable market for the better quality tomatoes that Florida producers once shipped to Canada.

The tropical fruit industry of Florida is comprised of a wide variety of fruits—many being classified as minor or semi-commercial—based on the total value received from marketing the individual crops. Our three most important tropical fruit crops are avocados, limes and mangos. We are very concerned with the competition which we face from increasing quantities of fruit being imported from Mexico and the Caribbean areas, such as the Dominican Republic, Haiti, Honduras, etc.

The principal fruit which is being imported in ever-increasing quantities is the mango. During the past several years, Mexico has planted heavily with the intentions of exporting this crop to the United States. Also the quantities being imported from Haiti on almost a year-round basis indicate that the Haitian plantings have increased considerably.

Prices received for avocados during the past couple of seasons have encouraged larger imports from the Dominican Republic. Not only do the wages paid in the Caribbean area place the Florida producer in an unfavorable position, but they are also able to take advantage of low cost air transportation rates on a return basis from the Dominican Republic direct to the New York City area. We have a duty of 7.5 cents per pound on avocados from offshore, but this represents a reduction of 50 percent from the 15 cents per pound duty which we had in past years. The original rate of 15 cents was set when local costs were considerably lower and when local production was considerably smaller. In view of today's increasing production, labor, transportation, and marketing costs, the old rates of duty would not even give the Florida producer an opportunity to compete on an equal basis.

The lime industry of Florida is also facing problems created by imports of fresh and processed lime products. Both acreage and production of limes have increased in Florida in recent years and a total crop of 2 million bushels is forecast for the 1972–73 season. Efforts have been and are being made to increase sales to fresh outlets; however, the demand for fresh limes consumes only 700,000 to 800,000 bushels a year.

The remainder of the lime crop must go into processed form and this is where we confront tremendous competition from imports from low-wage and low-cost areas such as Mexico, Ghana, Tanzania, and the Island of Dominica as well as Jamaica, St. Lucia, Trinidad, et cetera. We also must compete with lemon juice produced locally and imported from foreign sources.

A lot of lime juice is presently being imported into the United States, however, the Florida tropical fruit growers are capable of supplying the domestic demand for lime juice, lime oil, et cetera. An increase in the duty on lime juice would have very little effect on the retail price to the American consumer but it would aid the Florida producer.

NATURE OF MEXICAN AGRICULTURE

A group of representatives of the Florida Fruit & Vegetable Association visited Mexico during the early part of March 1973. In addition to attending the Annual Meeting of the Union Nacional de Productores de Hortalizas where they visited with a number of producers, the group also toured several of the major production areas. The group saw thousands of acres of safflower, peppers, squash, tomatoes, beans and other items and also vast areas of land being cleared and prepared for future production.

Information obtained in Mexico shows the costs of production on tomatoes up until time of harvest is about $200 per acre. This compares with over $600 per acre in Florida. With an average yield, the Mexican producer needs $3.25 to $3.50 per 30# box at Nogales to break even. The Florida farmer must obtain about $5.25 to $5.50 F.O.B. in order to break even.

Mexican vegetables and melons produced for export to the United States come mainly from the West Coast where they have been grown for a number of years. Principally involved are areas in the States of Sonora and Sinaloa as far south as Culiacan. Output of tomatoes, the main vegetable grown, has been moving upward rapidly and, in recent years, has decidedly shifted to the stake-grown vine-ripened product.

Mexican production continues to increase in other production areas with expansion in crops other than tomatoes. A sharp upward trend has taken place in acreage, production and exports to the United States of practically all winter vegetables. (See Appendix A.) With attempts by Yucatan to produce winter vegetables for export, we can look forward to increasing imports of citrus, strawberries, tropical fruits and winter vegetables in future years.

The following statistics using figures from Appendix A show imports in pounds for selected commodities for the 1971–72 season and the percentage increase over the past five and ten years:

Tomatoes, fresh	
1971–72 Imports (pounds)	577, 170, 000
Percentage increase over 1966–67 season	49. 5
Percentage increase over 1961–62 season	150
Strawberries, fresh	
1971–72 Imports (pounds)	44, 383, 000
Percentage increase over 1966–67 season	137
Percentage increase over 1961–62 season	4, 495
Beans, fresh	
1971–72 Imports (pounds)	16, 597, 000
Percentage increase over 1966–67 season	93
Percentage increase over 1961–62 season	121
Cucumbers, fresh	
1971–72 Imports (pounds)	143, 845, 000
Percentage increase over 1966–67 season	138
Percentage increase over 1961–62 season	874
Eggplant, fresh	
1971–72 Imports (pounds)	25, 819, 000
Percentage increase over 1966–67 season	240
Percentage increase over 1961–62 season	1, 344
Peppers, fresh	
1971–72 Imports (pounds)	62, 474, 000
Percentage increase over 1966–67 season	127
Percentage increase over 1961–62 season	243
Squash, fresh	
1971–72 Imports (pounds)	35, 054, 000
Percentage increase over 1966–67 season	203
Percentage increase over 1961–62 season	2, 009
Watermelons, fresh	
1971–72 Imports (pounds)	158, 802, 000
Percentage increase over 1966–67 season	150
Percentage increase over 1961–62 season	221

With the present tariffs, the Florida producer cannot remain competitive with the Mexican competition he is receiving today. For instance, the average prevailing wage for farm labor in Mexico is approximately $2.88 per day for a ten-hour day. This compares with the Florida agricultural wage rate of $3.18 per hour for all piece rate workers in January 1973. (Source: USDA, Statistical Reporting Service, Orlando, Florida.) Additionally, foreign employers are not required to carry insurance or supply many more of the so-called fringe benefits that are now considered normal operating procedure in the United States. Broader means of controls must be considered if agriculture is to maintain its economic contribution to Florida.

The American consumer cannot distinguish between a Florida produced or Mexican produced tomato, cucumber, bean, etc. She also cannot determine different cultural practices distinguishing the types of fertilizer, spray materials or packinghouse conditions between the two countries. It is obvious there are differences since Mexico has fought efforts of the Florida Fruit & Vegetable Association to have fresh fruits and vegetables labeled as to their country of origin. They produce the same varieties that we do in Florida, but they are not willing to have them identified as Mexican products.

All members of the group visiting Mexico in March were cautioned by the travel agency, the agricultural attache of the American Embassy, and others not to eat any fresh fruits or vegetables. It seems somewhat of a mystery that Americans visiting Mexico are instructed not to eat their produce, but the "good old U.S.A." opens its borders freely to the same commodities.

The last stop of the group visiting Mexico before returning home was a visit to Nogales. A visit to the Agriculture Inspection Compound on the Mexican side of the border and the Customs Inspection Station on the United States side of the border revealed that both inspections were a total farce.

The Agricultural Compound on the Mexican side of the border where all trucks are inspected by U.S.D.A. personnel before entering the United States has thirty-three inspectors employed, and with time off, etc., works about twenty-eight inspectors daily. The compound is open from 8:00 A.M. to 4:00 P.M. and runs inspection on over 300 trucks daily during peak periods plus pigs (T.O.F.C.). The group witnessed the inspection of more than fifty trucks and the biggest sample looked at was ten cartons from a load of over 1,300 packages. Almost every sample was taken from the right rear door of the truck with the left rear door not even being opened in most cases. The average inspection involved six to nine packages, all taken from the right rear of the truck. It was stated that you could put an elephant in the front of the truck and no one would ever know it.

This procedure was quite alarming since these trucks were all coming from the Culiacan district, reportedly the largest marijuana and drug traffic area in the world. Not only is this type of inspection unfair to the Florida tomato producers for instance, who are forced to have compulsory inspection under a federal marketing order, but it opens the door of our border for smuggling of about any type of contraband imaginable.

At the U.S. Customs office it was reported that it takes them less than three minutes to clear a truck-load of produce. Again all samples are taken from the right rear door and many loads passed through with no samples being taken at all. It is quite interesting to note that it took each member of the group about thirty to forty minutes to clear customs at Tucson, Arizona, with an average of two suitcases apiece and yet U.S. Customs at Nogales can clear a truck loaded with more than 1,300 thirty-pound cartons of presumably tomatoes in less than three minutes.

Upon returning from Mexico, the group made a formal complaint to the U.S.D.A. through the office of Senator Chiles stating that the total inspection system in Nogales was a farce and the produce was not being inspected as required by Section 8(e) of the Agricultural Marketing Agreements Act of 1937 (as amended). Rather than make any effort to correct the situation, the U.S.D.A. simply changed the regulation governing inspection procedures under a federal marketing order to appease the Mexicans.

In the latter part of March, several loads of produce were turned back at the border because they had detectable residues of the pesticide Monitor-4. An investigation revealed that Monitor-4 was used on peppers, cantaloupes, tomatoes and other items although it was not cleared for use on these commodities. To obtain label clearance for a pesticide on a new commodity is a very lengthy and costly procedure taking from three to five years and costing many thousands of dollars (sometimes millions).

Apparently a tremendous amount of political pressure must have been applied because the Food and Drug Administration arbitrarily established a tolerance of .1 ppm of Monitor-4 on the commodity peppers and notified all states to accept these peppers released at the border containing detectable residues of Monitor-4. This was done even though the manufacturers of the chemical had not requested that it be used on peppers.

Here we have two excellent examples of special rule changes to appease importers of Mexican produce. Either of these two requests would have been flatly denied had they been requested by Florida producers.

It should also be pointed out to this Committee that Mexico imposes very strict regulations on imports into their country. It is impossible for Florida to ship fresh produce into Mexico during their season. It is difficult to explain to a Florida producer why our government continued to make concessions to Mexico, threatening his very livelihood, when Mexico in turn slams the door in his face.

HISTORY OF ASSOCIATION'S EFFORTS FOR FAIR TRADE

In December 1963, witnesses representing the Florida Fruit & Vegetable Association, Florida Vegetable Canners Association, the University of Florida and the Florida Department of Agriculture appeared before the Tariff Commission requesting that a number of fruit and vegetable commodities be removed from the list of negotiable items to be considered in the so-called Kennedy Round. These statements contained facts and figures of the impact that these various commodities were experiencing due to excessive imports from low-wage foreign countries. At that time, it appeared that a status quo on the present tariff structure would supply the Florida producer with adequate protection to compete with our friendly neighbors to the south. Our efforts were successful to a large degree and the tariffs were reduced on only a few of the fruit and vegetable commodities. Since that time, production costs have increased sharply each year and the agricultural picture has changed rapidly in some of the competing countries, primarily Mexican and the Caribbean. Florida producers now find that the present tariffs are inadequate and for the past several years have consistently asked that the federal government give serious consideration to some type of import quota or market-sharing program.

It is very gratifying to have this fine and most important Committee of Congress resume its in-depth study and consideration of one of the most serious problems concerning our nation today. Many months have passed since you last considered the problem, but the elapsed time has not been a total loss since it has served the valuable purpose of adding substance and credence to the statements which were made in earlier Hearings before this Committee.

For the purpose of this record and in order to avoid duplication of information already available to the Committee, your attention is called to some of the statements and information submitted on behalf of our affected Florida fruit and vegetable industries in 1968. In this reference, we refer the Committee's attention to Part 10 of the record of those hearings, commencing on page 4951, as follows:

Introductory and written statements of Honorable Paul G. Rogers, a Representative in Congress from the State of Florida,

Statement of J. Abney Cox, Past President and Chairman, Competition & Marketing Agreements Committee, Florida Fruit & Vegetable Association, including a statement on the views of the Fruit and Vegetable Industry of Florida submitted by the Florida Fruit & Vegetable Association,

Statement of Buford W. Council, Council Farm, Inc., and presently President of the Florida Fruit & Vegetable Association,

Statement of John S. Peters, General Manager, Florida Tomato Committee,

Statement of Robert W. Rutledge, Executive Vice President, Florida Citrus Mutual,

and commencing on page 5023,

Statement of Louis F. Rauth, Flavor Pict Cooperative.

These statements represented the problem, the issues and recomendations of the Florida Fruit and Vegetable Industry as related to our foreign trade policy, and we respectfully request that the Committee review them for the purpose of their deliberations on this subject at this time.

By way of updating the problem, Mr. Joffre C. David, Secretary-Treasurer and General Manager of the Florida Fruit & Vegetable Association, presented a statement before this Committee in May of 1970. Attached to his statement as an exhibit was a special report on fruit and vegetable imports from Mexico prepared by the Federal-State Market News Service and dated May 19, 1970. This report stated that for the year ending June 1969 there were 73 different commodities imported from Mexico compared to only 46 nine years earlier. The increase was due mainly to domestic type vegetables and frozen fruits and vegetables. This demonstrated the inroads being made into our markets by foreign countries at the expense of our domestic producers. This trend has continued with Mexico being the principal contender for this exploitation of the United States market, but there are other countries who are doing likewise.

As a result of requests by the Association, the Fresh Fruits and Vegetables Market-Sharing Act was introduced in the 91st Congress by Senator Holland and Representatives Gibbons, Herlong and Rogers and again in the 92nd Congress by Senators Gurney and Chiles and Representatives Burke, Frey, Haley and Rogers. Similar legislation has been introduced in 1973 by Representatives Haley, Rogers and Bafalis (H.R. 5413), Representative Frey (H.R. 1500), and Senators Gurney and Chiles (S. 1110).

This legislation is designed to permit a market-sharing arrangement with other countries which would allow foreign countries to export products to the United States and at the same time assure the American producer of a share of the market for his own comodity. The ultimate goal of this legislation is to assure the American producer of a chance to market his product—which increases the demand for labor—and stimulates the economy.

IMPORTS AND AMERICAN LABOR

The restrictive foreign labor policy of the Department of Labor since December 1964 has been a great stimulant to the foreign competition problem, and the resultant impact on American farm workers' opportunities as well as upon the individual farm producer. National policy concerning imports cannot be totally separated from national policy concerning the amount of agricultural labor, both domestic and foreign, that is available to our industry.

According to the Statistical Reporting Service of the Department of Agriculture, farm employment in the United States during the week of July 23–29, 1972, was 5,268,000 as compared to 7,516,000 in July 1964, just prior to the start of the restrictive foreign labor policy.

The number of family farm workers during the last week of July of 1972 was 3,534,000 as compared to 4,969,000 in July 1964.

The number of hired farm workers during the last week of July 1972 was 1,734,500 as compared to 2,547,000 in July 1964.

The foregoing figures reveal that we have lost 1,435,000 family farm workers from the national farm labor force and 812,500 hired laborers during the eight years from July 1964 to July 1972.

Other official government data shows that full employment opportunities have existed for American farm workers throughout the above period; however, heavy losses of farm workers from the domestic labor force have occurred. These losses may not be easily associated with the problem of foreign competition. For example, it is a well-known fact that recent social changes and improved and more accessible training and educational programs have been responsible to some extent for the loss of farm manpower in this country. It may be questioned, therefore, whether the increase in foreign competition has had any effect at all upon the American farm worker. The answer is an emphatic "Yes" and should be readily understood. The American farmer would be able to offer much higher wages and provide a much higher standard of housing and working conditions for his farm employees if he did not have to face such tremendous competition from cheap labor countries. The average American farmer would like to offer wages comparable to the highest industrial wage paid in the United States if it were possible for him to do so and continue to operate his farm on a profitable basis.

One of the arguments advanced by the Department of Labor in support of their restrictive attitude towards the importation of supplemental agricultural workers was that a part of the wages earned by such workers went to foreign countries and the "balance of payments" problem was thus aggravated. However, when the American production is restricted because of the farmer's inability to obtain sufficient workers to maintain his usual volume of production, many American workers in the agri-business complex are adversely affected. Furthermore, when cut-backs in American production and potential increases in production due to the increased demand are replaced by imported commodities, the American purchaser is sending the price of the full wholesale value to the foreign country of origin instead of a minor portion of the wages that might have been paid to produce that commodity in the United States. Thus, if we paid 25¢ to a Mexican national to harvest a lug of tomatoes, perhaps one-third of this would ultimately find its way to Mexico. Now that we no longer have Mexican workers in the abundance of previous years, we are sending approximately ten to twenty times this amount into Mexico for the lug of tomatoes that is being imported in competition with the American product. It is apparent that the "balance of payments" problem is more seriously aggravated by this increase in the flow of vegetable commodities and fruits from Mexico.

When Mexican imports are undermining our efforts to maintain a favorable balance of payments in international trade, the resulting inflationary effects are felt by every taxpayer in the country. When such imports undermine the American farmer's ability to compete with other American industries for an adequate domestic work force, and when Administration policies do not allow the American producer to obtain labor relief in the form of imported supplemental workers, it is apparent that every wage earner whose employment is wholly or partially dependent upon our agricultural output is being adversely affected. The Florida Department of Agriculture estimates that one out of every three people who work in Florida derive at least part of their income from agriculture.

It is the sentiment of the Florida grower that as a citizen of the United States he should be entitled to full priority when it comes to domestic marketing opportunities and that he and his employees should not be subjected to the adverse effects of foreign competition when their own productivity is adequate to meet the needs of the American people. The transfer of increasing numbers of farm operations and food processing operations to nearby foreign countries is evidence that we do not have an economic climate conducive to the continued expansion of our agricultural industry even though the population growth alone warrants and, in fact, will demand an increased production of foodstuffs in the immediate years ahead.

FRESH FRUITS AND VEGETABLES MARKET-SHARING ACT OF 1972

The Florida Fruit & Vegetable Association sincerely feels that H.R. 5413 introduced by Representatives Haley, Rogers and Bafalis and H.R. 1500 introduced by Representative Frey is legislation that will not only aid the agri-business of our Nation, but will also protect the consumers' welfare. Similar legislation, S. 1110, has been introduced in the Senate by Senators Gurney and Chiles. This legislation marks a shift away from rigid protection of domestic industry by recognizing the claim of foreign countries to a fair share of our market. The bill is designed to establish a ceiling over imports while permitting them to participate proportionately in the domestic consumption of any product made subject to a ceiling.

The authority of the President under the Agricultural Act of 1956 to seek to obtain agreements with other countries—limiting the export from such countries and the importation into the United States of agricultural commodities—has not been exercised with respect to fresh fruits and vegetables. The Florida Fruit & Vegetable Association requested the President of the United States to enter into such an agreement with Mexico in July 1969—but our requests resulted in no action beng taken. (See Appendix D.)

During the intervening months, imports of certain fresh fruits and vegetables into the United States have increased to such extent as to disrupt the market for such commodities produced in the United States. This increase in imports has been caused in large part by lower costs of production in other countries, especially in the wages paid to agricultural employees, which it is the policy of the United States to maintain at relatively higher levels than other countries. Because of this unfair disparity in costs of production which exists in other countries by reason of the payment of substandard wages, it is practically certain that imports of fresh fruits and vegetables will continue to increase and further destroy the market for such commodities produced in the United States.

Access to the United States market for foreign produced fresh fruits and vegetables should be established on an equitable and orderly market-sharing basis consistent with the maintenance of a strong and expanding United States production of fresh fruits and vegetables and designed to avoid the disruption of United States markets and the unemployment of United States agricultural workers.

The Association is aware of the fact that in order to export we must import; however, it does not follow that we must submit our industries to highly destructive imports. The United States is a better market for imports when it is in a prosperous state. A good marketing situation is not created by driving some of our major industries to stagnation by unrestricted imports that undersell our own products.

The standard of living enjoyed by citizens of the United States did not come about by accident. Our economy is geared to high wages, etc., but the chain is broken when you force the American producer to pay high wages and then bring in goods produced in low-wage countries to compete with his commodity on the open market. We have aided the foreign countries by supplying them with technology and education. The Provost for Agriculture of the Institute of Food & Agricultural Sciences at the University of Florida stated recently that there were students from 45 nations studying agriculture at the University of Florida, and most of them are sponsored or subsidized by our own government.

Many professors from the University of Florida have been sent to foreign lands, again at the expense of our government, to teach proper methods of production and marketing of their commodities. This is fine if the intent is to train them so they can provide some of their own needs in terms of meeting their particular food requirements. But this is not the case. As soon as production methods are learned, they turn around and flood our markets with the commodities we taught them how to produce.

We are hopeful that this Committee will be able to come forth with recommendations that will provide the necessary protection to our producers and to the employees whose livelihood is dependent upon industries which are vulnerable to foreign competition from low-wage countries. We feel that legislation as contained in H.R. 5413 and similar bills will accomplish this objective.

PROTECTION IN ADDITION TO TARIFFS

There is a definite need for some type of import control other than the present tariff structure. The volume of fresh winter vegetables and melons imported from Mexico into the United States has increased rapidly since the late fifties. (See Appendix A.) The present tariff rates are not sufficient to protect the domestic producer.

The controls needed cannot be implemented administratively since representatives from the Foreign Agriculture Service have informed the Florida Fruit & Vegetable Association on numerous occasions that present legislation, such as Section 22 of the Agricultural Adjustment Act and Section 8E of the Agricultural Marketing Agreement Act, are no longer adequate to assist the farmer in most cases.

Their phrase "no longer adequate" to assist the farmer is rather amusing. If you read the findings and recommendations under the so-called "escape clauses," you will see that they never were "adequate" to assist the farmer.

The free trade advocate continually preaches that there are adequate "escape clauses" to protect the American producer from unfair competition. This is a farce. Anyone interested in seeing just how badly the American producer has been "sold down the drain" should find the following publications quite interesting reading:

(1) Investigations under Section 332 of the Tariff Act of 1930 (covers 1/1/52 to 7/1/63) TC Publication 97.

(2) Investigations under Section 336 of the Tariff Act of 1930 (covers /1/146 to 8/1/63) TC Publication 105.

(3) Investigations under Section 22 of the Agricultural Adjustment Act (all investigations to 5/1/68) TC Publication 246.

(4) Investigations under the Escape Clause of Trade Agreements (1951 to 10/11/62) TC Publication 116.

(5) Summary of Investigations under Section 301 of the Trade Expansion Act of 1962. Dated December 1967.

Copies of the above listed publications can be obtained from Mr. Kenneth R. Mason, Secretary, U.S. Tariff Commission, Washington, D.C. 20436.

We urge the Committee on Ways and Means to recommend legislation designed to regulate the flow-to-market of goods from foreign countries by use of quantitative controls, such as import quotas, etc. Strong consideration should be given to legislation that will provide for import quotas or market-sharing arrangements that will protect the American producer and consumer. The end result should not be designed to gouge the consumer, but should be designed to assure the American housewife of an adequate supply of fresh fruits and vegetables at a reasonable price and give the American producer the right to supply these commodities during our seasons of production.

EXPORT-IMPORT STATISTICS

We have chosen not to fill the record with a lot of bulky testimony concerning the need for a change in our methods of compiling export and import statistics. It is a well-known fact that our balance of payments figures are very misleading, since our foreign aid and other give-away programs are considered to be exports. This subject was quite adequately covered by Florida Fruits & Vegetable Association briefs and witnesses' testimony presented to the Trade Information Committee at its hearings on the Future of U.S. Foreign Trade Policy, April 23, 1968, in Washington, D.C. Copies of our testimony should be readily available to this Committee, if they are needed.

TRADE REFORM ACT OF 1973

The "Trade Reform Act of 1973" must be referred to as a sweeping delegation of power from Congress to the President to do almost anything he wants to do. It gives the President the authority to get rid of existing trade barriers and also to erect new ones. He could move toward the free trade side or he could use his new power in a highly protective way. While some of these provisions are certainly desirable, the Act would strip Congress of its clear constitutional function and give the White House dictatorial powers over trade regulations.

The President certainly needs additional bargaining power in future trade negotiations since our delegates at trade conferences in the past have been badly out-traded. Obsessed with a blind zeal for free trade, they expended their ammunition without obtaining equal concessions from other countries in return.

This leaves the United States with very little bargaining power left. Certainly the President should be rearmed, but why leave Congress out. The regulation of foreign commerce and the establishment of duties is one of the clearly enumerated powers of Congress. Under this Act the Congress would divest itself of this power and be placed in a position of vetoing actions of the President instead of the reverse.

The Act further grants the President the right to delegate the power, authority, and discretion conferred upon him to the heads of such agencies as he may deem appropriate. Also the head of any agency performing functions under this Act may authorize the head of any other agency to perform any of such functions.

In other words the Congress of the United States would delegate power to the President to do almost anything he wanted to concerning foreign trade. The President could then delegate this power to the head of an agency who could then authorize the head of any other agency to perform functions under the Act. If an affected party or industry objected to an action under the "Trade Reform Act of 1973," there would be no recourse by law. The only recourse would be to petition for a hearing and any relief would depend strictly on political power. The size of the party or industry affected would be the decisive consideration and medium or small industry groups would be at the mercy of the President's pleasure since they would have no rights under law providing them the least amount of leverage.

Under the provisions of this Act, the President could increase any tariff without limit, or reduce or eliminate it altogether. The Congress would thus relinquish all guidelines which have been provided for in all previous trade agreement legislation. Tariff reductions with only few exceptions have been limited to 50 percent of any existing rate and could not be raised beyond a specified level. Under this Act, the President would have no such guidelines.

The Act would relax the present harsh requirements for granting import relief. It would no longer be necessary to link any increased imports to a previous tariff reduction; nor need the increased imports be the "major" cause of the injury suffered, but a "primary cause" defined as the largest single cause. This is certainly a more realistic approach. Injury to an industry would be easier to provide, but what assurance would you have of any subsequent action being taken.

The Tariff Commission would continue to hold hearings and investigate possible injury to an industry. Their findings would be reported to the President but he would not be compelled to take any action. He could increase the duty, impose some other import restriction such as a quota, negotiate an orderly marketing agreement with other countries, a combination of these remedies or do nothing. Again, political pressures would depend on the size of the industry involved.

Adjustment assistance would no longer be available to any company or industry but only to workers. Not only would this represent discriminatory treatment, it would increase unemployment payments, further decreasing the already dwindling labor supply. This part of the Act would be administered by the Secretary of Labor and past history proves that the Florida agricultural industry has not faired too well in the past under similar arrangements.

The President would also be empowered to deal with balance of payments deficits or surpluses. He could impose a temporary duty surcharge or import quota, or reduce temporarily or suspend duties, or liberalize or suspend import quotas in the event of a trade surplus. Again the magnitude of the modification would be left to the President's discretion.

The Florida Fruit and Vegetable Industry favors many provisions of this proposed Act. It provides the President of the United States with the tools to meet competition head-on and to deal with unfair trade advantages as they develop. There should, however, be more guidelines established. For instance, why go through all of the expense of conducting a Tariff Commission hearing if the President is not compelled to follow the recommendations coming from such a hearing.

The Florida Fruit & Vegetable Association recommends that strong consideration be given to amending the "Trade Reform Act of 1973" or any other such legislation that might be recommended by the House Ways and Means Committee to include the provisions of the "Fresh Fruits and Vegetables Market-Sharing Act of 1972." This would go a long way toward providing for orderly trade in fresh fruits and vegetables by insuring a market for Florida produced products and at the same time allowing imports to share our market with us.

SUMMARY

Realizing that the world trade picture is currently in a state of flux, and that changes and adjustments in marketing circumstances undoubtedly will occur in future years, the Florida Fruit & Vegetable Association would like to go on record as firmly opposing any action that would encourage more foreign agricultural products being imported into the United States from low-wage countries without adequate protection.

Such a move at the present time would be at the direct expense of agricultural interests in Florida and the United States, and any temporary economies which might possibly be realized by the consumer would be more than off-set by increased costs of another nature, including the displacement of persons now employed in the agribusiness complex.

This country's foreign trade policy is lacking in firmness and practicality, both as to the problems of foreign imports competing without domestic production and the export outlook for some of our crops. Every country with whom we do business seems to have a well-tailored foreign trade policy which fits their particular needs regardless of what our wishes might be.

In recent years we have been out-traded by other countries with whom we do business and have nothing to show for our efforts to bring about freer world trade. The efforts of our government to achieve reasonable business agreements with our trading partners have been largely unproductive. Our own experience with government negotiations with Mexico to draft an agreement regulating the importation of tomatoes turned out to be a fiasco. Such agreements could be successful if they were backed by governmental policy and authority as set forth in the Haley, Rogers and Bafalis Bill, H.R. 5413, which makes it clear that an effective import policy would be put into operation if an equitable agreement could not be reached.

The decline in our fruit and vegetable production as a direct result of foreign competition means a loss to the State of Florida which will run into the hundreds of millions of dollars if this problem is not properly contained by appropriate Congressional action. We, as an important agricultural state, cannot afford this economic loss and neither can the Nation.

What is needed is a national policy that is comprehensive in its scope and fully coherent—one that does not work against the interests of the American employee or his employer. Adjustments of national policies must be made, both with respect to the importation of foreign goods and with respect to our needs to expand our agricultural labor force by one means or another.

Our Nation's greatest asset is her agricultural productive capacity. As an economic segment, agriculture receives less than its fair share of our national wealth. Any program which encourages increased imports of foreign food items at this time will seriously undermine our national agricultural well-being and the economy of this great Nation.

We strongly urge favorable consideration of legislation similar to H.R. 5413 and H.R. 1500. This will assure the domestic producer of a chance to market his product and, at the same time, it will permit foreign countries to share our market. American consumers and domestic labor will benefit which, in turn, will be beneficial to the total economic position of the United States.

We are grateful to the Committee on Ways and Means for its consideration of the serious problem which confronts us in the area of foreign trade policy, and are hopeful that the information we have submitted together with that of other similiarly concerned industries will provide the Committee with sufficient assistance to shape up a legislative proposal which can resolve our problems as well as provide a sane and respected foreign trade policy for our Nation.

Appendix A

Strawberries and Selected Fresh Vegetables

U.S. IMPORTS (FOR CONSUMPTION) FROM MEXICO

[In thousands of pounds]

Season	October	November	December	January	February	March	April	May	June	July	August	September	Total
STRAWBERRIES, FRESH													
1960-61			23	26	10	305	19	4					387
1961-62		13	201	187	150	329	72	14					966
1962-63		41	103	576	702	319	595	113	4				2,453
1963-64		394	708	210	538	1,357	354	233					3,794
1964-65	4	464	931	722	729	1,273	921	111	32				5,187
1965-66		746	1,256	1,945	1,849	2,279	1,519	176					9,770
1966-67	21	870	3,080	2,730	3,634	4,741	2,912	748					18,736
1967-68	22	982	4,730	6,851	6,439	3,205	2,390	57	15	20			24,711
1968-69	378	1,946	4,960	8,520	11,178	10,910	5,185	71					43,148
1969-70	31	1,229	7,093	9,269	13,124	14,297	3,264						48,307
1970-71	127	1,578	7,305	9,939	12,475	16,258	2,850						50,532
1971-72	6	1,365	6,355	6,675	13,182	14,066	2,712	22					44,383
1972-73	65	1,509	3,842	6,495	10,124	11,656							
1973-74													
STRAWBERRIES, FROZEN [1]													
1960	499	192	249	152	1,448	626	6,681	8,042	3,521	2,088	614	905	25,017
1961	357	144	520	601	1,692	5,897	9,163	6,569	2,919	1,250	380	325	29,817
1962	658	369	212	318	996	6,463	8,745	5,297	5,958	1,368	1,289	608	32,281
1963	494	365	631	679	2,675	7,321	8,114	6,978	3,445	2,278	1,007	563	34,550
1964	82	237	333	669	1,788	12,963	9,563	5,626	4,233	2,761	825	640	39,720
1965	915	1,888	2,230	1,477	4,475	9,270	13,009	6,967	5,930	3,062	1,949	624	51,796
1966	1,665	2,526	2,227	2,166	6,227	12,662	22,055	15,002	7,333	5,165	3,291	2,507	82,826
1967	3,885	1,066	2,990	3,645	1,315	6,605	17,701	12,280	9,622	4,961	4,802	3,821	72,693
1968	1,459	2,565	3,344	6,768	7,911	7,517	8,312	14,240	8,494	4,994	2,028	567	68,199
1969	1,059	1,628	2,903	8,472	8,847	12,263	14,925	11,613	11,914	7,703	5,072	1,563	87,962
1970	3,028	2,604	2,512	7,236	9,658	15,436	20,470	14,825	13,347	5,386	3,824	3,183	101,519
1971	1,404	733	2,164	4,888	5,599	11,399	14,175	14,666	12,848	6,258	2,105	6,926	83,165
1972	1,391	1,808	3,256	3,423	5,813	12,603	14,262	14,894	13,829	5,553	3,181	1,144	81,157
1973				6,051	4,713	11,401							
1974													

BEANS, FRESH													
1960-61	24	693	1,860	1,692	1,135	1,817	2,567	316	203	188	79	3	10,577
1961-62		170	1,216	1,002	1,395	901	1,293	630	475	285	147		7,514
1962-63		85	164	2,921	1,076	1,167	1,214	606	39	66			7,338
1963-64		173	1,244	1,701	1,033	690	1,719	676	63	72	3		7,374
1964-65	19	148	1,398	2,810	2,286	575	907	380	113	182	30		8,848
1965-66	3		968	1,696	799	738	536	123	105	31	5	8	5,012
1966-67	3	401	1,667	1,960	1,259	1,334	1,084	496	44	216	111	13	8,588
1967-68		159	486	2,206	1,462	844	853	379	120	120	3	20	6,652
1968-69			1,835	3,020	2,256	1,831	1,381	392	111	71	19		10,916
1969-70	24	30	1,845	2,767	2,127	3,667	1,605	263	55	61	3	23	12,470
1970-71		5	1,601	2,555	2,588	2,164	1,659	814	111	153	127		11,777
1971-72		13	1,796	3,416	6,048	2,346	2,232	413	206	113	14		16,597
1972-73		25	2,855	2,915	3,574	2,046							
1973-74													
CUCUMBERS FRESH													
1960-61		757	2,477	3,903	2,532	1,557	810	19					12,055
1961-62		301	1,268	2,358	4,443	4,785	1,448	163		4			14,770
1962-63			2,635	7,556	4,544	3,039	1,562	160					19,496
1963-64		82	4,436	6,315	4,367	2,197	367	10	9				17,783
1964-65		237	3,725	9,788	14,833	452	1,959	80	9	57	20		31,160
1965-66	5	412	3,872	10,228	15,678	11,232	4,352	611	67				46,457
1966-67		1,015	4,892	12,885	16,438	15,151	9,868	297	15				60,561
1967-68		686	3,073	10,933	22,289	11,568	7,766	1,847	204	44			58,410
1968-69			5,225	22,657	33,770	22,624	8,760	3,554	53		8		96,651
1969-70	13	616	17,899	18,817	23,462	27,868	20,067	2,631	92	4			111,469
1970-71		223	28,996	31,450	45,936	21,354	22,681	5,121	341	5			156,107
1971-72		502	15,557	32,081	40.744	26,746	18,834	2,291	90				143,845
1972-73	77	1,270	24,932	36,878	35,361	24,650							
1973-74													
EGGPLANT, FRESH													
1960-61		7	153	503	398	596	231	34					1,922
1961-62		46	91	216	404	575	368	77	9		2		1,788
1962-63		62	424	791	684	419	337	237					2,954
1963-64		2	200	322	802	747	422	480	41				3,016
1964-65		15	556	869	920	864	521	530	9	14			4,298
1965-66		55	646	1,186	1,273	1,169	588	621	66				5,604
1966-67		15	768	1,291	2,604	972	698	1,051	197				7,587
1967-68		10	373	1,650	2,157	1,307	2,171	1,866	148		8		9,690
1968-69	6	76	1,042	2,662	4,506	2,832	2,343	2,022	547	3			16,039
1969-70	5	48	2,802	3,663	4,422	5,483	3,609	1,336	238				21,605
1970-71		61	2,773	3,692	6,782	4,042	2,336	1,818	1,148		6		22,658
1971-72		361	2,969	5,264	6,220	4,464	2,575	3,168	796	2			25,819
1972-73	22	1,796	4,499	7,366	6,654	5,066							
1973-74													

See footnote at end of table.

Strawberries and Selected Fresh Vegetables—Continued

U.S. imports for consumption from Mexico—Continued

[In thousands of pounds]

Season	October	November	December	January	February	March	April	May	June	July	August	September	Total
CANTALOUPES, FRESH													
1960–61	307	316		2,479	2,074	9,836	29,416	32,555	2,828	37			79,848
1961–62		327		1,387	1,876	10,870	33,634	41,257	8,406	56	142		97,955
1962–63	58		110	423	1,277	11,804	43,595	50,784	1,961	409	174		110,595
1963–64					402	15,272	27,829	47,375	38,466	374			129,718
1964–65	12		332	431	732	9,190	51,097	64,170	19,694	357	108	55	146,178
1965–66	367	184	148	646	1,995	15,609	30,573	59,787	27,753	130			137,192
1966–67		15			259	9,014	38,401	54,332	14,899	287	18		117,225
1967–68		8			300	10,466	26,900	28,993	5,287	132		61	72,147
1968–69			7		359	17,423	47,095	37,838	15,064	487			118,273
1969–70			10	11	237	12,146	49,146	72,986	13,065	82	1		147,684
1970–71			117	29	65	29,438	49,342	73,441	25,664	628			178,724
1971–72					1,139	19,224	46,442	74,262	12,075	74	73		153,289
1972–73		13	179	179	1,871	26,184							
1973–74													
WATERMELONS, FRESH													
1960–61				351	4,352	7,395	10,640	20,777	685	847	16		45,063
1961–62				588	2,077	6,159	8,374	25,286	3,630	3,216	140		49,470
1962–63		55		146	1,904	8,125	22,583	27,057	2,523	342	113		62,848
1963–64				560	1,484	6,689	8,095	13,789	25,110	1,151	46		56,924
1964–65				413	2,073	7,327	14,281	28,680	18,162	89	53		71,078
1965–66			333	1,688	3,428	8,325	12,328	26,505	8,915		136		61,658
1966–67			134	1,524	1,258	6,825	17,142	22,976	13,712	81			63,652
1967–68			560	1,116	4,287	8,244	13,496	24,238	9,112	167			61,220
1968–69		67	726	2,443	5,588	11,108	19,618	29,552	28,745	270		40	98,157
1969–70			223	667	4,464	11,705	23,061	39,559	36,543	1,044	23		117,294
1970–71		106	544	2,549	6,679	18,211	31,192	34,078	17,384	1,201	174		112,118
1971–72			60	1,297	7,569	22,092	43,196	66,223	17,911	350	104		158,802
1972–73			83	2,628	7,952	11,769							
1973–74													

OTHER MELONS, FRESH													
1960-61		50	6		169	1,320	398	5,214	2,205	193			9,555
1961-62		5		22	53	26	558	4,468	689	525			6,346
1962-63						149	1,023	2,966	167	93	18		4,416
1963-64						51	517	1,434	1,424	153			3,579
1964-65		1,424					370	3,745	669	64		14	6,286
1965-66							928	3,240	223		9		4,400
1966-67				49			520	3,721	190	23			4,503
1967-68						154	738	4,398	456	213	31		5,990
1968-69			88			287	2,703	4,551	699	642			8,970
1969-70		16					2,409	5,066	1,753	69		1	9,314
1970-71	16		80			668	6,300	7,358	1,029	62			15,513
1971-72					31	692	4,586	9,064	1,525	207			16,105
1972-73					77	2,162							
1973-74													
ONIONS, FRESH													
1960-61	15	602	2,592	5,162	6,242	12,771	1,415		16				28,815
1961-62	525	1,948	1,629	3,186	9,769	23,828	1,171	1,146					43,202
1962-63		110	3,002	7,892	6,043	11,771	614		5		15		29,452
1963-64	300	2,244	6,436	8,998	5,306	13,198	2,084						38,566
1964-65		476	1,902	6,118	10,047	9,902	4,331	2,122	1,330	131	164		36,523
1965-66	59	1,513	3,593	8,477	7,981	11,766	7,010	3,053	543	147			44,142
1966-67	474	5,051	6,028	9,263	9,318	12,390	1,712	310					44,546
1967-68	400	2,398	5,616	14,218	11,981	16,406	17,693	1,815					70,527
1968-69		1,909	6,310	10,093	8,690	10,277	4,606	2,434	5	16	122	88	44,550
1969-70	354	5,996	8,567	8,666	8,433	20,176	13,825	2,141	1,186	185	45	302	69,876
1970-71	251	2,663	3,935	7,413	10,284	11,575	3,022	1,276	823	705	594	775	43,316
1971-72	695	2,008	1,940	6,181	14,038	14,293	5,013	2,804	1,264	775	685	832	50,528
1972-73	1,186	2,670	7,563	16,217	17,780	36,249							
1973-74													
PEAS, FRESH													
1960-61			325	1,273	1,572	1,208							4,378
1961-62			790	1,707	1,701	602	48	5					4,853
1962-63			73	1,428	1,587	1,221	522						4,831
1963-64			540	1,216	1,721	1,422	393	20					5,312
1964-65			314	1,317	1,456	1,384	258	67	1	1			4,798
1965-66			217	428	2,088	2,195	635	7					5,570
1966-67		106	308	1,362	2,262	1,092	65	21		1			5,217
1967-68	5		40	884	1,856	702	289	7					3,783
1968-69		27	209	1,177	1,850	1,749	640	255	217		102	34	6,260
1969-70	10	1	129	1,196	2,332	1,686	226	57	5				5,642
1970-71			263	1,417	1,356	1,313	860	9		48	21		5,287
1971-72			292	1,034	1,869	1,877	217	72	16	1			5,378
1972-73			170	1,273	2,720	1,740							
1973-74													

See footnote at end of table.

STRAWBERRIES AND SELECTED FRESH VEGETABLES—Continued

U.S. IMPORTS FOR CONSUMPTION FROM MEXICO—Continued

[In thousands of pounds]

Season	October	November	December	January	February	March	April	May	June	July	August	September	Total
PEPPERS, FRESH													
1960–61		637	3,996	5,123	2,475	2,036	1,137	513	234	73	30		16,254
1961–62		107	1,124	4,658	3,787	3,189	2,841	1,975	365	49	97	13	18,205
1962–63	10	109	188	3,420	4,220	2,584	2,844	1,376	358	57	91	1	15,258
1963–64		184	1,107	1,959	3,256	3,293	1,242	827	266	69	57	29	12,289
1964–65	18	496	1,566	4,885	4,826	3,232	1,705	916	245	123	35	51	18,095
1965–66	23	175	1,456	4,334	6,965	5,167	3,976	652	401	86	43	127	23,407
1966–67	47	320	2,473	6,328	6,998	5,082	3,975	1,434	408	253	25	164	27,508
1967–68	138	337	2,656	5,414	6,950	4,023	2,391	1,495	550	300	219	283	24,756
1968–69	226	300	2,277	8,175	11,273	9,956	6,197	1,093	845	231	243	241	41,057
1969–70	142	200	2,066	8,074	13,252	17,257	10,967	5,435	1,383	274	299	393	59,742
1970–71	176	739	5,697	12,093	24,787	15,424	10,602	3,252	2,412	465	314	216	76,177
1971–72	188	756	3,808	8,381	22,692	13,297	7,399	3,606	1,492	458	244	153	62,474
1972–73	244	502	2,482	10,094	23,755	19,851							
1973–74													
SQUASH, FRESH													
1960–61		6	56	137	172	70	22	84	110				657
1961–62	29	81	371	453	322	249	59	96			2		1,662
1962–63			76	431	721	109	195	72	10	11			1,625
1963–64			276	448	488	428	469	147	177	98			2,531
1964–65	51		257	1,467	1,897	1,176	451	148	147	104			5,698
1965–66	5	16	113	872	1,494	1,011	474	215	148				4,348
1966–67	3	30	809	2,537	4,573	2,524	803	135	128	6		4	11,552
1967–68	37	88	294	2,182	2,570	1,274	745	321	213	3			7,727
1968–69		154	2,015	5,243	4,594	4,030	2,539	319	105		4	16	19,019
1969–70		85	2,008	5,051	6,351	6,758	2,953	1,832	516	12			25,566
1970–71			2,577	4,577	9,801	6,326	4,033	1,437	138	40			28,929
1971–72	9	31	2,595	7,048	14,410	7,575	2,310	735	180	46	45	70	35,054
1972–73	20	79	4,294	8,444	9,558	6,804							
1973–74													

TOMATOES, FRESH

1960-61	166	3,233	29,589	28,156	33,033	44,650	32,163	7,658	716	1,468	1,502	127	182,401
1961-62	92	1,582	4,922	44,155	46,656	48,687	56,384	23,606	3,371	329	287	26	230,097
1962-63	43	270	9,404	37,254	61,223	52,379	51,547	22,218	1,132	219	227		235,916
1963-64	2	3,416	10,347	32,103	51,910	52,834	53,522	34,708	8,985	691	363	335	249,216
1964-65	159	1,139	9,373	37,052	44,563	57,726	55,869	40,942	10,660	606	299	121	258,509
1965-66	642	4,271	12,709	40,324	70,864	68,799	80,759	51,328	7,964	1,233	909	256	340,058
1966-67	1,870	10,645	23,791	51,956	72,100	66,745	69,015	60,190	21,517	4,650	3,343	284	386,106
1967-68	1,083	2,494	8,978	49,124	81,191	56,656	60,494	69,537	21,953	4,046	2,323	1,141	359,020
1968-69	2,720	10,698	27,518	72,206	79,180	84,112	76,546	70,502	32,816	2,182	2,125	713	461,318
1969-70	1,497	5,647	18,713	77,745	104,860	122,267	151,675	98,469	38,200	3,570	2,373	1,804	626,829
1970-71	1,993	7,464	30,587	58,533	120,497	87,834	120,869	108,952	35,468	4,280	2,278	2,028	580,383
1971-72	3,169	8,166	18,714	39,398	154,577	79,236	126,312	111,989	29,027	1,212	3,023	2,347	577,170
1972-73	5,200	16,211	13,753	59,433	131,104	110,551							
1973-74													

[1] Prior to September 1963, classified as "berries, frozen, NES." However, such classification believed to have consisted almost entirely of frozen strawberries.

Appendix B

Florida Agricultural Statistics

ACREAGE, PRODUCTION, AND VALUE, FLORIDA, CROP YEARS 1960-61 THROUGH 1971-72

Crop year	Acreage Planted	Acreage Harvested	Production (thousand bushels)	Value per bushel	Total value (thousands)
SNAP BEANS					
1960-61	46,200	42,100	5,030	$2.93	$14,713
1961-62	46,200	42,400	5,003	3.54	17,734
1962-63	46,400	40,600	4,690	3.24	15,174
1963-64	41,800	36,700	4,490	3.73	15,123
1964-65	39,600	36,300	4,461	3.43	15,307
1965-66	41,600	37,000	4,416	3.69	16,309
1966-67	40,200	37,100	4,653	3.86	17,974
1967-68	40,700	38,800	4,680	3.77	17,642
1968-69	39,100	37,500	4,390	3.90	17,116
1969-70	37,700	34,600	3,297	5.09	16,769
1970-71	36,700	35,200	4,143	4.37	18,114
1971-72	37,600	36,100	4,267	4.62	19,697
CUCUMBERS					
1960-61	16,400	15,300	3,192	2.95	9,420
1961-62	17,400	15,600	3,006	3.50	10,519
1962-63	16,800	15,500	3,354	3.04	10,203
1963-64	18,100	15,200	3,765	3.00	11,285
1964-65	17,500	16,000	3,621	3.08	11,143
1965-66	17,000	15,300	3,904	3.33	12,992
1966-67	16,400	15,000	3,158	3.86	12,187
1967-68	17,500	16,600	3,808	3.40	12,962
1968-69	18,300	17,000	2,800	4.36	12,207
1969-70	17,200	15,000	2,610	3.93	10,249
1970-71	16,800	14,100	2,652	4.16	11,038
1971-72	15,900	14,500	3,358	4.31	14,447
EGGPLANT					
1960-61	2,900	2,700	1,000	2.17	2,172
1961-62	2,800	2,600	1,164	1.91	2,219
1962-63	2,750	2,550	1,064	1.89	2,007
1963-64	2,400	2,200	1,024	2.27	2,323
1964-65	2,700	2,500	1,161	1.94	2,250
1965-66	2,400	2,250	1,100	2.39	2,633
1966-67	2,250	2,200	1,179	2.29	2,700
1967-68	2,200	2,100	976	3.19	3,116
1968-69	2,200	2,200	961	3.39	3,255
1969-70	2,050	2,000	754	3.62	2,722
1970-71	1,950	1,870	955	2.81	2,682
1971-72	1,800	1,750	1,045	3.12	3,257
GREEN PEPPERS					
1960-61	14,100	13,200	4,746	2.77	13,161
1961-62	13,200	12,400	4,960	3.02	14,985
1962-63	14,300	12,600	4,849	2.89	14,012
1963-64	13,900	13,100	5,036	3.47	17,498
1964-65	16,500	14,900	5,025	3.19	16,007
1965-66	17,900	16,800	5,386	3.54	19,056
1966-67	17,000	15,900	5,775	3.52	20,332
1967-68	17,100	16,200	6,571	3.92	25,790
1968-69	17,900	16,700	5,679	3.71	21,050
1969-70	15,700	12,800	3,064	6.25	19,164
1970-71	15,400	13,600	4,071	4.37	17,772
1971-72	14,100	12,800	4,968	4.58	22,772
SQUASH					
1960-61	12,000	10,800	1,317	2.87	3,783
1961-62	11,300	9,800	1,221	3.05	3,719
1962-63	12,500	11,000	1,331	3.03	4,031
1963-64	10,800	9,600	1,189	3.36	3,997
1964-65	11,600	10,100	1,281	3.59	4,601
1965-66	11,000	10,000	1,355	3.47	4,702
1966-67	8,700	8,300	1,205	4.25	5,127
1967-68	9,200	8,800	1,417	4.31	6,103
1968-69	8,200	7,800	1,371	4.57	6,261
1969-70	9,400	8,400	1,103	5.08	5,602
1970-71	9,800	8,700	1,266	4.75	6,012
1971-72	10,400	8,900	1,352	5.54	7,488

FLORIDA AGRICULTURAL STATISTICS—Continued

ACREAGE, PRODUCTION, AND VALUE, FLORIDA, CROP YEARS 1960–61 THROUGH 1971–72—Continued

Crop year	Acreage		Production (thousand flats)	Value per bushel	Total value (thousands)
	Planted	Harvested			
STRAWBERRIES					
1960–61	1,900	1,800	960	$3.20	$3,075
1961–62	2,000	1,900	1,499	3.47	5,197
1962–63	2,100	2,000	1,747	3.37	5,893
1963–64	2,600	2,500	2,322	3.46	8,044
1964–65	3,300	3,200	2,498	3.23	8,064
1965–66	2,400	2,300	2,039	3.39	6,918
1966–67	2,100	2,000	1,717	3.37	5,790
1967–68	1,900	1,900	1,483	2.95	4,378
1968–69	1,600	1,600	1,561	3.34	5,216
1969–70	1,800	1,800	1,405	3.01	4,234
1970–71	1,600	1,600	1,717	3.58	6,142
1971–72	1,600	1,600	1,951	3.24	6,320

Crop year	Acreage		Production (thousand cartons)			Value per carton		Total value (thousands)
	Planted	Harvested	Total	Fresh	Processed	Fresh	Processed	
TOMATOES								
1960–61	45,500	41,300	25,266	21,193	4,073	$2.36	$0.34	$51,349
1961–62	43,300	42,200	26,107	22,817	3,290	2.40	.37	56,006
1962–63	46,500	44,300	25,757	22,600	3,157	2.36	.36	55,445
1963–64	46,400	43,700	28,593	24,500	4,093	2.81	.37	70,363
1964–65	54,300	50,500	28,440	24,227	4,213	2.97	.38	73,566
1965–66	53,800	51,400	30,043	25,400	4,643	2.75	.44	71,927
1966–67	49,200	46,600	29,677	24,317	5,360	2.98	.55	75,326
1967–68	47,800	47,000	28,330	23,757	4,573	3.79	.48	92,158
1968–69	49,100	47,500	22,517	20,410	2,107	3.97	.45	81,916
1969–70	52,800	47,400	17,630	15,460	2,170	3.67	.49	57,822
1970–71	43,000	40,700	21,797	19,437	2,360	4.01	.52	79,181
1971–72	44,400	43,600	23,597	21,693	1,904	4.80	.51	105,201

Crop year	Acreage		Production thousand hundred-weights	Value per hundred-weight	Total Value (thousands)
	Planted	Harvested			
WATERMELONS					
1960–61	67,000	65,000	8,450	$1.65	$13,942
1961–62	64,000	61,000	6,388	1.95	12,457
1962–63	61,000	58,000	8,983	1.40	12,576
1963–64	59,000	56,000	8,400	2.10	17,640
1964–65	63,000	60,000	9,300	2.05	19,065
1965–66	62,000	59,000	10,030	1.90	19,057
1966–67	60,000	57,000	8,265	2.10	17,356
1967–68	61,000	56,000	7,560	2.10	15,876
1968–69	59,000	53,500	6,955	2.49	17,318
1969–70	50,000	47,500	6,888	2.55	17,564
1970–71	52,200	50,100	7,515	2.72	20,441
1971–72	61,200	56,100	6,723	2.42	16,291

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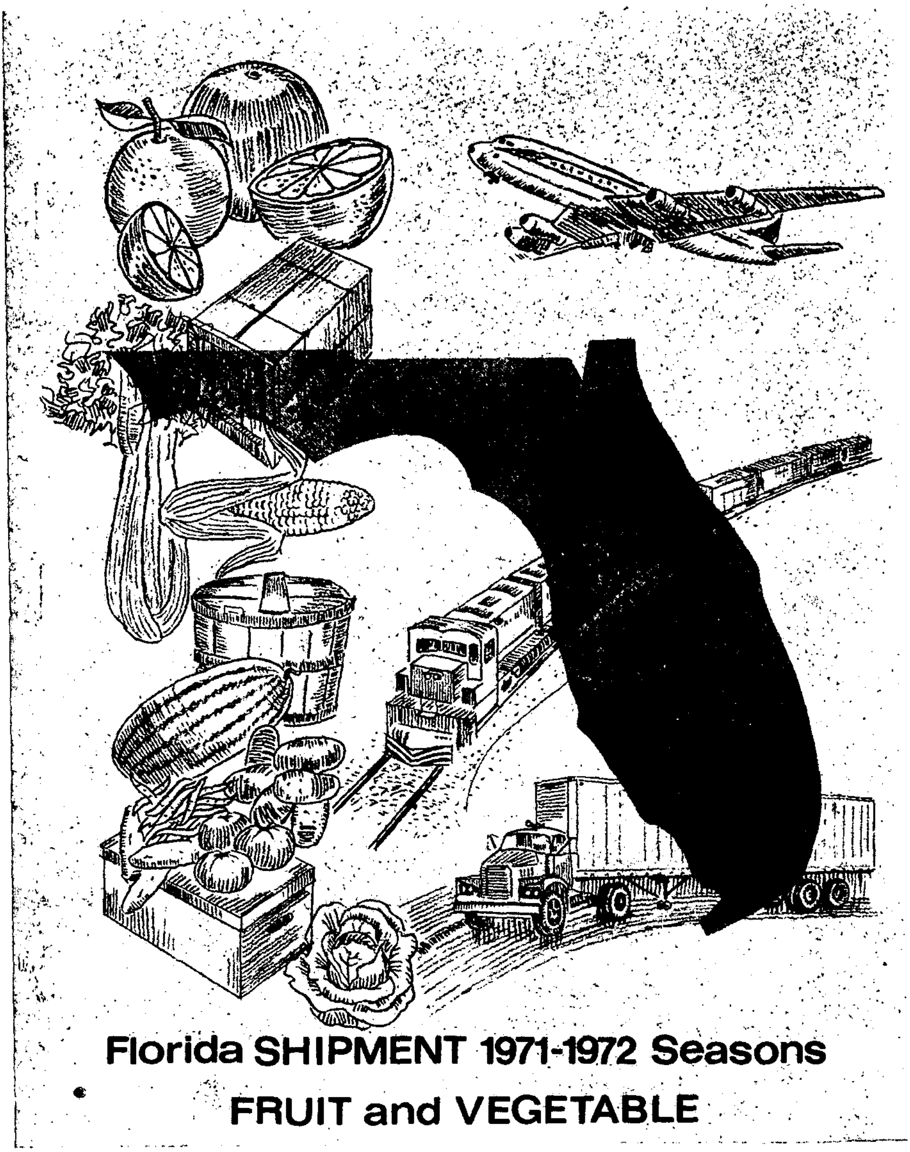
APPENDIX C

FLORIDA SHIPMENTS 1971–72 SEASON



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FLORIDA FRESH FRUIT AND VEGETABLE INTERSTATE SHIPMENTS
Carlot and Carlot Equivalents

SOURCE OF SHIPMENT DATA: The U. S. D. A., Fruit and Vegetable Market News Branch in Washington tabulates the rail information from reports which were furnished by the various originating rail lines, and was the source of the rail data. Citrus truck shipments were from the certified records of the Florida Citrus Inspection Service. Vegetable truck shipments shown here were collected through the help of the Florida Road Guard Inspection Stations at check points strategically located along the St. Marys River and Suwannee River. Mixed rail carlot analysis was made by the U. S. D. A., Florida Crop Reporting Service, and was based on the mixed rail car waybills.

Reported crop year in this publication extends from September 1 through August 31. Truck conversion factors are shown in the notes on page 11.

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FEDERAL-STATE MARKET NEWS SERVICE
P. O. Box 19246
ORLANDO, FLORIDA 32814

October 20, 1972

U. S. Department of Agriculture
Agricultural Marketing Service
Fruit and Vegetable Division

Florida Department of Agriculture
and Consumer Services
Division of Marketing

FLORIDA FRESH FRUIT AND VEGETABLES FOR TEN SEASONS
TOTAL AIR, BOAT, RAIL AND TRUCK INTERSTATE SHIPMENTS

Includes Data in Mixed Car Analysis and Estimate of a few Fruit and Vegetable Commodities not Officially Reported During the Season.

Commodity	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
	Carlot or Carlot Equivalent									
Oranges	17,606	17,950	24,543	27,204	32,873	31,380	23,365	25,638	26,633	22,939
Grapefruit	24,599	25,721	27,814	26,231	30,990	25,460	24,761	25,271	26,634	30,746
Tangerines	3,116	4.328	4,712	4,914	5,130	3,683	4,114	4,280	4,634	5,352
Mixed Citrus (Rail & Express)	Converted									
Total Citrus	45,321	47,999	57,069	58,349	68,993	60,523	52,240	55,189	57,901	59,037
Avocados	718	957	775	120	445	883	687	819	1,026	1,035
Limes	497	537	610	575	651	827	746	607	859	946
Mangoes	108	137	142	105	81	168	124	118	201	179
Cantaloups	85	117	232	114	210	68	52	66	90	74
Peaches	-	-	-	.11	-	-	-	-	27	52
Strawberries	859	1,309	1,392	1,036	844	651	590	460	352	340
Watermelons (Regular Type) 1/	30,947	27,218	22,993	23,124	18,154	16,323	14,817	14,871	15,119	13,421
Watermelons (Icebox Type)	1	-	-	-	-	-	-	-	-	-
Other Miscellaneous Fruits 2/	-	-	56	60	34	66	237	271	41	58
Total Miscellaneous Fruits	33,215	30,275	26,200	25,145	20,419	18,986	17,253	17,212	17,715	16,105
Beans & Limas	6,615	6,829	6,223	5,172	5,720	5,684	4,904	3,407	3,748	4,014
Broccoli (Rail)	3	-	-	7	2	-	3	-	-	-
Cabbage	9,723	8,501	7,783	9,889	10,785	13,144	13,281	9,366	10,727	11,241
Carrots 3/	110	-	9	12	80	52	43	92	668	1,055
Celery	10,616	11,326	11,522	11,506	11,082	10,424	10,871	9,718	10,187	9,882
Chinese Cabbage 4/	-	-	496	520	504	495	499	461	435	481
Corn, Green	12,385	10,532	12,220	11,888	13,361	11,917	12,786	11,372	12,842	13,065
Cucumbers 5/	5,807	6,458	6,234	6,361	5,678	6,129	4,694	4,418	3,913	4,905
Eggplant	1,389	1,306	1,461	1,340	1,405	1,095	1,036	782	1,088	1,162
Endive-Escarole	3,365	3,211	3,061	3,482	3,340	3,140	3,214	3,157	3,311	3,487
Greens (All types-Rail)	45	18	364	346	281	418	427	319	343	357
Lettuce-Romaine	1,067	746	741	1,226	1,083	1,094	1,323	1,076	1,269	1,523
Okra (Truck) 6/	-	-	268	230	242	197	225	207	174	210
Peppers	5,977	6,203	6,236	6,455	6,867	7,869	6,689	3,497	4,320	5,298
Potatoes	12,018	9,852	11,547	11,017	8,175	11,879	12,910	10,376	8,356	7,873
Radishes	2,213	1,946	2,506	1,788	2,006	2,336	2,326	2,145	2,830	2,565
Southern Peas (Truck)	431	418	311	272	187	177	134	177	127	142
Squash	1,776	1,586	1,695	1,642	1,479	1,668	1,587	1,207	1,421	1,521
Tomatoes 7/	20,725	21,747	21,361	19,874	19,170	18,428	15,462	11,576	13,465	14,895
Other Vegetables (Truck) 8/	2,813	2,425	2,208	2,491	2,769	2,762	2,983	3,171	3,038	2,572
Other Vegetables (Rail) 9/	502	350	253	194	227	235	148	87	91	76
Mixed Vegetables (Rail)	Converted									
Total Vegetables	97,580	93,454	96,499	95,712	94,443	99,143	95,545	76,611	82,353	86,324
Total Vegs. & Miscl. Fruits	130,795	123,729	122,699	120,857	114,862	118,129	112,798	93,823	100,068	102,429
Total Fruits and Vegetables	176,116	171,728	179,768	179,206	183,855	178,652	165,038	149,012	157,969	161,466

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AIR SHIPMENTS

Commodity	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
	Carlot or Carlot Equivalent									
Strawberries	70	76	52	64	38	31	9	3	-	-
BOAT SHIPMENTS										
Oranges	264	168	307	73	959	83	164	91	116	249
Grapefruit	230	454	421	46	138	87	257	182	89	1,797
Tangerines	-	-	149	-	-	-	3	4	4	-
Celery	-	-	-	-	174	204	149	85	-	-
Total Boat	494	622	877	119	1,271	374	573	362	209	2,046
EXPRESS SHIPMENTS										
Mixed Car Citrus (Gift Fruit) 10/	1,538	1,920	2,067	2,003	2,099	1,475	1,386	1,713	902	979
Strawberries (REA)	17	39	20	10	2	-	-	-	-	-
Total Express (Frts. & Vegs.)	1,555	1,959	2,087	2,013	2,101	1,475	1,386	1,713	902	979
RAIL-TRUCK (PIGGY-BACK) SHIPMENTS										
Oranges	2,042	1,737	3,475	4,394	6,576	6,799	4,244	3,909	4,050	3,083
Grapefruit	1,628	1,628	3,232	3,578	6,525	4,724	4,494	3,554	4,219	5,167
Tangerines	186	130	277	501	695	509	357	425	364	422
Mixed Citrus	819	262	757	1,491	2,161	1,918	1,131	1,086	1,124	904
Total Citrus	4,675	3,757	7,741	9,964	15,957	13,950	10,226	8,974	9,757	9,576
Lemons	-	-	-	-	-	-	-	-	3	2
Peaches	-	-	-	11	-	-	-	-	-	-
Strawberries	-	-	-	-	-	-	-	-	-	-
Watermelons	999	1,610	2,399	4,766	5,224	3,925	3,760	3,071	2,911	2,470
Total Miscellaneous Fruits	999	1,610	2,399	4,777	5,224	3,925	3,760	3,071	2,914	2,472
Beans	-	1	2	26	55	117	132	82	49	30
Broccoli	-	-	-	4	-	-	-	-	-	-
Cabbage	39	5	3	53	104	262	674	290	426	497
Carrots	-	-	-	-	36	22	10	29	2	12
Celery	36	9	22	201	517	697	583	637	735	780
Corn, Green	78	4	162	520	957	922	1,195	657	896	1,000
Cucumbers	9	102	4	62	119	395	319	220	163	268
Escarole	-	-	1	3	27	61	66	67	56	91
Lettuce	-	-	-	-	2	6	11	7	2	5
Onions, Dry	-	-	-	-	4	-	-	-	-	-
Peppers	11	1	17	88	92	318	357	40	148	161
Potatoes	427	205	197	81	24	183	465	304	395	303
Radishes	5	-	153	261	444	534	637	667	1,072	751
Tomatoes	699	804	993	2,064	2,511	3,835	2,720	2,053	2,615	3,051
Mixed Vegetables	48	27	56	251	423	689	699	444	494	569
Total Vegetables	1,354	1,158	1,610	3,614	5,315	8,041	7,868	5,497	7,053	7,518
Total Vegs. & Miscl. Fruits	2,353	2,768	4,009	8,391	10,539	11,966	11,628	8,568	9,967	9,990
Total Fruits & Vegetables	7,028	6,525	11,750	18,355	26,496	25,916	21,854	17,542	19,724	19,566

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RAIL FREIGHT SHIPMENTS

Commodity	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
	Carlot or Carlot Equivalent									
Oranges	1,743	1,884	2,478	2,247	1,669	1,111	521	515	272	169
Grapefruit	2,015	3,194	3,548	2,494	2,433	1,373	1,267	834	381	186
Tangerines	458	441	582	440	346	97	91	74	21	21
Mixed Citrus	1,807	938	1,000	1,976	870	685	376	271	139	131
Total Citrus	6,023	6,457	7,608	7,157	5,318	3,266	2,255	1,694	813	507
Watermelons	4,454	973	402	172	29	1	-	1	-	-
Cantaloups	-	-	-	-	-	-	-	-	-	-
Other Fruit	-	-	-	-	1	2	5	-	-	-
Total Miscellaneous Fruits	4,454	973	402	172	30	3	5	1	-	-
Beans & Limas	695	467	441	413	282	162	69	10	15	5
Broccoli	3	-	-	3	2	-	3	-	-	-
Cabbage	1,584	1,013	759	1,524	1,583	1,574	1,339	291	335	226
Carrots	65	-	9	12	42	30	33	62	38	41
Celery	4,235	4,077	4,276	4,493	4,060	3,140	3,065	1,840	1,885	1,533
Corn, Green	4,629	3,760	4,312	4,485	3,518	2,609	2,593	1,813	1,345	1,030
Cucumbers	713	975	910	789	579	460	146	157	29	15
Endive-Escarole	362	466	591	659	498	273	216	136	144	125
Greens (All types)	45	18	39	20	50	36	18	11	2	11
Lettuce-Romaine	31	17	22	42	15	6	6	7	3	1
Peppers	1,413	904	916	963	721	445	328	18	66	2
Potatoes	6,896	4,667	6,176	5,935	4,414	5,516	5,289	3,486	1,925	993
Radishes	183	167	42	21	9	9	16	3	5	7
Tomatoes	6,454	5,499	4,709	4,153	3,075	1,724	1,008	657	149	43
Other Variety Vegetables 11/	1	-	-	2	-	-	2	-	-	-
Mixed Car Vegetables	5,562	4,045	4,696	4,869	4,292	3,358	2,536	1,582	1,518	1,192
Total Vegetables	32,871	26,075	27,898	28,383	23,140	19,342	16,667	9,973	7,459	5,223
Total Vegs. & Miscl. Fruits	37,325	27,048	28,300	28,555	23,170	19,345	16,672	9,974	7,459	5,223
Total All Fruits & Vegetables	43,348	33,505	35,908	35,712	28,488	22,611	18,927	11,668	8,272	5,730

RAIL EXPRESS AND FREIGHT SHIPMENTS

ESTIMATE OF ITEMS NOT OFFICIALLY REPORTED

RAIL EXPRESS										
Avocados (Estimate)	56	57	54	12	25	16	-	-	-	-
Limes (Estimate)	34	32	34	36	37	27	-	-	-	-
Mangoes (Estimate)	12	18	19	13	6	4	-	-	-	-
RAIL FREIGHT STRAIGHT CARS										
Chinese Cabbage (Estimate)	-	-	34	30	20	-	-	-	-	-
Eggplant (Estimate)	35	37	49	23	13	8	9	2	10	24
Squash (Estimate)	45	46	47	92	83	2	33	11	15	21

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INTERSTATE TRUCK SHIPMENTS

Commodity	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
	Carlot or Carlot Equivalent									
Oranges	12,092	12,718	16,509	17,864	21,499	21,519	17,218	19,641	21,171	18,491
Grapefruit	18,280	18,948	18,844	17,706	19,329	17,421	17,334	19,365	20,969	22,690
Tangerines	2,219	3,577	3,423	3,536	4,088	2,722	3,397	3,538	4,074	4,748
Total Citrus	32,591	35,243	38,776	39,106	44,916	41,662	37,949	42,544	46,220	45,929
Avocados	662	900	721	108	420	867	687	819	1,026	1,035
Limes	463	505	576	539	614	800	746	607	859	946
Mangoes	96	119	123	92	75	164	124	118	201	179
Cantaloups	85	117	232	114	210	68	52	66	90	74
Peaches 13/	-	-	-	-	-	-	-	-	25	52
Strawberries	772	1,194	1,320	962	804	620	581	457	352	340
Watermelons (Regular Type) 1/	25,494	24,635	20,192	18,186	12,901	12,397	11,049	11,799	12,208	10,951
Watermelons (Icebox Type)	1	-	-	-	-	66	-	-	-	-
Other Fruits	-	-	56	60	33	64	232	271	38	56
Total Miscellaneous Fruits	27,573	27,470	23,220	20,061	15,057	15,046	13,471	14,137	14,801	13,633
Beans (Fresh)	5,094	5,249	5,069	4,353	4,734	4,767	4,506	3,192	3,579	3,706
Beans (Processed)	350	772	409	144	470	477	92	97	70	182
Limas 12/	113	103	-	-	-	-	-	-	-	-
Cabbage	7,634	7,177	6,797	7,857	8,678	11,002	11,000	8,629	9,827	10,380
Carrots 3/	-	-	-	-	-	-	-	-	628	1,002
Celery	5,140	6,119	6,033	5,451	5,067	5,348	6,102	6,506	6,919	7,108
Chinese Cabbage 4/	-	-	351	361	387	390	411	404	389	436
Corn, Green	6,976	6,279	7,037	6,263	8,146	7,857	8,525	8,560	10,227	10,812
Cucumbers 5/	4,860	5,234	5,087	5,310	4,856	5,151	4,149	4,008	3,690	4,559
Eggplant	1,248	1,209	1,319	1,262	1,349	1,043	1,004	774	1,072	1,113
Endive-Escarole	1,928	2,022	1,732	1,863	1,952	2,014	2,336	2,542	2,727	2,957
Greens 14/	-	-	325	326	231	382	409	308	341	346
Lettuce	877	626	632	968	898	934	1,207	991	1,198	1,463
Okra 6/	-	-	268	230	242	197	225	207	174	210
Peppers	4,145	5,000	4,882	5,107	5,824	6,909	5,862	3,407	4,070	5,013
Potatoes	4,682	4,969	5,162	4,989	3,731	6,173	7,151	6,584	6,033	6,574
Radishes	1,679	1,556	2,011	1,187	1,243	1,505	1,462	1,328	1,604	1,691
Southern Peas	431	418	311	272	187	177	134	177	127	142
Squash	1,672	1,490	1,589	1,494	1,354	1,634	1,533	1,191	1,402	1,477
Tomatoes 7/	13,540	15,428	15,639	13,643	13,578	12,864	11,728	8,966	10,701	11,795
Other Vegetables 8/	2,906	2,487	2,208	2,491	2,769	2,762	2,983	3,171	3,038	2,672
Total Vegetables	63,275	66,138	66,861	63,571	65,696	71,586	70,819	61,042	67,816	73,538
Total Vegetables & Miscl. Fruits	90,848	93,608	90,081	83,632	80,753	86,632	84,290	75,179	82,617	87,171
Total All Fruits & Vegetables	123,439	128,851	128,857	122,738	125,669	128,294	122,239	117,723	128,837	133,100

MIXED RAIL FREIGHT, PIGGY-BACK AND GIFT FRUIT (EXPRESS AND TRUCK)

SHIPMENT ANALYSIS OF SOME FLORIDA PRODUCE

MIXED CITRUS ANALYSIS										
Mixed Citrus (Actual)	4,164	3,120	3,824	5,470	5,130	4,078	2,893	3,070	2,169	2,014
Oranges	1,465	1,443	1,774	2,626	2,170	1,868	1,218	1,495	1,019	947
Grapefruit	2,446	1,497	1,769	2,407	2,565	1,855	1,409	1,336	976	906
Tangerines	253	180	281	437	395	355	266	239	174	161

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Continued

MIXED RAIL FREIGHT, PIGGY-BACK AND GIFT FRUIT (EXPRESS AND TRUCK)
SHIPMENT ANALYSIS OF SOME FLORIDA PRODUCE (Continued)

Commodity	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
	Carlot or Carlot Equivalent									
RAIL FREIGHT AND PIGGY-BACK										
Mixed Vegetables (Actual)	5,562	4,045	4,752	5,120	4,715	4,047	3,235	2,026	2,012	1,761
Beans & Limas	363	237	302	236	177	161	105	26	35	91
Cabbage	466	306	224	455	420	306	268	156	139	139
Carrots	45	-	-	-	-	-	-	-	-	-
Celery	1,203	1,121	1,191	1,361	1,264	1,075	972	650	648	461
Chinese Cabbage 4/	-	-	111	129	97	105	88	57	46	45
Corn, Green	702	489	709	620	740	529	473	342	374	223
Cucumbers	225	147	233	200	124	123	80	33	31	63
Eggplant	106	60	93	55	43	44	23	6	6	25
Endive-Escarole	1,075	723	737	957	863	792	596	412	384	314
Lettuce-Romaine	159	103	87	216	168	148	99	71	66	54
Peppers	408	298	421	297	230	197	142	32	36	122
Potatoes	13	11	12	12	6	7	5	2	3	3
Radishes	346	223	300	319	310	288	211	147	149	116
Squash	59	50	59	56	42	32	21	5	4	23
Tomatoes	32	16	20	14	6	5	6	-	-	6
Other Variety Vegetables	360	261	253	193	225	235	146	87	91	76

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SHIPMENTS
FLORIDA FRESH FRUITS AND VEGETABLES BY MONTHS, 1971-72 SEASON
TOTAL AIR, BOAT, RAIL AND TRUCK INTERSTATE SHIPMENTS

Includes Data in Mixed Car Analysis and Estimate of a few Fruit and Vegetable Commodities not Officially Reported During the Season.

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
						Carlot or Carlot Equivalent							
Oranges	13	680	3,067	4,395	3,442	3,100	2,461	2,063	1,980	1,238	427	73	22,939
Grapefruit	431	3,232	2,658	3,010	3,608	3,746	4,337	4,545	3,293	1,495	368	23	30,746
Tangerines	-	173	918	2,079	815	458	596	261	48	2	2	-	5,352
Mixed Citrus (Rl & Ex)							Converted						
Total Citrus	444	4,085	6,643	9,484	7,865	7,304	7,394	6,869	5,321	2,735	797	96	59,037
Avocados	107	152	203	177	148	88	4	-	-	3	70	83	1,035
Limes	84	62	55	73	50	48	37	32	107	145	127	126	946
Mangoes	7	-	-	-	-	-	2	14	18	10	62	66	179
Cantaloups	-	-	-	-	-	6	16	3	15	34	-	-	74
Peaches	-	-	-	-	-	-	-	1	35	15	1	-	52
Strawberries	-	-	1	7	110	50	104	68	-	-	-	-	340
Watermelons (Regular Type) 1/	-	-	-	-	-	-	15	1,110	2,816	9,014	465	1	13,421
Other Fruits 2/	7	3	15	4	1	4	1	6	8	3	3	3	58
Total Miscellaneous Fruits	205	217	274	261	309	196	179	1,234	2,999	9,224	728	279	16,106
Beans	-	28	585	576	641	477	598	740	428	41	-	-	4,014
Broccoli	-	-	-	-	-	-	-	-	-	-	-	-	-
Cabbage	-	6	168	1,328	2,125	2,136	2,035	2,422	981	40	-	-	11,241
Carrots 3/	-	-	12	80	137	169	232	238	170	17	-	-	1,055
Celery	-	5	352	1,183	1,639	1,788	1,551	1,599	1,316	446	8	-	9,882
Chinese Cabbage	-	4	45	72	90	84	77	74	32	2	-	1	481
Corn, Green	-	630	714	589	591	887	947	1,691	4,210	2,592	214	-	13,065
Cucumbers 5/	4	415	946	625	192	128	142	685	1,534	234	-	-	4,905
Eggplant	-	49	115	143	93	115	111	155	141	197	42	1	1,162
Endive-Escarole	-	24	384	540	600	577	560	522	277	3	-	-	3,487
Greens (All types-R & T)	1	2	13	28	86	135	58	26	6	1	1	-	357
Lettuce-Romaine	-	12	104	244	441	290	216	169	45	2	-	-	1,523
Okra (Truck)	2	10	26	21	17	22	20	25	33	25	8	1	210
Peppers	-	22	309	891	808	545	693	642	744	635	9	-	5,298
Potatoes	-	-	-	6	58	240	862	1,782	4,208	717	-	-	7,873
Radishes	7	165	305	377	365	328	421	363	220	14	-	-	2,565
Southern Peas (Truck)	1	1	3	3	-	-	7	20	70	34	2	1	142
Squash	4	75	218	257	209	140	175	246	161	19	4	13	1,521
Tomatoes 7/	-	21	1,076	2,837	2,146	1,391	1,803	1,647	2,966	1,006	2	-	14,895
Other Vegetables (Truck) 8/	182	124	192	299	271	267	544	396	137	84	47	29	2,572
Other Vegetables (Rail) 9/	-	1	5	20	5	3	13	17	10	2	-	-	76
Mixed Vegetables							Converted						
Total Vegetables	201	1,594	5,572	10,119	10,414	9,717	11,065	13,459	17,689	6,111	337	46	86,324
Total Vege. & Miscl. Fruits	406	1,811	5,846	10,380	10,723	9,913	11,244	14,693	20,688	15,335	1,065	325	102,429
Total Fruits & Vegetables	850	5,896	12,489	19,864	18,588	17,217	18,638	21,562	26,009	18,070	1,862	421	161,466

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AIR SHIPMENTS

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
	Carlot or Carlot Equivalent												
Strawberries	-	-	-	-	-	-	-	-	-	-	-	-	-

BOAT SHIPMENTS

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
Oranges	-	-	1	-	2	4	12	38	84	45	63	-	249
Grapefruit	2	49	1	95	144	158	357	542	438	11	-	-	1,797
Tangerines	-	-	-	-	-	-	-	-	-	-	-	-	-
Celery	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Boat	2	49	2	95	146	162	369	580	522	56	63	-	2,046

EXPRESS SHIPMENTS

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
Mixed Citrus (Gift Fruit) 10/	-	-	62	394	144	165	107	89	18	-	-	-	979
Strawberries (REA)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Express (Frts. & Vegs.)	-	-	62	394	144	165	107	89	18	-	-	-	979

RAIL-TRUCK (PIGGY-BACK) SHIPMENTS

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
Oranges	4	17	208	339	388	290	358	388	434	421	178	58	3,083
Grapefruit	1	161	239	499	626	692	791	701	739	507	195	16	5,167
Tangerines	-	3	54	172	63	23	44	46	17	-	-	-	422
Mixed Citrus	-	14	67	191	95	72	116	163	116	34	29	7	904
Total Citrus	5	195	568	1,201	1,172	1,077	1,309	1,298	1,306	962	402	81	9,576
Lemons	2	-	-	-	-	-	-	-	-	-	-	-	2
Peaches	-	-	-	-	-	-	-	-	-	-	-	-	-
Watermelons	-	-	-	-	-	-	6	310	490	1,664	-	-	2,470
Total Miscellaneous Fruits	2	-	-	-	-	-	6	310	490	1,664	-	-	2,472
Beans	-	-	-	2	5	1	7	14	1	-	-	-	30
Broccoli	-	-	-	-	-	-	3	-	-	-	-	-	-
Cabbage	-	2	1	20	65	64	79	164	100	2	-	-	497
Carrots	-	-	-	-	-	-	-	5	4	-	-	-	12
Celery	-	-	1	64	118	145	167	168	92	25	-	-	780
Corn, Green	-	18	10	8	-	9	6	54	507	373	15	-	1,000
Cucumbers	-	4	26	40	-	-	-	48	146	4	-	-	268
Endive-Escarole	-	-	-	19	21	17	27	6	1	-	-	-	91
Lettuce	-	-	-	-	2	-	2	1	-	-	-	-	5
Onions, Dry	-	-	-	-	-	-	-	-	-	-	-	-	-
Peppers	-	-	1	42	55	18	8	2	2	33	-	-	161
Potatoes	-	-	-	-	-	6	21	143	97	36	-	-	303
Radishes	1	74	78	107	111	105	156	118	1	-	-	-	751
Tomatoes	-	8	102	499	412	321	461	342	620	286	-	-	3,051
Mixed Vegetables	-	-	26	113	101	70	82	76	92	9	-	-	569
Total Vegetables	1	106	245	914	890	756	1,019	1,141	1,663	768	15	-	7,518
Total Vegs. & Miscl. Fruits	3	106	245	914	890	756	1,025	1,451	2,153	2,432	15	-	9,990
Total All Fruits & Vegetables	8	301	813	2,115	2,062	1,833	2,334	2,749	3,459	3,394	417	81	19,566

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RAIL FREIGHT SHIPMENTS 16/

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
	Carlot or Carlot Equivalent												
Oranges	-	3	18	53	5	11	19	14	22	23	1	-	169
Grapefruit	-	6	18	61	18	15	19	22	14	8	5	-	186
Tangerines	-	-	3	13	2	-	-	1	2	-	-	-	21
Mixed Citrus	-	5	11	42	25	14	14	11	8	1	-	-	131
Total Citrus	-	14	50	169	50	40	52	48	46	32	6	-	507
Watermelons	-	-	-	-	-	-	-	-	-	-	-	-	-
Cantaloups	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Fruits 2/	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Miscellaneous Fruits	-	-	-	-	-	-	-	-	-	-	-	-	-
Beans	-	-	-	-	1	1	1	1	1	-	-	-	5
Broccoli	-	-	-	-	-	-	-	-	-	-	-	-	-
Cabbage	-	-	-	28	36	32	32	80	17	-	-	-	225
Carrots	-	-	-	3	3	6	15	10	4	-	-	-	41
Cauliflower	-	-	-	-	-	-	-	-	-	-	-	-	-
Celery	-	-	12	195	250	226	217	359	217	57	-	-	1,533
Corn, Green	-	39	18	17	19	50	26	94	519	244	4	-	1,030
Cucumbers	-	-	5	8	-	-	-	2	-	-	-	-	15
Endive-Escarole	-	-	3	14	33	21	23	25	6	-	-	-	125
Greens (All Types)	-	-	-	-	-	-	2	7	2	-	-	-	11
Lettuce-Romaine	-	-	-	1	-	-	-	-	-	-	-	-	1
Peppers	-	-	-	1	1	-	-	-	-	-	-	-	2
Potatoes	-	-	-	1	8	97	260	140	457	30	-	-	993
Radishes	-	-	-	3	1	1	1	1	-	-	-	-	7
Tomatoes	-	-	-	13	4	1	-	1	20	4	-	-	43
Other Variety Vegetables	-	-	-	-	-	-	-	-	-	-	-	-	-
Mixed Car Vegetables	-	7	43	170	196	209	182	204	152	29	-	-	1,192
Total Vegetables	-	46	81	454	552	644	759	924	1,395	364	4	-	5,223
Total Vegs. & Miscl. Fruits	-	46	81	454	552	644	759	924	1,395	364	4	-	5,223
Total All Fruits & Vegetables	-	60	131	623	602	684	811	972	1,441	396	10	-	5,730

RAIL FREIGHT SHIPMENTS

ESTIMATE OF ITEMS NOT OFFICIALLY REPORTED

RAIL FREIGHT STRAIGHT CARS													
Chinese Cabbage (Estimate)	-	-	-	-	-	-	-	-	-	-	-	-	-
Eggplant (Estimate)	-	-	-	3	-	15	-	-	-	5	1	-	24
Squash (Estimate)	-	-	-	6	8	3	-	1	2	1	-	-	21

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INTERSTATE TRUCK SHIPMENTS

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
	Carlot or Carlot Equivalent												
Oranges	9	656	2,787	3,748	2,902	2,669	1,953	1,491	1,378	725	163	10	18,491
Grapefruit	428	3,003	2,324	2,102	2,713	2,767	3,056	3,151	2,022	958	161	5	22,690
Tangerines	-	168	850	1,775	738	424	548	212	29	2	2	-	4,748
Total Citrus	437	3,827	5,961	7,625	6,353	5,860	5,557	4,854	3,429	1,685	326	15	45,929
Avocados	107	152	203	177	148	88	4	-	-	3	70	83	1,035
Limes	84	62	55	73	50	48	37	32	107	145	127	126	946
Mangoes	7	-	-	-	-	-	2	14	18	10	62	66	179
Cantaloups	-	-	-	-	-	6	16	3	15	34	-	-	74
Peaches	-	-	-	-	-	-	-	1	35	15	1	-	52
Strawberries	-	-	1	7	110	50	104	68	-	-	-	-	340
Watermelons 15/	-	-	-	-	-	-	9	800	2,326	7,350	465	1	10,951
Other Fruits	5	3	15	4	1	4	1	6	8	3	3	3	56
Total Miscellaneous Fruits	203	217	274	261	309	196	173	924	2,509	7,560	728	279	13,633
Beans (Fresh)	-	24	551	537	509	451	567	660	373	34	-	-	3,706
Beans (Processed)	-	4	31	23	5	7	10	49	46	7	-	-	182
Cabbage	-	4	166	1,266	1,994	2,012	1,900	2,153	847	38	-	-	10,380
Carrots	-	-	12	77	134	163	214	223	162	17	-	-	1,002
Celery	-	5	328	859	1,191	1,328	1,093	1,003	943	350	8	-	7,108
Chinese Cabbage	-	4	44	66	81	73	69	66	30	2	-	1	436
Corn, Green	-	570	675	539	551	811	897	1,505	3,113	1,956	195	-	10,812
Cucumbers (Fresh)	3	389	862	548	180	118	138	613	1,316	226	-	-	4,393
Cucumbers (Processed) 5/	1	22	50	15	-	2	1	11	60	4	-	-	166
Eggplant	-	49	114	134	87	94	108	152	141	192	41	1	1,113
Endive-Escarole	-	23	360	445	496	497	452	444	238	2	-	-	2,957
Greens	1	2	13	28	86	135	56	19	4	1	1	-	346
Lettuce	-	12	100	229	430	287	203	157	43	2	-	-	1,463
Okra	2	10	26	21	17	22	20	25	33	25	8	1	210
Peppers	-	22	307	831	725	496	667	624	732	600	9	-	5,013
Potatoes	-	-	-	5	47	137	581	1,499	3,654	651	-	-	6,574
Radishes	6	89	220	244	238	202	246	228	204	14	-	-	1,691
Southern Peas	1	1	3	3	-	-	7	20	70	34	2	1	142
Squash	4	75	218	248	195	131	172	242	157	18	4	13	1,477
Tomatoes 7/	-	13	974	2,325	1,727	1,066	1,342	1,304	2,326	716	2	-	11,795
Other Vegetables (Fresh)	20	33	130	167	184	181	221	218	130	84	47	29	1,444
Other Vegetables (Processed)	162	91	62	132	87	86	323	178	7	-	-	-	1,128
Total Vegetables	200	1,442	5,246	8,742	8,964	8,299	9,287	11,393	14,629	4,973	317	46	73,538
Total Vegs. & Miscl. Fruits	403	1,659	5,520	9,003	9,273	8,495	9,460	12,317	17,138	12,533	1,045	325	87,171
Total All Fruits & Vegetables	840	5,486	11,481	16,628	15,626	14,355	15,017	17,171	20,567	14,218	1,371	340	133,100

MIXED RAIL FREIGHT, PIGGY-BACK, AND GIFT FRUIT (EXPRESS AND TRUCK)

SHIPMENT ANALYSIS OF SOME FLORIDA PRODUCE

MIXED CITRUS ANALYSIS													
Mixed Citrus (Actual)	-	19	140	627	264	251	237	263	142	35	29	7	2,014
Oranges	-	4	53	255	145	126	119	132	62	24	22	5	947
Grapefruit	-	13	76	253	107	114	114	129	80	11	7	2	906
Tangerines	-	2	11	119	12	11	4	2	-	-	-	-	161

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Continued

MIXED RAIL FREIGHT, PIGGY-BACK, AND GIFT FRUIT (EXPRESS AND TRUCK)
SHIPMENT ANALYSIS OF SOME FLORIDA PRODUCE (Continued)

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
	Carlot or Carlot Equivalent												
RAIL FREIGHT AND PIGGY-BACK													
Mixed Vegetables (Actual)	-	7	69	283	297	279	264	280	244	38	-	-	1,761
Beans (Snap)	-	-	3	14	21	17	13	16	7	-	-	-	91
Cabbage	-	-	1	14	30	28	24	25	17	-	-	-	139
Celery	-	-	11	65	80	84	74	69	64	14	-	-	461
Chinese Cabbage	-	-	1	6	9	11	8	8	2	-	-	-	45
Corn, Green	-	3	11	25	21	17	18	38	71	19	-	-	223
Cucumbers	-	-	3	14	12	8	3	11	12	-	-	-	63
Eggplant	-	-	1	6	6	6	3	3	-	-	-	-	25
Endive-Escarole	-	1	21	62	50	42	58	47	32	1	-	-	314
Lettuce-Romaine	-	-	4	14	9	3	11	11	2	-	-	-	54
Peppers	-	-	1	17	27	31	18	16	10	2	-	-	122
Potatoes	-	-	-	-	3	-	-	-	-	-	-	-	3
Radishes	-	2	7	23	15	20	18	16	15	-	-	-	116
Squash	-	-	-	3	6	6	3	3	2	-	-	-	23
Tomatoes	-	-	-	-	3	3	-	-	-	-	-	-	6
Other Variety Vegetables	-	1	5	20	5	3	13	17	10	2	-	-	76

NOTES:

1/ Watermelons include West Florida movement.
2/ Other Fruits - Rail: lemons; Truck: blackberries, papayas, peaches, pineapples, etc.
3/ Carrot truck reported beginning October 1, 1970.
4/ Chinese Cabbage included with other vegetables prior to October 1, 1964.
5/ Cucumbers include Florida produce, fresh and processed stock, and West Indies and Central America imports moving through the State.
6/ Okra truck shipments included with other Vegetables prior to October 1, 1964.
7/ Tomato figures include West Indies and Central American imports moving through the State.
8/ Other Vegetables (truck) include those packed in containers such as lima beans, beets, broccoli, carrots, cauliflower, dill, parsley, English peas, green peanuts, sweet potatoes, process greens, and watercress.
9/ Other Vegetables (rail) include commodities moved by mixed cars for which no analysis is made, and straight cars. These mixed car items include broccoli, cauliflower, parsley, watercress, etc.
10/ Rail Express movement of gift citrus prior to September 1, 1969, after that date rail express and truck gift citrus movement combined.
11/ Other Variety Vegetables include beets, onions (dry), topped turnips, etc., in straight rail cars.
12/ Lima truck shipments included with other vegetables beginning October 1, 1964.
13/ Peach truck reported beginning spring, 1971.
14/ Greens truck shipments included with other vegetables prior to October 1, 1964.
15/ Actual check at twelve Road Guard Truck Stations September 1, 1971 - August 31, 1972, except for a large quantity of watermelons shipped from points West of the Road Guard check points along the Suwannee River. Watermelons monthly totals include West Florida truck movement June - 832 and July - 171 carlot units.
16/ Mechanical Refrigerator shipments included in Rail Freight totals for 1971-72 Data courtesy Fruit Growers Express.

Commodity	1971 Sept.	Oct.	Nov.	Dec.	1972 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Total
	Carlot or Carlot Equivalent												
Oranges	-	-	4	39	1	1	2	2	2	5	-	-	56
Grapefruit	-	-	4	10	3	9	9	10	5	3	-	-	53
Tangerines	-	-	-	6	-	-	-	-	-	-	-	-	6
Mixed Citrus	-	2	4	12	3	4	4	4	6	2	-	-	41
Cabbage	-	-	-	1	-	1	-	3	-	-	-	-	5
Cucumbers	-	-	-	-	-	-	-	-	-	-	-	-	-
Lettuce	-	-	-	-	-	-	-	-	-	-	-	-	-
Peppers	-	-	-	-	-	-	-	-	-	-	-	-	-
Tomatoes	-	-	-	9	4	1	-	1	18	4	-	-	37
Other Vegetables	-	-	-	-	-	-	-	-	-	-	-	-	-
Total All	-	2	12	77	11	16	15	20	31	14	-	-	198

Truck conversion factors, 1956-57 to 1964-65 - Citrus 500 1-3/5 bushel units, Avocados, Limes, Mangoes, 28,000 lbs., Cantaloups 490 crts., Strawberries 1400 - 12 pt. pkgs., Watermelons 28,000 lbs., after October 1, 1964 factor 34,000 lbs., Icebox Watermelons 570 crts., Other Fruits 500 pkgs., Beans 650 bu., Limas/Butterbeans 650 bu., Cabbage 520 crts., Cauliflower 420 crts., Celery 560 crts., Chinese Cabbage 560 crts., Corn 600 crts., Cucumbers 620 bu., Eggplant 750 bu., Escarole-Endive-Chicory 750 1-1/9 bu. crts., Greens 750 bu., Lettuce 750 small crts., Okra 650 bu., Peppers 750 bu., Potatoes 860 - 50# sks., Radishes 1600 pkgs., Southern Peas 650 bu., Squash 650 1-1/9 bu., Tomatoes 750 - 40# pkgs., Bunched Vegetables 1000 doz., Other Vegetables 700 pkgs.

Truck conversion factors beginning 1965-66 to 1969-70 - Citrus 500 1-3/5 bushel units, Avocados, Limes, Mangoes after January 1, 1969 36,000 lbs., Cantaloups - Other Fruits 500 pkgs., Strawberries 1400 - 12 pt. flats, Watermelons 41,000 lbs., Beans 750 bu., Cabbage 550 crts., Celery 640 crts., Chinese Cabbage 640 crts., Corn 725 crts., Cucumbers 650 1-1/9 bu. crts., Eggplant 775 bu., Escarole-Endive-Chicory 850 1-1/9 bu. crts., Greens 850 bu., Lettuce 900 crts., Okra 750 bu., Peppers 775 bu., Potatoes 1000 - 50 lbs. sks., Radishes 2800 - 12 qt. ctns., Southern Peas 750 bu., Squash 750 1-1/9 bu., Tomatoes 900 - 40 lbs. ctns., Other Vegetables 800 pkgs.

Truck conversion factors beginning 1970-71 - Citrus 500 1-3/5 bushel units, Avocados, Limes, Mangoes 36,000 lbs., Cantaloups 49,200 lbs., Peaches 1350 - 1/2 bu., Other Fruits 600 pkgs., Strawberries 1400 - 12 pt. flats, Watermelons 45,000 lbs., Beans 850 bu., Cabbage 600 crts., Carrots 1000 - 50 lbs. sks., Celery 700 crts., Chinese Cabbage 640 crts., Corn 725 crts., Cucumbers 700 1-1/9 bu. crts., Eggplant 775 bu., Escarole-Endive-Chicory 850 1-1/9 bu. crts., Greens 850 bu., Lettuce 925 crts., Okra 850 bu., Peppers 850 bu., Potatoes 1000 - 50 lbs. sks., Radishes 2800 - 12 qt. ctns., Southern Peas 850 bu., Squash 750 1-1/9 bu., Tomatoes 1000 - 40 lb. ctns., Other Vegetables 800 pkgs.

APPENDIX D

LETTER TO HON. CLIFFORD M. HARDIN

FLORIDA FRUIT & VEGETABLE ASSOCIATION,
Orlando, Fla., July 14, 1969.

Hon. CLIFFORD M. HARDIN,
Secretary of Agriculture, U.S. Department of Agriculture,
Washington, D.C.

DEAR SECRETARY HARDIN: This Association, on behalf of its producer members of Tomatoes, Fresh Citrus, Peppers, Beans, Watermelons, Cucumbers, Tropical Fruits, Squash, Strawberries, and Eggplants, respectfully requests through you that the President, under the authority contained in Section 204 of the Agricultural Act of 1956, seek to obtain agreements with Mexico and other countries limiting the export from such countries and the importation into the United States of the above-named agricultural commodities in their fresh state, whose domestic producers are adversely affected by increased and excessive imports from foreign sources.

During recent years imports of certain fresh fruits and vegetables into the United States have increased to such an extent as to disrupt the market for such commodities produced in the United States. This increase in imports has been caused in large part by lower cost of production in other countries, especially in the wages paid to agricultural employees, which it is the policy of the United States to maintain at relatively much higher levels than in other countries. Because of this unfair disparity in cost of production which exists in other countries by reason of the payment of substandard wages, it is practically certain that imports of fresh fruits and vegetables will continue to increase and further destroy the market for such commodities produced in the United States.

This problem has been well documented in recent years and is known to the United States Department of Agriculture, the United States Tariff Commission, the Trade Information Committee, the Committee on Ways and Means before whom pending legislation entitled "The Fresh Fruits and Vegetables Market-Sharing Act" has been heard, and other responsible officials and groups who have been concerned with it. It is therefore not our intention to burden this formal request with evidence of a problem which is already a matter of record.

We further respectfully suggest and recommend, however, that before initiating such agreements with the foreign countries that those authorities in government who will be empowered to effectuate these negotiations seek the advice and counsel of our industry and those affected by these imports in arriving at fair and just terms to provide orderly trade in fresh fruits and vegetables, including the quantitative limitation of any fresh fruits and vegetables into the United States necessary to avoid injury or threat of injury to our domestic producers and the economy of such American areas of production as a result of the competition of foreign producers in our markets.

We urge that this request be given immediate and favorable consideration since any further delays in appropriate action on the part of our government to resolve this problem could be disastrous to the affected segments of our agricultural economy.

Respectfully yours,

JOFFRE C. DAVID,
Secretary-Treasurer.

Mr. BURKE [presiding]. Thank you.

Mr. Gibbons.

Mr. GIBBONS. Mr. Hawkins, I notice in the rest of your prepared statement that you had some remarks about the inspection that takes place at the Mexican-United States border. Would you elaborate on that a little?

Mr. HAWKINS. Yes, sir. It is a farce. I believe that is the statement I used in my statement.

I accompanied some growers, I believe there were approximately nine of us, to Mexico on a tour of the producing areas. We came back through the inspection station at Nogales both on the Mexican side and the U.S. side. It was quite interesting to me.

I have pictures in my briefcase if you would like to see them that I took at the inspection compound. All the samples were taken out of the right rear door of the truck, with the left door not even being opened. The most samples taken from any truck was 9 packages and we saw over 50 trucks being inspected.

I stated in my statement you could put an elephant in the front of that truck and no one would ever find it. Shipments were coming from Culiacan, which is known as the largest marihuana-producing area in the world. I contend you could bring a whole truckload in and nobody would know what was in the front of the truck.

Mr. GIBBONS How about the check for pesticides?

Mr. HAWKINS. This is also quite a problem. Shortly after we were there, they stopped some pepper shipments into the United States because they contained residues of Monitor 4. This is a pesticide not cleared for use on peppers. It was amazing to me that shipments were only stopped for a matter of about 3 or 4 days and then the Food and Drug Administration created a tolerance level for Monitor 4 on peppers even though it was not requested by the manufacturer of the product.

Normally it takes from 3 to 5 years and several million dollars to get a pesticide cleared for use on a new commodity. But the Food and Drug Administration established a tolerance of one-tenth part per million overnight practically and notified all States to accept these contaminated peppers.

They claimed they checked to see if Monitor 4 was on these commodities at 0.1 part per million or above. To do this samples must be taken and sent from Nogales to Phoenix, which is quite a distance, the samples run and the results sent back.

So, again I say the inspection is a farce.

They were proud at the U.S. Customs compound that it took them less than 3 minutes to clear a truckload of over 1,300 packages of tomatoes. It took me over an hour to get through Customs with two suitcases when I got to the border.

Mr. GIBBONS. To what extent is there tax-farming in Mexico? Could you put a percentage figure on this? What does this really do to you in the way of competition?

Mr. COUNCIL. I don't understand the question.

Mr. GIBBONS. You referred to, in your formal statement, the question of syndicated or tax-loss farming; we call it tax-farming around here; where you have a high income and you try to shelter some of it by investing it in a farming operation. You never get your feet dirty or your hands wet, of course.

To what extent does that bother you as a real farmer?

Mr. COUNCIL. It tends to cause overproduction there. It increases the flow of American money into that area, increasing production there and giving us a hard time in Florida because of this overproduction.

Mr. GIBBONS. Is it really necessary to have in the tax laws things to encourage capital to go into farming?

I realize that land is expensive now and labor is expensive now. But is this really a self-defeating type of process where we just encourage extra capital to go into farming? What is your opinion?

Mr. COUNCIL. Well, I was quoting this Mexican friend. His feeling as to what was causing the overproduction in Mexico, was the Americans using it as a tax shelter to invest in a Mexican producing company.

Of course, I am sure you are aware that it has to be a Mexican company. They have to own 51 percent of the stock, you see. This money being available tends to cause the company to expand and overproduce and the regular oldline Mexican families don't like it because they are losing their shirts themselves at the same time our Florida farmers are losing their shirts.

Does that clear it up?

Mr. GIBBONS. So pouring this additional tax shelter money in there is disruptive to the whole process?

Mr. COUNCIL. That is right. It hurts the Mexican grower as well as the Florida grower as well as the greenhouse grower, to create an overproduction situation.

Mr. GIBBONS. Thank you.

Mr. BURKE. Mr. Schneebeli.

Mr. SCHNEEBELI. Following up Mr. Gibbons' line of questioning, I am concerned also about this syndicated farming which creates undue competition for our domestic growers.

It seems to me that rather than try to attack the problem through the trade laws, we might do it through the tax laws.

I think you have a justifiable complaint.

Thank you.

Mr. BURKE. Mr. Vanik.

Mr. VANIK. This need for capital also applies to some other problems which relate to taxes, because there are a lot of professional people who buy orange groves in Florida to get the investment credit. I don't like that. Do you?

I would concur that probably it should be extended to trees.

Mr. GIBBONS. You have the wrong bunch of witnesses here for that question.

Mr. VANIK. I understand. We also produce citrus in Florida. We also have an export of citrus which is an important consideration. I would like to address my question specifically to your statement on page 3, not only agriculture, but the shoe, domestic petroleum, steel, glass, pottery, and other industries suffering under the impact of cheap foreign competition.

Where does that put you on this legislation? Do you say by this that you are for the Burke-Hartke bill, all or nothing?

Mr. HAWKINS. We are for H.R. 5413, the Fresh Fruit and Vegetable Market-Sharing Act of 1973.

Mr. VANIK. You would like to have the Burke-Hartke bill for your industry. That is what most industries want. They want it for their industry but free trade for everybody else.

It is difficult for this committee to reconcile a position that truly can express the best hopes of America. We have had a parade of witnesses, each one wanting protection, quotas, isolation, advantages for itself, and "the dickens with the other man."

We have had very little counsel in all of this testimony as to how we should, as a committee, write into the law language which will truly protect all American interests and, yet, at the same time develop an expansive trade policy.

We need guidance on how we should write the law. It is very, very difficult to write a law when we simply get one big, long parade of people who want some special thing for their industry, without giving us some guidance as to how we can approach the legislative problem with fairness and justice to the whole spectrum.

If we use the American consumer as a criterion, would that be sufficient, if we said whatever is in the best interest of the American consumer, which is everybody, would that be a fair criterion in whatever we write?

Mr. HAWKINS. I certainly think that the American consumer is the ultimate receiver of the goods and services so I think you would have to point in this direction. I wonder, however, how you can have what is termed as free trade, since I have never heard a complete definition of it, but how you can have it without complete free movement of the inputs of production.

For instance, if you are going to have free trade and allow all production from Mexico to come in, then why are we prohibited from hiring a Mexican to work on our farm even if we pay him.

Mr. VANIK. I like a viable industry in Florida as my friend Sam Gibbons talks about. I think it is very important. I don't like the present prices, but it has been a privilege to have sweet corn in January or February, and tomatoes. I am from a community that produces a lot of greenhouse tomatoes, not in my district but nearby. I think this is an important industry because it has given us some winter agriculture, and I am surprised it has not taken better hold around the country. I thought the greenhouses could be wisely located at the mine mouths in West Virginia and Kentucky where they would have inexpensive heat and provide industry in parts of the country that have been neglected.

You would have no objection if we stimulated production in those areas?

Mr. HAWKINS. No, sir.

Mr. VANIK. I appreciate your problem, but we do have before us the problem of writing a bill that is not going to destroy essential things operating in this country yet provide some incentives for trade. It is extremely difficult.

If you get some ingenious ideas between now and the time we commence our work, give them to Mr. Gibbons so we can have an input in the committee as to how we can foster world trade and yet develop a viable and successful domestic industry.

Mr. HAWKINS. I do appreciate your comments on sweet corn. About 10 million crates a year are marketed under my direction. We are presently receiving about 66 cents per crate less than the parity price.

Mr. VANIK. Your sweet corn comes in so well it takes care of me before the local corn comes in. I have to get off a corn diet, as many of us have to.

Mr. BURKE. We appreciate your testimony.

[The following was subsequently received:]

FLORIDA FRUIT & VEGETABLE ASSOCIATION,
Orlando, Fla., June 12, 1973.

HON. WILBUR MILLS,
Chairman, The Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. MILLS: I would like to express my appreciation for permitting President Buford W. Council and me to present testimony to the Ways and Means Committee on Friday, June 8, 1973.

During the question and answer period following our testimony, a member of the Committee requested that any further ideas that we might have on the subject be forwarded to the Committee.

With this in mind, I am attaching an addendum to our Statement which provides the language for an appropriate section in a general trade bill and respectfully request that it be made a part of the record.

Sincerely yours,

WAYNE HAWKINS,
Manager, Production & Marketing Division.

Attachment.

ADDENDUM TO STATEMENT SUBMITTED BY FLORIDA FRUIT & VEGETABLE ASSOCIATION

The Fruit and Vegetable Industry of Florida respectfully resquests the early passage of H.R. 5413, The Fresh Fruits and Vegetables Market-Sharing Act of 1972.

In the event the Committee on Ways and Means of the House of Representatives elects to recommend a general trade bill, then we respectfully request the following language to be inserted in the proposed trade bill as a section.

"Sec. ———. Notwithstanding any other provision of law—

(a) The President is authorized and directed to undertake negotiations with other governments for the purpose of consummating agreements to provide orderly trade in fresh fruits and vegetable including the quantitative limitation of imports of any fresh fruit or vegetable into the United States. Such agreements and the authority contained in subsection (b) shall limit the importation of each fresh fruit or vegetable during any import year to not more than the share of the United States consumption of such commodity supplied by imports thereof during a representative historical period of not less than the average of any three consecutive import years prior to the calendar year 1972 as determined by the President. Such representative historical period shall be the same for all countries and all fresh fruits and vegetables. The President shall have full authority to determine the share of total imports of any fresh fruit or vegetable which may be supplied by any country to the United States on the basis of historical patterns of such imports, the interests of developing countries and such other factors affecting trade in such commodity as he deems appropriate.

(b) To effectuate the purposes of subsection (2), when agreements exist which cover a significant portion of the United States imports of any fresh fruit or vegetable, the President shall by proclamation limit the quality of such commodity which may be imported from any country or countries not parties to such agreements.

(c) After one hundred and eighty days after the date of the enactment of this Act, the total quantity of imports of any fresh fruit or vegetable not subject to an agreement or agreements negotiated pursuant to subsecion (a) or to proclamation issued under subsection (b) shall be limited during any import year to not more than the average annual quantity of such commodity entered, or withdrawn from warehouse, for consumption during the five import years 1966–1970. The total quantities of any fresh fruit or vegetable which may be entered, or withdrawn from warehouse, for consumption during the balance of the import year in the calendar year in which this subsection becomes effective shall be equal to that proportionate share of the average imports of such commodity for the import years 1966–1970 which the number of days remaining in the import year bears to the total number of days in the import year. Beginning with the calendar year following the year in which this subsection becomes effective the total quantity of any fresh fruit or vegetable which may be entered, or withdrawn from warehouse, for consumption in the import year in that calendar year and in each succeeding calendar year shall be increased or decreased by an amount corresponding to the percentage increase or decrease (if more than 5 per centum) in the United States consumption of such commodity during the preceding import year compared with the import year previous thereto, except that the amount of such increase in any fresh fruit or vegetable which may be entered or withdrawn from warehouse for consumption during any import year shall not exceed 10 per centum of the amount of such increase in the United States consumption of such commodity.

(d) Notwithstanding the provisions of subsections (a), (b), and (c), if the Secretary of Agriculture determines that the total quantity of any fresh fruit or vegetable which is likely to be available for domestic consumption during any month within an import year will fall short of the quantity which would normally be available during such period, as estimated by him, he shall certify the quantity of such shortage to the President and the President by proclamation may increase, by an amount not exceeding the quantity of such shortage certified by the Secretary of Agriculture, the quantity of such fresh fruit or vegetable which may be entered or withdrawn from warehouse for consumption during such month.

(e) Not more than 25 per centum of the total imports of any fresh fruit or vegetable which may be supplied by any country to the United States during any import year under this section may be entered or withdrawn from warehouse for consumption during any calendar month.

(f) As used in this section:

(1) The term "fresh fruits and vegetables" does not include any fruit or vegetable which is not produced in commercial quantities in the United States.

(2) The term "import year" means the months of January, February, March, April, May, June, July, and December in each calendar year.

(g) The President may issue such regulations as may be necessary to carry out the purpose of this section.

[The following was submitted for the record:]

HASTINGS POTATO GROWERS ASSOCIATION,
Hastings, Fla., June 8, 1973.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel,
Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. MARTIN: Confirming our telephone conversation of this date. I have read the statement on the views of the Fruit and Vegetable Industry of Florida, as submitted by Florida Fruit and Vegetable Association, and presented in oral testimony by FFVA President Buford W. Council, and Wayne Hawkins, Manager, Production and Marketing Division.

I speak for myself and our 26 grower-members as being in full accord with the statement and testimony as presented.

It was nice talking with you today, and I appreciate your tolerance allowed for delay of this letter.

Sincerely yours,

FRANK A. TEAGUE,
General Manager.

WARD'S NURSERY, INC.,
Avon Park, Fla., May 29, 1973.

Mr. JOHN M. MARTIN Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR SIR: I am writing to the Committee on Ways and Means, U.S. House of Representatives, with regard to foreign trade and tariffs as they affect the agricultural products we grow and sell.

There is absolutely no basis for the current popular belief of 90 percent of the American people that they have an inalienable right to all the fresh fruits, vegetables and foodstuffs, their heart desires for 15 percent of their income this year and less than that next year in accord with a trend that has been going down for the past fifty years. It has only been through the hard work and application of scientific technology to agricultural production on the part of the American Farmer that this has been made possible. As a group we have demonstrated that no other group can outproduce us. No doubt we will continue to lead the pack as long as we are allowed the chance. This brings us to the crux of a potential problem, or rather, an increasing problem. While other countries slam the door in our face when we seek their markets for our agricultural products, we are inviting them in to our market under a different set of rules and regulations that can only hurt and cripple our American agricultural economy.

We have handicaps. Through taxation on land to help support the world's best educational system, American farmers often pay more annually per acre than land costs in a competing country. We have voted these taxes on ourselves time and time again because we realize the value of education in America but if we are to have the money to pay these taxes then the value of the ability of this land to produce must not be destroyed by governments who have not collected comparable taxes. Through minimum wage legislation, which I do not personally oppose, we are required to pay more per hour for labor with the lowest level of ability than the governments of our competition allow their people to get for a full day's labor. Should they be encouraged to exploit their workers any more than the American farmer?

I would urge your Committee to examine closely the points made in the statement furnished you by the Florida Fruit and Vegetable Association. It is academic that a strong economy is as vital as a strong military force to our well being and I submit that it is just as academic that a healthy, productive, relatively free agriculture is vital to a strong economy. Witness the situation of Russia and other countries which have turned to bureaucrats instead of profit motivated management.

With our rising costs, rising taxes, rising labor, rising land values, etc. it is not probable that American farm products are going to cost less in the future. It will be a lot more probable, and at least possible, if we are given an equal chance to compete.

I do not expect the other governments in the world to come to the aid of American agriculture. I do believe they will do what is in their own best interests. I do not distrust them, hate them, envy them or wish to go to war with them because of this—after all it is the only common sense approach to take.

I expect as much from my government on my behalf.

Sincerely and with Respect,

CHARLES R. COLLINS,
Production Manager.

DEERFIELD BEACH, FLA., *May 25, 1973.*

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. MILLS: I am a member of the Board of Directors of the Florida Fruit & Vegetable Association and presently serve as Chairman of the Cucumber, Eggplant, Pepper and Squash Committee and Vice Chairman of the Competition and Marketing Agreements Committee.

I have studied the statement prepared by the Florida Fruit & Vegetable Association on the views of the Fruit and Vegetable Industry of Florida concerning foreign trade and tariff matters. It is my understanding that this statement will be presented to the Committee on Ways and Means on June 8, 1973, by President Buford W. Council and Mr. Wayne Hawkins, Manager of the Production & Marketing Division.

I am very much aware of the problems encountered by Florida vegetable producers who are competing with imports from Mexico and other countries that have cheap labor. I have been personally associated with producers who have been forced out of business because of this unfair competition and others who have curtailed their operations tremendously.

I concur with the Association's statement and endorse it in its entirety and respectfully request that this letter be made a part of the record.

I would also like to thank you for providing me the opportunity to express myself on this matter.

Very truly yours,

WALTER OSTHOFF, Jr.

Mr. BURKE. Before announcing the next witness, I want to inform the people sitting here that the policy this afternoon is to continue on until the roll call bells ring. Then we will recess for 20 minutes during that roll call and come back and continue on for the afternoon.

Our next witness is Ernest Falk.

We welcome you to the committee.

STATEMENT OF ERNEST FALK, MANAGER, NORTHWEST HORTICULTURAL COUNCIL

Mr. FALK. My name is Ernest Falk. I am manager of the Northwest Horticultural Council at Yakima, Wash. We represent more than 9,000 fruit growers in Washington and Oregon.

We have long endorsed and we continue to endorse the principle of reciprocal liberalized trade. I want to emphasize "reciprocal." As a part of that, we support H.R. 6767.

Specifically, we support the administration's request for authority under title I to negotiate tariffs and non-tariff barriers—but with the admonition that this time the authority be used vigorously in behalf of U.S. agriculture. Crops like ours which are not price-supported should, for a change, receive adequate consideration and fair treatment in the negotiations and the implementation and enforcement of agreements reached

We most enthusiastically support title III which would provide relief from unfair trade practices of other countries. These include (1) unjustifiable non-tariff barriers which restrict the export of U.S. apples and pears, and (2) export subsidies, both direct and hidden, which have been utilized by members of the European Economic Community in export sales of their applies in competition with U.S. applies.

We vigorously express our disappointment with the results of previous negotiations of trade agreements under the GATT and the failure of the executive branch to insist that other countries live up to their obligations and agreements under the GATT. Our support is based upon our adherence to the principle of reciprocal and liberalized trade and is predicated on the hope that in the future the United States will insist upon reciprocity.

The Washington State Apple Commission represents all commercial apple growers in the State of Washington. The Washington State Fruit Commission represents all commercial growers of soft fruits—pears, cherries, peaches, apricots, plums, and prunes. The winter pear industry represents practically all commercial winter pear growers in the States of Washington and Oregon. The Hood River Traffic Association, Medford Pear Shippers Association, Wenatchee Valley Traffic Association, and Yakima Valley Growers-Shippers Association are composed of growers, packers, marketers, and shippers of the above-listed deciduous fruits in their respective areas. The Council represents approximately 9,000 growers, who grow practically 100 percent of all apples and in excess of 90 percent of all other deciduous fruits grown commercially in the two States. Thousands of employees are engaged in growing, harvesting, and preparing these fruits for shipment.

Northwest apple and pear growers and shippers have long been interested in trade, both export and import. Starting in 1910, they carefully and painstakingly developed export outlets which were an integral and normal part of their marketing program. This was not a surplus disposal or dumping program, but a normal marketing activity. We marketed "export specifications" of both apples and winter pears; this comprises varieties planted and grown primarily for export and smaller sizes of other varieties.

Small and medium size apples are preferred in most countries abroad, whereas domestic consumers prefer large and medium size fruits. Since little apples and big apples grow on the same tree, the export market was and is complementary to the domestic market. Consumers abroad came to appreciate and demand U.S. apples and pears. Reports from the trade in foreign countries and USDA representatives abroad, and the reception given to the U.S. fruit exported in postwar years, establish conclusively that there is a market for our fruit in the United Kingdom and Europe, even though many of those countries have increased their production since World War II.

Prior to World War II, about 44 percent of the Pacific coast production of winter pears was exported. Since the war, less than 10 percent has been exported. Prior to World War II, 28 percent of the Northwest crop of apples was exported. Less than 5 percent has been exported since 1947.

The Northwest is not alone in its exports of apples and pears to Europe. The first American ambassadors to London introduced our apples to that market. Trade developed from the orchards of Virginia, New England, New York, and the other Eastern States, and at a later date from the Northwest.

On page 3 of our prepared statement we have a table which lists apples exports by country of destination. Very briefly, prior to World War II there were approximately 3 million bushels of apples that went to the EEC countries. Now it is negligible. At the same period, 3,800,000 bushels were exported to the United Kingdom; it is down in the hundreds now. Other areas are shown the same way, the tremendous decline.

Generally, the same is true as far as winter pears, which are shown on the table on page 4, are concerned. Again, the EEC countries have almost totally been lost to us. Our volume into the other European countries, the Scandinavian countries, has been maintained, which shows, of course, there is a market for our high quality products.

As is shown by the tables, the United Kingdom, Belgium, France, Holland, Germany, and Sweden were important purchasers of United States apples and pears prior to World War II. All of these countries entered into agreements with the United States granting some concessions on U.S. apples and pears. Then they proceeded to nullify these concessions by refusing import licenses or exchange to implement purchase of our fruit—long after, in many cases, the time they had any justification for excluding our trade. Bilateral agreements were negotiated with each other and with Italy, Spain, Denmark, and Israel for their fruit requirements, despite the multilateral philosophy expressed in reciprocal trade agreements and in GATT.

These bilateral trade agreements resulted in restricting our trading opportunities.

In order to restore these export markets for fresh fruit, the artificial barriers, obstacles, and restrictions which have been so skillfully built against us must be removed. These barriers include refusal to grant import licenses, quota limitations, and granting of licenses so late in the season that trading opportunities are gone and steamship space cannot be arranged.

The problems encountered by the U.S. fruit industry during this period were recognized by the Congress. See Senate Finance Committee Report No. 299 dated April 27, 1951—Trade Agreement Extension Act of 1951; and Senate Finance Committee Report No. 232 dated April 28, 1955. See also Senate Agricultural Committee Report No. 2290 dated June 22, 1956.

While some of the restrictions imposed against U.S. apples and pears have been eliminated, additional barriers have been created. The European Economic Community system of reference prices and levels has restricted trade. Until February 1, 1973, U.S. apples were granted entry into the United Kingdom from August 16 until April 15 duty free. One of the conditions of the United Kingdom's accession to the EEC authorized imposition of a compensatory levy of about $2.18 per 42-pound carton. In addition thereto, the full EEC Common External Tariff was made applicable, amounting to as much as $1.32, or a total or $3.50 per carton, where prior to February 1, there was no duty during our primary season. The imposition of this burden by the United Kingdom is currently being considered before the GATT. I mention it merely as another instance where foreign governments have discriminated against U.S. apples and pears.

A recent example involved the EEC. For years we complained to our Government, the State Department, that France was granting hidden subsidies on exports of apples and pears. Holland filed a similar complaint against France. Thereafter, the EEC openly announced direct subsidies on apples exported to Mediterranean area countries. Later on, this subsidy was expanded to include countries behind the Iron Curtain. We did not protest these direct subsidies because they applied only to areas that were not important to us. However, in 1972, the EEC announced extension of the subsidies on apples to exports to Venezuela, Brazil, and Peru. France has pretty well taken our markets for apples away in Venezuela and Peru. Peru for the first time in recent years authorized importation of apples from countries other than Chile. Italy with the assistance of the export subsidy underbid us and obtained the Peruvian business. I guess we are the ones who are really "getting the business," so to speak. They won't let us in, and now they grant subsidies for coming in to Latin America.

Japan is another classic example. I am sure the committee is well familiar with the restrictions, import quotas and things established by Japan. They prohibit the importation of fresh apples, pears, and cherries from any country where the coddling moth is known to exist.

Our growers and scientists tell me there is absolutely no danger to the Japanese industry from the importation of cherries. All say they have never seen a coddling moth in a cherry; however, there are two separate reports in the literature where one coddling moth was reportedly found in a cherry. One lone coddling moth could do no damage. Two would be required—one of each sex—and they would have to get together at a propitious moment. This restriction by Japan is totally unjustified; but there we are, no opportunity to trade.

I would like to now touch on the import situation. While we have been losing our export market, imports into the United States have increased. The duty on imports of fresh apples was reduced in the Kennedy round to zero.

Frankly, we didn't complain; it was so low before that that it was meaningless.

On page 7 we list totals of imports from Southern Hemisphere countries. You will note that on apples it increased from the range of 70,000 bushels a year from 1965 to 1967, to 548,000 in 1972—or 7 to 8 times as many.

Also on the table there are imports of pears. They had increased from 164,000 a year in 1965 to 378,000 in 1972. It was 709,000 in 1971.

What bugs us is that Argentina, Australia, South Africa, and Chile for all practical purposes prohibit the importation of fresh apples and pears from the United States. This is done by excessive duties. Argentina's is 70 percent, and they require a predeposit of 40 percent of the CIF price for a period of 180 days.

So, for practical purposes, they have unlimited access to the United States but New Zealand is the only one of the Southern Hemisphere countries that permits any import of apples. They have done it only the last 2 years, because of protests that we made that we should have reciprocal trade.

Another point I would like to mention is with reference to countervailing duties. We wholeheartedly support chapter III of title III which would amend the countervailing duty law so that the countervailing duty may apply to duty free goods. The United States, as a part of the Kennedy round negotiations, reduced to zero the duty on fresh apples and on apple juice.

Imports of apple juice into the United States from European countries were fairly stable for the years 1965–66 through 1967–68. In the year beginning July 1, 1968, imports of apple juice expanded tremendously, as shown by the following table:

	(*Gallons*)
1965–66	3,075,000
1966–67	2,923,000
1967–68	3,869,000
1968–69	13,237,000
1969–70	13,174,000
1970–71	26,207,000
1971–72	35,142,000

The fresh apple equivalent of the juice imports during the 1970–71 season is approximately 9 million bushels of fresh apples. In effect, the supply of fresh apples for the U.S. market was increased by this amount, for the imported juice replaced dometic apples which otherwise would have been used to fill the market demand.

In the 1970–71 season, 10,310,000 gallons were imported from Switzerland. We understand that there is no question but that Switzerland granted an export subsidy. Since apple juice is duty free, a countervailing duty could not be imposed.

If the EEC countries were to add the United States to the list of countries to whom the fresh apple export subsidy is applicable, section 303 would not provide any assistance because fresh apples are duty free. Protection for such export subsidies should be extended to nondutiable articles.

MOST-FAVORED-NATION TREATMENT

We support title V which would grant further authority to the President. We suggest that the tariff schedules of the United States, which contain two rates of duty—column 1 and column 2, should be expanded to three columns:

(1) Most-favored-nation treatment, limited to countries which grant MFN treatment to the United States and live up to their obligations; (2) friendly countries which do not have trade agreements with the United States, either directly or through GATT; (3) nonfriendly countries, whose imports should bear duties higher than (2), which in turn should be higher than (1).

A classic example of the need for this action is Mexico, which has no trade agreement with the United States and is not a member of GATT. Mexico has and uses the right to unilaterally impose tariffs and other barriers on U.S. commodities without notice. Mexico presently permits unrestricted importation of apples and pears only into the northern portions of Sonora and Baja, Calif. We have for many years been denied access to Mexico City, Guadalajara, and other principal population centers, although these fruits could be imported if licenses were made available.

Mexico has MFN access to the United States for fresh fruits and vegetables but we are denied reciprocal treatment.

It seems only logical that our friends and business partners should receive primary consideration for the concessions they grant to us and that friendly countries should receive preference over unfriendly countries even though they are not entitled to as favorable treatment as is accorded to countries which grant us most favored nation treatment.

To summarize our position, we believe that trade should be reciprocal. We have not had reciprocal access to Southern Hemisphere countries and have been discriminated against by unjustifiable tariff and nontariff barriers in Europe and other areas.

Despite this unsatisfactory experience, we continue to support the principel of reciprocal and liberalized trade with the hope that in the future the United States will insist upon reciprocity. We do this recognizing that experience has demonstrated that the enactment of any trade legislation by itself cannot be expected to provide one iota of improvement in international trade conditions. The unfair treatment afforded us by foreign countries is primarily the result of the gap between enunciated policy (legislation) and executed policy (executive action).

We request that the Congress do more than merely delegate authority to the Executive. We ask that the Congress take all possible steps during the negotiations to assure that the United States will obtain the market access and fair treatment to which it is entitled and that the United States will not conclude a trade agreement which does not provide such access and fair treatment. We earnestly request that the Congress exercise its oversight function during the negotiations and thereafter to assure that commitments obtained by the United States in the reciprocal negotiations will be lived up to by the other contracting Governments.

Thank you.

Mr. BURKE. Thank you. That completes your statement.

Without objection, all the tables and charts you have included in your statement will appear in the record.

[The tables referred to follow:]

APPLES, FRESH: EXPORTS FROM THE UNITED STATES BY COUNTRY OF DESTINATION, AVERAGE 1925-26 TO 1929-30, 1935-36 TO 1939-40, AND ANNUAL 1967-68—1971-72

[In 1,000 bushels—42 pound net]

Country of destination	Average 1925-29	Average 1935-39	1967-68	1968-69	1969-70	1970-71	1971-72
Europe:							
European Economic Community—							
Belgium-Luxembourg	271	679		13	10		
France	72	1,029	6	3			
Germany, West	[1] 1,659	[1] 543	1				
Netherlands	824	761	56	177	35	4	1
Total European Economic Community	2,826	3,012	63	193	45	4	1
United Kingdom	8,403	3,870	936	149	311	245	292
Other Europe:							
Finland	65	106	76	20	98	58	31
Iceland			40	3	26	21	20
Ireland			102	6	26	8	26
Norway	164	85	165	17	68	44	69
Sweden	501	375	253	128	151	135	88
Other	364	105	23		1	7	9
Other Europe total	1,094	671	659	174	370	273	243
Europe total	12,323	7,553	1,658	516	726	522	536
Latin America:							
Brazil	181	139		4		1	
Mexico	98	45	162	171	254	291	261
Venezuela		18	274	128	333	104	93
Other	733	292	148	85	117	105	92
Latin America total	1,012	494	584	388	704	501	446
Other countries	1,277	1,001	1,103	902	1,245	1,376	1,822
Grand total	14,612	9,048	3,345	1,806	2,675	2,399	2,804

[1] All Germany.

PEARS, FRESH: EXPORTS FROM THE UNITED STATES BY COUNTRY OF DESTINATION AVERAGE 1935–36 TO 1939–40 AND ANNUAL 1967–68—1971–72

[In 1,000 bushels—46 pound net]

Country of destination	Average 1935–36 1939–40	1967–68	1968–69	1969–70	1970–71	1971–72
Europe:						
European Economic Community:						
Belgium-Luxembourg	31					2
France	291					
Germany, West	[1] 34	4		1	2	5
Netherlands	131			8		3
Total European Economic Community	487	4		9	2	10
United Kingdom	1,242	159	2	14	15	23
Other Europe:						
Finland	24	29	15	18	6	7
Ireland		51	4	29	8	12
Norway	12	128	40	54	50	41
Sweden	137	139	98	172	135	171
Other	9	7		1		2
Other Europe total	182	354	157	274	199	233
Europe total	1,911	517	159	297	216	266
Latin America	165	273	219	328	202	278
Other countries	541	230	353	884	486	707
Grand total	2,617	1,020	731	1,509	904	1,251

[1] All Germany.

Mr. SCHNEEBELI. We have to go over to the floor and answer a rollcall. You have given us very specific examples, Mr. Falk, that will be helpful to us. Thank you very much.

Mr. BURKE. The committee will now recess until 10 minutes before 1, when we will hear Mr. Burrows. So the committee will be in recess until 10 minutes before 1.

[A recess was taken.]

Mr. VANIK [presiding]. The committee will resume.

Mr. Burrows is director of marketing services of the International Apple Institute.

Mr. Burrows, the commitee will be pleased to hear you at this time.

STATEMENT OF FRED W. BURROWS, DIRECTOR OF MARKETING SERVICES, INTERNATIONAL APPLE INSTITUTE

Mr. BURROWS. Thank you.

As you said, my name is Fred W. Burrows and I am director of marketing services for the International Apple Institute. Our address is 2430 Pennsylvania Avenue, NW., Washington, D.C.

The International Apple Institute represents all segments of the apple industry and the winter pear industry. Our membership encompasses about 14,000 commercial apple growers, hundreds of leading firms which pack, store, process, sell, and distribute the apple crop, and firms which produce, handle, and distribute about 75 percent of the national winter pear crop.

Since 1895, the institute—and its predecessor organizations—has vigorously endorsed and worked for the principle of liberalized reciprocal trade. We would emphasize that the U.S. production and sales of apples and winter pears are not price-supported in any way, and export sales represent a direct and significant plus contribution to the U.S. balance-of-payments position.

The Institute supports H.R. 6767. However, based on past experience, we have been deeply disappointed with the outcome of previous negotiations of trade agreements under the GATT, and especially with the complete lack of resolve on the part of the executive branch to make other countries conform to their responsibilities and agreements under the GATT for our commodities.

A sound and vigorous U.S. trade bill is essential to achieve liberalized reciprocal trade, but just as important is the responsibility of the executive branch to make it work. We are hopeful Congress will keep a close surveillance of the coming negotiations, and after, to make certain that the results are "reciprocal" and "liberalized" for U.S. horticultural commodities.

Mr. Chairman, Mr. Falk and I have worked together in this area for 25 years. My statement is similar to his. Would you include it in the record?

Mr. VANIK. Without objection, it is so ordered.

Mr. BURROWS. On page 3 of my statement we bring certain data together with regard to U.S. exports. In 1965–66 those exports were about 6.7 million bushels. In the 1971–72 season they had dropped to 2.8 million.

In contrast, exports of apples from France during that same period increased from 7.4 million bushels in 1965–66 to 25.7 million in 1970–71. Much of France's apple exports have moved into our "old time" export markets, such as the United Kingdom, Norway, Finland, and Venezuela.

Mr. Falk did not touch on the good country of Brazil, where we have had an apple and pear problem for many years. The duty on U.S. apples and pears is an exorbitant 37-percent ad valorem. Brazil does not grow apples and pears. The United States/Brazil agricultural balance of trade is very much in Brazil's favor. Brazil's LAFTA partner, Argentina, is the major supplier of apples and pears to that country As a LAFTA partner, Argentina has been successful in thwarting our very serious and continuous efforts for even a seasonal duty concession during the period of the year when Argentina fruit is very scarce or nil in the Brazilian market. We did get a reduction to 20-percent ad valorem back in 1970. That was only for 1 year and it was on a conditional basis that if the imports were adverse to Argentina fruit, then they would take it off. The imports did not have an adverse impact on Argentine sales, and yet it was never continued.

In addition, an 18-percent sales tax is assessed against U.S. apples and pears but not against Argentine fruit. U.S. authorities state flatly that the discriminatory sales tax is a GATT violation, but we have not been able to secure any action by the U.S. Government relative to withdrawal of the tax.

Earlier testimony disclosed that the EEC has announced subsidies on apples to Venezuela, Brazil, and Peru. France and Italy are using the illegal subsidy to keep us out of those markets. Also, it is interesting to note that the ocean freight rate from France to Venezuela or Brazil is about $1 per bushel versus our minimum rate of $2.25 per bushel.

I would like to point out that the French Government really "owns" the major ocean carrier serving that traffic, and the low rate is "evidence" of a hidden subsidy.

The Scandinavian countries maintain illegal delayed opening dates reportedly to protect domestic apple and pear producers. The domestic production is small, and the opening dates are usually delayed long beyond what is reasonable. Despite repeated pleas on our part of responsible U.S. authorities to have the illegal opening dates eliminated or made more reasonable, very little has been accomplished. The opening dates are a direct deterrent to U.S. exports of apples and pears.

A very major problem facing the U.S. apple grower involves U.S. imports of cheap apple concentrate. Mr. Falk touched on this. For the record, we should note that the United States does not impose any duty on apple concentrate, apple juice, or fresh apples.

According to FAS, USDA, imports of apple concentrate in 1966–67 totaled 3.3 million gallons—single strength basis—or the equivalent of about 900,000 bushels of apples. Due to the heavy demand for "pop" wines by our younger generation, apple concentrate imports increased very sharply and in 1971–72 totaled 35.5 million gallons—single strength basis—or the equivalent of about 9.5 million bushels of apples. In 1971–72, nearly 40 percent of the concentrate imports came from Switzerland, 25 percent from France, and 23 percent from Argentina.

Up until the current season, these imports of concentrate were being delivered to the United States at ridiculously low prices. In 1970–71 we found the delivered price to the East Coast ranged from $1.55 to $1.95 per gallon for 70 degree Brix, which meant a return of $8 to $13 per ton to the grower for the raw fruit—far below the cost of production. During the 1969, 1970, and 1971 seasons the United States apple growers were in their own private depression. In fact, in the fall of 1971 growers in Western New York did not harvest an estimated (USDA) 3 million bushels, due to a lack of market, up in that area where it is primarily a processing market for apple juice and applesauce.

In 1971, we had our Embassies check the concentrate situation in the major exporting countries. Our Embassy in Switzerland found that the price for concentrate exports was less than half the domestic price. The difference was made up by the alcoholic monopoly unit. It was clearly a case of dumping and subsidization.

We found we could not use our countervailing duty law, because the law does not apply to duty-free items. We seriously considered using the Antidumping Act. However, we did not proceed because in our judgment we could win the battle but lose the war—and waste $20,000 in legal fees.

The provisions in chapters I and III under title III of H.R. 6767 could provide us with more flexible and effective action.

In closing, we emphasize that sound trade legislation is important, but executive action in negotiating and carrying out the results of the negotiations is vital to achieve needed liberalized reciprocal trade. We urge Congress to keep its finger in the pie during and after the negotiations to make certain that the best interests of all Americans are taken care of.

Thank you, Mr. Chairman.

[Mr. Burrows' prepared statement follows:]

STATEMENT OF FRED W. BURROWS, INTERNATIONAL APPLE INSTITUTE

My name is Fred W. Burrows, and I serve as Director of Marketing Services for the International Apple Institute. Our address is 2430 Pennsylvania Avenue, N.W., Washington, D.C. 20037.

The International Apple Institute represents all segments of the Apple Industry and the Winter Pear Industry. Our membership encompansses about 14,000 commercial apple growers, hundreds of leading firms which pack, store, process, sell and distribute the apple crop, and firms which produce, handle and distribute about 75% of the natonal winter pear crop.

Since 1895 the Institute (and its predecessor organizations) has vigorously endorsed and worked for the principle of liberalized reciprocal trade. We would emphasize that the United States' production and sales of apples and winter pears are *not price-supported* in any way and export sales represent a direct and significant plus conrtibution to the United States balance of payments position.

The Institute supports H.R. 6767. However, based on past experience, we have been deeply disappointed with the outcome of previous negotiations of trade agreements under the GATT and, especially, with the complete lack of resolve on the part of the Executive Branch to make other countries conform to their responsibilties and agreements under the GATT for our commodities. A sound and vigorous U.S. trade bill is essential to achieve liberalized reciprocal trade, but just as important is the responsibilty of the Executive Branch to make it work. We are hopeful Congress will keep a close surveillance of the coming negotiation, and after, to make certain that the results are "reciprocal" and "liberalized" for U.S. horticultural commodities.

Under Title I of H.R. 6767 the President would be provided authority to increase or decrease tariffs. Most important for apples and winter pears Title I would establish a new procedure under which the President could "attack" non-traiff barriers. Such barriers, of which there are a number of long-standing, as well as some new ones, directly impede and reduce U.S. exports of apples, pears and processed products. The provisions of Title I are vital for the maintenance and expansion of exports of our commodities.

We strongly support Title III of H.R. 6767. This section would provide authority to act to eliminate or reduce unfair trade practices of other countries.

The problems of the Apple and Winter Pear Industries, involving unjustifiable tariffs, import quotas, reference prices, variable levies, subsidies (open and hidden), unreasonable quarantine restrictions, illegal (under the GATT) delayed opening dates, discriminatory sales taxes, and other non-tariff barriers and unfair trade practices have proved to be a serious impediment to our exports. The U.S. apple export data below adequately demonstrates the impact of these adverse factors (000 bushels—Source: FAS, USDA):

	1965–66	1972–72
Total Europe	4,166	536
Finland	(499)	(31)
Netherlands	(374)	(1)
Norway	(279)	(69)
Sweden	(650)	(88)
United Kingdom	(1,813)	(292)
Total Latin America	957	446
Venezuela	(567)	(93)
Total Other Countries	1,551	1,822
Canada	(1,117)	(1,380)
Grand total	6,674	2,804

In contrast, exports of apples from *France* have increased from 7.4 million bushels in 1965–66 to 25.7 million in 1970–71. Much of France's expanded apple exports have moved into "old time" U.S. export markets, such as the U.K., Finland, Sweden, Norway and Venezuela. The displacement by the French is due, in large measure, to subsidies (open and hidden) and to unfair trade practices. If the Executive Branch moves with authority, the provisions in Titles I and III could be most helpful for U.S. exports of apples and winter pears.

We should stress that for many years we have repeatedly reminded (verbally and in writing) the responsible government agencies (State, STR, USDA and others) of the unjustifiable barriers facing U.S. exports of apples and winter pears, but with little or no success. The problem is not easy, but, in our judgment, H.R. 6767 gives the Executive Branch the tools to move in the right direction.

We won't burden you with the full details of the barriers that have (and are) confronted our industry, but we will touch on a few. For example, the United Kingdom, which has been our major apple export market, joined the EEC. Prior to this move the duty on apple imports from the U.S. was zero during most of the year. Import quotas for apples and pears existed and were enforced. As a member of the EEC, the U.K. import quotas are abolished, but the duty on apple imports from the U.S. becomes 14% ad val to 10% ad val during most of our exporting season. There is no duty on U.K. imports from other EEC countries which means that our major competitors, France and Italy, have an advantage of at least $1.00 per pushel over us on exports to the U.K. The EEC duty on apples is too high. It needs to be reduced.

Then there is Brazil where the duty on U.S. apples and pears is an exorbitant 37% ad val. Brazil does not grow apples and pears. The U.S./Brazil agricultural balance of trade is very much in Brazil's favor. Brazil's LAFTA partner, Argentina, is the major supplier of apples and pears to that country. As a LAFTA partner, Argentina has been successful in thwarting our very serious and continuous efforts for even a seasonal duty concession during the period of the year when Argentina fruit is very scarce or nil in the Brazilian market. Additionally, an 18% sales tax is assessed against U.S. apples and pears but not against Argentine fruit. U.S. authorities state flatly that the discriminatory sales tax is a GATT violation, but we have not been able to secure any action by the U.S. Government relative to withdrawal of the tax.

Earlier testimony disclosed that the EEC has announced subsidies on apples to Venezuela, Brazil and Peru. France and Italy are using the illegal subsidy to keep us out of those markets. Also, it is interesting to note that the ocean freight rate from France to Venezuela or Brazil is about $1.00 per bushel vs our minimum rate of $2.25 per bushel. In our judgment, the fact that the French Government "owns" the major ocean carrier serving those countries is "evidence" of a hidden subsidy.

The Scandinavian countries maintain illegal delayed opening dates reportedly to protect domestic apple and pear producers. The domestic production is small, and the opening dates are usually delayed long beyond what is reasonable. Despite repeated pleas on our part to responsible U.S. authorities to have the illegal opening dates eliminated or made more reasonable, very little has been accomplished. The opening dates are a direct deterrent to U.S. exports of apples and pears.

A very major problem facing the U.S. apple grower involves U.S. imports of cheap apple concentrates. For the record, we should note that the United States does not impose any duty on apple concentrate, apple juice or fresh apples.

According to FAS, USDA, imports of apple concentrate in 1966–67 totaled 3.3 million gallons (single strength basis), or the equivalent of about 900,000 bushels of apples. Due to the heavy demand for "pop" wines by our younger generation, apple concentrate imports increased very sharply and in 1971–72 totaled 35.5 million gallons (single strength basis), or the equivalent of about 9.5 million bushels of apples. In 1971–72 nearly 40% of the concentrate imports came from Switzerland, 25% from France, and 23% from Argentina.

Up until the current season these imports of concentrate were being delivered to the U.S. at ridiculously low prices. In 1970–71 we found the delivered price to the East Coast ranged from $1.55 to $1.95 per gallon for 70 degree Brix, which meant a return of $8.00 to $13.00 per ton to the grower for the raw fruit—far below the cost of production. During the 1969, 1970 and 1971 seasons the U.S. apple growers were in their own private depression. In fact, in the fall of 1971 growers in Western New York did not harvest an estimated (USDA) 3 million bushels due to a lack of market.

In 1971 we had our Embassies check the situation in the major exporting countries. Our Embassy in Switzerland found that the price for concentrate exports was less than half the domestic price. The "difference" was made up by the Alcoholic Monopoly Unit. It was clearly a case of dumping and subsidization.

We found we could not use our countervailing duty law, because the law does not apply to duty-free items. We seriously considered using the Antidumping Act. However, we did not proceed, because in our judgment we could win the battle but lose the war—and waste $20,000 in legal fees.

The provisions in Chapters I and III under Title III of H.R. 6767 could provide us with more flexible and effective action.

In closing we emphasize that sound trade legislation is important, but executive action in negotiating and carrying out the results of the negotiations is vital to achieve needed liberalized reciprocal trade. We urge Congress to keep its finger in the pie during and after the negotiations to make certain that the best interests of all Americans are taken care of.

Mr. VANIK. Thank you very much.

Do you have any questions?

Mr. SCHNEEBELI. No questions. Thank you.

Mr. VANIK. From your knowledge, do you think our procedures, for example, under antidumping, are slower than they are for comparable things in foreign countries?

It seems to me that other countries are pretty quick to provide relief. They have ways of doing it subtly and quickly.

Mr. BURROWS. That is right. In effect, we feel that the U.S. Government has, to some degree, written off horticultural commodities, that is, fruits and vegetables. They are perishable, and the economic and political aspects of this world today are such that, rather than hurt somebody else's feelings over a million boxes of apples, the United States does not take a stand that is firm and strong in order to get what is rightfully ours.

Mr. VANIK. We ought to write a procedure that would make it easier for you to get a quick decision. If you wait 16 months for a decision, you are out of business by then, your crop is gone.

Mr. BURROWS. That is very true.

Mr. VANIK. How far ahead do you have to plant on apples?

Mr. BURROWS. We say about 8 years before they come into production enough.

Mr. VANIK. To full production?

Mr. BURROWS. That is where they start paying off.

Mr. VANIK. I know what the problem is in raising an apple tree. I have three of them. I am nursing them very carefully. It is not an easy thing.

Thank you very much.

Mr. BURROWS. Thank you.

Mr. VANIK. Our next witness is Mr. Harold Williams, president of the Poultry & Egg Institute, accompanied by Mr. Morgan Edwards, a member of the board of directors of the Southeastern Poultry & Egg Association.

Mr. Williams, we will be very happy to hear from you at this time.

STATEMENTS OF HAROLD M. WILLIAMS, PRESIDENT, POULTRY & EGG INSTITUTE OF AMERICA, ACCOMPANIED BY LEE CAMPBELL, VICE PRESIDENT, AND MORGAN EDWARDS, SOUTHEASTERN POULTRY & EGG ASSOCIATION

SUMMARY

We outline the way the United States poultry and egg industry was prevented from reaching optimum achievement, in lowering domestic and world food costs. We demonstrate the wisdom in supporting the Trade Reform Bill of 1973 and make the point that the poultry industry has in no way benefited from any past actions of U.S. trade negotiators.

Reading this document will tell you how the EC since July 1, 1962, has arbitrarily and capriciously discriminated against U.S. poultry products. It explains how levies of 30 to 50 percent ad valorem had been successively applied on all poultry items as U.S. ingenuity moved from the sale of whole chickens and turkeys to parts, then to specialties, and then to cooked goods. And the same treatment was accorded egg products.

U.S. feed grains, on the other hand, have enjoyed relatively free access in the very countries where U.S. produced poultry items, had been excluded. Behind the protective wall of EC levies, the free flow of feed grains to Common Market countries contributed to inefficiencies and distorted competitive influences.

The Trade Reform Bill of 1973 will give the President and our negotiators the authority and organizational structure, to deal with problems on a continuing basis. We need a total U.S. agricultural food policy which will protect the U.S. consumer, U.S. Labor, the U.S. Poultry and Egg Industry and, at the same time, build permanent markets abroad for our food products by providing global consumers reasonable food values.

Mr. WILLIAMS. Mr. Chairman, members of the committee, my name is Harold Williams, from Chicago, Ill. I am president of the Poultry & Egg Institute of America. With me are Mr. Lee Campbell, vice president of the institute, of Washington, D.C., and Mr. Morgan Edwards, president and general manager, Agri-Business Supply Co., Cullman, Ala., a director of Southeastern Poultry & Egg Association, Atlanta, Ga.

Mr. VANIK. If you would like, you can read your statement or summarize it.

Mr. WILLIAMS. I will summarize it.

The Poultry & Egg Institute of America is the one national—also international—all-product voluntary trade association representing all interests of the poultry and egg industry. Our members are breeders, hatcheries, growers, processors, distributors, and allied interests. Our members include individual businessmen, cooperatives, and corporations.

The poultry and egg industry contributes substantially to the agricultural income of the United States. It is the fourth largest cash income for agriculture. This industry uses about 60 percent of the commercial feed manufactured in the United States. Let us look at commercial broilers. Their per capita consumption has increased from 8.6 pounds in 1950 to 39.5 pounds in 1972. With approximately 3 pounds of feed going to produce 1 pound of eviscerated weight of broilers, this means that the average per capita consumption of broilers in the United States represents 120 pounds of feed per person or a grand total of about 25 billion pounds of commercial feed.

POULTRY AND EGGS EFFICIENT CONVERTERS OF PROTEIN FEEDS

Broilers, turkeys, and eggs contribute substantially to improving the consumer standard of living in the United States. Broilers, turkeys, and eggs have been termed inflation fighters because of their reasonable cost to consumers. The general rule of thumb is that it takes 8 pounds of feed to produce 1 pound of live beef, 5 pounds of feed for 1 pound of pork, and just over 2 pounds of feed to produce 1 pound of live broilers. In a world of burgeoning demands and rising costs and shrinking resources, are we not under a moral as well as an economic mandate to assign a higher priority to the production and marketing of poultry and eggs? Because poultry and eggs are the most efficient converters of scarce protein feeds into highly nutritious foods for consumers, our products, if given fair and reasonable access to markets abroad, can be a potent weapon in fighting inflation throughout the world. As we rapidly move toward a world economy, consumers on a global basis must not be denied availability of our high quality, low priced food products.

BALANCED FOOD/FEED EXPORT PROGRAM NEEDED TO STABILIZE THE U.S. ECONOMY

By developing and pursuing a balanced food export program of selling finished broiler, duck, turkey, and egg products abroad rather than major reliance on feed grains, we help to stabilize and strengthen our domestic economy by:

(1) Providing thousands of jobs in the growing and processing of these products;

(2) Tax income to the Federal and State governments;

(3) A means of helping to fight inflation.

An "export only raw agricultural products (feed grains)" policy can undercut U.S. labor by exporting potential jobs and increasing food costs to U.S. labor or consumers. There is little labor involved in corn and soybeans, whereas every pound of exported chicken represents 5–7 cents employment income—$50,000–$70,000 for labor per million pounds. Broilers, turkeys, eggs, and especially further processed items are highly labor intensive.

A balanced food/feed export program can avoid wide gyrations of price/cost increases which our economy is presently subjected to due partially to inordinantly large sales of feed grains without adequate reserve for domestic use. These large sales of feed grains have: (1) Worked a hardship in the industry; and (2) generated higher food prices for the U.S. consumers.

The Poultry and Egg Industry has a 15-year history of demonstrating its ability to open up and develop markets abroad, this with strong cooperation of U.S.D.A.

EC BARRIERS DRASTICALLY REDUCED U.S. MARKET

Prior to 1956, the United States exported very little poultry meat commercially, except for moderate amounts to Canada and Latin America. In 1958 about three-quarters of 1 percent of the total U.S. production was exported (about 42 million pounds).

Our worldwide exports steadily increased, reaching 271 million pounds in 1962, or about 3.8 percent of our total production. Exports of poultry and poultry products in 1962 were valued at $96.3 million. Poultry meat, including canned, accounted for $75.8 million. Eggs, egg products, baby chicks, and other poultry accounted for the balance of $20.5 million.

Remember, too, that these products were produced under the full impact of competition. We did not receive benefits of any price-support program or government subsidy and, in fact, utilized supported grains.

The bulk of our poultry trade was originally with Western Europe. Germany was our largest customer. The market in Germany alone reached about $50 million in 1962 and was growing rapidly. This trade would have been substantially greater than it was, had it not been for restrictive measures in the form of monetary controls and import licenses which were continued in effect long after any justification for such measures had ceased to exist. These measures directly limited the quantity of U.S. poultry which could be imported. It was not until 1961 that these barriers, such as import licenses, were finally removed and U.S. poultry was given access to the German market upon an equitable basis upon the payment of a duty of 15.9 percent ad valorem. But on July 1, 1962, the EC's common agricultural policy went into effect.

COMMON MARKET CONSUMER INTERESTS SUBVERTED BY TRADE BARRIER

The appendix attached to our prepared statement points out the strictly protectionist mechanisms used during these past 11 years. This study shows in detail the systematic development and regular use of highly protectionist mechanisms to exclude our poultry and eggs from the EC—six country markets—now nine.

Classifications of products were named and changed constantly as we introduced new items for sale. These products were subjected to high levies. High gate prices were assigned to each product, to which were added a basic levy and also a supplemental levy. The imposition of these levies caused immediate and drastic reductions of our tonnage into the EC market. After July 1, 1962—the effective date of EC levies on poultry and eggs—the 15.9 percent import tax on whole chickens was increased to a total import levy of 43 percent. And the tax on chicken backs and necks on which we had built up a very substantial business with the German consumers was raised from 15 percent to 320 percent of value of the product, thereby denying German consumers the right to buy and use these reasonably priced chicken necks and backs which they had so readily accepted. When the market for whole chicken was taken away from us, we turned to chicken parts—but then the levies went up on chicken parts. Tariff classifications were developed to tax these new products.

It has become a practice of the Common Market to raise the levy with only a 3-day notice, thereby damaging our trade by creating uninsurable risks. We even suggested to our Government the possibility of getting insurance against these arbitrary and abrupt increases imposed while the product was in transit, in order to offer the buyers some protection to induce them to buy.

After the market for chicken parts was largely destroyed, we turned to whole turkey—and then up went the levies on turkey parts.

U.S. egg products received the same treatment.

All of this violates the basic principles of GATT.

U.S. poultry and egg products have, over these past 10 years, been the victims of arbitrary and discriminatory actions applied systematically and abruptly by the EC. Attached to our prepared statement is a chart illustrating the unfair treatment our products have suffered.

The EC in determining the gate price uses unrealistic feed conversion ratios, yields and unrealistic parts to whole coefficients to give the computed costs of its own production items unrealistically high prices. The gate price is the target price below which poultry and eggs cannot be offered. Then to this high gate prices are added, as, you can see from the chart, a variable levy and a supplemental levy. The total of these two levies at times is 50 percent or more of the gate price, which is usually higher than needed to represent actual internal costs.

Walter Hallstein, formerly president of the European Economic Commission, in his recent book, "Europe in the Making," discusses the highly inflationary impact of the EC's common agricultural policy. He says, "But the wall around the Community has become very high." But as far as U.S. poultry and eggs are concerned, there is not just one wall around the Community, there is a three-story wall—a high gate price, a variable levy, and a supplemental levy.

The charted data on graph 2 reveals that the levy on top of the gate price remains fairly constant throughout the 10 years, but the supplemental levy on type C chicken—grillers—varied widely. It was changed during the 10 years 29 times, and often with only a 3-day notice. Because of numerous new classifications of "chicken," the total changes in the supplemental-only levy on chicken is well over 100.

Graph 5, "The Development of EC—Tariffs on Poultry Parts, 1962 to 1972": We will confine our discussion to other legs of turkey—thighs—blue. Our whole turkeys having been largely taxed out of the EC market, we introduced turkey parts in 1967. Turkey thighs were successfully introduced and marketed in 1967, primarily in Germany. Between 1967 and August 1972, the supplemental levy was changed 24 times, often with only a 3-day notice.

AGRICULTURE AND INDUSTRY MUST BE NEGOTIATED TOGETHER

International trade is a two-way street and trade policy a two-sided coin. What's good for the goose is also good for the gander. If subjecting U.S. chicken, turkey, and eggs to gate prices, variable and supplemental levies, often 40 to 50 percent ad valorem—in the case of whole dried eggs right now, 70 percent—if that is sound policy, then it must be sound policy for the United States to subject German Volkswagens, French wines, and Dutch hams to like treatment. I think the levy on Volkswagens coming into the United States is 3 percent.

As Harald B. Malmgren in his "International Economic Peace Keeping in Phase II," says, "Industrial trade problems and agricultural trade problems today are very similar, and the old presumption in trade negotiations that 'agriculture is different' no longer holds—if it ever did." The average tariff rates after the Kennedy round on manufactured and semimanufactured products (weighted by OECD Trade) were:

	Percent
Into United States (Volkswagens only 3 percent)	8.3
Into European Community	8.4
Into United Kingdom	10.2
Into Japan	10.9
Into Canada	10.12

according to "The United States in the Changing World Economy," by Peter G. Peterson. In the area of industrial goods, the free world was progressively moving toward an "open and equitable trading system."

AUTHORITY NEEDED TO NEGOTIATE REMOVAL OF UNFAIR TRADE BARRIERS

The Trade Expansion Act of 1962 paved the way for the Kennedy round trade negotiations, which ended in May 1967. These trade rounds were recognized as highly successful. Fifty-three nations representing 80 percent of the world trade participated. Tariffs were reduced roughly by one-third. However, as you can see, negotiators did not deal adequately with the system of levies established by the EC under the common agricultural policy, especially as related to poultry and eggs.

The only direct reduction in poultry or egg levies accomplished by the Kennedy round trade negotiations was import duties on U.S. turkey into Japan. The import duty had been 10 percent, so in anticipation of negotiation, Japan raised the duty to 20 percent, and then in negotiations reduced it to 15 percent. So, in effect, we settled for a 50-percent increase, not a 25-percent decrease.

For over 10 years, we in the poultry and egg industry have been subjected to arbitrary regulations and levies unilaterally applied almost at will. The poultry and egg industry, with the help of the Foreign Agriculture Service of the U.S. Department of Agriculture, has stayed in there fighting.

Germany is still our largest poultry market in spite of the barriers, but far short of what might have been had we had fair access. We are now shipping virtually no whole chickens, but when the CAP went into effect in 1962, our sales to West Germany were virtually all whole chickens, approximately 150 million pounds—this only 4 years after we started marketing U.S. chickens in West Germany.

STILL A MARKET DESPITE BARRIERS

We would like to quote from the Under Secretary of Agriculture, J. Phil Campbell, in a talk given September 16, 1969. The Secretary said:

> I think it is a tribute to all those who have been involved in this overseas selling effort that the U.S. is still very much in the poultry exporting business. I am talking about the effort of individual exporters—of the Institute of American Poultry Industries (now the Poultry and Egg Institute of America) acting for the poultry industry's International Trade Development Board—and the Foreign Agriculture service of the U.S. Department of Agriculture.
>
> Working together, they have pierced some of the trade barriers; they have created and exploited demand for specialized American poultry products. They have opened new markets.
>
> These things don't just happen. Determined men in government and the poultry industry have worked together to make them happen.

For the calendar year of 1972, we exported a total of 155 million pounds of poultry meat for a value of over $48 million, and total poultry and eggs and breeding stock for a total value of about $86 million.

This is solid achievement when we bear in mind that ever since July 1962, the Common Market has arbitrarily subjected our poultry and eggs to almost insurmountable barriers.

On top of this, the EC has engaged in concerted efforts to disrupt our markets throughout the world by using export subsidies running about 6 or 7 percent on whole chickens now. These subsidies have greatly hampered our sales into key markets such as Japan and Hong Kong.

Global opportunities and problems call for global thinking, policies, and programs. Burgeoning demands and rising incomes make for marketing opportunities throughout the developed nations of the world.

Rising expectations of consumers present trading and bilateral opportunities with the Communist nations.

The more than 100 developing countries with 70 percent of the world's population present a broad foundation for trade opportunities both present and future.

How well we seize upon and expand the opportunities depends on how effectively the U.S. Government and industry can work together in developing an open and equitable world trading and marketing system. Real leadership and courage have been demonstrated in the area of international relations. What the administration now needs is continuing authority and trading stock to reduce, eliminate, or harmonize barriers and other distortions of international trade.

We strongly urge the passage of the Trade Reform Act of 1973.

LIBERALIZED TRADE—BEST DEFENSE AGAINST INFLATION

Inflation stalks the world. In a world of tariff walls and barriers, pockets of inflationary pressure can build up and destroy those separate and individual economies. We cannot afford to let this happen. We need an open and fair world trading system right now for the free flow of products, especially foods.

If we can gain fair and reasonable access to the markets of the developed nations of the world, we can then proceed in developing a well-conceived and articulated marketing policy for the total U.S. agriculture and food industry. This policy will be evaluated on a cost/benefit basis to the consumers on a global marketing basis. People are our only ultimate markets, and marketing assigns top priority to people as consumers. Our strategy will be marketing finished products as well as the trading of raw feed grain ingredients and other raw agricultural products. This balanced approach will provide more stability and will, in the end, result in continuing and expanding markets.

As pointed out in the International Economic Report of the President transmitted to Congress in March 1973, page 53: "U.S. dependence on agricultural commodities as a principal export could cause instability in growth patterns, while other problems will be encountered."

The present results of excessive exports of feed ingredients to Russia has helped raise the cost of commercial broilers 8 to 10 cents a pound, and like increases in turkeys and eggs. This has tended to: (1) short change the U.S. consumer, and (2) handicap the poultry and egg producer.

PROCESSED FOODS EXPORTS—BEST HOPE FOR U.S. AGRICULTURE

We believe the green revolution is here. The high yielding dwarf wheats developed in Mexico by Dr. Norman Borlang—Nobel Prize winner, 1970—and the prolific dwarf rice IR 8—miracle rice—developed by Dr. Robert Chandler can be a boon to the underdeveloped nations in their fight against famine and malnutrition. However, this should give us cause to rethink our total agriculture policy. India has doubled its wheat production in 6 years. West Pakistan has increased its wheat harvest over 70 percent between 1967 and 1970. West Pakistan is now a net exporter. Between 1965 and 1970, acreage in the new varieties of miracle wheat and rice mostly in Asia increased as follows:

1965	200
1966	41,000
1967	4,047,000
1968	16,660,000
1969	31,319,000
1970	43,914,000

And China and Brazil with double cropping pose threats to our soybean export markets of the future.

We emphasize marketing rather than trading. We contend that marketing in its broader sense is a socioeconomic force comparable to research and development. It can be an engine of change. Trade barriers are harmful not only because they misallocate productive resources but also because they hold out and thwart marketing know-how. Only through effective marketing can we make the fullest use of assets and productive capacities. Marketing with a focus on consumers is: alert to change, innovative and creative, outward looking, and forward looking.

Creative marketing increases total demand by building markets and finding new uses and outlets for newly developed products. Global marketing will enable us to capitalize fully on our high technology in our food production and processing. Our technological lead in agriculture and food production will enable us to expand markets by providing better values to consumers throughout the world.

Marketing, because it is based upon persuasion, promotes a better mutual understanding; in fact, the English philosopher, Alfred North Whitehead, has termed commerce as the great civilizer because it is based on face-to-face persuasion. We presently have cooperative or joint marketing programs for selling poultry and egg products in various parts of the world. These programs can be expanded tremendously by better access to markets aboard.

A strong commitment to marketing both by Government and industry can truly be a dynamic force in upgrading diets throughout the world and expanding total demand for our products on an orderly and continuing basis. One year's drought in one area of the world cannot be a sound basis upon which to develop policy.

GOVERNMENT/INDUSTRY PARTNERSHIP NEEDED

The Communist countries present increasing opportunities for trade, but on terms generally unfamiliar to the average U.S. company. State trading and centralized government trading organizations using barter and long-term credit demands put our free enterprise firms at a disadvantage. We need a Government/industry partnership abroad. We need collective intelligence and coordinated action. We need to broaden the opportunity for more companies to participate and for more products to be offered between our country and the Communist countries. Barter, like any other trade, is a two-way street, but we will have to accommodate in order to get and expand the business.

As global resources diminish relatively to potential demands, our best hope is global production based on comparative advantage and creative global marketing to provide consumers with the best possible food values. Implementation of the Trade Reform Act of 1973 can be a giant step toward this objective. We urge its enactment.

[The appendix to the statement follows:]

APPENDIX

THE DEVELOPMENT OF EEC REGULATIONS FOR IMPORTS OF POULTRY, POULTRY PARTS, AND EGGS

Imports of poultry, poultry parts, and poultry eggs to the EEC countries had been levied by a 15.9 percent ad valorem duty until July 1, 1962, when a new system of duties became effective.

This new system of duties had been developed to enhance the formation of the European Common Market for agricultural products by preventing any disturbances in the price system originating from third countries. It is effectuated through three types of regulations:

(1) A BASIC LEVY

It was first introduced on August 1, 1962, and takes into account three factors of the import price formation:

(*a*) the differences in production costs of poultry between EEC countries and the world market.

(*b*) the differences in the production costs for poultry within the six member countries until July 1967.

(*c*) a fixed value depending on the average import prices for poultry into the EEC during the last year, which originally was set at 2 percent, but was increased up to 5.5 percent in 1966 and is now at 7 percent.

The basic levy is a variable one and, depending on the cost and price development is revised in three months periods. Furthermore, this levy varied until July 1967 for each of the member countries according to the differences in their national conditions with regard to production costs of poultry (factor b) against imports from all third countries but as well can be used against specific countries or groups of countries.

This new system of duties was introduced on July 1, 1962, but was revised and adapted to prevailing market conditions several times, so that it was fully elaborated only after a period of about five years of existence. This development can be described by the history of regulations of the EEC Commission to complete the duty system and the development of the tariff positions 02.02 B (Parts of Poultry).

I. The history of regulations of the EEC Commission 1962 thru 1967.

July 1, 1962, Introduction of gate prices for slaughtered poultry (Reg. Nos. 35 and 40).

August 1, 1962, Introduction of basic levies for slaughtered poultry (Reg. Nos. 76) and of gate prices for live poultry and poultry parts (Reg. Nos. 77, 78).

October 1, 1962, Introduction of gate prices for shelled eggs and egg yolks and extension of the tariff position "poultry parts" into "backs and necks of poultry" and "other poultry parts". (Reg. No. 126).

November 7, 1962, Introduction of the first supplementary levy for whole chicken (Reg. No. 135).

March 1, 1963, Belgium and Luxemburg form an economic and monetary unit.

March 9, 1963, Introduction of supplementary levy for backs and necks of poultry and settling a basic levy for "backs and necks of poultry" and "other poultry parts" (.5 and 1.25 of basic levy of the mean for whole chicken, prep. B and whole turkey) (Reg. No. 24).

August 1, 1964, Introduction of gate prices and basic levies for further extension of tariff position "other poultry parts" into "breasts and legs of poultry" and "other poultry parts" (Levy fixed at 1.25 and .46 of the mean for whole chicken prep. B and whole turkey) (Reg. No. 94).

October 1, 1964, Introduction of gate prices and basic levies for further extension of tariff position "other poultry parts" into "halves and quarters of chicken" and "halves and quarters of turkeys" (levy fixed at 1.00 of whole chicken, prep. C and of whole turkey, respectively). (Reg. No. 130).

May 2, 1965, Introduction of a supplementary levy for "halves and quarters of chicken." (Reg. No. 57).

April 1, 1966, Introduction of gate prices for further extension of tariff position "poultry parts" as follows: (1) breasts and legs of poultry into breasts of turkey; (2) breasts of other poultry; (3) drumsticks of turkey and other legs of poultry; (4) other poultry parts into wings of poultry and other poultry parts.

July 1, 1966, Introduction of gate price for further extension of tariff position "other poultry parts" into "boned parts of poultry" and "other poultry parts". Fixation of basic levies for various poultry positions, as follows: (1) live chicken (.7 of whole chicken, prep. C), live turkey (.7 of whole turkey) (2) poultry parts in relation to the mean levy of whole chicken, prep. B and of whole turkey at 2.0 for breasts of turkey, boned poultry parts, and other poultry parts; (3) 1.4 for breasts of other poultry; (4) 1.25 for legs of poultry other than turkey drumsticks; (5) .75 for turkey drumsticks; (6) .46 for edible offals of poultry. (Reg. No. 79).

March 26, 1967, Introduction of supplementary levy for "breasts of poultry other than turkey" and "legs of poultry other than turkey" originating in Hungary. (Reg. No. 59).

June 22, 1967, Introduction of new transformation factors for feed cereals into poultry products, hence new gate prices and basic levies for poultry. (Reg. No. 146).

July 21, 1967, Introduction of supplementary levy for boned parts originating in Denmark. (Reg. No. 319).

November 1, 1967, Introduction of supplementary levy for turkeys drumsticks and other legs of turkey originating in USA. (Reg. No. 772).

Introduction of gate prices and basic levies for further extension of tariff position "legs of turkeys, other than turkey drumsticks" into "other legs of turkey other than drumsticks" and "other legs of poultry".

Fixation of new basic levies as follows:

Poultry parts in relation to the mean levy of whole chicken, prep. B, whole duck, prep. 70 percent, whole geese 75 percent, whole turkey and whole guinea fowl at: (1) 1.85 for boned poultry parts and other parts of poultry; (2) .70 for wings; (3) .45 for backs and necks and edible offals and in relation to either whole chicken, prep. B or whole turkey respectively at: (1) 1.70 for breasts of turkey, breasts of chicken; (2) .80 for turkey drumsticks; (3) 1.50 for other turkey legs; (4) 1.50 for legs of other poultry (Reg. No. 68a).

March 22, 1968, Introduction of supplementary levy for whole turkeys. (Reg. No. 314).

II.—THE DEVELOPMENT OF TARIFF POSITION 02.02B

[Parts of poultry]

7.1.62	10.1.62	8.1.64	10.1.64	4.1.66	7.1.66	11.1.67	4.1.68
Parts of poultry	Backs and necks of poultry.						Backs and necks of poultry.
	Other parts of poultry	Breasts and legs of poultry.		Breasts of turkey			Breasts of turkey.
				Breasts of other poultry.			Breasts of other poultry.
				Drumsticks of turkey			Drumsticks of turkey.
				Other legs of poultry		Other legs of turkey	Other legs of turkey.
						Legs of other poultry	Legs of other poultry.
		Other parts of poultry	Halves and quarters of turkey.				Halves and quarters of turkey.
			Halves and quarters of chicken.				Halves and quarters of chicken.
			Other parts of poultry	Wings of poultry			Wings of poultry.
				Other parts of poultry	Boned parts of poultry.		Boned parts of poultry.
					Other parts of poultry		Other parts of poultry.

Graphs Showing the Development of EEC Tariff Regulations for Poultry, Live, Slaughtered and Parts Thereof

NOTES AND EXPLANATIONS

The curves produced in the following graphs show the development of:
a—gate prices (dotted lines)
b—the sum of gate prices and basic levies (solid lines), which represent the minimum entry prices
Until July 67 the basic levies varied between the EEC countries, the graphs show the mean of all national levies, therefore.
c—supplementary levies (shaded areas on top of b) are shown for imports from USA, if this levy was not uniformly applied to all third countries.
For reference see tables.
The tables use new columns for every change in the gate levy system among the entries:
X—denotes no change from last entry shown
——no levy demanded
Footnotes explain restrictions in supplementary levies for specific third countries.

EXHIBIT NO. 1

U.S. EXPORTS OF POULTRY MEAT TO COMMON MARKET COUNTRIES IN 1955-62

[In thousands of pounds]

Destination	1955	1956	1957	1958	1959	1960	1961	1962
Belgium-Luxembourg	59	82	122	180	292	90	276	430
Germany, West	56	4,451	5,834	7,690	52,374	85,980	134,749	152,322
Italy				32	5	30	607	748
France	2	38	44	40	34	74	331	53
Netherlands	10	89	841	2,451	5,712	11,444	20,863	27,223
Total, European Community	127	4,661	6,841	10,393	58,417	97,618	156,826	180,776

Source: Poultry Industry International Trade Development Committee.

DATA SHOWING ARBITRARY AND DISCRIMINATORY ACTIONS BY THE EC

[In cents per pound]

	August 1972 gate prices	August 1972 import levy	Total cost to EC-importer	Approximate market values in United States [1]
Whole eviscerated chicken [2]	34.05	14.43	48.48	33.50
Chicken backs and necks	17.13	10.90	28.03	8.00
Whole eviscerated turkey	39.35	14.49	53.84	39.00
Whole dried eggs	92.81	73.91	181.80	98.00
Turkey legs and thighs	57.06	37.58	94.64	25.00

[1] Urner-Barry—Producers price current—Aug. 30, 1972.
[2] Grillers—Chicken without neck, giblers, adjusted 3 cents additional.

We introduce Graph 2 of our recent study on "The Development of EC—Tariffs on Imports of Slaughtered Whole Chicken, 1962 to 1972".

Key to Graph—

Whole Chicken prep. A (83%) New York Dressed, Head and Feet On—RED.

Whole chicken prep. B (70%) Whole Eviscerated Chicken—GREEN.

Whole Chicken prep. C (65%) Grillers-Eviscerated Chicken—Less Giblets and Neck—BLUE.

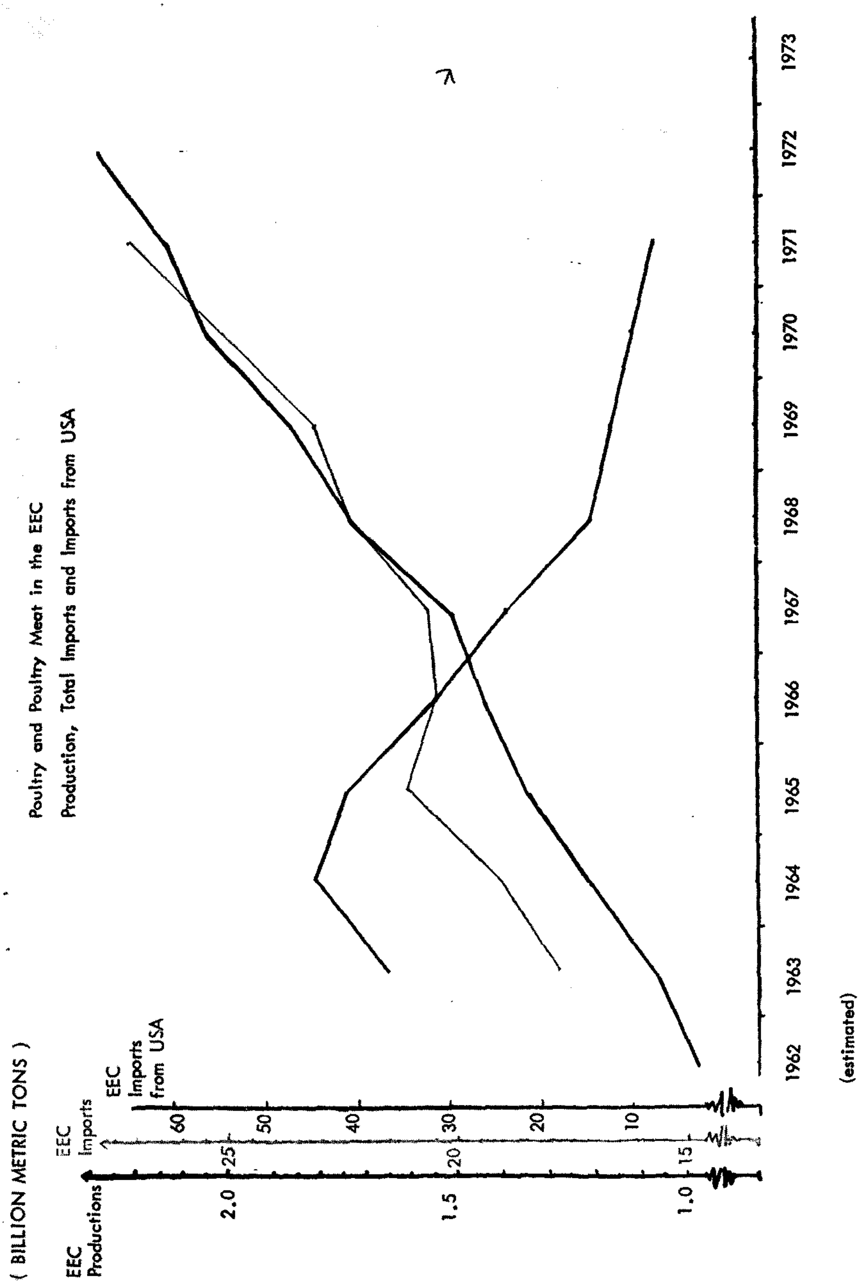
The vertically arranged numbers at the left of the chart represent the cents per kilo—(2.2 pounds). This graph shows the make-up of the price paid by the EC importer on these three types of chicken. As formerly stated, the price consists of three components. Let us deal with only "C" type grillers.

August 1972:

Gate Price approximately 74¢ divided by 2.2	=34.05
Basic Levy (dotted line up to solid line) Supplemental Levy (dotted blue area)	14.43
Total cost to EC importer	48.48

Please note that 14.43 import duty per pound represents 42% of Gate Price, which is a high ad valorem.

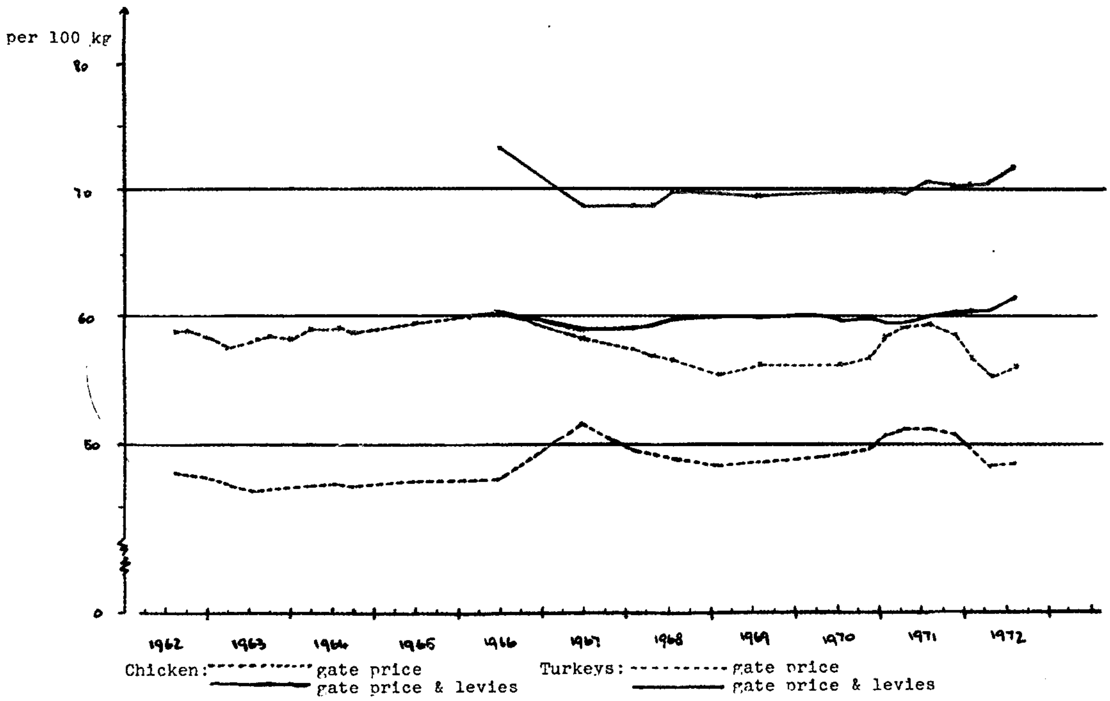
[Tables accompanying the graphs have been retained in the committee files.]



GRAPH 1

DEVELOPMENT OF EEC - TARIFFS ON IMPORTS OF LIVE POULTRY OVER 185 Gr.

1962 - 1972

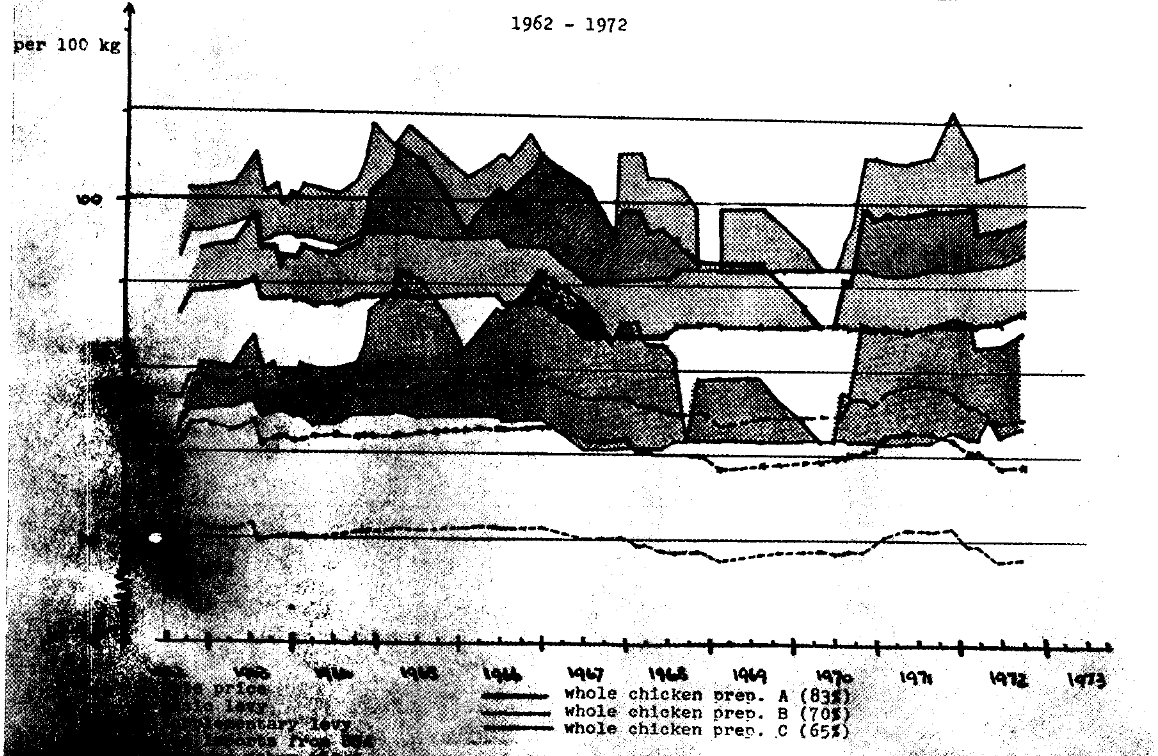


See Table 01.05 B

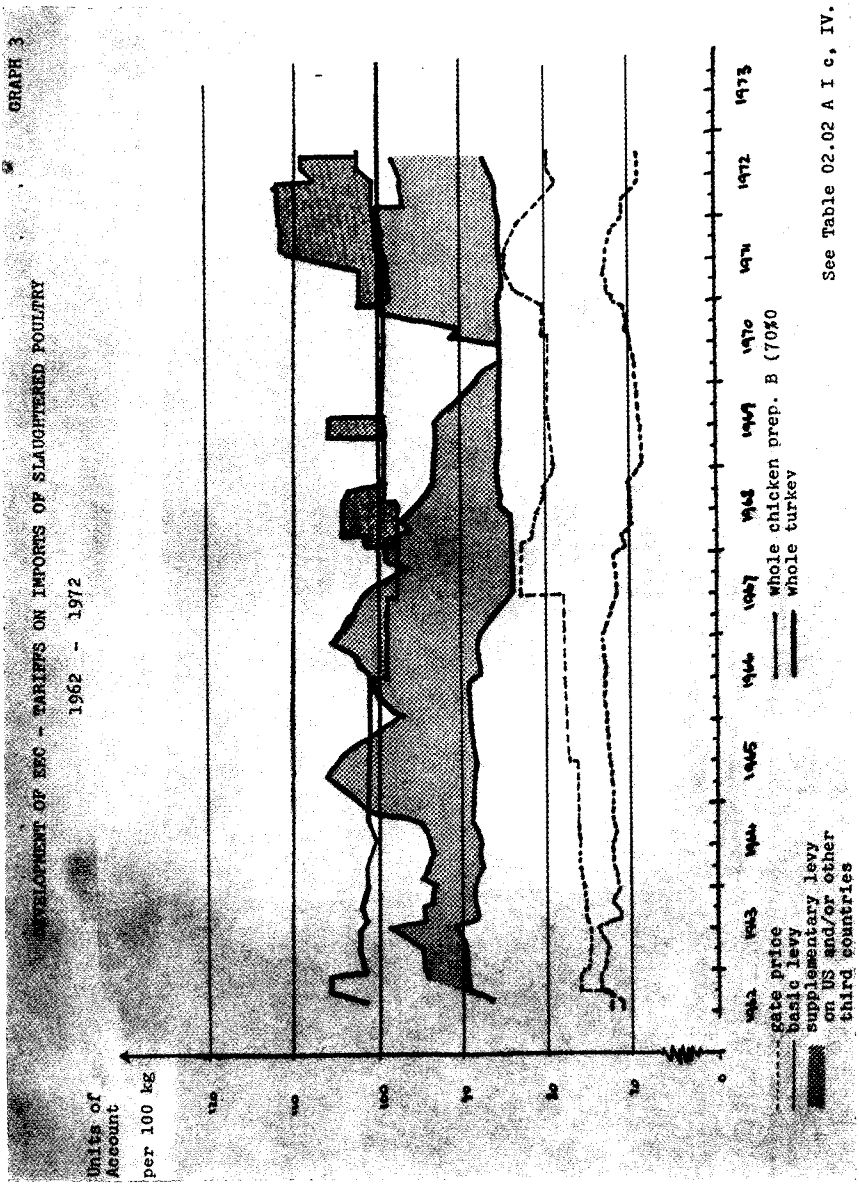
GRAPH 2

DEVELOPMENT OF EEC - TARIFFS ON IMPORTS OF SLAUGHTERED WHOLE CHICKEN

1962 - 1972



See Table 02.02 A I a-e



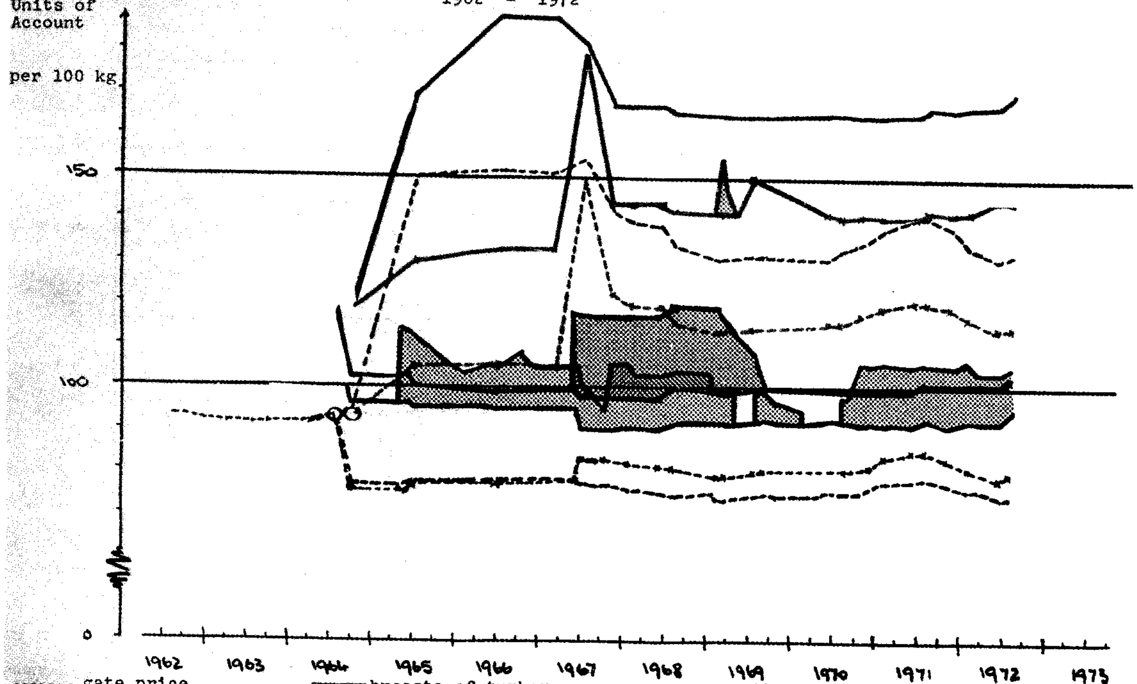
See Table 02.02 A I c, IV.

DEVELOPMENT OF EEC - TARIFFS ON IMPORTS OF POULTRY PARTS

BREASTS AND HALVES & QUARTERS OF POULTRY

1962 - 1972

GRAPH 4



- - - - gate price
—— basic levy
supplementary levy USA and/or other third countries

—— breasts of turkey
—— breasts of other poultry
—— halves & quarters of turkey
—— halves & quarters of chicken

—— other parts of poultry before diversification of tariff position

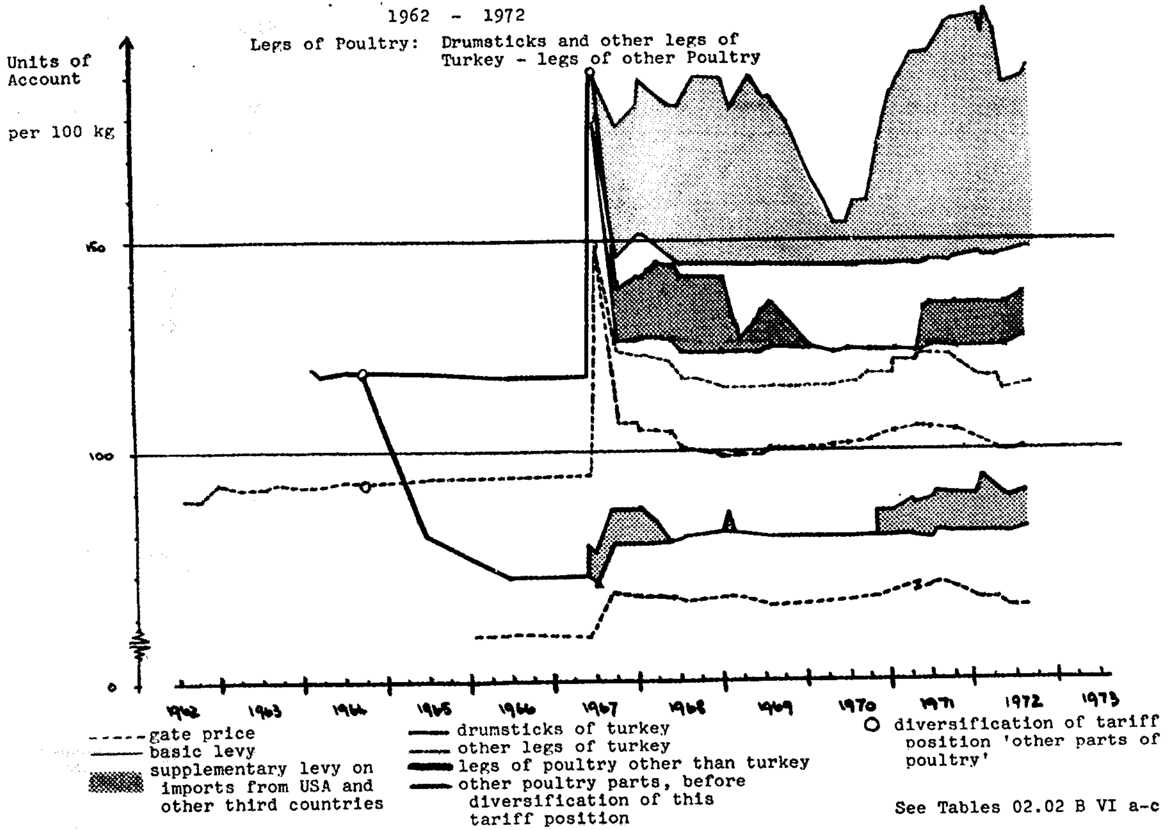
o diversification of tariff position

See Tables 02.02 B II and V.

GRAPH 5

DEVELOPMENT OF EEC - TARIFFS ON POULTRY PARTS
1962 - 1972

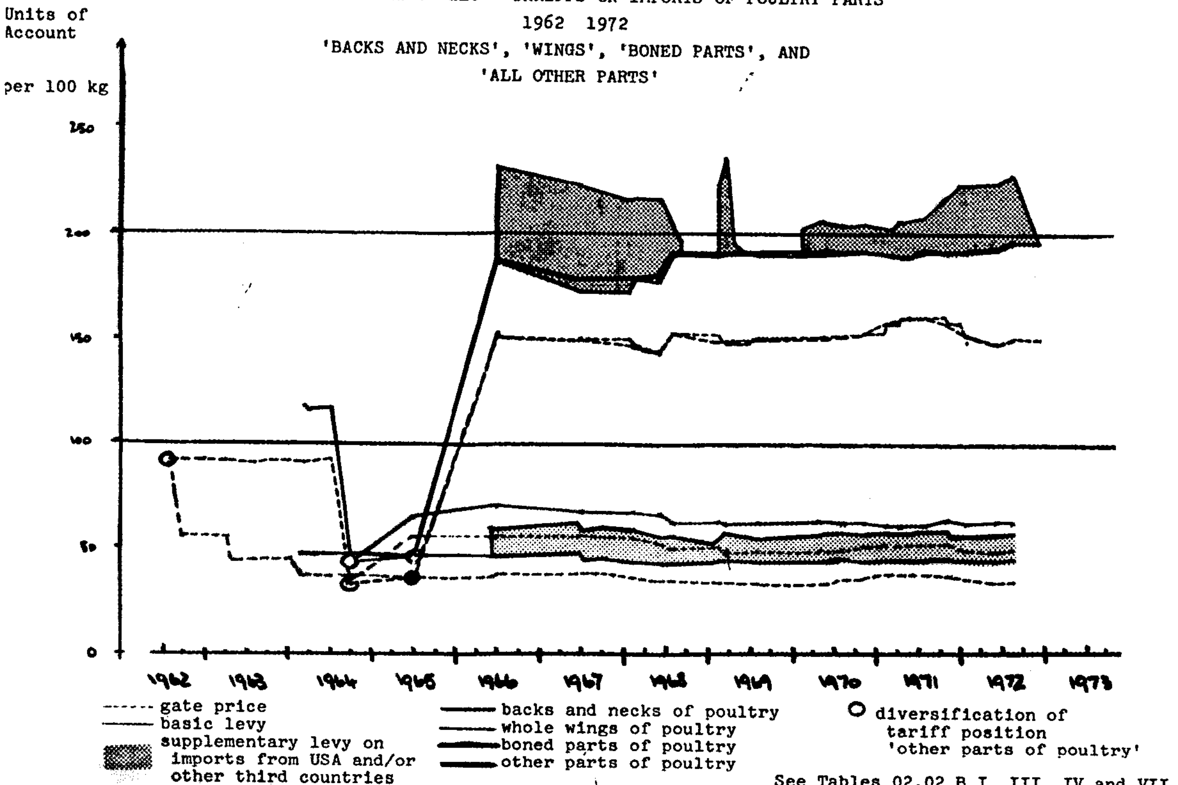
Legs of Poultry: Drumsticks and other legs of Turkey - legs of other Poultry



See Tables 02.02 B VI a-c

GRAPH 6

DEVELOPMENT OF EEC - TARIFFS ON IMPORTS OF POULTRY PARTS
1962 1972
'BACKS AND NECKS', 'WINGS', 'BONED PARTS', AND
'ALL OTHER PARTS'



See Tables 02.02 B I, III, IV and VII.

Mr. VANIK. Thank you very much. Are there any questions? Did you want to add anything?

Mr. WILLIAMS. Could Mr. Edwards read his statement?

Mr. VANIK. Yes, go ahead.

STATEMENT OF MORGAN EDWARDS, SOUTHEASTERN POULTRY & EGG ASSOCIATION

Mr. EDWARDS. I am Morgan Edwards representing Southeastern Poultry & Egg Association. We support the objectives of H.R. 6767 and the statement just presented by Mr. Harold Williams of the Poultry and Egg Institute.

It is imperative that our Government be given authority and a directive by Congress to favorably negotiate with other nations for the removal of major tariff and nontariff barriers against poultry and egg products.

The poultry industry is at a crossroads. It now has the technical knowledge to produce an excess of domestic consumption. We have the desire and willingness to penetrate other markets. It has demonstrated its ability to market in other countries where trade is not restricted. Restrictions in the way of excessive prices are preventing our poultrymen from developing their trade to its maximum potential.

In our judgment, H.R. 6767 is a step forward and if enacted will have a tremendous economic impact on the poultry food industry. The Southeastern Poultry and Egg Association is a nonprofit trade association with membership exceeding 15,000. The members are engaged in the production, processing and marketing of poultry, eggs, and turkeys. We appreciate the opportunity of expressing our needs here to this committee today and thanks again for allowing us to speak.

Mr. CAREY [presiding]. Thank you very much. Mr. Schneebeli?

Mr. SCHNEEBELI. I am very much impressed by the efficient use that you make of feed, 3 pounds of feed for 1 pound of broiler as compared to 8 pounds of feed for that much beef. Is that the reason your prices have gone up less than the price of beef?

Mr. WILLIAMS. Yes, and also the management, too, research and breeding.

Mr. SCHNEEBELI. You have made great strides. I think your industry has provided one stabilizing factor in this period of rising prices. I guess you are getting a lot of business as a result of it; aren't you? Has the demand stepped up?

Mr. WILLIAMS. Yes; of course the feed prices have gone up.

Mr. SCHNEEBELI. I hope it carries beyond the period of high prices that you have the good will of the consumer.

As I recall, there was a broiler war about a year or two ago with the EEC.

Mr. WILIAMS. There was a chicken war in 1963.

Mr. SCHNEEBELI. What happened there?

Mr. WILLIAMS. What it was, the Common Market raised the levy from 4½ to 14½ cents overnight. Then they slapped other levies on the parts and everything. We wanted to get some relief on that. Rather than applying section 252 of the Trade Expansion Act of 1962 the negotiators went the GATT route and was assessed the damages. I don't know how they could assess them fairly because this was a developing business, but they assessed it at $26 million. The United States then raised the levies on Volkswagen buses, I believe and certain types of brandies.

But it did the poultry industry no good and it did the consumers in the European Community no good. The people there would like to buy our product.

Mr. SCHNEEBELI. It still hasn't been solved.

Mr. WILLIAMS. That is correct.

Mr. SCHNEEBELI. It started in 1963.

Mr. WILLIAMS. Yes, the common agricultural policy went into effect July 1, 1962. Prior to that we sold in a year 150 million pounds of broilers, whole broilers into Germany, because the people liked them, even though we were paying 15.9 percent import duty there. Last year we sold to Germany, which is still our biggest customer, 43,000 pounds of whole broilers. In other words, 43,000 pounds, versus 150 million.

Our sales now are new products, that is, cooked goods, turkey thighs and wings. The levy on turkey thights is about 60 percent.

Mr. SCHNEEBELI. But you have improvised?

Mr. WILLIAMS. Yes.

Mr. SCHNEEBELI. Thank you very much.

Mr. VANIK [presiding]. Mr. Duncan?

Mr. DUNCAN. What is the picture as to the balance of payments on poultry products? Do we have a surplus or deficit?

Mr. WILLIAMS. A surplus because last year it was $86 million we sold abroad. That is all for cash. The imports were negligible. So I would say we had a balance of $80 million.

Mr. DUNCAN. Are we having great problems with any other than the EEC?

Mr. WILLIAMS. Yes.

Mr. DUNCAN. What are the greatest?

Mr. WILLIAMS. Health regulations. Up until a year ago or so in the United Kingdom. In Greece, we can't get anything in right now, because of licensing.

Mr. DUNCAN. How many countries do we ship to?

Mr. WILLIAMS. About 85 or 90.

Mr. DUNCAN. What is our biggest consumer?

Mr. WILLIAMS. Germany is still our biggest customer. I think the second one would be Japan and then Hong Kong and the Carribbean.

Mr. DUNCAN. Thank you.

Mr. VANIK. Your total exports were about $55 million and $86 million in breeder stock; is that correct?

Mr. WILLIAMS. Yes; in dollars.

Mr. VANIK. Is that correct?

Mr. WILLIAMS. The $86 million includes everything.

Mr. VANIK. It combines the $55 million?

Mr. WILLIAMS. Yes.

Mr. VANIK. What is your domestic sales?

Mr. WILLIAMS. Domestic sales, that is broiler, turkeys, and eggs.

Mr. VANIK. In the same categories?

Mr. WILLIAMS. At retail, about $6 billion.

Mr. VANIK. Well, $6 billion? So that these foreign sales are relatively a small part of what is going on. What concerns me is what is the net import of this kind of material from abroad, broiler stock, the same categories?

Mr. WILLIAMS. Little or nothing.

Mr. VANIK. There is nothing imported?

Mr. WILLIAMS. I would imagine that our net balance would be 80 million.

Mr. VANIK. So, actually your big market is the United States. This export that you are involved in doesn't really do much to reduce stocks or supplies in the domestic market. I see that there is a prospect that eggs are going to be going up to $1 a dozen because of the soybean prices. Is that reality? Is that likely?

Mr. WILLIAMS. I would tend to doubt that. I have heard that too.

Mr. VANIK. Are the foreigners buying them?

Mr. WILLIAMS. They are buying beans.

Mr. VANIK. But are they buying up the futures in the commodity market?

Mr. WILLIAMS. I don't know that anyone knows, but I think there is a general feeling that they are buying commodities.

Mr. VANIK. They could go on the market and buy all our foods.

Mr. WILLIAMS. Sure. They have plenty of dollars.

Mr. VANIK. I think your industry has rendered a service and I think you should endeavor insofar as possible to preserve the good will of the American people. If chicken should go the way of beef, you will alienate the support of a lot of people. I think what is going on in America today is that the farm program is going without controls. Whoever's fault it is doesn't matter.

What is happening is that we are developing a complete alienation in the country between consumer and producer. That is going to be in the long run more expensive to the farmer than any short-term gains. I hope that insofar as possible your industry can suppress price increases and moderate and try to get what you produce attractive and available to the American people. Otherwise, I think there is a chance sometime down the line that there will be some retaliatory action.

I, for one, don't feel that we ought to vote subsidies for the production of food for export. I must have voted for $100 billion in farm subsidies as a city-dweller over the past 18 years, as a city representative. I feel that farm technology has been somewhat paid for by my constituents over the years.

We have done a lot to produce feed grains, produce foods, make them cheap, develop productivity, develop the science of agriculture which probably exceeds, I am sure, the science with which we are making automobiles or making automobiles that give 6 or 7 miles per gallon. Going into 50-cent-per-gallon gasoline I look for a disaster soon in the automobile industry, because of their stupdity in catering to fancy than to the real need.

I think we are going to have a crisis in automobile sales when the people who make them find out that they don't get very many miles from them. They will probably turn to the foreign market. I am glad that your industry has tried apparently to develop a good will with the consumer. The consumer can understand things if they are related but he simply cannot understand 69-cent lettuce. It would have been wiser for the farmer to keep it off the market when it is that high.

It is bitter fruit, it is bitter lettuce. It is creating an anger that is going to reflect itself in votes in Congress against programs that may one day be crippling. I would hate to see this division continue.

Mr. WILLIAMS. We certainly don't want export subsidies. All we want is a fair shake.

Mr. VANIK. You just want a fair negotiating opportunity and I think you are entitled to that. I think you are entitled to speedy decisions. I think the Government should be more aggressive in developing a fair market opportunity. I think his would be good. It is a healthy area of competition and a small part of what you want, it is such a small part of your total production, you don't set your sights on taking over other markets.

Mr. WILLIAMS. We had our office over in Frankfort review levies for the past 10 years. Here are the changes in the levies on just two items.

Mr. VANIK. That is tremendous. Maybe you ought to make that a part of the record. If you can't make it a part of the record, I would suggest you supply copies. We can take an option on whether we can put it all in the record. We are running a tremendous printing bill. Mr. Schneebeli tells me the cost of these hearings may be probably more costly than some of the foreign trade we are talking about.

So, if you can leave copies of that here, we will appreciate that. Thank you very much. Your testimony has been very helpful and very good.

Our next witness is Patrick Healy, secretary of the National Milk Producers Federation.

Mr. Healy, we will be very happy to hear from you. We appreciate your sacrificing your lunch hour. We are all involved in the same kind of thing here.

STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION, AS PRESENTED BY M. R. GARSTANG, COUNSEL

Mr. GARSTANG. My name is M. R. Garstang. I am counsel for the National Milk Producers Federation.

Mr. VANIK. You may proceed, Mr. Garstang.

Mr. GARSTANG. We are always most grateful to have the opportunity to appear before the committees of Congress.

This afternoon we were doubly pleased because we have two appearances in the same afternoon. So for that reason I am substituting for Mr. Healy.

Dairy farming is a major part of American agriculture.

In 1972, U.S. dairy farmers received $7.2 billion for milk and additional cash receipts from the sale of animals for slaughter and other agricultural commodities.

U.S. dairy farming and milk processing is among the most efficient in the world. Our farmers have invested billions of dollars in modernizing both their dairy herd operations and processing facilities to more efficienty produce and process milk and dairy products of the highest quality.

While there is wide seasonal variation in milk production, there is little change in consumption during the year. Cows must be milked twice daily, but there is considerable variation in consumer purchases of milk on different days of the week.

Over half the milk produced in the United States is manufactured into dairy products. This not only supplies the U.S. demand for such products, but a high percentage of the manufacturing milk serves as a reserve supply to assure consumers an adequate supply for consumption as fluid milk throughout the year.

DAIRY PRICE PROGRAMS

Congress has authorized two programs which have greatly helped farmers to produce adequate supplies of milk and its products for consumers at relatively low prices.

The Agricultural Act of 1949 authorizes and directs the Secretary of Agriculture to support the price to farmers for milk at such level between 75 and 90 percent of parity as will assure an adequate supply. This program has been carried out at relatively small cost to the Government. Dairy products acquired under the program have been used through food programs to improve the diets of millions of children and other recipients.

Federal milk marketing orders authorized by the Agricultural Marketing Agreement Act of 1937, as amended, regulate the marketing of milk in 62 markets. They require handlers to pay farmers not less than prices computed on the basis of prices of milk consumed as fluid milk and prices of milk made into dairy products, and the volumes in each such use. Thus, the prices received by farmers for all milk are greatly influenced by the price support program.

DAIRY PRODUCT IMPORTS

In 1935, Congress added section 22 to the Agricultural Adjustment Act of 1933. Section 22 authorizes limitations on imports of agricultural products when necessary to prevent imports from interfering with domestic price support programs.

Section 22 has been amended or revised numerous times since then, indicating that Congress has continued to recognize its importance.

Import quotas for dairy products have been necessary since 1953 to prevent foreign dairy products from flooding the U.S. market. Such imports otherwise would have prevented our domestic support price from ever rising above the 75 percent minimum level, would have caused large increases in Government purchases and costs, and jeopardized the continuation of the program itself.

Continuation of U.S. import restrictions on dairy products will be increasingly essential because of recurring production of exportable surpluses in foreign countries and the entrance of Denmark, Ireland, and the United Kingdom into the European Common Market.

The United Kingdom, which is by far the biggest importer of dairy products, will be increasingly supplied by other European countries. This will greatly curtail the traditional outlet for dairy products produced in New Zealand and Australia, which will ship increasing quantities to the United States if permitted to do so.

The willingness of European countries to dump their dairy surpluses on outside markets is indicated by the recently revised export subsidies, announced by the ECC, ranging from 45.5 to 80.99 cents a pound for butter, varying by fat content; 6.46 to 36.44 cents a pound for different varieties, types, and fat content of cheese; 13.13 cents a pound for nonfat dry milk; and comparable rates for other products.

Opening the U.S. market to foreign dairy products will have dire consequences for our dairy farmers, result in sharp curtailment of U.S. milk production, make U.S. consumers dependent upon unreliable foreign sources of dairy products, and eventually result in higher prices to consumers than if they would continue to rely on domestically produced dairy products.

Europe, South America, Australia, and even New Zealand, all have experienced drouths which at times have temporarily reduced their exportable supplies. As recently as 1971, the Commodity Credit Corporation sold 128 million pounds of butter for commercial export, mainly to the United Kingdom, because of such shortfalls of production in other nations.

TRADE REFORM ACT

U.S. dairy farmers have reason to believe that the authority contained in the Trade Reform Act would be used in a way which would seriously damage or destroy U.S. dairy farming.

Import quotas for cheese, which have been repeatedly increased since the initial total quota of 20 million pounds per calendar year was established in 1953, have been further raised from 128 to 192 million pounds for 1973.

U.S. dairy farmers are especially alarmed by a proposal in the "Flanigan report" prepared in the U.S. Department of Agriculture, at the request of Peter Flanigan, Assistant to the President, for use by the Council on International Economic Policy. This report appeared in the Congressional Record of April 12, 1973, page S7201.

The report proposes that the United States try to negotiate an international agreement which would provide for gradual reduction and eventual elimination of all trade barriers, including U.S. import quotas for dairy products.

It projects that, as a result of liberalized trade, U.S. production of milk would decline by 13.4 billion pounds—11 percent—below production in 1970. This would result from increased milk production in Europe from U.S. produced feeds, and increased exports of dairy products to the United States where they would displace domestically produced dairy products which otherwise would be produced from such feeds in the United States.

Such irresponsible willingness to sacrifice the U.S. dairy farming industry at the forthcoming round of trade negotiations, making U.S. consumers dependent upon unreliable foreign sources of dairy products, is simply appalling.

RECOMMENDATIONS

The actions already taken to increase imports of dairy products, and the "Flanigan report," have strengthened our support for other proposed legislation to set a specific limit on dairy product imports.

We now urgently request that there be added to the Trade Reform Act the following provision:

Nothing contained in this act shall be construed to affect in any way the provision of section 22 of the Agricultural Adjustment Act, or to apply to any import restriction heretofore or hereinafter imposed under such section or pursuant to any other provision of law.

We also urge that the Trade Reform Act require that any international trade agreement be subject to specific consideration and approval by the Congress, the same as other treaties.

The proposed trade negotiations would involve domestic price support and related policies and programs. These should continue to be prescribed by the Congress in agricultural legislation rather than by trade negotiations.

Because of our concern about the possible efforts of the trade negotiations on our dairy industry, we also urge that the Trade Reform Act require that representatives of dairy farmers be provided opportunity to be present and provide that representatives of Congress may participate in the negotiations.

I am submitting a more detailed statement in support of our position. I request that it be made part of the hearing record.

Mr. Chairman, our organization has never tried to prevent the producers of feed grains and other farm products from obtaining a fair return for their products. We are quite concerned that the people representing the feed crops now would go along with legislation which would trade off a substantial part of the dairy industry in return for additional exports of feed.

At the same time, in all of these years, we have never asked that foreign nations lower their import controls to such an extent that we could go into their country and destroy one of their industries or seriously harm their agricultural industry, or their agricultural programs. That is our position now. We think the Common Market is doing a marvelous job for their farmers over there and for the agricultural part of the community.

We don't ask to go in there and tear that down and break down their agricultural programs. We admire them for what they are doing. At the same time, we are quite concerned about their eager desire to come into this country and destroy a substantial portion of our industry and tear down the agricultural programs which this country has built up for our farmers.

Incidentally, practically all of the agricultural programs in the Common Market were copied from ours. I remember years ago when we used to come before this committee and defend import controls on dairy products to prevent them from destroying our programs, the foreign nations would come in and ask for our controls to be taken down so they could come to this country to do serious damage to our own programs.

But we have never asked that we be permitted to come in and damage their programs or their farmers or their industry.

Another comment that occurs to me in connection with the proposals to trade off a part of the dairy industry in this country for increased exports of feeds is the fact that this is a rather odd thing.

If you stop to look at it, possibly the greatest market that the feed industry in this country has, one of the biggest certainly, is the dairy farmers. I am very, very sure that any feed that they might sell abroad in addition to what they are selling now would be greatly offset and they would come out at a net loss by reason of the fact that American dairy farmers would be out of business and would no longer be a market for them.

In that connection also, it doesn't seem very logical that you could take feed from the central patr of the United States where it would be produced, pay transportation on it to the east coast, pay freight on it all the way over to Europe, process it through dairy farmers in Europe, process it through manufacturing plants in Europe where they would use cheap labor as against the labor that would be displaced in the processing plants in our own country and then carry the dairy products all the way back across the ocean and bring them back into this country and anybody gain anything by it.

I am sure that there just isn't any possible way that that could operate to anybody's advantage.

There is a lot of talk about efficiency. We do have quite a lot of efficiency. We are quite proud of the progress that we have made in the dairy industry. But there is more than just efficiency involved because you have to take into consideration standards of living and labor costs and costs of production.

It is easy to say that the amount of labor that is involved on a farm or in a dairy processing plant is not great in terms of man hours. But, it all shows up in the cost of production because labor costs show up in the cost of machinery and other production items. Everything that the farmer has to buy and has to use to produce dairy products for this country is influenced by the cost of labor. Labor in this country is about three times as high as it is in other areas of the world, possibly more than that. Even though we do have a high degree of efficiency here, we cannot compete with foreign countries whose standard of living is cheap, whose farmers do not send their children to school or college as our people do, and as we want them to do. By the time you put all of that together, the cost of production in foreign countries may be much lower than we can compete with.

Now, production costs are one serious problem but a more serious problem is the export subsidies. Practically every nation that is exporting dairy products is using export subsidies. In hearings that have been held before the Tariff Commission that has all been brought out. I think the only country that claimed it was not using a subsidy was New Zealand. I am not so sure that in the process of the operation of their marketing boards there isn't a subsidy there. But in the case of the Common Market, the subsidies have been terrific. The present subsidy on butter, export subsidy on butter from the United States to the Common Market is 58.71 cents a pound. The export subsidy on butterfat is 88.91 cents a pound. The export subsidy on Swiss cheese is 33.80 cents a pound.

The CHAIRMAN. I will have to ask you to suspend now. We will have an opportunity to resume your testimony after we get back which will be in about 10 minutes.

The committee will stand in recess until about 5 minutes before 2.

[A recess was taken.]

Mr. CAREY [presiding]. The committee will resume the hearings on trade reform legislation.

Mr. Garstang, you had completed your statement at the time the vote occurred. As we left the room, were you on the point concerning the impact of export subsidies? Do you want to complete that discussion?

Mr. GARSTANG. Yes, sir. I was commenting at the time the committee recessed on the export subsidies of the Common Market. Our price support for butter in the United States, at New York, is 62 cents per pound as against an export subsidy on butter from the Common Market to the United States of 58 to 71 cents a pound.

The support on cheddar cheese is 62 cents a pound. The Common Market export subsidy in the United States is 31.7 cents a pound. Support for nonfat dry milk is 37.5 cents per pound in this country. The export subsidy from the EEC to the United States is 13.13 cents per pound.

The Common Market recently sold Russia 440 million pounds of butter at 19 cents per pound. At the time, the basic price of butter in the Common Market was $1.02 per pound. With export subsidies of this kind there just isn't any such thing as competing in world trade.

We have a statute which requires the United States to impose a countervailing duty equal to the amount of these subsidies.

The Commissioner of Customs has failed to enforce this statute although we have requested him to do so many, many times. If that were done it would equalize the cost of production between the Common Market and the United States. Actually, their prices over there are pretty much in line with our own and in some instances are higher, but with export subsidies of tremendous amounts, they could take over any part of this market that they wanted to any time that we let our import controls down. We would recommend very strongly that the countervailing duty statute not be changed to make the imposition of these duties discretionary with the President. We think if that were done that the statute would not be imposed effectively at all. It is not imposed effectively now but at least it is a mandatory statute at the present time.

The last point I am going to make is that we are quite concerned about the tremendous transfer of power that would occur from Congress to the President under this trade bill. Control over international trade is vested in Congress by the Constitution. We think that was a wise provision by the framers of the Constitution. We would like to see it retained there.

The Members of Congress are responsive to the people in this country. We can go and talk to our Members of Congress. But when this is vested in the President and he has complete control over the foreign trade, the farmers of this country are going to find it very difficult to find anybody to listen to their problems.

We would like to see in the trade bill a provision that import controls under section 22 not be subject to negotiation. The Common Market has stated very flatly that its agricultural policies are not subject to negotiation. We do not think that the import controls under section 22 should be subject to negotiation, either. Obviously, it would be a complete disaster to remove our own import controls under section 22 and let the Common Market continue with its program of export subsidies. We would also like to see Congress retain very definite control over our foreign trade programs and over imports.

[The prepared statement of Patrick B. Healy follows:]

STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION

Mr. Chairman: I am Patrick B. Healy, Secretary of the National Milk Producers Federation. The Federation is a national farm commodity organization representing dairy farmers and the dairy cooperative associations they own and operate. The Federation's membership consists of dairy cooperative associations doing business in all fifty states of the Union. The policy positions presented by the Federation are the only nationwide expressions on national public policy relating solely to dairy farmers and their cooperatives.

In accordance with the Committee's guideline that one spokesman represent organizations and groups with a similar position so as to conserve time and avoid repetitious testimony, I will be the only witness to testify on behalf of the National Milk Producers Federation.

IMPORTANCE OF U.S. DAIRY FARMING

The first part of my statement will relate to the importance of dairy farming in American agriculture and to the general economy. The reason for this part of my statement will be apparent when I discuss dairy product imports and the almost unbelievable proposal to offer the American dairy industry as a sacrificial calf at the forthcoming round of international trade negotiations.

Dairy farming is a major and important segment of our agricultural industry in the United States. The production, processing and marketing of milk and its products contribute greatly to employment and the business of local communities, and help to support the local, state and national governments through taxes, and in other ways.

U.S. dairy farmers received nearly 7.2 billion dollars from sales of milk and cream alone in 1972 (Table 1). They also shared in the cash receipts from the sales of meat animals. They cull and sell for slaughter nearly one-third of their milk cows every year and replace them with young stock. In addition, they sell over half of the dairy calves born each year as veal or raise, feed, and sell them as steers. While many dairy farmers also raise beef cattle, other meat animals, feed grain, soybeans, or other crops for sale, most dairy farmers rely on the sale of milk as the major source of their farm income.

We have seen a tremendous improvement in the efficiency of production throughout our agriculture. It is generally recognized that farmers produce feed grains and soybeans more efficiently in the United States than in any other country. Milk cows are large consumers of feed grains, soybean meal, and other concentrates, as well as roughage. Last year, they consumed over 25 million tons of concentrates, having a market value of 1.75 billion dollars. Most dairy farmers buy feeds produced by other farmers to supplement the feeds they produce on their own dairy farms. Many purchase nearly all of their feed requirements.

U.S. dairy farmers have invested billions of dollars to enlarge, mechanize, and otherwise modernize their feed producing and milk production operations. This has involved feed producing machinery, buildings, milking facilities, refrigerated milk tanks, and dairy cattle.

In addition, dairy farmers acting cooperatively have made large investments to replace the hundreds of small, obsolete processing plants with large volume plants equipped with modern facilities to process milk more efficiently and to assure the highest quality of products for consumers.

A great amount of this modernization of our dairy farms and processing facilities has been financed by borrowings from the Federal Credit System and private lending agencies.

The production and marketing of milk is important in every state of the Union. Total milk production has varied relatively little in recent years, and has been geared closely to the domestic market requirements. Total production in 1972 was about 120 billion pounds.

About 46 percent of all milk marketed by farmers was consumed as fluid milk. The remaining 54 percent was manufactured into dairy products.

Milk made into dairy products not only supplies the U.S. market for such products, but also serves as a reserve supply which assures consumers of adequate supplies of fluid milk throughout the year.

While consumption of milk and its products is fairly constant throughout the year, milk production varies seasonally. Furthermore, there is considerable variation in the quantity of milk bought by consumers on different days of the week. Consumers buy large portions of their weekly requirements on weekends and before holidays. In order that this demand may be met, relatively large proportions of the milk produced on Sundays and early in the week must be made into dairy products.

American dairy farmers are among the most efficient milk producers in the world. Production per cow is one measure of efficiency.

The total number of milk cows in the nation has declined almost steadily since World War II, but milk production per cow has steadily increased (Table 1). Average production per cow in 1972 was 10,271 pounds. In 1971, for which figures are available for other countries, the United States was the only country in the world with average production per cow over 10,000 pounds (Table 2).

Another measure of the increased efficiency is the market decrease in man hours of labor required to care for dairy cows (Table 3). It now takes little more than one-fourth as much labor as it took 20 years ago to produce about the same total quantity of milk. Thus the labor required to produce 100 pounds of milk has decreased sharply.

Census data reveal that the number of farms keeping milk cows has declined rapidly during the last two decades, and that the average size of herds has increased rather markedly (Table 4).

The dairy herds which were too small to provide a living for a farm family, or which were merely supplemental sources of incomes on farms devoted mainly to producing other agricultural commodities, have been rapidly disappearing from American agriculture.

We estimate that about 250,000 farmers now produce nearly all of the nation's milk supply and that the average size of herd is at least 30 cows.

The larger herds are necessary to warrant the investment in equipment to permit efficient operation by the farm family with little hired labor, and to bring in enough income to provide a satisfactory livelihood for the family.

Dairy Price Programs

The Congress has long recognized the importance of a strong, healthy agriculture to our nation's economy and to the well-being of the American people. Toward this goal, the Congress has provided legislative authority for farm programs and policies which have helped farmers make our agricultural industry the greatest in the world, able to produce abundant supplies of food and fiber for consumers at very reasonable prices. While we hear complaints today about food prices, the fact remains that consumers now are spending a smaller percentage of their disposable incomes for food than ever before (Table 5).

The Congress has provided legislative authority for two major related programs which have been of great help to our dairy farmers in producing adequate supplies of high quality milk and dairy products for consumers at relatively low prices. These two programs are the dairy price supports authorized by the Agricultural Act of 1949, and the Federal milk marketing orders authorized by the Agricultural Marketing Agreement Act of 1937, as amended.

The Agricultural Act of 1949 authorizes and directs the Secretary of Agriculture to support the price of milk received by farmers at such level between 75 and 90 percent of parity as will assure an adequate supply. This program has been carried out through Government purchases of dairy products at relatively small cost to the Government (Tables 6 and 7). Most of the dairy products acquired under the support program have been used to good advantage to improve the diets of our school children and millions of other recipients in other food assistance programs (Table 8).

The value of dairy products for these uses has been clearly recognized. The Department of Agriculture has bought additional quantities of dairy products for established programs, using other authority and funds, when supplies acquired under the support program have not been sufficient to fill program needs. Large proportions of the expenditures attributed to the price support program actually have represented necessary expenditures for food distribution programs.

The Federal milk marketing order program, now operating in 62 milk markets, is the other program which promotes orderly marketing in the interest of farmers and consumers.

The milk orders require handlers to pay farmers for milk at not less than specified prices, according to use of the milk. The highest prices are paid for milk sold for consumption as fluid milk, while lower prices are paid for that portion which is manufactured into dairy products. All such prices are determined from average prices paid for manufacturing milk in the Minnesota-Wisconsin area. Thus, all prices paid farmers for milk are heavily influenced by the price support program.

DAIRY PRODUCT IMPORTS

This brings me to the matter of imports.

We must recognize that imports of dairy products add to the total supply and thus depress prices paid U.S. farmers for milk. The price support program and the milk marketing order program are intended to bolster prices paid farmers for milk. Achievement of parity prices to farmers has been the long-standing goal of the Congress, as repeatedly set forth in agricultural legislation.

The Congress recognized as early as 1935 that imports of agricultural products could seriously impair or wreck the farm programs. The legislators added Section 22 to the Agricultural Adjustment Act of 1933 to authorize limitations of imports when necessary to prevent interference with our agricultural programs.

Section 22 has been amended or revised numerous times since then, indicating that Congress has continued to recognize the importance of this provision to protect our farm programs.

Import quotas for dairy products have been necessary to prevent foreign produced dairy products from flooding the U.S. markets. Unless limited, such imports would have prevented the support level from ever being above the legal minimum level of 75 percent of parity, and would have caused large increases in Government support purchases and costs. This would have jeopardized continuation of the program.

Initially, import quotas were established for conventional dairy products, such as butter, various types of natural cheese, and dried milk products.

Foreign exporters, however, soon found that they could ship the milkfat and nonfat milk solids into the United States in other forms not previously entering international trade, such as butter oil, and butterfat-sugar mixtures. Such items clearly were evasions of the quotas. Similar quota evasions were experienced in cheese. It became necessary for the Tariff Commission to hold numerous hearings leading to actions intended to close such loopholes.

Milk produced in foreign countries can be made into any product that can be made from milk produced in the United States.

Imports of dairy products displace the domestically produced products in the market. The domestically produced milk so displaced is made into butter, nonfat dry milk, and cheese, those products which have been purchased by the Government under the support program.

Thus, unless imports continue to be restricted, the U.S. Government will be in the position of purchasing surplus dairy products of foreign nations.

Continuation of U.S. import restrictions on dairy products will be increasingly essential in the years ahead because of the entrance of Denmark, Ireland, and the United Kingdom into the European Common Market.

Milk production in Western Europe has recovered from the unfavorable weather conditions in 1970. Production in Western Europe increased 2½ percent last year. More milk production in Western Europe is being encouraged by efforts to increase beef production to supply the growing demand for meat. This results because most of the cattle raised in Europe serve the dual purpose of both milk and meat production.

Eurpean production now is supplying the demands for dairy products in the EEC and also is providing large exportable surpluses. These countries have been exporting their surpluses at whatever prices they could negotiate through export payments. Their willingness to dump their surplus dairy products onto outside markets is reflected by the sizes of their export subsidies.

For example, the Economic Community announced revised export subsidies, effective May 14, 1973, for butter and butterfat products ranging from the equivalent of 45.5 to 80.99 cents a pound (varying by fat content); cheese 6.46 to 27.91 cents a pound (varying by variety or type, fat content, and market destination); nonfat dry milk 13.13 cents a pound, plus a subsidy for sugar if added; and comparable export subsidies on canned milk, butterfat-sugar mixtures, and dry milk mixtures.

There is no reason to believe that, even if the Community discontinued export subsidies, the EEC countries would supply the U.S. market with dairy products at prices below their domestic prices. The prices of dairy products to consumers are much higher in the European Community countries than in the United States. For example, reported retail prices of butter range from $1.12 to $1.98 a pound in the Common Market, compared with less than 80 cents a pound in the Washington area.

New Zealand, which exports about ¾ of its milk production in the form of dairy products, also has recovered from the serious drought which reduced its milk production 14 percent in 1970. Milk production in that country has resumed its uptrend.

Entry of the United Kingdom into the European Economic Community will greatly reduce the export market for dairy products produced in New Zealand and Australia. The U.K. market, which traditionally has been the principal market for dairy products produced in this two countries, will be increasingly supplied with dairy products produced within the Community. This will force New Zealand and Australia to seek other markets. They will, of course, greatly increase their exports of dairy products into the U.S. market if permitted to do so.

Opening our market to foreign dairy products, not only would have dire consequences for our dairy farmers; it would result in sharp curtailment of U.S. milk production. This would make U.S. consumers dependent upon unreliable foreign supplies and eventually result in higher prices to them than if they continue to rely on U.S. produced diary products.

In years when production was down due to drought or other unfavorable conditions in foreign countries, foreign consumers would, of course, have first call on available supplies. U.S. consumers would get what would be left, if any, and only at high prices.

West Europe, South America, Australia, and even New Zealand have experienced drought conditions which temporarily reduced their milk production substantially within the past decade. The United States sold sizeable quantities of butter and nonfat dry milk to West Europe in 1963, 1964, and 1965.

In other years foreign nations have experienced exportable surpluses. West Europe accumulated a billion pounds of butter in 1968 and 1969, as its milk production increased. Temporary price-cutting and other programs were adopted. Meanwhile, unfavorable weather conditions again temporarily reduced milk production in West Europe, and a severe drought in New Zealand reduced her milk production.

With these developments, West Europe's accumulated stocks disappeared. In fact, the Commodity Credit Corporation sold about 128 million pounds of butter for export, mainly to the United Kingdom, in 1971.

The situation has changed again. As a result of increasing milk production, West Europe has again built up large surplus stocks of butter.

Because of the uncertainty of available supplies, U.S. consumers should not be made to rely on foreign source products.

TRADE REFORM ACT

Our dairy farmers recognize that they cannot hope to prosper unless all farmers prosper, and unless we have a strong, prosperous nation. They recognize that American farmers generally might benefit from increased exports of agricultual commodities. Such exports might well help to alleviate the problem of excessive productive capacity, improve farm incomes, and contribute toward solution of our unfavorable balance-of-payments.

Our dairy farmers, however, have reason to believe that the authority contained in the Trade Reform Act would be used in a way which would seriously damage or destroy U.S. dairy farming.

The U.S. seems to be committed to destruction of its dairy farming industry.

A report was prepared in the Department of Agriculture at the request of Peter Flanigan, Assistant to the President for International Economic Affairs, for use by the Council on International Economic Policy.[1]

This Report proposes that the dairy industry be sacrificed in negotiating an international agreement under the Trade Reform Act.

The stage already has been set by a series of moves which would discourage U.S. milk production and make U.S. consumers dependent on fluctuating supplies of foreign produced dairy products.

Numerous actions have been taken to increase cheese import quotas since the initial quotas, totalling about 20 million pounds, were established in 1953.

Cheese quotas were raised in 1960, 1961, 1962, 1965, 1966, 1967, 1969, 1971, 1972, and 1973.

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[1] The "Report" appears in the Congressional Record—Senate, S7201, Apr. 12, 1973.

The total cheese quota for 1973 already has been increased from 128 million pounds to 192 million pounds, and now is nearly 10 times the original quota.

The 1973 import quota for nonfat dry milk has been raised from 1.8 million pounds to 86.8 million pounds.

The basic purposes of the Price Support Program are to assure satisfactory returns to dairy farmers and adequate supplies of milk and dairy products for consumers.

On March 8, 1973, the Secretary of Agriculture established the price support level for milk for the marketing year ending March 31, 1974.

The press release announcing this action states that "the law requires that milk be supported at such level between 75 and 90 percent of parity as the Secretary determines necsesary to assure an adequate supply. The Secretary has determined that the support rate of $5.29 will assure an adequate supply. This level of support is estimated to be 75 percent of parity on April 1, 1973, the minimum required by law."

The same press release contains the following statement: "Today's announcement also called attention to a parallel action by President Nixon requesting the U.S. Tariff Commission to investigate the need for a temporary increase in cheese import quotas".

"These actions are consistent with the Administration's efforts to solve the food price problem by increasing supplies, which is the most effective way to restrain increases in food prices."

The inconsistency of these two actions is obvious. If the $5.29 price support level, the minimum required by law, was sufficient to generate the production of an "adequate supply" in the United States, certainly the 70 million pounds of additional imports of cheese could not be required for the same purpose.

Furthermore, we contend that increasing imports to depress prices is not a proper use of the Section 22 authority. Section 22 clearly was designed to prevent imports from interfering with our domestic support programs authorized by the Congress.

Even more alarming to U.S. dairy farmers is the proposal set forth in the "Flanigan Report", mentioned above. This Report was prepared under the direction of Howard L. Worthington, while Associate Administrator of USDA's Foreign Agricultural Service. Mr. Worthington now is Deputy Assistant Secretary of Treasury for Trade.

The Report proposes that the U.S. seek to negotiate an international commodities agreement which would have as its principal provision a gradual reduction and eventual elimination of all barriers to international trade in grains and livestock products, including dairy products.

The Report contains projections of U.S. production, consumption, exports, and imports, of the agricultural commodities to be included in the agreement, by 1980, if (1) present programs and trade policies are continued, and (2) if international trade is fully liberalized.

The Report seeks to induce the support of cash grain and beef producers with glowing projections of big increases in grain production and exports, rising feed grain prices, and substantial increases in beef production and exports, under fully liberalized trade, over projected production, exports, and prices under present programs and trade policies.

What is alarming to our dairy farmers is the projection in the Report that U.S. production of milk would decline by 13.4 billion pounds (8 percent), below projected production in 1980 if the present programs and trade policies are continued. The decrease in U.S. milk production under fully liberalized trade would result from the removal of U.S. import restrictions on dairy products, increased European milk production from U.S. produced feeds, and resulting increased exports of dairy products into the United States where they would displace domestically produced dairy products.

It does not make economic sense for feeds produced in the United States to be transported half way across the U.S. and across the ocean to be fed to cows in Europe to produce milk for conversion into dairy products to be shipped back across the ocean into the U.S. market, where they would displace dairy products now being produced in the U.S. from such feed. Such a proposal ignores ocean and other transportation and handling costs of feeds and dairy products; and ignores the large capital investments U.S. farmers have made to enlarge, mechanize, and otherwise make their dairy farming and processing faciilties among the most efficient in the world.

The Report states the Economic Community has made clear that its Common Agricultural Policy is not negotiable. Thus there is little prospect of successful negotiation of an international agreement satisfactory to the U.S. Nevertheless we are fearful that the U.S. would raise import quotas for dairy products before or during negotiations to demonstrate the "good faith" of U.S. negotiations. The result would be serious injury to U.S. dairy farmers regardless of the outcome of negotiations.

RECOMMENDATIONS

The actions already taken, and our concern about additional actions that would be taken to increase imports of dairy products under the authority of the Trade Reform Act, prompt us to support other proposed legislation to set the maximum level of U.S. imports of dairy products at a fixed percentage of total market requirements.

In order to assure that the Trade Reform Act will not be construed as authorizing the negotiation of U.S. imports of dairy products, we request the addition to the bill of the following provision, which was included in the Trade Expansion Act of 1962:

"Nothing contained in this Act shall be construed to affect in any way the provisions of Section 22 of the Agricultural Adjustment Act, or to apply to any import restriction heretofore or hereafter imposed under such Section or pursuant to any other provision of law."

The trade negotiations proposed in the "Flanigan Report" would involve the negotiation of domestic price support and related policies and programs.

We firmly believe that any change in our domestic programs affecting dairy farmers should be made by the Congress and not by representatives of the Executive Branch of the Government in international trade negotiations.

It also is our strong belief that the Trade Reform Act should require any international trade agreement to be subject to the specific consideration and approval by the Congress, the same as other international treaties.

Finally, because of the extreme concern of dairy farmers as to the course the forthcoming trade negotiations may take, we urge that the Trade Reform Act contain a provision requiring that representatives of dairy farmers be provided an opportunity to be present at the negotiations, and that representatives of the Congress be authorized to participate in the negotiations.

TABLE 1.—AVERAGE NUMBER OF MILK COWS ON FARMS IN THE UNITED STATES, AVERAGE MILK PRODUCTION PER COW, TOTAL MILK PRODUCTION, TOTAL MARKETINGS OF MILK AND CREAM BY FARMERS, AVERAGE PRICE OF MILK, AND TOTAL CASH RECEIPTS FROM FARM SALES OF MILK AND CREAM, SPECIFIED YEARS, 1950-72

Year	Number of milk cows (thousands)	Milk production per cow (pounds)	Billion pounds		Average returns per 100 pounds milk [2]	Total cash receipts (millions)
			Total milk production	Total farm marketings [1]		
1950	21,944	5,314	116.6	98.3	$3.75	$3,719
1955	21,044	5,842	122.9	108.3	3.89	4,217
1960	17,515	7,029	123.1	114.0	4.18	4,760
1961	17,243	7,290	125.7	117.3	4.20	4,932
1962	16,842	7,496	126.3	118.6	4.10	4,860
1963	16,260	7,700	125.2	118.1	4.11	4,861
1964	15,677	8,099	127.0	120.5	4.17	5,027
1965	14,953	8,305	124.2	118.2	4.26	5,038
1966	14,071	8,522	119.9	114.4	4.84	5,533
1967	13,415	8,851	118.7	113.6	5.06	5,742
1968	12,832	9,135	117.2	112.6	5.29	5,957
1969	12,307	9,434	116.1	111.8	5.54	6,196
1970	12,000	9,747	117.0	113.0	5.78	6,525
1971	11,842	10,009	118.5	114.8	5.93	6,811
1972	11,710	10,271	120.3	116.7	6.13	7,156

[1] Milk equivalent of milk and cream sold by farmers.
[2] Cash receipts divided by milk represented by farm marketings.

Source: "Dairy Situation," Economic Research Service, U.S. Department of Agriculture, various issues.

TABLE 2.—MILK PRODUCTION IN SPECIFIED COUNTRIES IN 1971

	Cows (1,000 head)	Production	
		Per cow (pounds)	Total milk (million pounds)
United States	11,842	10,009	118,532
France	8,968	6,774	60,746
Germany, West	5,489	8,501	46,661
United Kingdom	4,515	6,218	28,074
Italy	3,400	6,164	20,957
Netherlands	1,890	9,770	18,466
Canada	2,397	7,416	17,777
Australia	2,600	6,205	16,133
New Zealand	2,195	6,160	13,521
Japan	1,139	9,329	10,626
Denmark	1,105	9,096	10,051
Belgium	1,000	8,135	8,135
Ireland	1,690	4,812	8,132
Austria	911	7,964	7,255
Switzerland	869	7,937	7,011
Sweden	742	8,554	6,347
Norway	414	9,691	4,012

Source: "World Agricultural Production and Trade," Foreign Agricultural Service, U.S. Department of Agriculture, July 1972.

TABLE 3.—TOTAL HOURS OF LABOR USED ON FARMS IN CARING FOR MILK COWS, HOURS PER COW, AND PER 100 POUNDS OF MILK PRODUCED IN THE UNITED STATES, SPECIFIED YEARS, 1950–71

Year	Total (billion hours)[1]	Per cow (hours)	Per 100 pounds milk (hours)[2]
1950	2,749	125.3	2.36
1955	2,422	115.1	1.97
1960	1,745	99.7	1.42
1965	1,249	83.6	1.01
1966	1,134	80.7	.95
1967	1,044	77.9	.88
1968	966	75.4	.83
1969	900	73.2	.78
1970	845	70.5	.72
1971	796	67.3	.67

[1] "Changes in Farm Production and Efficiency 1972," Statistical Bulletin No. 233, Economic Research Service, U.S. Department of Agriculture.
[2] Total hours divided by average number of milk cows on farms and total milk production during each year, as reported in the "Dairy Situation," Economic Research Service, U.S. Department of Agriculture, various issues.

TABLE 4.—NUMBER OF FARMS REPORTING MILK COWS, AVERAGE NUMBER OF COWS PER FARM, FARMS REPORTING SALES OF MILK AND CREAM, AND AVERAGE SALES PER FARM, BY CENSUS YEARS: 1950-69

Census of—	Farms reporting milk cows		Farms reporting milk sold		Farms reporting cream sold	
	Number of farms (thousands)	Average herd size (number)	Number of farms (thousands)	Average per farm (thousands pounds)	Number of farms	Average per farm (pounds butterfat)
1950	3,648	5.8	1,097	62.5	862	676
1955	2,936	6.9	934	87.6	541	851
1960	1,792	9.2	770	126.7	262	967
1965	1,134	12.9	545	197.2	103	1,241
1969	568	19.7	330	[1] 331.0	[2]	[2]

[1] Total milk sold by farmers to plants and dealers and directly to consumers divided by number of farms reporting milk sold.
[2] Not reported separately.

Source: U.S. Census Reports.

TABLE 5.—EXPENDITURES FOR FOOD IN RELATION TO DISPOSABLE INCOME, 1960 AND 1965-72 [1]

Year	Disposable personal income (billions)	Personal consumption expenditures for food [2]					
		For use at home [3]		Away from home [4]		Total	
		Amount (billions)	Percentage of income	Amount (billions)	Percentage of income	Amount (billions)	Percentage of income
1960	$350.0	$56.8	16.2	$13.3	3.8	70.1	20.0
1965	473.2	69.3	14.6	16.5	3.5	85.8	18.1
1966	511.9	73.8	14.4	18.2	3.6	92.0	18.0
1967	546.3	74.5	13.6	19.4	3.6	93.9	17.2
1968	591.0	79.0	13.4	20.7	3.5	99.7	16.9
1969	634.4	82.0	12.9	22.1	3.5	104.1	16.4
1970	689.5	90.2	13.1	24.0	3.5	114.2	16.6
1971	744.4	92.4	12.4	24.9	3.4	117.3	15.8
I	725.7	92.0	12.7	24.5	3.4	116.5	16.1
II	742.9	92.3	12.4	24.6	3.3	116.9	15.7
III	750.4	92.5	12.3	24.8	3.3	117.3	15.6
IV	758.5	92.6	12.2	25.7	3.4	118.3	15.6
1972	795.1	97.8	12.3	26.8	3.4	124.6	15.7
I	770.5	94.3	12.3	26.3	3.4	120.6	15.7
II	782.6	97.4	12.4	26.6	3.4	124.0	15.8
III	798.8	98.8	12.4	26.7	3.3	125.5	15.7
IV [5]	828.4	100.6	12.2	27.6	3.3	128.2	15.5

[1] Quarterly data are seasonally adjusted annual rates.
[2] Derived from data of Department of Commerce, "Suvey of Current Business" and "The National Income and, Product Accounts of the United States, 1929-65," assuming ¼ of purchased meals and beverages is alcoholic beverages and the balance of reported alcoholic beverages is for offpremise use (consistent with 1963 "Census of Business" merchandise line sales). Omits alcoholic beverages, food donated by Government agencies to schools and needy persons and nonpersonal spending for food such as business purchase of meals, food furnished inmates of hospitals and institutions, and food included with transportation tickets and camp fees.
[3] Includes food consumed on farms where produced.
[4] Includes food served to the military and employees of hospitals, prisons, and food service establishments.
[5] Preliminary.

Source: "National Food Situation," Economic Research Service, U.S. Department of Agriculture.

TABLE 6.—DAIRY PRODUCTS REMOVED FROM THE COMMERCIAL MARKET BY PROGRAMS OF THE U.S. DEPARTMENT OF AGRICULTURE, MARKETING YEARS, 1960–73 [1]

[In million pounds]

Year and month	Removals [2]								As a percentage of marketings	
	Butter [3]	Cheddar cheese [4]	Dry whole milk	Evaporated milk	Nonfat dry milk [5]	Milk equivalent	Milk-fat	Solids-not-fat	Milkfat	Solids-not-fat
1960–61	154.4	0.3			837.3	3.3	130.2	804.9	3.0	8.6
1961–62	434.8	191.2			1,275.4	11.2	420.5	1,286.3	9.5	13.3
1962–63	346.9	134.4			1,303.0	8.8	331.6	1,294.8	7.5	13.2
1963–64	292.3	120.1			1,173.6	7.5	282.2	1,168.9	6.4	11.9
1964–65	316.5	134.3			1,223.0	8.2	306.6	1,221.0	6.9	12.2
1965–66	126.3	21.2			880.5	2.9	114.8	854.9	2.6	8.7
1966–67	109.2	39.9			421.0	2.7	103.6	418.4	2.4	4.4
1967–68	246.5	175.1			633.4	7.0	259.3	665.7	6.2	7.0
1968–69	186.4	66.9		54.9	555.9	4.8	179.8	567.1	4.4	6.0
1969–70	182.1	30.6		107.5	357.6	4.4	167.4	374.6	4.1	3.9
1970–71	305.4	56.8		79.0	452.3	7.2	273.5	469.9	6.6	4.9
1971–72	262.4	87.0	0.6	102.0	463.5	6.6	250.7	494.1	5.9	5.0
1972–73 [6]	220.2	20.1	1.5	81.2	259.9	5.0	192.4	274.1	4.5	2.8

[1] For earlier years see DS–335, May 1971, p. 22.
[2] Delivery basis after domestic unrestricted sales.
[3] Includes butter equivalent of anhydrous milkfat, PIK, and purchases under sec. 709.
[4] Includes purchases under sec. 709.
[5] Includes PIK certificates issued; beginning January 1972, also includes title I exports originating from private stock.
[6] Preliminary.

Source: "Dairy Situation," Economic Research Service, U.S. Department of Agriculture, DS–345, May 1973.

TABLE 7.—NET GOVERNMENT EXPENDITURES ON DAIRY SUPPORT AND RELATED PROGRAMS, FISCAL YEARS 1950–72

[In millions of dollars]

Year beginning July 1	Net support purchases [1]	Military milk [2]	Section 32 [3]	Section 709 [4]	Export assistance [5]	Total (excluding special milk)	Special milk program [6]
1949–50	170.5		17.6			188.1	
1950–51	[7] −49.1		[8] −.9			[7] −50.0	
1951–52	1.6		7.5			9.1	
1952–53	274.9		25.1			300.0	
1953–54	400.4		74.0			474.4	
1954–55	228.7	4.3	24.4			257.4	22.2
1955–56	237.9	7.3	39.0			284.2	48.2
1956–57	239.1	16.4	75.6			331.1	61.0
1957–58	205.9	30.4	123.7			360.0	66.7
1958–59	102.1	23.0	106.2			231.3	74.7
1959–60	159.5	23.6	35.1			218.2	81.2
1960–61	173.9	25.3	82.1			281.3	87.0
1961–62	539.0	25.9	47.1			612.0	91.7
1962–63	454.0	24.8			6.7	485.5	93.7
1963–64	311.7	26.5	4.4		36.5	379.1	97.1
1964–65	157.2	26.2	105.6		44.7	333.7	86.5
1965–66	26.1		38.7		3.8	68.6	97.0
1966–67	283.9		.9	14.2	18.4	317.4	96.1
1967–68	357.1				7.1	364.2	103.1
1968–69	268.8		45.4		13.1	327.3	101.9
1969–70	168.6		107.1	7.8	7.4	290.9	102.9
1970–71	315.4		91.6	3.2	11.6	421.8	91.8
1971–72	267.0		63.9		7.3	338.2	93.6

[1] CCC support purchases and related costs (for processing, packaging, transporting, and storing) of dairy products, less proceeds from sales.
[2] CCC reimbursements to U.S. military agencies, Veterans' Adminstration, and other participants.
[3] Expenditures of sec. 32 funds to buy dairy products in the market and from CCC for school lunch and welfare uses.
[4] Purchases of dairy products at market prices under sec. 709, Food and Agriculture Act of 1965, for domestic school lunch and welfare use.
[5] Value of payment-in-kind certificates issued by CCC on exports of nonfat dry milk, butter, and other high-milkfat products, and CCC cost of exports under title I, Public Law 480, of dairy products not originating in CCC stocks.
[6] Expenditures of CCC and sec. 32 funds to increase milk consumption by children in schools, child-care centers, and similar institutions.
[7] Net receipt due to sales exceeding purchases.
[8] Receipt due to adjustment.

Source: Agricultural Stabilization and Conservation Service, USDA.

TABLE 8.—CCC UTILIZATION (COMMITMENTS TO USES) OF DAIRY PRODUCTS, CALENDAR YEARS: 1970–72

[Million pounds]

	Butter			Cheese			Nonfat dry milk		
	1970	1971	1972	1970	1971	1972	1970	1971	1972
Utilizations:									
Sales—Unrestricted use		1.6	20.3						13.3
Sales—Restricted use		.2	1.5				6.7	(1)	(1)
Commercial export sales		127.7	13.5				33.5	43.3	6.9
Noncommercial export sales							27.5	35.7	63.7
Sales to Department of Defense	.9	2.1	1.9				.9		
Donations to Department of Defense	30.1	20.0	20.0						
Donations to Veterans' Administration	2.1	2.4	2.4						
Donations to Bureau of Prisons	1.9	2.0	2.0				.6	.6	.5
Domestic donations—School lunch and needy	206.6	172.2	154.6	47.0	85.6	35.9	166.1	140.5	96.9
Foreign donations							[2] 324.3	[2] 241.7	[3] 131.1
Total utilizations	241.6	328.2	216.2	47.0	85.6	35.9	559.5	461.8	312.4
Uncommitted supplies as of Dec. 31, 1972	36.7	33.4	42.5		15.3		28.8	14.0	

[1] Less than 50,000 pounds.
[2] Adjusted for commitments in relation to years in which purchase contracts were made.
[3] Excludes unfilled foreign donation requests.

Source: Summary of CCC Dairy Support Program Activities, U.S.D.A., 1971 and 1972.

Mr. CAREY. Thank you, Mr. Garstang.

I would be correct, would I not, in judging that among our concerns, a major one is that the strong impulse to export farm commodities in order to adjust our balance-of-payments deficit, works, or could work, a long-term disadvantage to the acquisition of feed stocks for dairymen at the most opportune price levels. I think the figure on export of farm products now is about 30 percent of our total production goes abroad.

Your fear, as I take it, is that the more emphasis we put on export of feed grains and other so-called surplus production for export abroad, the more eventually we may impair the ability of the domestic dairy products, domestic milk producing industry to acquire at reasonable levels our own feed grains.

Is that your concern?

Mr. GARSTANG. Yes. we certainly have no objection to every effort being made to increase exports of feed grains but we don't think that any gain is going to be made by increasing exports of feed grains at the sacrifice of the domestic dairy industry which is really their best customer.

Mr. CAREY. Do you think we are approaching that point now with the major feed grain sales that have been made to date? Does that danger now exist at the present levels of export?

Mr. GARSTANG. No. The danger is in the proposed negotiation which would trade off a substantial block of the dairy industry in exchange for a substantial block of feed grain exports.

Mr. CAREY. That is what the impact would be on your industry as you see it developing?

Mr. GARSTANG. I think it has been made clear. The "Flanigan report" doesn't make any bones about it. That is what they plan to do. It has been stated many times.

Mr. CAREY. My hope has long been that we are able to maintain a very heavy and strong milk production industry in this country because of its clear-cut impact on the nutritional needs of children, especially low-income people. I don't look very kindly on anything that would reduce the ability of your industry to supply at reasonable costs its product to those who need them most, basically children and those who have nutritional deficiencies. So we will look very carefully at that point.

Mr. Duncan.

Mr. DUNCAN. Do most nations use export subsidies in one form or another for milk products?

Mr. GARSTANG. Practically all of the dairy exporting nations do. At the Tariff Commission hearings held about a year ago one of the Commissioners made a point of asking each witness from the foreign nations if they were using export subsidies. My recollection is that New Zealand was the only one who claimed that they were not.

Mr. DUNCAN. What do they—let's say the Common Market countries, what do they do in export subsidies? Are you familiar with what they do in subsidizing exports?

Mr. GARSTANG. Yes. If an exporter over there can ship butter out of the Common Market, for example, in the case of butter they pay him 58.71 cents a pound as an export subsidy. Now, he can undercut anybody's price with that kind of a subsidy.

Mr. DUNCAN. Are other products about the same rate?

Mr. GARSTANG. Yes. They are all pretty closely related to the amount of butterfat in the other products. They are about in line.

Mr. DUNCAN. Are dairy imports higher this year than they were last year?

Mr. GARSTANG. I think they were somewhat higher in 1972 than they were in 1971. They ran about 1.3 billion pounds milk equivalent in 1971 and about 1.6 or 1.7 billion pounds in 1972.

Mr. DUNCAN. What about for 1973? Do you have any statistics on that?

Mr. GARSTANG. No.

Mr. DUNCAN. Do you think it is greater?

Mr. GARSTANG. They are greater to this extent, that special proclamations have been issued letting in an additional 85 million pounds of nonfat dry milk and 64 million pounds of cheese, so they will be greater to that extent.

Mr. DUNCAN. If we permit subsidized milk products to come into our domestic market at the rates you were talking about, 58 cents on a pound of butter, for example, then it looks like we have to raise our milk price supports to keep a stable dairy industry.

Aren't we kind of subsidizing and supporting milk prices all over the world if we permit the products to come in at that rate?

Mr. GARSTANG. If we take our import controls off of dairy products we will be supporting prices all over the world, either that or our own dairy industry will go out.

Mr. DUNCAN. What if you didn't have the price supports on milk, would the dairy industry dry up? What would happen to the dairy industry?

Mr. GARSTANG. I think it might survive. I think that you would have the unfortunate situation that has existed in many other commodities where you have violent fluctuations, the prices get too high, get too low and get too high again. We have done a marvelous job with our support program. The prices have been fair, leveled out, they have kept an adequate supply and there have never been excessive prices.

Mr. DUNCAN. Thank you very much for your fine statement.

Mr. GARSTANG. Thank you.

[The following was submitted for the record:]

STATEMENT OF A. E. MERCKER, EXECUTIVE SECRETARY, VEGETABLE GROWERS ASSOCIATION OF AMERICA

We are greatly concerned with the impact of the imports of vegetables, particularly from countries which have low standards for hours and wages, some of which are considerably lower than those of the United States.

Vegetable production is an important industry in the United States. For example, the 1971 crop of fresh green vegetables has a farm value of $1,358,665,000 and the value of the vegetables for processing was placed at $480,136,000, according to the U.S. Department of Agriculture's Statistics of 1972, which further show the 1971 crop potatoes valued at $626,450,000 and that of sweet potatoes at $63,393,000 while mushrooms were valued at $89,620,000, making a total of $2,618,254,000 or 10 percent of the value of the 72 crops produced in 1971, having a value of $22,610,156,000 without subsidy payments.

The fresh and processed green vegetable producers of this country have never asked for any government assistance, although price support was given to potato producers during World War II. Vegetable producers have believed in self-help programs and have adopted marketing agreements for Florida celery and tomatoes; Texas lettuce, onions and tomatoes; and Idaho, Oregon, Washington and Northern California have done the same for potatoes; as well as Virginia and North Carolina doing so for their potatoes.

Under existing labor and import conditions the vegetable growers have tried to effect every economy that they can in order to meet this competition, and they have adopted the latest planting, cultivating, harvesting and packaging methods. Also, they have mechanized their operations in every way possible. In this way they have reduced their labor requirements on vegetable farms, from 533,000,000* man hours in 1954 to 400,000,000* man hours in 1971.* This is a reduction of 25 percent.

The more the farmer does to improve his financial situation the greater are the inducements for producers in foreign countries, with lower wage rates, to produce and export vegetables, both in the fresh and processed form, to the United States. This is illustrated by the importation of green beans during the 1971–72 season at almost 16.6 million pounds, which is 15 percent more than the quantity imported during the 1968–69 season.

Fresh cucumbers at 143.8 million pounds was slightly more than 12 times greater than the quantity imported during the 1960–61 season and 2½ times the 1967–68 imports.

Eggplants at 25,819,000 pounds was about 14 times greater than the quantity imported during the 1960–61 season.

Fresh onions at 50,528,000 pounds was almost double the 28,815,000 pounds imported during the 1960–61 season.

Fresh peas at 5,378,000 pounds was 20 percent higher than the imports of the 1960–61 season.

Imports of fresh peppers during the 1972–73 season at 62,474,000 pounds was 3½ times greater than the imports during the 1960–61 season, 50 percent greater than the 1967–68 imports.

Fresh tomatoes at 557,170,000 pounds was triple the quantity imported during the 1960–61 season and 60 percent larger than the quantity imported during the 1967–68 season.

According to the Economic Research Service of the U.S. Department of Agriculture in 1971 we ate 11.4 pounds of tomatoes per capita. The imports were equivalent to 3 pounds or nearly 25 percent of all of the fresh tomatoes we consumed. An impact of this kind results in depressed prices to our growers and under present labor conditions, including the threat of picketing and boycotts they are not inclined to increase their acreage.

Imports of fresh strawberries, which are not a vegetable, totalled 44,384,000 pounds during the 1971–72 season or 45 times the quantity imported during the 1961–62 season and the frozen strawberry imports at 81,151,000 pounds during the calendar year 1972 was over 2½ times the imports during the calendar year of 1961.

The Mexican Comision Nacional de Los Salarios Minimis for the 1970–71 season established the minimum wage for Sonora-Culican at 30 pesos per day, which at 8 cents to the peso is equivalent to $2,40 per *day* for a five day week. If an employee works six days a week, he receives double time for the sixth day. In the Michoacan Zamora areas the wage rate was established at 24.5 to 25.6 pesos per day, equivalent to $1.96 to $2.05 per day. Wages at Nogales, which is close to the United States border were established at 33.75 pesos per *day*, equivalent to $2.70 per *day*.

In the United States the minimum wage is $1.60 per *hour* or $12.80 per day. Perhaps this tremendous wage differential between foreign producing areas and the United States could be equated either by a countervailing duty or an ad valorem duty based on the percentage differential between the foreign wages and the minimum wage standards in the United States.

Because of the low wage rates and the availability of the raw products processors have built and are planning to increase facilities for the processing of vegetables to be shipped into the United States.

It is respectfully requested that the Committee on Ways and Means consider amending H.R. 6767 to increase the duties on fresh and processed vegetables now being imported from these low wage countries, which are increasing their exportations of vegetables to the United States. For instance, the import duty on tomatoes at 1.5 to 2.1 cents per pound is extremely low and has no effect whatsoever on restricting or regulating the imports from these low wage countries.

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*Agricultural Statistics 1972.

We can not regulate labor standards in this country which leaves the door wide open to unregulated imports from low wage rate countries. We, therefore, repeat that we urge the Congress to make a study of this situation and develop some means whereby an import quota or a market sharing program will be developed.

Your consideration of these suggestions is deeply appreciated.

[Telegram]

WASHINGTON, D.C., JUNE 13, 1973.

REPRESENTATIVE WILBUR MILLS,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: The National Soybean Processors Association representing the agri-business firms which process more than half of the Nation's soybean crop, wish to support the principles and objectives of H.R. 6767, the Trade Reform Act of 1973.

Our Nation is entering an era of increased demand for imports of many of the raw materials essential to an advanced standard of living. In exchange, we must take the fullest advantage of our own ability to produce and export the raw materials basic to life—agricultural products and, especially protein. Soybeans and soybean products have been less affected by overseas discriminatory tariffs and levies than most other U.S. farm agricultural products. The relatively free trade in soybeans and its products is one reason why annual U.S. exports of soybeans and soybean products have increased from $100 million in 1952 to aproximately $2.5 billion today. But some of our trading partners already have restrictions on soybean meal and oil—and other discriminatory threats are constantly present. Our Nation—and our trade representatives—must have the negotiating power both to preserve free trade where it now exists and to achieve the dismantling of all present barriers to exports of U.S. farm products.

For this reason, we strongly believe that the administration must have broad flexibility, both to grant trade concessions and to take the action to force equal concessions from other nations. To go into the forthcoming trade negotiations without such powers would be to severely limit our negotiators at a time when their success is vital to American agricuture, to our Nation, and to the standard of living of every American.

SHELDON J. HAUCK,
Executive Director,
National Soybean Processors Association.

STATEMENT OF MILLERS' NATIONAL FEDERATION

SUMMARY COMMENTS

1. Flour and some form of bread are among the oldest and most basic food products. The U.S. has been an active exporter of flour for more than 150 years and a major source in world trade for many decades. Such exports have been economically based on a large and efficient wheat growing and flour milling industry in the U.S. able to produce all types and qualities of wheats and products to meet U.S. and world demands. In recent years trade restrictions in many countries together with special export subsidies by the E.C.C. have sharply reduced U.S. product exports. (See World Table of Exports attached).

2. The 1962 Trade Act to enable the U.S. to participate in the international trade negotiations during the 1962–67 period proved largely meaningless in regard to most agricultural products. This is especially true in regard to the variable levy system of the E.E.C. and their increasing export subsidy payments on wheat and flour. The lack of any progress on non-tariff barriers in these negotiations resulted from the lack of U.S. authority to negotiate these types of trade restrictions. Even the Food Aid Convention which was concluded as part of the International Grains Arrangement has proven harmful to U.S. product exports.

3. The flexible authorities proposed in Title I, III and IV are needed and supported in order to provide U.S. negotiators the means to change or eliminate

many of the current non-tariff barriers that are restrictive to U.S. agricultural exports, also to deal effectively with new trade problems as they arise following the negotiations.

4. Under Title VI we believe that the Congress should provide further limitations on the extension of preferences to less developed countries that maintain unreasonable barriers to U.S. exports of low cost basic foods such as wheat flour so badly needed in most urban areas of the world. Such barriers include prohibitive rates of duty, license controls and other procedures designed to exclude U.S. product imports for commercial sale.

The Millers' National Federation is the national trade association of the flour milling industry of the United States. It is now in its 72nd year as an active industry trade association. Its members include some 70 companies that represent around 85 percent of the commercial flour milling capacity in the United States and almost 100 percent of the flour exported. There are company mills in nearly 40 states, the District of Columbia and Puerto Rico.

Wheat flour and millfeed are the principal products obtained from milling wheat. Many U.S. mills, however, produce a wide variety of specialty wheat products including numerous specification flours for making many types of breads and other wheat products, such as crackers, cookies, biscuits, also a wide range of pasta products, flour mixes, fortified wheat foods, bulgur, wheat germ, gluten products, etc. Accordingly, the term wheat flour covers a considerable range of quality and many types of flours. This fact needs to be taken into account in trade negotiations to avoid restrictions of trade on basically non-competitive types of products.

The earliest Census records of foreign trade published in 1821 show that wheat flour was one of the first products to be exported from the United States. Since that time, U.S. wheat flour has had not only one of the most continuous annual records of exports of any commodity during the 151 year period of Census records but also regular monthly shipments for a sizable number of overseas markets.

As will be noted from the attached table on World Trade in Flour, the U.S. in most post-war years has been the largest flour exporter, accounting for 30–40 percent or more of world trade in many cases. Since 1967, however, the Common Market countries (notably France, Germany and Italy) have increased their share of trade largely at the expense of the U.S. This has been due primarily to the increasing use of export subsidies by the E.E.C. to take over commercial dollar flour business wherever possible.

Though one of the lowest cost basic foods, the c.i.f. value of world wheat flour imports amounts to around $1 billion or more a year. With increasing population growth, also gains in per capita use for most parts of the world, particularly in the growing urban areas of the developing countries, the world market is becoming more important and deserves attention. The U.S. is the only wheat producing country that has commercial production of all five major classes of wheat and a milling industry able to produce all specifications and types of flour to meet the many types of consumer uses of wheat foods around the world.

This unusual advantage for U.S. flour and products exports has never been adequately handled in past trade negotiations due to a lack of authority or general terms of reference. With the many new types of flour products now available as well as the regular or standard flours, U.S. exports could easily be increased by 50 percent and even doubled in the years ahead if the Trade Reform Act as proposed is enacted by Congress and successful trade negotiations are concluded.

TRADE RESTRICTIONS

While wheat flour has been included in most trade negotiations over the years, especially from the standpoint of tariff rates, there now appear to be more countries with trade restrictions on flour than at any previous date. Most of these restrictions applied in both the developed and developing countries during the post World War II period have been of a non-tariff type. The Department of Commerce reports that there are now more than 800 trade restrictions other than tariffs used by countries throughout the world. Among the major types are quantitative restrictions, such as import quotas or embargoes and licensing arrangements; export and domestic subsidies or rebates; restrictive procurement policies; health, sanitation and safety; mixing requirements and various charges on imports, such as variable levies, discriminatory taxes and varying rates of exchange.

In general they are all designed to give local governments almost arbitrary power over any trade in wheat flour and other products. In addition local duties are also usually applied in order to raise the price of any imported flour in case of special need and a license or permit for import is granted. As a result, bread has become almost a luxury food in many countries of the world and generally sells at higher prices than would prevail without such trade restrictions. Much information has been developed on this subject and is readily available in Federation and other publications.

TRADE REFORM ACT OF 1973

This Act now before the Congress is a comprehensive trade bill that deals not only with negotiating authority but the continuing management of trade relations with other countries and the assistance to U.S. industries and labor that may be affected by import competition. The Federation believes that this comprehensive approach is needed and supports the bill. Comments relating to specific points in the Act that are of special concern to the U.S. flour milling industry are reviewed under the following subsections.

Titles I, III and IV—Authority provisions

The authority for new negotiations for a five-year period, also for dealing with unfair trade practices and to provide the Executive Branch with more flexible means to manage trade policy and deal with trade problems as they arise in the future are believed essential for successful trade negotiations during the period ahead. The 1962 Trade Act, which at the time enacted raised great hopes, was found to be very deficient in its authority to deal with non-tariff matters. Tariff reductions were negotiated on a wide range of industrial products but little was done in the field of agricultural items. The variable levies of the European Common Market Agricultural program, though a form of flexible tariff, were considered outside the trade negotiations by the E.E.C.. As a result, the U.S. negotiators were unable to have any meaningful agricultural trade negotiations with the Common Market.

It is now eleven years later and the E.E.C. variable levy system has become so entrenched with bureaucracy and power that it has become a menace to free world trade. The high levies have collected vast sums of money which exceed the uses for country agricultural adjustments for which they were originally designated. They are now used to subsidize exports of wheat and flour, also butter and other items from time to time, with the amount of the subsidy often equal to the world price of the grain or product. As noted above, they have taken away many markets for U.S. flour because the U.S. could not compete with this type of subsidized export.

The U.S. needs the flexible authority to deal with the E.E.C. on broad trade and economic issues under the Trade Reform Act during the coming year. The enlarged community and the preferential trading system now being rapidly developed to include not only most of Europe, but also the Mediterranean area, parts of the Middle East, much of Africa, parts of Latin America and the Caribbean can no longer be dealt with effectively on the basis of a restricted authority for tariff negotiations.

Title VI—Trade preferences for developing countries

The so-called group of developing countries comprises a large share of the total number of countries in the world today. It includes most of the countries of Asia, Africa, South and Central America and the Middle East, also some in eastern Europe. Officials working on trade matters with this group indicate a total of over 100 countries or more than two-thirds of the membership of the United Nations have already indicated that they desire Generalized Preference Treatment. It is quite obvious that with so many countries involved there are numerous differences in trade relations for individual countries to be considered.

In addition to the criteria indicated in Section 604 we recommend the inclusion of an examination of the non-tariff barriers, also high customs duties restricting U.S. exports to each requesting country. In this way the possibility of developing more reciprocal trade, especially in agricultural products may be achieved. Many developing nations can become important future markets for the U.S. if existing trade restrictions are reduced or eliminated.

As a result of the growing trade barriers and the use of export subsidies by the E.E.C. to gain an unfair share of the world flour trade (an apparent violation of

Article XVI of the GATT that deals with "Subsidies"), many flour mills in the U.S. are now closed down. This Trade Reform Act and the scheduled negotiations during the year ahead provide a new hope and opportunity for the U.S. milling industry. It was the the extra U.S. flour made available during the world food crisis period (1946–49) that played a major role in helping to stabilize bread rations and political stability in most of Europe and other parts of the world—something no other flour exporting country was able to do.

Not only U.S. mills will gain but labor needed in the plants, also bagging companies, rail and other transportation to ports and overseas, loading at ports, etc. The impact on the U.S. economy is considerable and flour exports likewise can play an important part for the food and nutrition needs in many parts of the world when access to markets is again possible.

SUMMARY OF WORLD TRADE IN WHEAT FLOUR FOR 1972

World exports of wheat flour during calendar 1972 are estimated at around 88 million cwts., according to information tabulated by the Export Department of Millers' National Federation. As in previous years, totals exclude semolina, mixes and special types of flour or other wheat products. Such products, mostly for U.S., would raise the total by several million cwts.

The 1972 world total is somewhat below the revised total of 95 million cwts. indicated for 1971, largely due to some decline in shipments from the E.E.C., also further reductions for Australia and Canada. U.S. shipments were only slightly changed from a year ago. The revision for 1971 results primarily from reduced shipments from Spain and the Soviet Union as compared with the preliminary estimates available a year ago.

The E.E.C. despite some decline continues to rank as the leading flour export group due to the large export subsidies that have been available most of the year. France, West Germany and Italy accounted for most of the E.E.C. exports. U.S. export subsidies on wheat and flour were suspended in the fall of 1972.

Comparisons with previous years by major exporting countries or areas are shown in the following table.

EXPORTS OF WHEAT FLOUR BY PRINCIPAL COUNTRIES 1954–72

[In 1,000 cwts]

Calendar year	United States	Canada	Australia	EEC	Other countries[1]	World total[1]
1954	16.9	19.7	12.3	9.5	6.1	64.5
1955	21.5	16.9	14.3	14.0	4.1	70.8
1956	24.8	16.8	15.0	17.4	2.2	76.2
1957	34.0	14.9	14.2	19.6	1.6	84.3
1958	35.1	17.2	8.3	23.3	8.0	91.9
1959	37.2	16.6	10.9	19.1	6.7	90.5
1960	43.1	15.8	11.4	23.2	1.5	95.0
1961	43.3	14.3	12.6	21.6	2.3	94.1
1962	47.2	13.0	10.6	23.5	3.4	97.7
1963	44.4	13.9	11.4	23.5	3.2	96.4
1964	42.3	21.2	13.9	22.9	4.4	104.7
1965	30.3	14.8	9.5	27.6	4.8	87.0
1966	33.1	16.1	6.4	23.4	6.0	85.0
1967	21.1	12.3	9.0	33.2	16.4	92.0
1968	28.1	11.2	7.9	25.6	19.6	92.4
1969	26.3	10.4	7.2	26.4	19.7	90.0
1970	26.1	11.9	7.9	33.4	22.7	102.0
1971[2]	20.7	11.9	7.2	38.0	17.2	95.0
1972[3]	20.3	10.2	5.2	34.3	18.0	88.0

[1] Partly estimated.
[2] Revised.
[3] Preliminary.

Source: From official sources.

STOCKTON, CALIF., *June 15, 1973.*

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel,
Committee on Ways and Means,
House of Representatives.
Re hearings—Trade Reform Act of 1973

DEAR MR. MARTIN: Pursuant to the discussion at our recent meeting, please find enclosed herewith a statement pertaining to the above subject. This statement is filed on behalf of the California Asparagus Growers' Association to become a part of the record in the above referred to hearing.

Sincerely yours,

DANTE JOHN NOMELLINI,
Attorney at Law.

TESTIMONY OF THE CALIFORNIA ASPARAGUS GROWERS' ASSOCIATION

(Submitted by Nomellini & Grilli, Attorneys at Law on behalf of The California Asparagus Growers' Association, June 15, 1973)

PREFACE

The California Asparagus Growers' Association is a non-profit corporation organized under the laws of the State of California and represents the vast majority of California's asparagus production.

At the outset we extend our gratitude to the Committee on Ways and Means for its consideration of the serious problems which confront our industry in the area of foreign trade policy.

Your Committee has assisted the asparagus industry specifically in the past by its request of the U.S. Tariff Commission pursuant to Section 332 (g) of the Tariff Act of 1930 for a report on "Conditions of Competition Between U.S. Produced and Foreign Produced Asparagus." The U.S. Tariff Commission instituted its investigation on August 4, 1972. On October 31, and November 1, 1972, the Commission met in San Francisco to take testimony. Appearing or submitting on behalf of the domestic industry were the following: Honorable John J. McFall, United States Congressman; Honorable Jerome R. Waldie, United States Congressman; Clarance C. Kent for Honorable John V. Tunney, United States Senator; Honorable Alan Short, California State Senator; Honorable Robert Monagan, California State Assemblyman; Honorable Carmen Perino, Chairman, San Joaquin County Board of Supervisors; Lawrence Stefani, President, California Asparagus Growers' Association; William P. DePaoli, Manager, California Asparagus Growers' Association; Gene Coe, Manager, Washington Asparagus Growers' Association; Hugh Aaron, Legal Counsel, Washington Asparagus Growers' Association; Harry Foster, Manager, Asparagus Division, Michigan Agricultural Marketing Association; Dave Smith, Stockton Chamber of Commerce; Arthur Heiser, Executive Vice-President, Tillie Lewis Foods, Inc.; Roger Remonda, Grower and Member, California Asparagus Growers' Association; Robert Hodson for William F. Allewelt, President, Tri/Valley Growers; Dr. H. C. Loeffler, President, Glacier Packing Company; Bill Spencer, A. Levy & J. Zentner Company; Alfred R. Duarte, Secretary-Manager, San Joaquin Farm Production; David Salmon for Mike Elourduy, Secretary-Treasurer, Teamster, California State Council of Cannery and Food Processing Unions; John Latosa, President, Filipino Community of Stockton, Inc.; Harry Krade, Assistant Director, Special Assignments California Department of Agriculture; Jim Manassero, The Irvine Company; Jim Washburn, Assistant to the President of the California Canners and Growers; Lewellyn Brown, Vice-President, Tillie Lewis Foods, Inc.; Lewellyn Brown for Leonard Bakke, Export Sales Manager, Tillie Lewis Foods,; John Zuckerman, Grower and Director, California Asparagus Growers' Association; John Underhill, Advisor, Agricultural Extension Service, University of

California; Dante John Nomellini, Legal Counsel, California Asparagus Growers' Association.

A copy of the Tariff Commission's report to your Honorable Committee, TC Publication 550,* Washington, D.C., April 1973, is attached hereto and is by this reference thereto intended to be incorporated in this statement as though set out in full hereon. A copy of the statement on behalf of the Teamster California State Council of Cannery and Food Processing Unions is also attached hereto to give emphasis to the importance of the domestic asparagus industry as an employer of food processing workers.

U.S. ASPARAGUS INDUSTRY

The U.S. asparagus industry for 1972 produced a total of approximately 289,100,000 pounds of raw product with a raw product value of approximately $67,292,000.[1] Of the total production, California produced (in millions of pounds) 155,400,000, Washington and Oregon 61,300,000, New Jersey 17,900,000, Michigan 21,800,000, Illinois 14,100,000, and other states including Arkansas, Delaware, Indiana, Iowa, Maryland, Massachusetts, Minnesota, Missouri, Ohio, Pennsylvania, and Virginia collectively producing 18,600,000 million pounds.[2] In 1972, it was estimated that growers and processors in the United States employed some 34,500 workers in the harvesting and processing for its asparagus crop.[3] Of this total number of workers employed, it is estimated that California growers alone employed 13,000 workers and that the employment period runs from 90–120 days. Many harvest crews average about seven hours of work per day with hourly earnings for each individual averaging over $4.00. Many "packers" in the sheds average well over $4.00 per hour and sorters average over $1.85 per hour. Tractor operators and truck drivers on the farm average over $2.00 per hour. Labor costs on the farm to prepare the asparagus for market or processing average from 60% to 70% of the raw product value.

It is estimated that in northern California alone, over 4,000 workers are employed annually in the asparagus canning and freezing operations with average hourly wages including fringe benefits of over $3.50. Processing plant labor costs on a pound for pound basis are higher for asparagus than for any other vegetable. Shippers and handlers as well as allied industries employ substantial numbers of workers solely for asparagus. Asparagus is a high labor use crop and the asparagus industry is a very important employer. A number of geographical areas in the United States are substantially dependent upon the asparagus industry as a major employer and generator of income. The great majority of those employed by the asparagus industry are minorities and the asparagus employment itself is especially important because of the time of the year in which it occurs and because of its importance in the cycle of the migratory agricultural labor force. In California, the asparagus harvest generally occurs during the months of February through June and the processing season for asparagus generally occurs during the months of March through June. Employment opportunity in other crops is virtually non-existent for the months of February through May and the possibility of employment outside of agriculture for most of these workers is unrealistic. The lack of job opportunity in general and the difficulty encountered in retraining leaves public assistance (welfare) as the probable sustaining income source for those who are deprived of employment opportunity in asparagus. Asparagus workers in most instances are the same workers who work in other crops later in the year and it is the composite of the income derived from the various crops that sustain the worker. Asparagus is generally the major contributor to the income composite for these workers.

The typical asparagus grower is substantially dependent upon the income from his asparagus crop and has a substantial investment in specialized housing, facilities and equipment in the asparagus crop itself. In California, a survey indicated that grower dependence upon asparagus income ranged from 50% to 100%. The estimated total investment by California growers in specialized housing, facilities and equipment which would be lost if asparagus production was discontinued is $15,000,000.00. The average initial planting and cultivation cost for asparagus in California prior to the first receipt of income is about $400–$500

*The report submitted has been retained in the committee files.
[1] TC Publication 550, Table 11, Page 81. Attached Sheets.
[2] Ibid, Table 13, Page 83. Attached Sheets.
[3] Ibid, Page 21. Attached Sheets.

per acre and if asparagus production was curtailed, a substantial portion of this investment would also be lost. In the United States, asparagus must be looked upon as a ten or twelve year program with the grower's investment being amortized over the period. The U.S. Census of Agriculture reported that in 1969 asparagus was harvested in 3,210 commercial farms, located principally in five regions.[4]

In California in 1972, six canning companies and five freezers were engaged in processing asparagus. During the same period in the Northwest, there were four national label and three local label canners and freezers engaged in processing asparagus. In 1972, asparagus was processed by 38 canners and 19 freezers in the United States.[5]

Many freezers depend on the processing of asparagus for a major portion of their income. Most canneries on the other hand look upon asparagus as a producer of a relatively small portion of their overall income. Asparagus does, however, account for a substantial percentage of the time period utilization of many canning and freezing facilities. Without asparagus, major portions of the processing facilities would be shut down for an additional three of four months of the year and some plants would in all probability be shut down completely.

Handlers and shippers, many of whom are greatly dependent upon asparagus for a major portion of their income, will in the event of loss of sales to imports have to curtail their operations in a very substantial way.

The total U.S. asparagus production in 1972 was composed of 136,800,000 pounds for cannery; 60,100,000 pounds for freezer; and 92,200,000 pounds for fresh market.

Total U.S. asparagus production over the past five years has remained relatively stable with a small decline overall and some shifts in production taking place among the various states. Almost all of the U.S. production is directed to the domestic market. Exports of asparagus in recent years have been relatively insignificant. Total U.S. production and U.S. exports have substantially decreased since the late fifties and early sixties resulting primarily from the loss of the white asparagus export market to Taiwan. The significance of the loss of the white asparagus export market is in the fact that it shows what will happen to U.S. producers when faced with competition from countries with so-called "cheap labor". The loss of the white asparagus export market occurred in substantial part over a period of three to four years. Imports into West Germany from Taiwan climbed from 722.400 pounds in 1964 to 63,340,800 pounds in 1967 and to 124,077,600 pounds in 1970. The reason for this climb and the resulting loss of exports from the U.S. was simply price. The Taiwanese were able to put comparable product on the market at a cheaper price.

The loss of the white asparagus export caused growers to plow out a substantial portion of the U.S. asparagus acreage and resulted in corresponding cutbacks in numbers of workers employed and in allied industry activity. This loss although devastating was somewhat mitigated by the fact that U.S. asparagus producers still retained the domestic asparagus markets. Domestic markets consist of substantial green asparagus markets and significant but relatively small white asparagus markets.

Today even these domestic markets are jeopardized by imports primarily from Taiwan and Mexico and if these markets are lost, U.S. asparagus producers are finished.

IMPORTS OF ASPARAGUS

Imports of fresh asparagus have increased from 2.0 million pounds in 1967 to 8.2 million pounds in 1972. Imports of frozen asparagus have increased from .1 million pounds in 1969 to 3.1 million pounds in 1972.[6] Imports of canned asparagus increased from 1.5 million pounds in 1969 to 9.4 million pounds in 1972. Fresh asparagus imports come primarily from Mexico and frozen and canned asparagus from both Mexico and Taiwan. Although some processed asparagus imports have come from countries other than Taiwan and Mexico, Taiwan and Mexico are by far the most significant. It should be noted that the first imports of canned asparagus from Mexico occurred in 1970. These imports increased from 156,000 pounds in 1970 to 1,923,000 pounds in 1971 and 3,830,000 pounds in 1972.[7]

[4] Ibid, Page 15.
[5] Ibid, Page 19.
[6] Ibid, Page 39. Attached hereto.
[7] Ibid, Table 23, Page 94. Attached hereto.

COMPETITIVE POSITION OF DOMESTIC VS. IMPORTED ASPARAGUS

Asparagus from Mexico and Taiwan *can* be placed into U.S. markets at prices substantially lower than the comparable U.S. product. For example, a case of 24/300 fancy green tipped and white asparagus spears packed in Taiwan wholesaled for $10.00 F.O.B. west coast basis when the price for the same item from a domestic producer was $13.55. The comparable list price of the same item imported from Mexico was $12.75.[8]

The problem for the U.S. producer is more apparent in a comparison of costs of production. The studies of the asparagus industries for Taiwan and Mexico which were introduced at the hearing and which were generally verified by the importer representatives display a substantial disadvantage for the U.S. producer. The so-called typical grower's cost of producing a pound of asparagus domestically is about 18.0–22.0 cents per pound, when the comparable production cost per pound in Taiwan is about 10.8 cents per pound and in Mexico is about 8.6–11.0 cents per pound and probably lower. The substantially lower production costs in Taiwan and Mexico can easily be understood when due consideration is given to the availability in those countries of "cheap labor". Of particular note is the fact tha the typical U.S. asparagus worker earns as much ore more in one hour as the typical Mexican asparagus worker earns in an entire day. Processing plant workers in Mexico receive $2.25 per day for 8 hours work,[9] and those in Taiwan receive $2.00 per day for 8 hours.[10] This amounts to about $.25–$.29 per hour. Field workers generally receive less; for example the field workers in Mexico receive $1.80 per day for 8 hours,[11] or about $.23 per hour. Additionally, U.S. growers and processors are subjected to numerous health and sanitation measures which require considerable cost and many of which are precautionary in nature. It is quite apparent that foreign producers are not subjected to these same standards and inspection of the product itself is vastly inadequate in this regard. Product inspection will never reveal the existence of compliance with those health measures which are purely precautionary. U.S. producers have for many years put forth tremendous efforts to become more competitive through mechanization, plant development and other research and development efforts. Over sixteen different mechanical harvesting systems were developed and tested and hundreds of thousands of dollars were expended in other research and development. Based on the results to date, no breakthrough is now apparent or expected in the reasonably foreseeable future. Even if all research and development activity was successful, the cost savings would not be sufficient to overcome the vast disparity in production costs created by "cheap foreign labor". It must also be recognized that any major breakthrough in technology will in all probability benefit foreign producers to the same extent as domestic producers. Technological developments are readily revealed to foreign producers by sources within our own government and are in any event carried beyond our borders by U.S. Industries investing abroad.

Present tariffs are relatively ineffective in terms of placing U.S. asparagus on a competitive basis with foreign imports. In 1955, the tariffs on both fresh and processed asparagus were reduced by 50%. The present rate of duty is 25% ad valorem on imports of fresh, chilled and frozen whole asparagus and 17½% on other fresh, chilled or frozen asparagus and on canned asparagus. It is apparent that the value placed on imports is not the market value at the border but is something quite different. For example, on March 7, 1972, when 31 pound crates of nine inch green asparagus were being quoted from $9.50 to $10.00 per crate F.O.B. El Centro, the value for tariff purposes on the equivalent Mexican product was $3.69 per crate. And when the U.S. domestic quote for canned white asparagus was $13.55 per case, the value for tariff puropses on the equivalent Taiwan product was $6.90. The problem with the ineffectiveness of the tariff is further compounded by the subsidies granted by foreign countries to their own exporters. It is understood that Mexico grants to exporters of processed asparagus a tax credit equal to ten per cent of the product value and there is no certainty that the product is valued in the same manner as for tariff purposes.

Without immediate and adequate protection, the U.S. asparagus industry will be forced out of its own market. Reports on both Taiwan and Mexico reveal

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[8] Ibid, Page 55. Attached hereto.
[9] Ibid, Page 76.
[10] Ibid, Page 60.
[11] Ibid, Page 67.

that both countries can rapidly and vastly expand their production of both white and green products. The foreign asparagus is directly competitive to the domestic product. It is supplied in the same types of containers and in many situations under nationally known labels and is obviously well accepted by the U.S. consumer. The increasing quantities of asparagus imports could not be sold without consumer acceptance.

Foreign producers apparently have no significant problems with financing or "technical know-how". The evidence indicates that Del Monte, Birds Eye, and Campbell Soup have sizable operations in Mexico and that Green Giant either has operations in Mexico or operations that utilize Mexican asparagus.

It is apparent from the evidence that both Mexico and Taiwan have the ability to produce both white and green asparagus in substantial quantities. The conversion from white to green production in most cases merely requires a simple change in cultural practice. Mexico is already producing and exporting to the U.S. substantial quantities of green asparagus and Taiwan has made a lesser but still significant export of frozen asparagus to the John Inglis Company of Modesto, California.

When imports enter the domestic market at lower prices, they effectively replace the domestic product. The domestic asparagus industry produces fresh, frozen and canned asparagus. When domestic fresh asparagus is not on the market, domestic frozen and canned asparagus are available to the consumer. Domestic market demand can and should be met by domestic production and would be met if prices were allowed to reflect the actual demand without the effect of imports.

Imports stifle the "supply and demand" response of our domestic asparagus industry. Asparagus is a crop that has no subsidy and therefore growers and processors must be stimulated by demand and profit potential in the markets. Domestic processors in most cases must pack in advance of sales and are therefore reluctant to put up substantial packs when confronted with foreign asparagus that could be sold at prices well below their cost. Additionally, when processors make sales they must compete with the lower priced foreign product. To the extent that domestic growers produce asparagus for processing they are dependent upon "supply and demand" stimulus as reflected through the processors. As to the fresh market, the growers and their respective handlers and shippers are confronted with price competition on a daily basis. Fresh market prices generally are higher at the beginning of the season and then come down as supply builds up. The point at which a grower must stop delivery to fresh market is determined by his cost of production and the end of the growing season. Foreign imports of fresh asparaus off season replace domestic processed product and take the tops off the fresh market for domestic producers. Imports of fresh asparagus during the domestic fresh market season shorten the time that the domestic producer can stay in the market and replace the domestic product.

Asparagus production is an expensive venture for processors and requires a very substantial long term investment for growers.

Projected profit potential and market stability well into the future are necessary if our domestic asparagus industry is to survive.

PROTECTION OF THE DOMESTIC ASPARAGUS INDUSTRY BY HIGHER TARIFFS OR OTHER MEANS IS NECESSARY TO KEEP PRICES TO THE U.S. CONSUMER AT A REASONABLE LEVEL

Prices must be allowed to increase as costs of production increase or the domestic asparagus industry is lost. If the standard of living of the "agricultural worker" within the United States is to be raised to a level equal to that of a worker in some other endeavor, exerting comparable effort then food prices must raise accordingly. The key to control of asparagus prices is the maintenance of a viable domestic industry. The record is clear that even though production costs for imported asparagus are substantially lower than those for the domestic product, the price to the U.S. consumer is the same as that of the domestic product. The Tariff Commission Report on pages 52 and 53 contains an example where although importers were able to obtain fresh asparagus from Mexico at prices lower than those received by U.S. growers in the fresh market, their imported fresh asparagus brings wholesale prices (e.g. from chain stores and in wholesale produce markets) equal to the wholesale prices received for comparably-sized asparagus produced in the United States.

Competition amongst importers of asparagus is insignificant. The Taiwanese control all their exports of canned asparagus and the pricing thereof by a Board of Foreign Trade and the Taiwan Canners' Export Corporation.[12] The United Frozen Green Asparagus Corporation of Taiwan controls all of Taiwan's exports of frozen asparagus to the United States and the processing thereof.[13] In Mexico the asparagus processing industry is dominated by a few firms.[14] There are only three firms freezing asparagus in Mexico, and one accounts for about 90 per cent of the production of frozen asparagus.[15] There are some ten firms canning asparagus in Mexico, but two account for well over 90 per cent of the total annual production of canned asparagus.[16] A few firms account for virtually all the fresh asparagus imported into the United States.[17] It is well known that specialty food importers have an uncanny ability to exact high prices from the U.S. consumer. If imports are allowed to force the domestic asparagus off of the market, the United States consumer will pay higher rather than lower prices.

The U.S. consumer has a tendency to buy what he desires rather than shop price, and without domestic competition the importers will have a free hand to regulate supply to the market so as to maximize profit.

The peculiar nature of the U.S. asparagus industry is such that increased imports replace domestic product on domestic markets rather than add to the supply to the consumer. Over the past five years U.S. consumption of fresh and frozen asparagus has remained relatively constant and U.S. consumption of canned asparagus has dropped.[18] During this same period imports have rapidly increased each year taking a larger and larger portion of the U.S. market.[19] Imports of asparagus for 1972 accounted for 9.1% of the fresh market, 11.4% of the frozen and 7.4% of the canned.[20]

The problem of the domestic asparagus industry drastically worsens as U.S. processors and producers terminate local enterprises and relate abroad.

It must be remembered at all times that most U.S. consumers are also taxpayers. The taxpayer must pay taxes to either the United States or local government or both for many forms of public assistance and for services rendered to the public in general.

Domestic industry in almost every case generates more tax dollars than industry located abroad and further benefits the taxpayer by providing jobs to those who would otherwise require public assistance. In order to provide a better life for our citizens we must be watchful of both the cost of taxes as well as the cost of food.

Major processors and producers should be encouraged to keep their operations to the greatest extent possible within the United States so that they will help shoulder the burden of taxes and will allow us to control our own food supply. The major incentive for U.S. agriculture producers and processors to locate abroad is the opportunity for profit created primarily by the availability of "cheap labor".

This incentive can be reduced by higher import duties. The profit incentive should not be greater for investment outside our boundaries than within. If duties are utilized to balance profit incentive the U.S. consumer will have asparagus at a reasonable price and will not be subjected to foreign control.

Instability in the U.S. asparagus industry created by relatively unrestricted imports of asparagus can be eliminated by an appropriate raise in duties. The elimination of this instability will result in greater domestic production and pack thereby allowing better utilization of plants and equipment and more competitive pricing to the consumer.

HIGHER TARIFFS ON ASPARAGUS WILL NOT DISTORT TRADE

Present rates of duty of 25% ad valorem on imports of fresh, chilled and frozen whole asparagus and 17½% on other fresh chilled and frozen asparagus

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[12] Ibid, Pages 61 and 62.
[13] Ibid, Page 63.
[14] Ibid, Page 67.
[15] Ibid, Page 67.
[16] Ibid, Page 67.
[17] Ibid, Page 45.
[18] Ibid, Tables 8, 9, and 10. Pages 78, 79, and 80.
[19] Ibid.
[20] Ibid.

and on canned asparagus are relatively insignificant. The tremendous increases of asparagus imports in recent years bear evidence to this fact. The example cited above displays further the insignificance of present duties on asparagus. On March 7, 1972 when 31 yound crates of nine inch green asparagus were being quoted from $9.50 to $10.00 per crate F.O.B. El Centro the constructed value for tariff purposes on the equivalent Mexican product was $3.69 per crate. Application of the present tariff of 25% merely adds about $.92 to the price of the Mexican import. Quadrupling the present rates of duty on asparagus would in all probability still not distort trade.

CONCLUSION

In order to save the domestic asparagus industry and the jobs and economy generated thereby, present rates of duty must at the very least be increased so as to place the U.S. producer and processor on an equal basis with their foreign competitors.

STATEMENT OF MIKE ELORDUY, SECRETARY-TREASURER, TEAMSTER CALIFORNIA STATE COUNCIL OF CANNERY AND FOOD PROCESSING UNIONS, BEFORE THE U.S. TARIFF COMMISSION

The Teamsters California State Council of Cannery and Food Processing Unions view with great concern the steady decline in employment of Northern California food processing workers engaged in processing asparagus.

It is clear that in the last ten years there has been a steady decline in asparagus processing in California and a concomitant steady increase in asparagus processing in Mexico and Taiwan.

The following statistics give some indication of the changes that have been taking place. Table 1 shows the sharp decline in food processing plants which processed asparagus during the last ten years.

TABLE 1.—FOOD PROCESSING PLANTS, NORTHERN CALIFORNIA—PRODUCING CANNED OR FROZEN ASPARAGUS, 1962–72

Year	Canneries processing asparagus	Frozen food plants processing asparagus	Total
1962	15	8	23
1972	7	5	12

As a consequence of the sharp decline in the number of plants processing asparagus the number of employees has likewise declined sharply in the last ten years. Table 2 provides data for Northern California.

TABLE 2.—*Employment food processing plants, Northern California, asparagus, 1962–72*

Year:	*Total employees (rounded off)*
1962	7,700
1972	4,000

We wish to point out that these figures do not include employees affected by the decline in asparagus processing who were not plant employees such as field workers, can plant employees, printing, truckers, etc. If such categories of employees were included it would increase substantially the number of lost jobs.

Another factor of importance is that the canning and frozen food industry is one of the leading non-defense industries in California. We should have experienced expanding rather than declining employment in asparagus processing in the last ten years.

Moreover, the current unemployment figures for the affected areas demonstrate how seriously the San Joaquin Valley, which has been the vital asparagus area, is suffering from serious unemployment. Table 3 provides the seasonally adjusted figures for September, 1972.

TABLE 3.—*Unemployment: Sacramento-Stockton, September 1972*

Area:	Percent of unemployment
Sacramento	6.1
Stockton	9.3

Source: Human Resources Department, State of California, October 1972.

It should be noted that those most seriously affected by current unemployment are members of minorities—particularly Mexican-Americans.

Employment in food processing has declined at a faster rate than that of total wage and salary employment. This in part reflects the shift in employment to plants in Mexico and Taiwan. The elimination of 4000 jobs plus at least an equal number of jobs of those engaged in providing secondary services for asparagus processing represents a serious blow to the San Joaquin Valley economy. In addition elimination of processing of one product (asparagus) may also discourage Employers from processing other products because of limited use of the plant. This results in extending unemployment by eliminating other products as well.

In conclusion we wish to emphasize that the California food processing industry has long played an important role in the State's economy. Few industries are free from its influence either as a supplier or as a customer of its products. The industry is a major consumer of agriculture—the State's most important customer of many industries. Typically the Northern California canning industry in a normal season consumes 600,000 tons of steel for tin plate, 5 billion tin cans, 1.2 billion glass jars, one million miles of labels and 200 million fibreboard boxes. To transport a typical yearly pack requires the equivalent of 100,000 freight cars. We cannot estimate the precise effect that the decline of green asparagus processing and total elimination of white asparagus processing has on employment in these industries but we know that the impact is substantial.

However, the statistics which we have provided do not present the full picture. In many small valley communities canning and its auxiliary processes are the community's major manufacturing activities and the chief source of employment. That is why the loss of asparagus processing is so harmful to the community.

Finally, we are not trying to protect inefficient industries. Underlying California's pre-eminent position in the growing and processing of food are its modern and versatile agricultural and food processing industries which produce quality products at reasonable prices. These industries should not be undermined.

It is for these reasons that asparagus processing must again play an important role in California's economy.

BRIEF ON BEHALF OF FLORIDA CITRUS GROWERS

Signatories Hereto: Florida Citrus Mutual, Lakeland Department of Citrus, State of Florida, Florida Canners Association, Winter Haven

(Submitted by: Thomas W. Osborne, Executive Vice President, Florida Citrus Mutual, Lakeland, Fla.)

THE POSITION OF FLORIDA CITRUS GROWERS IN REGARD TO INTERNATIONAL TRADE FOR CITRUS FRUIT AND PRODUCTS

This brief is submitted by the following state-wide organizations acting for the Three Billion Dollar Florida citrus industry in matters relating to the total economy of this great agricultural enterprise:

1. Department of Citrus (Florida Citrus Commission), State of Florida, Lakeland, Florida;
2. Florida Canners Association, Winter Haven, Florida;
3. Florida Citrus Mutual, Lakeland, Florida.

The Department of Citrus (Florida Citrus Commission) is an agency of State Government created by the Florida Legislature in 1935. In addition to responsibilities for regulatory and research functions, it conducts advertising and promotional activities on a world-wide basis for fresh and processed citrus products. Its budget is in excess of 20 million dollars annually, utilizing funds provided by assessments on citrus production. Total citrus production in Florida when the Commission was organized amounted to less than 30 million boxes. Today it is more than seven times that figure.

The Florida Canners Association, organized in 1931, has as its membership all processors of citrus products. A trade association in concept, it represents its members in legislative, regulatory and other matters. As well, it develops and disseminates detailed statistical information of a totally accurate nature relating to product availability, sales prices, etc. It is a dynamic force in the industry in the development of improved quality, packaging and regulation of processing practices in the interest of the consumer.

Florida Citrus Mutual is acting on behalf of its over 15,500 members who produce more than 90 percent of the citrus fruit grown in the State of Florida. This organization is now completing its 25th consecutive year of service to the industry. It is interested on behalf of its members in all matters that affect international trade in citrus fruit and products.

During the "Kennedy Round" of tariff and trade negotiations, Florida Citrus Mutual supported by the other signatories hereto, played a leading part in presenting the position of the citrus industry in relation to import duties, nontariff barriers, and to all of the factors entering into the subject of international trade in citrus fruit and products.

Beginning in December, 1963, Florida Citrus Mutual and our associated organizations presented comprehensive and extensive testimony in Washington in hearings held by the United States Tariff Commission, by the Trade Information Committee, and by various governmental agencies relating to the necessity for maintaining existing tariff structures for citrus fruit and products.

In the intervening ten year period our industry has on many occasions, reiterated its position in various hearings held by governmental agencies in connection with international trading arrangements for citrus and products.

We are convinced that the arguments submitted then are just as valid today as in 1963.

By way of reference, we should like to repeat the recommendations that we made at that time. We said then and we repeat now:

(1) "*Production of oranges within the United States (Florida having 75 percent of this total production) is more than adequate to supply all domestic requirements even at price levels which return to producers little more than out-of-pocket production costs.*"

(2) Further, "*all U.S. citrus producing areas are extremely vulnerable to imports of citrus fruit or products from foreign citrus producing countries which due to location, internal trade policies, governmental assistance programs, etc., have distinct competitive advantages in world trade for citrus.*

(3) "*World production of oranges is increasing at a fantastic rate to the extent that our competitors throughout the world, and particularly in such countries as Brazil, Argentina and the very favored Mediterranean area citrus producing countries are seeking export marketing opportunities by every device of subsidy or otherwise open to them.*"

Mutual contended then and repeats the contention at this time that Florida cannot compete with the citrus worker in many of these foreign citrus producing countries in respect to wages earned. We said further that the Florida orange grower is a shining example of the American free enterprise system; that he does not have nor does he desire price support, production control, governmental subsidy, or other form of regimentation. Basically, and importantly, the position we outlined at that time was simply this:

(4) "*That the Florida citrus industry seeks equality of access, with all other citrus producing countries, into those countries or marketing areas which do not produce citrus in sufficient amount for their own domestic requirements.*"

This basic concept of equality of access remains a vital issue with our people.

It is a fact that the Florida citrus industry has developed export programs of special significance. The development of these export outlets can only be implemented to maximum potential if there is comparable access to world markets equivalent to that afforded other citrus producing nations.

Those persons in our industry concerned with exports are fully aware of the urgency of doing something constructive about the burdensome nontariff trade barrier problems. As an illustration, the discriminatory agreements of the *European Economic Community* with many of the Mediterranean Basin area citrus producing countries present a most serious obstacle to Florida's export trade in citrus fruit or products.

Preferential trade agreements executed between the European Economic Community and other Mediterranean area citrus producing countries constitute only one element of the "trade barrier problem." For illustration, the common agricultural policy of the European Economic Community is a matter of real concern. This system of agricultural protection involves price supports without production controls. As well, it involves a variable levy system to protect domestic production from import competition, and high export subsidies to facilitate the disposal of surpluses generated by the system, restrictive labeling and packing requirements, etc.

We submit that these preferential trade arrangements are contrary to the principles of GATT, that they tend as well to undermine the principle of *most favored nation*, provisions in GATT. Certainly they are detrimental to the trading interests of all third countries.

Others of the non-tariff trade barriers involve such things as customs procedures, health, safety and industrial standards, quantitative and licensing restrictions, internal tax measures, etc.

We contend that it has been demonstrated that the EEC intends not only to protect its own agriculture but also the agriculture of major third country suppliers of products now grown in sufficient quantity within the EEC to achieve self sufficiency. In so doing it is discriminating against other third country citrus suppliers such as the United States, Brazil, South Africa, etc., and is planning to extend these trade preferences to other Mediterranean producers. It becomes increasingly difficult if not impossible for the United States citrus industry and in particular the Florida citrus industry to maintain even its minimum market position in the EEC countries under these conditions of preferental treatment.

We suggest that the efforts of the United States delegates for the coming conferences in Geneva on trade and tariffs be particularly concerned with these matters of trade preferences and the other many non-tariff trade barriers that have continued all of these years since the end of the "Kennedy Round" of Tariff Negotiations.

It is our recommendation that the American delegation at Geneva in the forthcoming sessions be concerned especially with the resolution of the *most favored nation treatment provision of GATT*. Certainly there have been many instances of violation of this provision under the existing scheme of trading as carried out by the EEC countries, while it has been U.S. policy to adhere to the most favored nation treatment policy and to insist that other member countries follow it. But contrary to this policy the discriminatory actions of EEC continue without regard to the actual provisions of this policy.

While many of the discriminatory practices have applied to fresh citrus fruits as well as to imports of processed citrus products originating from Florida they could be applied.

CONCLUSION

The Florida citrus industry does not seek special advantages for its own product. It seeks equality of access, without discrimination, to available world markets. *Plus*, the removal of non-tariff trade barriers that would negate this opportunity. We ask only to be treated on an equal basis with other citrus producing nations.

In summary, we seek equality of access and equality of opportunity, nothing more, nothing less.

BUILDING A FOREIGN ECONOMIC POLICY FOR THE SEVENTIES

CARGILL, INC.

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BUILDING A FOREIGN ECONOMIC POLICY FOR THE SEVENTIES

BACKGROUND

I. Origins. The principal international economic institutions that have governed world trade, investment and monetary relationships were put in place at the close of World War II. The General Agreement on Tariffs and Trade (GATT) emerged from efforts in the late 1940s to construct trading rules that would avoid the devastating economic nationalism which characterized the Depression years and which contributed to the political nationalism that spilled over into world war. The International Monetary Fund (IMF) was created at Bretton Woods and reflected the desire of nations to avoid competitive devaluations of currencies and to restore convertibility.

Though each of these institutions arose to meet specific objectives, the broad purpose underlying both of them was to undertake the massive task of reconstruction and to set the world upon a path of sustained recovery and economic growth. When these efforts at reconstruction and expansion were launched, the United States enjoyed a fortunate position among the major economies of the world. Our industrial and agricultural productive systems had emerged from the war virtually intact, and we possessed the gold and currency reserves with which to finance a major share of international recovery. Equally important, the people of the United States and elsewhere shared a buoyant spirit that put the destruction of war behind and looked out into a future of peaceful competition, cooperation and prosperity.

II. Achievements. The success of these efforts, institutions and spirit is striking. Economies devastated by war have been restored and have achieved unprecedented strength and vigor. In place of a politically splintered Europe stands today a recently enlarged European Community of nations moving toward economic integration and striving for political cohesiveness. Japan has rebuilt her economy and embarked upon an economic growth virtually unparalleled in history. The United States has achieved and maintained a standard of living and well-being without equal. As noted in the Annual Report of the Council on International Economic Policy, this remarkable achievement by individual countries has been matched by international progress:

> For more than a quarter of a century the world has enjoyed economic growth uninterrupted by either global war or global depression. Rising incomes have created mass markets, and the rapid pace of technological development has led to more efficient production of countless products. Most developed countries now have standards of living which offer much more than simple survival to most of the population. And many less developed countries, after centuries of stagnation, have begun to make impressive economic progress. . . For a century prior to World War II, international commerce had grown at the rate of about 4% a year. Since 1945, foreign trade has expanded by more than 7% a year. 1/

The interrelationship between peaceful competition in an increasingly liberalized world trading environment and improved individual well-being is perhaps best illustrated by the following facts. Tariff barriers have declined by three-quarters from pre-World War II levels, and trade has expanded more than four times in real terms. Between 1950 and 1971, exports from the U.S. grew from 9.1 percent of production to 14.2 percent. For Japan and West Germany, the percentage of production moving into exports has approximately doubled. Between 1960 and 1971, World Gross Product has more than doubled, rising from \$1.5 to \$3.6 trillion.

1/ International Economic Report of the President, together with The Annual Report of the Council on International Policy, transmitted to the Congress, March 1973, 1.

III. Changed Circumstances. Obviously, progress of such magnitude has also wrought great changes in the world. In place of American economic dominance, there has emerged an international economic community where the United States, Western Europe and Japan have become rough equals. As barriers to trade have come down, as communications and transportation networks have improved and as multinational companies from all countries have begun to look at the world as their marketplace, the world has been drawn into a much closer economic interdependence. And, as commerce draws nations together, the pace of change has accelerated.

While this transformation of the world economy testifies to the success of our international systems and rules, it has also exposed those systems to greater stress. For example, the Bretton Woods system provided a stability in currency relationships that was crucial to trade expansion over the past few decades. Increasingly, however, that stability has tended to become overly rigid, preventing adjustments between exchange rates on a timely basis. As a consequence, major trading nations have experienced recurring monetary "crises," with currency imbalances only being corrected after serious depletions or accumulations of reserves have occurred.

Similarly, while past trade concessions have facilitated a rapid expansion of international trade, certain distortions in the present world trading system stemming from past concessions need to be corrected. There remain, for example, a number of quantitative restrictions against many commodities moving in international trade long after any prior balance-of-payments justifications has disappeared. A number of these restrictions apply against some of our own potentially most competitive exports, such as computers and food products. Moreover, past failures to incorporate agricultural trade in the general liberalizing thrust of world trading rules have permitted creation or maintenance of a number of domestic policies and border practices that have been very effective in limiting and distorting trade in agricultural products.

With our natural comparative advantage in production of many farm goods--enhanced by the most technologically advanced and efficient agricultural practices in the world--such barriers may cost the United States as much as $4 to $5 billion in foregone farm product exports each year while adding many unnecessary billions of dollars to consumer food bills. Finally, alongside positive movements toward economic integration there has also arisen a spreading system of preferential trading arrangements involving most of Western Europe, Africa and the countries bordering on the Mediterranean. While there are real needs to bring less developed countries more fully into the international trading community, by 1975 almost 70 countries could be practicing various forms of preferential tariff discrimination in ways undermining the most-favored-nation principle which serves as the cornerstone of GATT.

Not all stresses on the international trading system have come from change. As tariff barriers have fallen, it has become increasingly clear that many countries--including the United States--maintain non-tariff barriers to trade which seriously distort commercial exchange. A Working Party of the GATT has identified over 30 classifications and over 800 types of non-tariff barriers which need to be addressed if the world is going to continue to move toward a more open, equitable world trading system.

IV. Strains Upon the U.S. These stresses on international monetary and trading systems have triggered problems within the United States. The most obvious problem has been the pronounced and rapid shift away from a trade surplus averaging about $5 billion ten years ago to a trade deficit which exceeded $6 billion this past year. Because of steady and sizable outflows on other balance-of-payments accounts--including tourism and government expenditures--the U.S. has generally experienced a balance-of-payments deficit over-all in these years. For a time, this was desirable and necessary in order to build up asset reserves in other countries and to provide liquidity for an expanding level of trade. But, around 1959, U.S. liquid liabilities to all foreigners rose above U.S. reserve assets. Toward the end of 1969, U.S. liquid liabilities to foreign official agencies began to mount dramatically, reaching $57.6 billion by October, 1972, compared to reserve assets of about $13 billion. In other words, the U.S. trade balance moved into serious deficit at the same time that unwanted dollars began to accumulate in foreign official hands. Under the intense pressures of this anomaly and the failure of other nations to take corrective trade or monetary measures that would boost U.S. exports, the monetary system established at Bretton Woods came undone.

The reversal in America's trade performance generated other expressions of concern in this country. Some began to argue that the U.S. was no longer able to compete effectively in international markets. Some pointed to increasing foreign direct investment by U.S. multinational concerns and to mounting imports in several commodity sectors in support of their conclusion that American trade and investment policies were resulting in export of U.S. jobs. Such groups--both within organized labor and within certain industrial sectors--urged a policy of withdrawal from international markets. Import quotas and other measures were advocated to restrain imports. Curbs on multinationals were advocated to inhibit movement of U.S. capital abroad, while drastic changes in tax treatment of foreign source income of U.S. multinationals was put forward as a means of forcing American-based companies to abandon expanding markets abroad to foreign competitors. These proposals surfaced in a host of legislative proposals, but most of them were joined together in the "Foreign Trade and Investment Act of 1972" (re-introduced in 1973)--the so-called Burke-Hartke bill.

What followed was one of the most profound re-examinations of U.S. trade and investment policies ever undertaken. Unions, companies, commissions and governmental agencies began massive studies of these issues, and a good deal of healthy dialogue on these issues has been stimulated. On many issues, investigation has merely illustrated how complex and little-understood many of these issues are. And on many issues, policy alternatives--together with their likely welfare consequences--can now be formulated with a good deal of confidence. This controversy will be reviewed in a later section of this paper.

CONSEQUENCES OF RECENT U.S. FOREIGN ECONOMIC POLICY INITIATIVES

I. Currency Realignment. It may be useful, however, to ask whether the pronounced changes in world monetary policies and related initiatives in negotiating new trade policies have not themselves substantially altered the circumstances which originally gave rise to these profound concerns. As is now familiar, President Nixon, on August 15, 1971, suspended convertibility of the dollar into gold or other reserve assets, imposed an import surcharge and initiated a policy designed to bring U.S. domestic inflation under control. Subsequently, the dollar was

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devalued and other major currencies revalued in the Smithsonian Agreement of December, 1971. Because these changes were not sufficient to accommodate the imbalances that has arisen, there was a further major adjustment in currency relationships in February, 1973. As a result of these two currency realignments, foreign currencies of the major trading countries in the OECD have appreciated against the dollar by more than 15 percent on a trade-weighted basis. If Canada--whose currency continues to float--is excluded, the trade-weighted appreciation of these currencies against the dollar becomes 23 percent. For Japan--which accounted for nearly two-thirds of our trade deficit in 1972--the yen has appreciated more than 30 percent above its pre-August 15th level.

II. Trade Consequences. These currency changes have profound consequences for the trade problems that have triggered so much domestic concern and debate. In the first place, U.S. exports are now much more competitive in international markets. This major improvement in competitiveness--coupled with surges in growth rates among major trading partners--will provide a substantial boost to U.S. exports. March U.S. trade figures--showing a trade deficit of less than $100 million, compared to nearly $500 million the previous month--indicate that boost is already being felt. At the same time, devaluation of the dollar relative to the currencies of major trading nations strengthens the position of U.S. domestic industries facing competition from imports. This renewed competitiveness is reflected in the fact that a number of U.S. industries--including the textile, automotive, steel, chemical and petroleum industries--are now operating at nearly full capacity. As these changes continue to take hold, trade-related employment trends will improve.

III. Foreign Investment Consequences. At the same time, these currency changes make foreign direct investment by U.S. firms much less attractive and investment in the U.S. much more attractive. The reason is quite simple: it now takes substantially more dollars to buy the marks, francs or yen with which to invest in those countries. On the other hand, marks, francs and yen will be able to buy proportionately more dollars with which to invest in the U.S. As a result, not only are the incentives for dollar outflows greatly reduced but the incentives for investment by foreign concerns in the U.S. substantially increased. The positive employment implications of these developments are highly encouraging.

IV. Domestic Consequences. In addition, U.S. performance in controlling unit labor costs has been substantially better than that of our principal trading partners since August, 1971. Our efforts to control inflation have been substantially more successful than those of our trading partners, and our unit labor cost position relative to other countries now resembles our position in 1965 when we enjoyed a substantial trade surplus. This success lays solid groundwork for continued improvement in our competitive position--in both international markets and at home in competition with imports. At the same time, unemployment has dropped from the very high levels of 1970 and is projected to continue to drop to about 4.5 percent by the end of this year. While all of these developments do not add up to a complete solution of our economic difficulties, one thing is absolutely clear: the economic circumstances which generated concern over our competitiveness and the employment consequences of U.S. trade and investment policies in 1971 have been altered dramatically, and conclusions drawn at that time have little applicability to these changed circumstances.

V. Momentum for Reform. Equally important, the impetus for mounting continuing attacks on the conditions which caused these deteriorations is strong. The U.S. has not only secured temporary adjustments in currency relationships; it is also pressing for construction of a set of rules which will prevent the kinds of uncorrected and prolonged distortions we recently experienced from recurring. That effort is well set-out in Treasury Secretary George Shultz's statement before the IMF in September, 1972:

> Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the sources of their deficits. Any effort to develop a balanced and equitable monetary system must recognize that simple fact; effective and symmetrical incentives for adjustment are essential to a lasting system.

Agreement of the Committee of 20 to the concept of "stable but adjustable" exchange rates manifests growing international recognition of the symmetrical responsibilities of all nations to move promptly to make timely adjustments in order to correct emerging imbalances before they impose serious consequences--whether through inflation or unemployment--on domestic economies.

As a result of the Smithsonian agreement, the major trading nations of the world also committed themselves to undertake broad-scale multilateral trade negotiations. Those discussions are currently scheduled to begin in the Fall of this year. An important recognition guiding U.S. negotiating efforts will be an awareness of the vital role played by an open, non-discriminatory trading system in promoting balance-of-payments adjustments. This recognition has crucial consequences for trade, investment and employment. If, as a result of quantitative restrictions, variable levies, local content requirements or other non-tariff barriers, certain sectors of trade are prevented from reflecting currency changes in trade flows, several problems ensue: (1) currency changes which should have been adequate will come up short of meeting adjustment needs; (2) certain trading sectors may be forced to make over-adjustments, to compensate for failure to reach effective adjustments in trade flows in other sectors; or (3) some may be forced to invest in foreign countries to get inside of trade restrictions which effectively close off markets that could be served through exports. In other words, liberalizing and reforming international trading rules and constructing a more open, equitable and balanced international monetary system are necessarily related efforts. Success in one hinges upon success in the other. The atmosphere for fundamental reform must be supported--in scope and in concept--by authorities for equally far-reaching initiatives in trade reform. With these mutually self-supporting initiatives, the U.S. can continue to move toward an infrastructure of international economic policies that will further the positive investment and employment consequences deriving from actions taken since Fall, 1971.

VI. Summary. In summary, the two devaluations of the past 18 months, the commitment to undertake fundamental monetary reform, the efforts to bring U.S. domestic inflation under control while moving back toward full employment, and outward-looking trade-negotiating and trade-management authorities addressed at reforming and liberalizing international trade form a coherent and integrated policy directly attacking problems that prompted concerns manifested in proposals like Burke-Hartke. Such a policy should: (1) help restore U.S. international competitiveness; (2) help strengthen the ability of domestic industries to meet import competition; (3) help increase the employment-generating effects of U.S. trade and investment policies; (4) help enhance consumer and worker well-being; and (5) help defuse artificial incentives for U.S. capital to move abroad. In considering the future course of U.S. trade policy, this fundamental change in the circumstances and position of the U.S. since late 1971 should be fully recognized.

THE TRADE POLICY CHOICE

I. The Negative Prescription. Beyond the need to recognize how the events of recent months have changed the balance of economic forces, policy-makers must consider what consequences will flow from alternative trade policies. Some in the United States seem to believe that it is realistic or even possible for us to respond to the changed world of today by turning inward. Some seem to believe that we have lost our ability to compete internationally. Some seem to believe that we stand little chance of securing the kind of international economic system that will permit all developed nations to compete on an equal footing. Some seem to believe that we should respond to the challenge of international competition by walling out the rest of the world rather than developing international and domestic policies which will permit orderly adjustment while rebuilding a vigorous competitive posture. And some seem unwilling to extend to developing countries the kinds of access to our markets they need to accelerate their development.

These concerns reflect the judgment that an outward-looking trade policy of the sort outlined in the Trade Reform Act of 1973 does not serve America's domestic or foreign interests. Those who share this judgment would have the U.S. withdraw behind protective walls, turn inward and ignore the challenges of the international marketplace. While some of the concerns motivating this judgment are serious, responsible and deserving of public policy attention, turning inward is not a positive response to either our foreign or our domestic policy interests.

II. The Positive Prescription. Clearly, the United States is faced with a policy decision of major dimensions. The consequences of our choice between these policy alternatives--either to expand outward into a more interdependent world or to turn inward and retreat from a responsible role in a mature world--will be with us for years to come. The only policy appropriate to America's traditional leadership role is to move forward into a freer, more open, more responsible world. The growing connection between our foreign policy and our foreign economic policy require this. But the goals of our domestic policy--more and better jobs, a higher standard of living for all our people and a fuller, more secure, more meaningful life for our citizens--also require such a policy. The analysis leading to this conclusion deserves to be reviewed.

EXAMINATION OF THE DIMENSIONS OF THE TRADE PROBLEM

I. Slow Export Growth. In the first place, available evidence indicates that the decline in our trade balance over the last few years cannot be attributed to an inordinate rate of growth in imports into this country. Department of Commerce figures demonstrate that the compound rate of growth of U.S. imports for the years 1960-71 was about 10.6 percent. This rate of growth is lower than the rate of import growth in all major industrial countries except the United Kingdom and Canada. During the same period, the compound rate of growth for U.S. exports was only 7.5 percent. The United Kingdom--with a rate of 7.0 percent--is the only major trading country with a lower rate of export expansion. Significantly, the U.S. rate of growth in exports was far below the rate for Japan--about 17 percent--and for Germany--about 11 percent. Japan's trade surplus of $4 billion and Germany's of $1 billion with the U.S. account for a major portion of our over-all deficit this year. In other words, the evidence suggests that the decline in the U.S. trade account stems not from an inordinate flux of imports but from a depressed rate of growth in exports.

II. Inflation. One of the prime reasons for this poor export performance has been the impact of a high rate of inflation in the U.S. on export prices. United Nations statistics on average annual rates of change in export prices for major trading nations illustrate this quite clearly:

COMPARATIVE AVERAGE CHANGES IN EXPORT PRICES, 1961-70

Country	Average Annual Change 1961-65	Annual Average Change 1966-70
United States	0.7%	3.8%
West Germany	1.0	2.7
France	1.3	1.5
Japan	-1.7	2.9

Source: UN MONTHLY BULLETIN OF STATISTICS, September, 1972.

The trends are significant. In the first place, the generally higher level of export price increases for all countries in the later period evidences a higher rate of inflation among all developed countries recently. Secondly, while in the period of relative price stability enjoyed by the United States in 1961-65, the U.S. rate of change in export prices was generally below that of its trading partners, in the later period the U.S. average annual increase in export prices was significantly above the rates of increase in other countries. Compounded over the period, the U.S. had a significantly worse export price performance for the latter half of the decade than our competitors.

A similar trend is reflected in unit labor costs in these nations, another reflection of how domestic U.S. inflation eroded our export competitiveness. Significantly, however, the relatively poor comparative performance of the U.S. in unit labor costs during the latter half of the 1960s appears to have been reversed more recently:

PERCENTAGE CHANGE IN UNIT LABOR COSTS FOR MANUFACTURING EMPLOYEES, SELECTED COUNTRIES, 1965-70 and 1971
(relative to national currencies)

Country	1965-70	1970-71
United States	4.4%	2.7%
West Germany	4.1	8.3
France	2.9	5.2
Japan	1.1	8.1

Source: MONTHLY LABOR REVIEW, July, 1972, 6.

Coupled with exchange rate adjustments achieved in the Smithsonian Agreement and more recently, the prospect for future competitiveness of U.S. exports appears brighter, provided inflation can be held in check.

III. Other Factors. There are, of course, other factors which have contributed to the relatively poor U.S. export performance in recent years. Among these are: an inflexible monetary system which postponed needed changes in exchange rates; the recovery of Japan and Europe--together with the attainment of economies of scale in production--that has fueled their heightened competitiveness; distortions of world trade flows, some of which have fallen particularly hard on U.S. exports--especially U.S. agricultural exports, where the U.S. has a pronounced comparative advantage; and structural factors which make some economies more export-oriented. These other influences reinforce the above analysis, since they indicate that the solution to U.S. trade problems lies not in walling out imports but in pursuing monetary and trade negotiations which will remove these barriers.

IV. Employment Consequences of Trade. Nor can a convincing case be made that imports are responsible for worsening aggregate unemployment. In the first place, imports--about $55 billion in 1972--are only about 4 percent of total GNP in the U.S. It would take massive trade shifts to produce any significant impact on aggregate employment.

Moreover, there does not appear to be any significant correlation between trade shifts and over-all unemployment levels in the U.S., largely because the trade sector of U.S. production is relatively small compared to domestic forces affecting employment--monetary and fiscal policies, governmental spending, and shifts in demand. Thus, for example, Krause and Mathieson note that, ". . . while the trade balance was declining from \$6.8 billion in 1964 to \$0.7 billion in 1969, unemployment also declined from 5.2 percent to 3.5 percent." 1/ While our trade balance deteriorated by \$6 billion between 1964 and 1969, unemployment during the same period declined by 1.7 percent. Similarly, while the U.S. trade deficit deteriorated by more than \$4 billion in 1972, the rate of unemployment also declined from about 6 percent to about 5.2 percent. This is not to say that a declining balance of trade is not a matter of serious concern; it is merely to say that solutions to trade problems and solutions to aggregate unemployment problems are not tied together in the manner suggested by some restrictive trade policy advocates.

V. Summary. In summary, available evidence indicates that the deterioration in our balance of trade stemmed from a poor export performance--tied principally to high rates of inflation in the U.S. compared to our trading partners--rather than from an influx of imports. The relatively small percentage of U.S. production affected by trade--coupled with available evidence--also demonstrates that imports or trade shifts are not the cause--or the panacea--of our aggregate unemployment problems. Finally, an improved performance by the U.S. in controlling

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1/ "How Much of Current Unemployment Did We Import?", Lawrence B. Krause and John A. Mathieson, BROOKINGS PAPERS ON ECONOMIC ACTIVITY,2: 1971, 421.

inflation relative to our major competitors, new exchange rate relationships together with negotiations to make international monetary policies more responsive to economic forces and effective negotiations to remove major barriers to U.S. exports offer the most promising avenue to an improved balance of trade for the U.S.

FOREIGN DIRECT INVESTMENT AND THE MULTINATIONAL CORPORATION

I. The Indictment. A great deal of concern has also been expressed about the impact on U.S. employment of the multinational corporation. Elements of organized labor, especially, have claimed that multinational corporations are "exporting U.S. jobs." This indictment is frequently augmented by the claim that multinational corporations are undermining the competitive position of the U.S. by exporting advanced technologies through foreign investments and licensing agreements. The question of the economic impact of multinational corporation activities has spawned perhaps the greatest amount of controversy as well as the heaviest flow of information, surveys, studies and analyses.

II. Indications of Available Evidence. To review all the information that has been generated is a massive task. Such a review, however, indicates the following: at best, proponents of Burke-Hartke have been able to point only to isolated incidents where multinational activities have resulted in losses of American jobs; they have provided no substantive evidence in support of a comprehensive indictment of multinationals; and the available evidence strongly suggests that the net effects of the multinational corporation on the economy of the U.S.--and of host-country nations--have been distinctly positive.

III. Aggregate Effects of MNCs. One of the most comprehensive and earliest studies of the impact of multinational corporate activities was the survey compiled by the Emergency Committee for American Trade. That survey analyzed the domestic and international operations of 74 U.S. corporations--with aggregate sales of $113 billion in 1970, about one-fifth of total U.S. shipments of manufactured products--for the period 1960-70. The major conclusions of that study showed that multinational corporations:

--Increased the number of their domestic employees by nearly 900,000 from 2,452 thousand to 3,348 thousand,

--Increased the book value of their fixed assets in U.S. manufacturing facilities from $15.3 billion to $34.1 billion, a gain of $18.8 billion,

--Increased their sales from American facilities from $58 billion to $113 billion, a gain of $55 billion,

--Increased their exports from the United States to the rest of the world from $4.3 billion to $12.2 billion, a gain of $7.9 billion,

--Increased their net surplus of exports over imports from $3.2 billion to $6.6 billion, a gain of $3.4 billion,

--Increased the balance of payments inflows attributable to their foreign investments--dividends,earnings, interest, royalties and fees--from $.5 billion to $2.4 billion, a gain of $1.9 billion,

--Increased their annual net balance of payments inflows from $2.9 billion to $7.3 billion, a gain of $4.4 billion. . .

--Increased their domestic employment (exclusive of employment gains through acquisition) more rapidly than the average manufacturing firm. Their rate of new job creation was about 75 percent greater than that of all other manufacturing firms,

--Increased their investment in domestic plant and equipment more rapidly than other U.S. manufacturing firms and more rapidly than their foreign investments,

--Increased their domestic sales more rapidly than the typical U.S. manufacturing firm,

--Increased their sales from domestic facilities twice as much as from their overseas operations,

--Exported a growing proportion of their domestic production. Their ratio of exports to domestic production in 1970--10.8 percent--was double that of the average U.S. manufacturing firm,

--Accounted for a small and (except for U.S.-Canadian automobile trade) declining proportion of total U.S. imports. 1/

The picture that emerges from this well-documented survey shows--as one would expect--a profile of American companies who see the world as a market and are active in it. This includes not only growing investments and production abroad but also growing exports from the U.S. to other countries and a rapidly rising positive contribution to U.S. balance-of-payments. What also emerges is a profile of American companies that not only account for a growing export trade but also a declining share of imports into the U.S. Finally, one sees in this profile American companies that not only are not growing abroad at the expense of U.S. employment and production growth but are actually increasing their domestic book value, sales and employment more rapidly than the average manufacturing firm. In other words, the multinational corporations whose pictures were snapped in this survey represent a cross-section of the most dynamic American firms, both abroad and domestically.

These findings are not an isolated instance. For example, the U.S. Chamber of Commerce Multinational Enterprise study of the experience of 121 firms showed an increase of 31.1 percent in domestic employment over the past decade--from 2.5 million in 1960 to 3.3 million in 1970. This was well ahead of the national percentage increase for the same period. This study also confirmed ECAT's

1/ THE ROLE OF THE MULTINATIONAL CORPORATION IN THE UNITED STATES AND WORLD ECONOMIES, Emergency Committee for American Trade (February, 1972), 4-5.

conclusion that multinational corporations increase exports from the U.S. much more rapidly than the national average. Finally, the Chamber of Commerce found that--contrary to claims that multinationals export jobs in a search for cheap labor--the most preferred locations for foreign direct investments were the advanced, highly industrialized, high-wage countries of North America and Western Europe, with the main incentives for such investments being to preserve foreign markets against competition and to overcome barriers to trade. 1/ A study by the National Foreign Trade Council confirmed these conclusions on the reasons why U.S. multinationals invest in foreign markets, adding that there was no evidence that either exports or investments in the U.S. domestic economy were reduced by investments abroad. 2/

IV. Individual MNC Effects. Studies by individual multinational corporations of the effects of their foreign investments on domestic employment, exports and the balance-of-payments are becoming an increasingly significant part of the body of literature on this issue. The results of these individual company studies are important for several reasons. First, they confirm the positive effects of foreign direct investment uncovered by the aggregational studies detailed above. Secondly, they dramatize the job content here in the U.S. of these investments.

1/ UNITED STATES MULTINATIONAL ENTERPRISE: REPORT ON A MULTINATIONAL ENTERPRISE SURVEY (1960-1970), U.S. Chamber of Commerce, 16-17.

2/ ECONOMIC IMPLICATIONS OF PROPOSED CHANGES IN THE TAXATION OF U.S. INVESTMENTS ABROAD, National Foreign Trade Council, Inc., (June, 1972), 5. Similar findings and conclusions have been reached in the following studies: (See attached page).

(Cont'd. Footnote 2/)

National Foreign Trade Council - "The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade : An Assessment of Critical Claims and Legislative Proposals" - 34 page booklet, Nov., 1971: "Economic Implications of Proposed Changes in the Taxation of U.S. Investments Abroad," 27pp., June, 1972.

National Association of Manufacturers - "U.S. Stake in World Trade and Investment - The Role of the Multinational Corporation" - 86 pp., Jan., 1972; "Foreign Direct Investment and the Multinational Corporation - The Facts and the Myths," by William R. Pollert, reprint, 7 pp., April, 1972. "Information Kit on the Multinational Corporation and the Burke-Hartke Bill," August, 1972; Study of impact of Burke-Hartke tax provisions on 83 companies, December, 1972.

U.S. Chamber of Commerce - Survey of 158 large corporations, Feb. 14, 1972. Special report, "Foreign Trade and Investment Controls," Feb. 10, 1972. "Could Foreign Competition Take My Job?" pamphlet, 11 pp., April 12, 1972. "United States Multinational Enterprise -- Report on a Multinational Enterprise Survey (1960 - 1970,)" final report, June, 1972.

Business International - Investment and Trade Study of 86 multinational companies, Feb., 1972. "Investment Abroad is Investment in America," "Does Foreign Investment by American Companies Threaten American Jobs?" brochure, 16 pp., and question and answer pamphlet, 6 pp., June, 1972.

Center for Multinational Studies - "U.S. Multinational Investment in Manufacturing and Domestic Economic Performance," by Professor Robert G. Hawkins, New York University Graduate School of Business Administration, Occasional Paper No. 1, Feb., 1972.

Committee for Economic Development - "U.S. Foreign Economic Policy and the Domestic Economy," report issued by Program Committee of CED, July, 1972, 17 pp.

The Conference Board - Studies in preparation on "Product Imports, Exports, and Overseas Production: Their Impact on U.S. Employment"; and a survey of 77 U.S. corporations, the origins and nature of their foreign operations, product mix, transfer of technology and employment.

For example, a study by Minnesota Mining and Manufacturing has concluded that one out of every eight U.S. jobs exists because of its foreign activities. Finally, these individual company studies give greater insight into the reasons multinationals choose to make foreign investments. Among the most important of those reasons are: to meet foreign competition in that market; to produce product lines attractive to that market but not in the U.S.; to meet local-content or government-procurement regulations in the local market; to circumvent other kinds of trade barriers; or to secure raw materials. All of this evidence suggests two conclusions. First, in spite of isolated instances where foreign direct investments have displaced American jobs, the major consequences on aggregate employment levels, on exports and on balance-of-payments of multinational corporate activities have been distinctly positive. 1/ Secondly, where investments have been made abroad to circumvent artificial trade or investment barriers, the most direct and promising solution to this problem would be to provide the President the negotiating authorities he needs to remove these artificial trade barriers and investment incentives.

V. Differences Among MNCs. These many aggregational and individual company studies also indicate another important feature of multinational corporate activities that there are wide differences among firms with international outlooks. Some firms have achieved multinational status in search of raw materials needed by the U.S. economy. Others have moved into the international marketplace to meet

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1/ American Cyanamid Company - "The Burke-Hartke Bill - Cyanamid Response," manuscript, 26 pp., Jan. 26, 1972; Cyanamid News, Feb., 1972, editorial on multinational company and Burke-Hartke; "The Challenge of Burke-Hartke," article by Joseph C. Calitri in June, 1972, issue of Financial Executive; "The Multinational Company - A Politcal Reckoning," speech by Joseph C. Calitri, Oct. 5, 1972.

(See attached page)

(Cont'd. Footnote 1/ p. 13)

Cargill, Inc. -- "Burke-Hartke: A Legislative Challenge to Agricultural Trade," Congressional Record, April 21, 1972, E.4143-45; "A Positive Response to Burke-Hartke," Congressional Record, May 23, 1972, E-5614; "Protectionist Threat of U.S. Agriculture," Cargill News, Mar./Apr., 1972.

Caterpillar Tractor Co. - "The Win-Win Situation: How U.S. Investment Abroad Benefits the U.S. As Well As the People of Host Countries," Speech by Lee L. Morgan to 1971 National Foreign Trade Convention; "Your Global Paycheck - Why Caterpillar Has Built 11 Plants Outside the U.S. Since 1950, How Plants Abroad Have Helped Caterpillar Increase its U.S. Exports and Jobs," 16 pp., Illustrated brochure, April, 1972.

Clark Equipment Company - "Clark over there means jobs over here!" 16 pp., booklet, October, 1972.

Deere & Company - "Foreign Trade, Investment and John Deere," 20 pp., booklet; "Questions and Answers on the Burke-Hartke Bill," 19 pp.

E. I. du Pont de Nemours & Company - Better Living magazine feature on multinational corporations, January, 1972.

Exxon Corporation - "Proposed New Restrictions in U.S. Foreign Trade and Investment Policies," 34 pp., booklet; prepared by the company's Public Affairs Department, November, 1972.

Ford Motor Company - "Ford: A Global Corporation," 12 pp., booklet concerning the company's international activities, October, 1972.

Goodyear International Corporation - Fact Book, "Some Facts About Multinationalism in the Tire and Rubber Industry," 16 pp., Nov., 1971. "Information on the Multinationals," booklet, 22 pp., June, 1972.

Johnson & Johnson - "Foreign Business, U.S. Jobs and Johnson & Johnson," 4 pp., brochure, Oct., 1972.

Minnesota Mining and Manufacturing Company - Remarks by Harry Heltzer before House Republican Task Force on International Economic Policy, June 21, 1972. "America at the Crossroads: Trade or Retrenchment?", booklet, 11 pp., June 21, 1972.

Pfizer, Inc. - Public Affairs Division - "Background Report, Foreign Trade and Investment Act of 1972 (Burke-Hartke Bill)", July, 1972, 78 pp.

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A Foreign Economic Perspective - report by Peter G. Peterson to the President, December 29, 1971; also The United States in the Changing World Economy, document material which provided the information for background briefings to the President during 1971, (available from Superintendent of Documents, $3.25 per set).

U.S. Department of Commerce - "U.S. Direct Investment Abroad 1966, Part I: Balance of Payments Data," supplement to the Survey of Current Business, August, 1971, $1.75, Government Printing Office. First volume of data from benchmark survey conducted by Office of Business Economics, presenting statistics of multinational capital flows, earnings and income. (Comparable data for 1970 due for release in 1972).

U.S. Department of Commerce - "The Multinational Corporation - Studies on U.S. Foreign Investment" Vol. I, March, 1972, 75 pp., $1.75, Government Printing Office. Incorporates: "Policy Aspects of Foreign Investment by U.S. Multinational Corporations," Part I), January, 1972; "U.S. Multinational Enterprises and the U.S. Economy," (Part II), nine case studies, summary by Professor Stobaugh, Harvard Business School, January, 1972; "Trends in Direct Investments Abroad by U.S. Multinational Corporations 1960 to 1970," (Part III), February, 1972. Bureau of Economic Analysis, "Special Survey of U.S. Multinational Companies, 1970," a supplement to the Survey of Current Business, BEA-SUP 72-03, November, 1972, 100 pp., $3 order from: National Technical Information Service, U.S. Department of Commerce, Springfield, Virginia, 22151. This report presents data for 1966 and 1970 on the financial and economic activities of 298 U.S. multinational companies and their 5,200 majority-owned foreign affiliates.

Federal Reserve Board - "Imports and Economic Welfare in the U.S.," paper presented by Andrew F. Brimmer before the Foreign Policy Association, February 16, 1972.

Federal Reserve Bank of New York - "Impact of Direct Investment Abroad by United States Multinational Companies on the Balance of Payments," by Susan B. Foster, Monthly Review, July, 1972.

U.S. Department of State - "The Employment Effects of the Quota Provisions of the Burke-Hartke Bill" by John C. Renner, Director, Office of International Trade, April, 1972.

foreign competition in foreign markets which they could not meet successfully from the U.S. Still others have invested abroad to establish distributional and processing facilities to handle exports from the U.S., thereby establishing a local presence in foreign markets necessary for and stimulating exports of products made in this country. The generic title--"multinational corporation"--obscures these many differences and the often profoundly different consequences on the U.S. economy these different reasons for foreign investment produce. Sweeping changes in tax treatment of these activities based not only on an analysis that available evidence indicates is inaccurate but that is also grossly over-simplified could result in seriously adverse and unintended consequences on U.S. employment, foreign exchange earnings, availability of raw materials and development of export markets. Very simply, the forces knitting these many activities together are a good deal more complex than is recognized by advocates of simplistic tax changes.

COMPLEXITY OF THE INTERNATIONALIZATION OF THE MARKET ECONOMY

One of the most sophisticated and comprehensive analyses of these interrelationships can be found in the U.S. Tariff Commission study entitled, "Competitiveness of U.S. Industries." Some of the major conclusions of that study bear repeating.

I. Source of U.S. International Competitiveness. In the first place, the Tariff Commission study indicates that the recovery of the Japanese and European economies and the growth of world markets made increasingly accessible by a progressive reduction in barriers to trade have made economies of scale generally prevalent in many countries and no longer the exclusive province of the U.S. with its rich domestic market. But that rich domestic market encourages other developments--like innovations, product differentiation and higher inputs of skilled labor and "human capital"--that do serve to enhance American competitiveness:

> The enjoyment of economies of scale is apparently a necessary but not sufficient condition for the generation of a comparative advantage in international trade. Older industries, with older and less diversified product lines, less advanced technology, and less opportunity to employ highly skilled labor find the presence of scale economies in the domestic market to be of little benefit in foreign markets and in the struggle against competing imports at home. On the other hand, the more dynamic industries, which produce highly differentiated lines of new products, using advanced technologies and heavy inputs of skilled labor or "human capital," are those which, on the basis of the evidence examined here, are in the best position to take advantage of scale economies to compete successfully against foreign producers, both at home and abroad. 1/

In other words, a U.S. policy toward trade and investment which seeks to protect older industries that have failed to innovate in products, technologies and use of skilled labor at the expense of dynamic, new industries with new and differentiated product lines reflecting new technologies and high concentrations of "human capital" would be to pursue a policy directly counter to the economic strengths of the United States. Burke-Hartke--which seeks to roll back imports to 1965-69 levels, puts a lid on technology exports and restrains capital outflows--courts retaliation against our exports from dynamic industries--including agriculture--and retaliation against our technology and investment policies through foreign nations withholding technology and capital from the U.S. Based on the

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1/ COMPETITIVENESS OF U.S. INDUSTRIES, United States Tariff Commission, Report to the President on Investigation No.332-65 Under Section 332 of the Tariff Act of 1930, TC Publication 473 (Washington, D.C., April, 1972), 158-59.

Tariff Commission's findings and conclusions, such a policy would be highly counter-productive to U.S. interests and U.S. strengths.

II. MNCs and Imports. Proponents of Burke-Hartke have also sought to generalize from isolated instances where U.S. manufacturers have moved facilities abroad in order to produce for the U.S. market--notably, consumer electronics--to the general proposition that foreign direct investments stimulate imports from subsidiaries of U.S. companies into the U.S. Is this a valid generalization?

Evidence assembled by the Tariff Commission suggests not only that it is invalid but that the reverse--imports from subsidiaries into the U.S. are a declining share of total U.S. imports--is more likely true:

> On balance, the evidence on foreign investment and trade performance of the multinational firms presented in this section indicates that the operations of these companies had a favorable impact on U.S. foreign trade competitiveness. There appears to be a clear association between the intensity of foreign investment activity in the different branches of manufacturing and levels of investment at home. Furthermore, industries characterized by heavy overseas investment in productive facilities appear also to be those which not only contribute most heavily to U.S. exports but also have had the least impact on the upsurge of U.S. imports--with exactly the reverse results appearing for those industries in which strong foreign investment activity is not characteristic. 1/

In other words, three major conclusions of private studies of multinational corporations are confirmed by the Tariff Commission's analysis: (1) multinationals that are the most active investors abroad are also among the most active investors in the U.S. domestic economy; (2) foreign direct investments coorelate with the most rapid rates of increased exports from the U.S.; and (3) imports back into the U.S. from subsidiaries of U.S. multinational companies have lagged behind

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1/ Ibid., 190.

imports from non-affiliated, foreign-held companies, and, in fact, the greatest upsurge in imports into the U.S. seems to come precisely from those industries where foreign direct investments are not made. In other words, foreign direct investments manifest an outward competitive thrust into world markets, not a thrust of competition back against U.S. domestic production.

III. Effects of Technology Flows. Finally, proponents of Burke-Hartke have argued that foreign direct investments and transfers of technology abroad erode American international competitiveness and have contributed to import competition in this country. The Tariff Commission's study suggests not only that this is not the case but that the opposite--transfers of technology abroad enhance U.S. exports--is more likely true. In the first place, the Tariff Commission notes, "the bulk of this flow [of American technology to foreign countries] is directed toward overseas subsidiaries of U.S. firms, so that control of the techniques and processes involved remain essentially in American hands." 1/ Furthermore, correlating technology flows with trade flows for Japan leads to a startling conclusion:

> The analysis suggests rather unusual conclusions, namely that Japanese acquisitions of technology--by country and by industry, as outlined in tables 33 and 34--are more strongly correlated with imports than with exports. The data suggest little or no tendency for country-sources of technology to "match-up" with country-destinations of goods made with that technology. Similarly, strong and statistically highly significant correlations exist between Japanese technology imports--of which the U.S. is the principle source--and U.S. exports of manufactured goods to Japan, by industry, while a similar association is not present for the comparable U.S. imports from Japan. 2/

1/ Ibid., 219.

2/ Ibid., 218.

While the complexity of these relationships and the limited study that has been made of them to date make conclusions tentative at this point, it is striking--and coincides with information available in individual multinational corporation statements as well as aggregational studies--that the Tariff Commission found no tendency for transfers of technology to lead to imports back into the country from which the technology came.

Moreover, flows of investment and technology move in both directions--both out of the U.S. and into it. For example, it is far from true that the U.S. has a monopoly on new technologies. Some of the most fundamental innovations in a number of primary industries in the U.S. have come from abroad--for example, the basic oxygen process for steel, the radial tire, the Wankel Rotary engine and a long list of innovations in the chemical industry. Moreover, as other nations catch-up with the U.S. in many fields of technology, they will have to depend to a greater extent than in the past on developing their own technologies. For example, Japan has been able to purchase technology that cost much more to develop than the $3.4 billion Japan has paid for access to that technology over the past ten years. Future Japanese plans show an intention to invest $13 billion in research and development by 1980, compared to $3 billion in 1970. 1/ The U.S. can hardly afford to deny itself access to this technology by clamping restrictions on transfer of its own technology.

IV. Foreign Investment in the U.S. Perhaps even more dramatic are the possibilities for increased direct investment in the U.S. by foreign-based multinational companies, especially under the more realistic exchange rates recently achieved.

1/ "The United States in the Changing World Economy," Peter Peterson, December 27, 1971, 65.

While U.S. investments abroad have increased more rapidly than foreign investments in the U.S. in the past, that trend may be changing. For example, "the growth rate of inflows of European direct investments increased to almost 13 per cent annually over the 1966-70 period from only 5 per cent annually during the 1959-66 period, whereas the rate of U.S. investment in Europe dropped to 12.7 per cent from a level of 17.1 per cent over the earlier period." 1/ The rate of increase in foreign direct investment in the U.S. has continued to accelerate, passing the $1 billion mark in 1972 and estimated to exceed $1.5 billion in 1973. 2/ In other words, flows of capital and technology across national boundaries are becoming increasingly a two-way street, and the U.S. could not limit its transfers of capital and technology abroad without seriously reducing the benefits it derives from similar flows back into the U.S.

SUMMARY: ANALYSIS OF TRADE AND INVESTMENT

Summarizing this analysis, the following conclusions emerge: (1) available evidence indicates that the decline in the U.S. trade balance arose not from an increased influx of imports but from a relatively poor export performance; (2) available evidence indicates that trade shifts are not a major factor producing aggregate unemployment, with the level of unemployment determined by fiscal and monetary policies, governmental spending and demand shifts; (3) in the aggregate, multinational corporations make a positive contribution to domestic employment,

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1/ "The Silent Invasion," Stefan H. Robock, World, Vol.2, No.2 (January 16, 1973), 27.

2/ "Foreign Investors Expected to Pump Over $1.5 Billion into U.S. Economy," Journal of Commerce, January 15, 1973.

growth in domestic manufacturing, growth in exports and improved balance-of-payments; (4) foreign direct investment and transfers of technology correlate with a strong competitive position for the U.S. in international markets and do not correlate with increased imports, which come mainly from industries where technology and capital transfers have been least intense; and (5) the proposals embodied in Burke-Hartke run directly counter to America's greatest strengths in international competition while jeopardizing healthy flows of investment and technology into the U.S.

EMPLOYMENT CONSEQUENCES OF TRADE AND INVESTMENT POLICIES

I. Two Questions. A central--and rightly so--concern in any discussion of trade and investment policies must be their employment consequences. This concern can be separated into two complementary questions: first, for those who secure employment as a result of trade and investment policies, are they better off under outward- or inward-looking policies? secondly, for those whose jobs would be threatened either by trade shifts or import-substitution, are their interests better served by outward- or inward-looking policies?

II. Employment and Welfare Consequences. Turning to the first question, those who have investigated whether the same volume of exports produces more or less employment than the same volume of import-substituting production have concluded that more employment would be generated by export promotion. For example, as Krause and Mathieson point out, ". . . it should be remembered that U.S. exports are labor-intensive relative to U.S. imports, as Leontief established and others subsequently confirmed." 1/ One of the studies confirming this conclusion was

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1/ "How Much?", op. cit., 421.

an examination by Professor Anne O. Kreuger of the employment effects of exports versus import-substitution for a number of major American industries. Comparing direct and indirect employment effects arising from demand for exports with direct and indirect employment effects of replacing U.S. imports with domestic production (and assuming that the latter alternative would not shift costs up and consumer demand down, which is, as she says, an "extreme assumption", since imports replace domestic production frequently because they have a cost advantage), she found that for the industries she studied, import substitution would decrease total employment by approximately 150,000 or 15 percent. 1/ Very simply, promoting exports builds U.S. jobs more efficiently than artificially replacing imports with domestic production.

At the same time, export promotion builds better job opportunities. This is clear from a comparison of levels of well-being in export-oriented industries and industries facing import competition. Professor Krueger's analysis of these welfare consequences in a number of major industries affected by trade flows--both exports and imports--points to some striking conclusions. First, the wage range for industries where employment would be increased by import quotas had a much higher concentration of wages at the lower end of the scale than for industries where employment would be increased by equivalent degrees of export expansion. Secondly, the industries where employment would decline as a result of protectionist measures had an unweighted average annual wage in 1967 approximately 127 percent of the unweighted average annual wage for industries where

1/ "Quotas on American Imports Would Reduce Employment in American Industry," Anne O. Kreuger, Congressional Record, Vol.117, No.178 (November 19, 1971), H-11331 ff.

employment might be increased by quotas ($6,758 as compared with $5,335). 1/ In other words, a policy to protect employment in industries facing increasing competition from imports not only would have adverse consequences on total employment in trade-related production but would also protect lower-wage jobs at the expense of higher-wage jobs, a distributional consequence that can hardly be supported as good public policy for the American working man.

III. Adjustment Policies. The second question touches on a difficult economic and human problem. It is little consolation to the worker who loses his job because of imports to know that an outward-looking trade policy produces more and better job opportunities for the economy as a whole. The positive over-all employment benefits of a liberal trade policy do come at some cost to certain individuals, and typically those costs are concentrated in certain industries and geographical areas. Import penetration has been fairly rapid in several industries:

> For example, 9 out of 10 radios made abroad; 1 out of every 6 new cars made abroad; 7 out of 10 sweaters; 19 out of 20 motorcycles; 9 out of 10 baseball gloves. . .
>
> We import 100 percent of our 35mm. cameras, all of them. We import 96 percent of our magnetic tape recorders. We import 70 percent of our portable typewriters and more than 50 percent of our black and white television sets. 2/

This has reduced employment in several industrial sectors:

> For example, employment of production workers in the consumer home entertainment electronics industry has declined from 128,600 to 96,600 since 1966 as imports continue to rise. Twenty-four thousand production jobs have been eliminated from the footwear industry since 1966. 3/

1/ "Quotas on American Imports," op. cit., H-11331.

2/ "Foreign Economic Policy in the Seventies," seminar before the House Republican Task Force on International Economic Policy, Congressional Record, August 10, 1972, H-7548.

3/ NEEDED: A CONSTRUCTIVE FOREIGN TRADE POLICY, A Special Study Commissioned and Published by the Industrial Union Department, AFL-CIO, October, 1971, Prepared by Stanley H. Ruttenberg & Associates, 62.

These are striking figures. They manifest one of the consequences of comparative advantage--that some industries face growing import competition while others expand exports.

IV. Adjustment in a Larger Context. These figures define a specific problem that needs to be addressed. What policy solutions would be most effective, however, remain unclear unless this employment displacement is set in its larger context. For example, the increasing share of consumer home electronics consumption going to imports testifies to the lower prices of imported as compared to domestic products in that category. This means that more U.S. consumers can afford to own radios, tape recorders and television sets, a benefit of trade that should not be ignored. The growth in imports of automobiles has not only made new cars available to more income groups; it also reflects a shift in consumer preferences for smaller, more economical vehicles. This has widened the range of consumer choice, prompting Detroit to make a more concerted effort to offer the American consumer the kind of car he wants.

On the employment side, while imports have undoubtedly contributed to declining employment in certain industries, this is not the entire story. In the first place, some of this employment decline undoubtedly stems from internal factors--shifts in consumer preferences, failure to keep pace with technological change, failure to invest in modernizing plants and the like. Moreover, it would be misleading to identify these employment declines with people thrown out of work. Many of these declines may reflect voluntary withdrawals from the labor market--through retirement, starting a family, etc.--with the employer simply not filling the vacancy. In addition, not enough is known about what does happen to workers who leave one industry.

The relationship between movement of workers between jobs and the movement of individuals into and out of the active labor force is highly complex. For example, it can often be difficult to distinguish between a worker in either of these categories who loses a job, cannot find another one and therefore involuntarily withdraws from the work force and the worker who quits a job or loses one when he or she is relatively indifferent about continuing to work, does not actively seek new employment and therefore voluntarily withdraws from the work force. The welfare consequences of voluntary withdrawal from the work force by a casual worker or an individual working to supplement family income are distinctly different from the case where a family involuntarily loses its primary source of income because of unemployment.

Concerning this latter and more significant problem, however, several observations can be made. In the first place, a job lost because of a structural shift in employment--whether arising from changes in governmental spending, consumer demand shifts, new technologies or import displacement--occurs only once. In other words, the important employment consequence is not the aggregate numbers of jobs displaced over a period of many years but the incidence of necessary employment adjustment occurring in any one year. The most reasonable estimate of this once-and-for-all job displacement each year as a result of trade shifts places the number of worker dislocations annually between 40,000 and 60,000--a quite insignificant amount in relation either to the annual expansion of the labor force or aggregate unemployment levels (both of which run into millions). 1/ Consequently, in any one year only a small proportion of the work force needs to seek alternative employment because of job dislocations associated with trade shifts.

1/ "Job Displacement and the Multinational Firm: A Methodological Review," by Professor Robert G. Hawkins, NYU Graduate School of Business Administration, Center for Multinational Studies, Occasional Paper No.3, Washington, D.C., June 1972.

Secondly, the job mobility necessitated even by this relatively small displacement is part of a much broader phenomenon of labor mobility characteristic of the American work force. For example, a recent study of Ford blue-collar workers showed that 28 percent had been on their job less than 3 years and fully one-half for less than 7 years. 1/ In other words, the general rapidity of job turnover characteristic of the American economy would help compensate for many trade-related job displacements.

Finally, a further characteristic of this highly mobile labor force is that unemployment tends to be a temporary rather than a permanent phenomenon. For example, even in 1971--a period of relatively high aggregate unemployment--only about one-tenth of the jobless remained unemployed more than 26 weeks. 2/ In other words, while unemployment is always a serious burden for the families involved, the actual level of job displacement associated with trade shifts is only a minimal portion of the more general pattern of transition between jobs characteristic of America's fluid economy.

V. Shifts to Export-related Employment. In a healthy economy--with balanced fiscal and monetary policies aimed at full employment--displaced workers would be likely to find employment in other economic sectors, perhaps at higher wages. Just one example is provided by the following article:

> Political and labor leaders frequently complain about jobs being wiped out by imports. And this is a problem of serious dimensions.
>
> In Pittsburgh, the trouble centers around steel, which has poured into the United States from foreign mills. Undoubtedly

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1/ Statement of Douglas A. Fraser, Vice-President, UAW, before the Subcommittee on Foreign Affairs, Hearings on Trade Adjustment Assistance, May 17, 1972, 328.

2/ Ibid., 329.

> the toll in steelworker's jobs has been high.
>
> Sometimes overlooked is the fact that the four-county Pittsburgh area is a big exporter of all kinds of products. An estimated 20,000 district jobs owe their existence to exporting. 1/

In other words, even within one geographical area, the fact that employment growth in one industry is inhibited by import competition is not the end of the story; many workers may be finding jobs in other economic sectors, including exports made possible by a growing two-way flow of trade.

VI. Indirect Employment Effects of Trade. Finally, the impact of trade upon production is frequently more complex than acknowledged in another respect. For example, as spokesmen for Caterpillar have pointed out, exports of their products--which have been rising dramatically--represent an indirect export of steel produced in the U.S. Similarly, one estimate suggests that 29 cents of every dollar of feed grain exports from the U.S. represents expenditures for machinery, fuel and oil within the U.S. As a result, a sizable portion of domestic steel sales or of domestic farm implement sales were, in fact, export sales. In the latter case, the American farmer converted domestically produced and marketed steel and machinery inputs through his efforts into feed grain exports. Such examples demonstrate that the employment consequences of trade are multifaceted and complex, with generalizations derived from very simplified analyses of structural shifts within the American economy running a serious risk of producing counter-productive policy conclusions.

1/ "Twenty Thousand Jobs in Pittsburgh Area Created by Exports," Article by William H. Wylie, introduced into Congressional Record of January 11, 1973, by Hon. Richard S. Schweiker, E-118.

VII. American Industrial Base. Nor is there any indication that imports are eroding the American industrial base as a whole. Between 1961 and 1971, for example, unadjusted manufacturing sales climbed from $356 billion per year to $750 billion per year. At the same time, business expenditures for new plants and equipment doubled.

VIII. Burdens of Adjustment. This is not to say that problems of adjusting to import competition are not real, nor that they do not impose serious economic and human burdens on those who are temporarily dislocated by structural shifts in the economy. Rising insecurity for certain elements in the labor force, loss of seniority and pension rights, loss of health and life insurance coverage, collapse of one-industry communities and the tax base needed to support necessary social services like education, police and fire protection, sanitation and the other services which make up an important component of the high standard of living enjoyed by Americans--in other words, the burdens placed upon those who bear the major costs of adjustment in the economy do deserve high public policy attention. One might add that these concerns are matters of public policy whether they arise from trade flows, changes in governmental spending policies, shifts in consumer preferences, recession in the economy, erosion of fixed incomes by inflation or any of the other factors that limit access to important social services for specific segments of the population.

In other words, worker dislocations arising from increased imports are part of a more general pattern of unemployment causation characteristic of a free, open economy. No one would suggest that this general pattern of unemployment causation should be attacked by freezing workers in present jobs regardless of governmental or private spending patterns or competitive realities in the marketplace. Yet, it is no more sensible to freeze present jobs in industries facing stiff import competition by shutting off the reality of that competition.

IX. A Positive Manpower Adjustment Program. In coping with general patterns of unemployment, we recognize the necessity of adjustment while attempting to guide that adjustment and ease its burdens through the tools of monetary and fiscal policy supported by effective manpower programs. Similarly, effective solutions to trade-related unemployment will not come from stopping the adjustment process. Rather, meaningful long-term solutions to this problem will only come from planning necessary adjustments in a rational manner, controlling its pace when shifts come too quickly to be easily absorbed and providing a solid manpower adjustment, relocation and retraining program designed to move workers and communities toward more secure and higher-paying employment patterns.

Provisions of the Trade Reform Act of 1973 and accompanying pension and unemployment legislation are designed to respond to this problem with these kinds of initiatives. Title II outlines the major instruments of such a positive approach. It provides for authorizations of adjustment assistance to workers; it provides for temporary safeguards designed to slow down the pace of import penetration for a limited period of time while industries and workers seek adjustments enabling them to compete effectively in the same product lines or move to new lines with more promising competitive prospects. This approach strikes a balance between the two crucial demands of such a situation--on the one hand, the demand to adjust to new circumstances and on the other to provide the opportunity to adjust smoothly and with a minimum of displacement. If this approach is subject to any criticism,

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it is not that it is inappropriate or incorrect but simply that it may not go far enough in providing the individual maintenance, retraining and relocation benefits needed to make this investment in the nation's future competitiveness and well-being as profitable as it could be.

THE PUBLIC POLICY CHOICE

I. Social Costs and Compensation. Analysis of available evidence bearing on the debate over the best direction for future U.S. trade and investment policies has already suggested that an inward-looking trade policy is not an effective public policy tool for improving over-all employment levels. Nor is it a means to build a gradual improvement in over-all worker well-being. Indeed, it is a policy prescription that would make these vital national objectives more difficult to achieve. Beyond that, restrictive American trade policies would introduce further distortions into the U.S. economy with serious implications for the well-being of the society as a whole and for individual elements within it. And--of major importance in formulating public policies--while the temporary burdens of outward-looking trade measures can be eased or compensated for, the economic burdens of restrictive trade policies not only tend to persist over time but also to resist any form of meaningful policy adjustment or compensation. A review of some of the more serious costs of restrictive trade policies here and abroad bears this out.

II. Retaliation. In the first place, raising barriers on U.S. imports would very likely provoke massive retaliation by our trading partners, since our imports are their exports. Taking agriculture as just one example, the results would be devastating and widespread. Agriculture represents one of America's most dynamic, export-oriented industries. Exports have increased from $5.7 billion in 1968-69 to an estimated $11.1 billion in 1972-73. Because of tariff bindings under the GATT, other countries cannot raise barriers to agricultural imports without paying compensation to the U.S. Unilaterally increasing American trade barriers without offering compensation to our trading partners would free those countries from such a constraint. Experience indicates they would respond quickly. 1/

For example, Sicco Mansholt--the man most responsible for the Common Agricultural Policy of the European Community--proposed in 1969 a "consumption" tax of $60 per ton on oilseeds and $30 per metric ton on oil cake and meal. If such a proposal were enacted, it would seriously jeopardize U.S. oilseed and oilseed product exports to the Community, which grew from $212 million in 1959-60 to $854.2 million in 1971-72. Obviously, retaliation of this kind would seriously damage the rural farming community in the U.S. But it would also seriously undermine the economies of many states which have a sizable agricultural base. For example, "one of every four jobs [in Minnesota] is in farming or business actively closely related to agriculture." 2/ In addition, employment in industries producing inputs for American farming or in handling the production of America's farms as these products move into export would be seriously cut back. Finally, agriculture's positive contribution to the balance-of-payments--estimated at $3.5 billion for 1972-73--would be dramatically reduced. Similar consequences would follow retaliation against other major U.S. export industries, not only harming individuals in those industries but

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1/ The New York Times, for example, reported that, in conversations between American and European businessmen, the "Europeans apparently left no doubt that their governments would be forced to retaliate if protectionist quotas on imports as envisaged in Burke-Hartke, were enacted." (March 3, 1972), p.1.

2/ "Serving Minnesota's Citizens," Institute of Agriculture, University of Minnesota, (December, 1972), 4. While 178,000 of these jobs are directly in farming, a further 56,000 jobs are tied to producing inputs for farmers and 206,000 jobs are involved in processing, handling, and transporting agricultural commodities.

also in the surrounding economy of the area and in sectors of the economy serving those industries. Finally, the costs of retaliation against our exports cumulate over time. Export markets remain foreclosed for as long as retaliatory barriers remain in place.

III. Foregone Export Growth. Beyond this retaliation against current levels of U.S. exports, there would be the additional burden of foregone growth in future exports. Taking agriculture again as an example, exports have grown more than 90 percent over the past four years. With per capita meat consumption in the European Community only 60 percent of U.S. levels, less than 50 percent of U.S. levels in Russia and Eastern Europe and only about one-eighth of U.S. levels in Japan, the potential for future growth in exports of grains for food and feed, oilseeds and oilseed products and livestock products is dramatic. Trade, however, is a two-way street, and policies which restrict growth in one direction necessarily will restrict growth in the other. This strikes directly at the interests of our most dynamic, export-oriented industries, which, as Kreuger's analysis indicated, pay higher wages than those industries benefitted by import restraints. Very simply, in practical terms--including continuing improvement in American wage standards and worker well-being--the U.S. cannot afford to wall itself off from the rest of the world. And, once again, to be forced to a lower export growth curve represents costs to the American economy that mount rapidly over time.

An indication of how the costs of barriers to U.S. exports cumulate over time is given in a recent study by Stephen Magee. He has estimated the annual cost to the U.S. of foreign restrictions on U.S. exports at between $4.3 and $5.5 billion. Since these costs recur year after year, however, the present discounted cost to the U.S. of this cumulative loss of foreign markets is in excess of $136 billion. 1/

1/ "The Welfare Effects of Restrictions on U.S. Trade," Stephen P. Magee, in Brookings Papers on Economic Activity: 3 (1972), The Brookings Institution (Washington, D.C.), 699-701.

IV. Financing Anticipated Increased Import Needs. An expansion of U.S. exports is also an important public policy objective for another reason. The recent emergence of an energy crisis in this country has demonstrated that by 1980 the U.S. may have to import between $15 and $21 billion of energy materials, compared to about $4 billion today. Similar increases in other raw material imports will be necessary as domestic supplies are depleted. A trade policy designed to expand U.S. exports will be the only means of financing these future import needs while avoiding an unacceptable trade deficit.

V. Benefits of Imports to Consumers. Moreover, imports offer substantial benefits to U.S. consumers, giving them products at lower prices and greater choice among products. Estimates place the current cost of present U.S. trade barriers at $10 to $15 billion annually. Moreover, these costs to consumers in the form of higher prices and less real buying power also cumulate over time. As a result, the present costs of barriers distorting trade flows come to exceed substantially the actual dollar value for the current year. More broadly, imports can serve as an important hedge against inflation. Trade barriers, on the other hand, increase the costs of inputs and the final prices of manufactured items. This, in turn, leads to higher wage demands, with a consequent wage-price spiral that shifts costs up in the U.S. without improving real incomes and actually reducing the purchasing power of people living on fixed incomes. In addition, a two-way flow of goods, capital and technology heightens competition, stimulates cost-cutting economies and prompts a search for more efficient technologies and more attractive products and services. For many of America's largest and most concentrated industries, the impetus for this kind of responsiveness to consumer interests comes primarily from import competition.

Finally, any attempt to fix patterns of production and trade on some historical basis, while it may reduce the burdens on some to adjust to new occupations, also retards flexibility and improved resource allocation--both in the United States and abroad. With less efficient resource allocation, real standards of living for all peoples will not improve as rapidly. In the United States, such a policy would retard movement of the economy toward those areas where it has a relative competitive advantage--new, highly differentiated product lines requiring heavier inputs of skilled labor ("human capital"). The results would be serious: an accelerated deterioration in America's international competitiveness, less real income here and abroad, reduced opportunity for less-developed countries to improve their well-being by serving the market demands of developed nations and a foreign policy reflecting an increasingly isolationist, autarkic and nationalistic mood rather than growing international cooperation and mutual interdependence. The lessons of the Smoot-Hawley tariff and the decline in well-being, accompanied by a rise in nationalistic animosities, characteristic of the 1930s should not be lost on present-day policy-makers.

<u>VI. Costs to Society Over-all</u>. The magnitude of the potential gains or losses which are likely to follow from the public policy choice between an outward-looking trade and investment policy along the lines of the Trade Reform Act of 1973 and an inward-looking policy along the lines of Burke-Hartke cannot be understated. For example, the <u>annual</u> total costs of the trade restrictions the President seeks authority to attack have been estimated by Magee at an average of $7.5 to $10.5 billion, with a present value of their <u>cumulative</u> impact put at a staggering $258 billion. Instead of providing a means of reducing these costs, Burke-Hartke

would double the annual costs to $14 to $21 billion, with a present value of their cumulative impact set at $387 billion. 1/ Moreover, as Bergsten notes, these quantitative estimates grossly underestimate the final economic costs to the nation:

> I would like to stress and discuss further Magee's own warning that the gains of free trade calculated in the paper grossly underestimate the actual gains to the United States. As Magee mentioned, three major elements are omitted in his analysis--dynamic effects, economies of scale, and monopoly effects. These may provide very large additional benefits that should be added to the overall estimate of the potential gains from free trade. 2/

In other words, more efficient resource allocations stimulated by free trade in turn trigger further competition, innovation and economies that can multiply the initial gains. Finally, not open to even imprecise measurement but of undeniable significance is the contribution outward-looking economic policies can make to America's over-all foreign policy objectives. These implications were perhaps most poignantly expressed in the President's Trade Message to Congress:

> The magnitude and pace of economic change confronts us today with policy questions of immense and immediate significance. Change can mean increased disruption and suffering, or it can mean increased well-being. It can bring new forms of deprivation and discrimination, or it can bring wider sharing of the benefits of progress. It can mean conflict between men and nations, or it can mean growing opportunities for fair and peaceful competition in which all parties can ultimately gain.

The United States has major economic differences to resolve with her principal trading partners, the same countries who constitute our principal allies in building a mature structure of peace. The United States has major economic and humanitarian

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1/ "The Welfare Effects," op. cit., 701.

2/ "The Welfare Effects: Comments and Discussion," C. Fred Bergsten, op. cit., 702.

commitments to less-developed nations to meet, many of which countries remain to be incorporated in an international structure of peaceful cooperation and development. These foreign policy challenges cannot be met by turning inward; they will require American foreign economic policies providing multilateral consultation, negotiation and resolution.

VII. Costs of Restrictive Policies Not Compensable. In summary, a restrictive American trade policy would not respond to the real concerns of those who are temporarily harmed by shifting competitive advantages and flows of trade. While leaving these problems unresolved--merely frozen in their present form--it shifts burdens forward and imposes substantial inequities on the most dynamic, export-oriented sectors of our economy. It undermines the movement toward more efficient resource allocation which has historically been the foundation not only for improved real incomes and well-being in this country and abroad but also the cornerstone of America's competitive position in the world economy. It would exact a terrific price from consumers--reduced choices, higher prices, greater inflationary pressures and, as the recent energy crisis has demonstrated, inadequate supplies. Finally, given the magnitude and the nature of these economic, social and political costs of a restrictive, inward-looking trade policy, it would be impossible to devise and implement public policies to compensate those injured. How does one compensate consumers for higher prices? workers for foregone job opportunities in higher-wage industries? farmers and those who depend upon agriculture for their livelihood for markets lost by retaliation and foregone export growth? all of society for a less efficient allocation of resources, for cost and wage pressures fanning the flames of inflation, for a lower rate of improvement in real incomes and real standards of living and for a less competitive position internationally? the public at large for reduced choice, less competition, less innovation and heightened nationalistic animosities instead of a more cooperative, more peaceful, more prosperous world?

TRADE REFORM ACT OF 1973

I. Relationship to Over-all U.S. Foreign Policy. The world is becoming increasingly interdependent. To cope with problems in these new circumstances will require cooperation and consultation among the nations affected. As the President noted in his Trade Message to Congress, this realization has already begun to yield fruitful results in the political arena, and it is now time to undertake the same kind of progressive initiative in international economic policies:

> The world is embarked today on a profound and historic movement away from confrontation and toward negotiation in resolving international differences. . . We have thus begun to erect a durable structure of peace in the world from which all nations can benefit and in which all nations have a stake.
>
> This structure of peace cannot be strong, however, unless it encompasses international economic affairs. Our progress toward peace and stability can be significantly undermined by economic conflicts which breed political tensions and weaken security ties. . .
>
> My trade reform proposals would equip us to meet this challenge. They would help us in creating a new economic order which both reflects and reinforces the progress we have made in political affairs.

The changes that have occurred in world economic relations must be incorporated into new multilateral rules and understandings if they are not to become ever more serious irritants. Therefore, a coherent foreign economic policy building opportunities for consultation and negotiation is both a logical and a necessary extension of American foreign policy initiatives of recent years.

II. Response to International Economic Challenges. Moreover, as the preceding analysis has indicated, many of the stresses that have been felt in recent years in trade-related sectors of the American economy have their origin in international circumstances. Prolonged currency imbalances and excessive exchange rate rigidities were a major cause of our declining balance-of-payments. Trade barriers which prevented flows of goods between nations along lines of comparative advantage aggravated such distortions. And lack of clear international understandings on how individual countries could and should cope with trade and investment problems unnecessarily impeded responsible actions. Consequently, an outward-looking U.S. trade policy is needed not only as one element in our over-all foreign policy but also as a tool with which to redress problems originating in the inadequacies of current international rules and understandings.

III. Authorities and Checks. The Trade Reform Act of 1973 provides the Executive the appropriate measure of authority for participating fully with our trading partners and foreign allies in this consultative effort. Subject to appropriate pre-negotiation procedures, the President would be authorized to change U.S. tariffs in the context of trade agreements. He would also have authority, subject to review and disapproval by Congress, to attack the difficult and complex subject of non-tariff barriers with the same kinds of authorities possessed by representatives of other major nations. Recognizing that even fair international competition can present difficult temporary problems of adjustment, the President would have authorities to manage the pace of adjustment. Furthermore, such authorities are designed to be consistent with possible multilateral agreements on appropriate adjustment procedures. Presidential authority to respond promptly--and with a view to our international obligations--to unfair competition is clarified, and trading partners are put on notice that unjustifiable or unreasonable trade restricting measures that impair U.S. exports cannot be countenanced.

The Trade Reform Act also establishes Presidential authorities needed to deal with the vital and complex interrelationship between monetary and trade policies. These authorities will permit the U.S. better to deal with its own adjustment problems while, at the same time, participating in the creation and implementation of an effective set of international rules governing monetary relationships. As an important adjunct to such efforts, the President is given limited authority to use trading tools as a means to compensate other nations for tariff changes the U.S. finds necessary to make and to help bring under control domestic inflation.

This proposal would allow the President, subject to review and disapproval by Congress, to extend most-favored-nation tariff treatment to countries not now receiving such treatment, when this would serve national interests. It would also permit the U.S. to participate in efforts of developed countries to extend a temporary system of trade preferences to developing nations, provided that recipient countries are not involved in trade policies which discriminate against the U.S. in favor of other developed countries.

Obviously, these authorities are extensive. They grant to the President authority to undertake important international initiatives necessary to assume a full and equal role in reforming international economic relations. This is an important aspect of an over-all U.S. foreign policy. Moreover, the lack of such authorities over the past five years--during which our trade balance rapidly deteriorated while the dollar remained over-valued well past the time when needed adjustment was clearly signalled--indicates the necessity of providing adequate authorities for dealing with such economic problems now. Finally, Presidential authority to undertake international economic initiatives is also encompassed within responsible checks--the purposes of the Act, U.S. international obligations and, ultimately, review by Congress. Given the importance of meeting our major trading partners with equal authority; given the complex interrelationships among trade, investment and monetary relations; and given the challenge of dealing with both tariff and non-tariff barriers in a manner that makes clear that agricultural trade problems cannot be separated from industrial concerns, this balance between executive initiative and legislative checks offers an opportunity to:

> move our country and our world away from trade confrontation and toward trade negotiation, away from a period in which trade has been a source of international and domestic friction and into a new era in which trade among nations helps us to build a peaceful, more prosperous world.

A NATIONAL PRIORITY: SUCCESSFUL AGRICULTURAL TRADE NEGOTIATIONS

The importance of successful agricultural trade negotiations can be expressed quite simply. First, agriculture remains the largest industry in the United States, with over 3 million people directly employed in farming and many millions more employed to provide manufactured inputs and services to farmers and to market agricultural products here and abroad. Secondly, foreign markets represent the most rapidly growing outlet for U.S. farmers, with U.S. agricultural exports up 94 percent in only four years and with world trade in feed grains and oilseeds expanding at a compound rate of nearly 10 percent per year. Finally, agricultural trade is one area where barriers and distortions around the world fall especially hard upon the U.S. Foreign barriers to U.S. farm product exports cost this country $4 to $5 billion in foregone sales per year--more than 10 times the cost to the U.S. of restrictions on manufactured exports. The present discounted value of this cumulative loss of agricultural exports has been put at $125 billion. 1/ In other words, there may be no other single area of trade than agriculture where international reform and liberalization could have a more immediate, positive impact on U.S. balance-of-payments, production and employment.

Equally, there may perhaps be no other single area of the economy than agriculture which would be more seriously hurt by restrictive trade policies. Retaliation by our trading partners would fall heavily upon farm-product exports. Reduced marketings would cut back farm income and force retirement of some of the 70 million acres now used to meet export demand--either through expensive land retirement

1/ "The Welfare Effects," op. cit., 699-701.

programs costing \$60 to \$70 per acre or through forcing many farmers off the land and many rural communities virtually into bankruptcy. With farm and rural incomes already lagging behind incomes in urban areas, the nation can hardly afford these added economic and human costs. Finally, farmers would also be squeezed between rising input costs prompted by the inflationary pressures triggered by import restrictions and declining final product prices brought on by temporary surpluses. In the short run, collapse of net farm income would drive many from rural areas into crowded urban centers, adding to mounting social and welfare costs. In the long run, with higher production costs and less production marketed, per unit food costs would have to increase, adding higher consumer bills to increased taxpayer burdens. At the same time, with resources allocated less efficiently, the entire nation would suffer a lower real standard of living than possible if the U.S. is able to use its rich agricultural resources to their fullest.

Consequently, there is perhaps no single group of workers in America with a more direct, pocketbook interest in seeing the U.S. adopt outward-looking trade policies than farmers and those who serve them. At the same time, there may be no other product area than agriculture where the entire nation--as consumers and as taxpayers--stands to gain more from trade reform and liberalization. While this case for liberalizing international agricultural trade is becoming increasingly well understood in Congress, in the White House and across the nation, it may be useful briefly to summarize and document its principal reasons.

<u>I. America's Comparative Advantage in Agriculture</u>. The United States enjoys a virtually unparalleled combination of rich soils, favorable weather and diffused growing area. These, in themselves, would suggest that the U.S. has a natural comparative advantage in production of field crops like wheat, soybeans and feed

grains. But, in addition, the entire agricultural industry--implement manufacturers, seed companies, fertilizer producers, farmers, handlers, processors and exporters--have invested heavily in developing and implementing the most modern technologies. This fact has been recognized in the most recent Tariff Commission study, which identified agriculture as one of America's truly high technology industries. 1/ As a result, productivity in agriculture has been increasing at 2-1/2 times the rate for manufacturing over the past few decades, with many farm products selling for about the same prices as they were twenty years ago, in spite of rising costs.

II. Market-Oriented Farm Policies. Over the past decade, these advantages of nature and technology have been augmented by movement toward market-oriented policies in our domestic farm programs. In the early 1960s, income support operations in agriculture were largely separated from product pricing, with price support levels being reduced to world market levels. As a result, prices were allowed to move more freely in response to supply and demand forces in the marketplace. At the same time, programs like P.L.480 helped to reduce the large surpluses that had accumulated during the 1950s while providing assistance to many developing countries, some of which--like South Korea, India and Taiwan--have now become healthy commercial customers for U.S. agricultural exports.

The Agricultural Act of 1970 added further flexibility to these programs. It permitted farmers who met minimum set-aside provisions to plant whatever crops they felt would be most profitable on their remaining acreage. Last year, 95 percent of all American farmers participated in this program. Capitalizing on its flexibility,

1/ Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor, Report to the Committee on Finance of the U.S. Senate and its Subcommittee on International Trade on Investigation No.332-69 (February, 1973), 570.

they shifted 70 million acres from old cropping patterns dictated by allotment and bases into more efficient and profitable patterns. This has resulted in major shifts of crops among farms and among regions, greatly improving the efficiency of resource allocation within farming and further enhancing U.S. competitiveness in world markets.

This past year has also witnessed some other major developments. U.S. agricultural exports should reach $11.1 billion this fiscal year, about a 40 percent increase over last year. Approximately half of this $3 billion increase will go to essentially new customers in Eastern Europe and China, with Russia taking by far the largest share. To a substantial extent, these increased farm-product exports were prompted by widespread adverse weather and growing conditions in these countries and in several major exporting nations. But, as will be discussed in more detail in a moment, there appear to be fundamental changes in world food demand that suggest promising long-term export prospects in these and other foreign markets.

This tremendous surge in U.S. agricultural exports has produced a number of consequences of major importance for the future of world agricultural trade. First, food and feed surpluses in the U.S. and elsewhere have been greatly depleted if not exhausted. This provides the United States with the opportunity to move away from an expensive land reserves program to a strategic commodity reserves program for wheat, feed grains and oilseeds, as advocated, for example, by the National Grain & Feed Association and many others. Such a policy would give the U.S. farmer a crucial market development tool with which to capitalize further on expanding world commercial demand for foods and feeds while gradually reducing the taxpayer costs of land retirement and other farm programs. Secondly, the U.S. has currently stopped paying subsidies on farm product exports. Under these circumstances and with strong world food and feed demand expected to continue, we have an excellent opportunity through agricultural trade negotiations to secure agreement from all nations to stop subsidizing artificially the costs of surplus disposal, whether through export subsidies or other surplus disposal measures not directly tied to needed food aid and humanitarian assistance programs.

III. Rising Commercial World Food Demand. Changes in domestic farm programs here and abroad that would be necessitated by trade liberalization in the agricultural sector would be much easier to accommodate in a period of strong food demand, since the burdens of adjustment would be minimized. The rapidly changing picture of world commercial demand for foods and feeds suggests that now is just such a propitious moment.

While food consumption patterns are influenced by a number of factors--including cultural and taste preferences, availability and costs--per capita disposable income appears to be the strongest factor in shaping human dietary patterns. The following table illustrates this fact:

Per Capita Red Meat Consumption
in Specified Countries
Average 1961-65, and Annual for 1971
(pounds)

Country	Average 1961-65	1971
United States	167	192
Canada	142	164
European Community (of Six)	102	122
U.S.S.R.	68	89
Japan	13	27

Source: Foreign Agricultural Circular: Livestock and Meat, FLM 2073 (February, 1973), 4.

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The table illustrates two important relationships. In the first place, the countries are listed in approximate declining order of per capita incomes. The United States--with the highest per capita income--has the highest per capita meat consumption for both periods, with Japan--having the lowest per capita income among the listed countries (at least at the beginning of this period)--with the lowest per capita meat consumption. Secondly, as per capita incomes rose during the decade, per capita meat consumption rose in each country or geographical area. If poultry consumption were included, the relationships would be even more pronounced. These trends clearly indicate that, as per capita incomes continue to increase during the Seventies, per capita meat consumption will continue to increase. Recent increases in meat prices in the U.S. illustrate that, even here, consumers are continuing to bid for more meat. Even more pronounced increases in meat prices in the European Community and Japan reveal similar demand for increased meat consumption there. Finally, the most recent Soviet five-year plan indicates intentions to increase Russian meat consumption by 25 percent during this period.

With per capita disposable incomes projected to continue to increase rapidly in the coming decade, per capita meat consumption--and therefore demand--should continue to mount. This trend has special significance for the U.S., which has a pronounced comparative advantage in production of feed grains and soybeans, critical ingredients in production of meat, milk and eggs. That significance can be illustrated by a simple comparison. On the one hand, and as a rough rule-of-thumb, it takes about 8 pounds of feed to produce a pound of beef; 4 pounds of feed to produce a pound of pork; and 2-1/4 pounds to produce a pound of broiler. This means that each one pound increase in meat production and consumption requires a multiple increase in feed production and consumption. As a result, while in the U.S. we use 1750 pounds of feed grains per person to produce the meat and livestock products in our diet, France and W. Germany use only about 40 percent of this amount per capita, Italy about one-quarter and Japan and Taiwan only about one-eighth. Consequently, there is ample room for expanding per capita meat consumption in foreign markets as per capita disposable incomes increase. For example, per capita meat consumption in the European Community is only 60 percent of U.S. levels; in Russia and Eastern Europe it is less than 50 percent; and in Japan it is only about one-eighth of the U.S. standard. As just one example of the potential this holds out for increased farm product exports in the feed grains-oilseeds sector, the U.S. should export about 9 million tons of grains to Japan this year, up 70 percent from the mid-1960s. Yet Japanese per capita beef consumption is only 4-1/2 pounds, compared to 114 pounds in the U.S.

Of course, other major producing nations--both exporters and importers--will be anxious to seek to expand their production to meet these rising needs. It should be clear, however, that in the face of these circumstances, the U.S. would stand to gain substantially if agricultural trade negotiations could ensure that competition to meet this rising commercial demand is fair and market-oriented rather than distorted by artificial domestic price incentives, trade-inhibiting border practices and irrational surplus disposal programs. At the same time, the necessary internal adjustments in farm programs required to secure meaningful agricultural trade liberalization would be far less costly to nations forced to adjust in this kind of an expanding market than in a stagnant or declining market. Moreover, off-setting those domestic adjustment costs would be gains to consumers in those countries. For example, substantially complete trade liberalization in the grains-oilseeds-livestock sector could improve consumer well-being in the European Community by $10 billion and in Japan by a remarkable $33 billion. 1/ In other words, there are substantial incentives for exporting and importing nations alike finally to face up to the challenge of bringing farm-product trade within the sphere of relatively liberal, open and equitable commercial exchange.

IV. Barriers to Agricultural Trade. Domestic farm programs and border practices distorting agricultural trade are maintained by virtually every country, including the U.S. Necessarily, securing reform in these practices by other nations will entail some reciprocity in the agricultural sector of the United States. But any reasonable comparison of the trade-distorting effects of these practices in major developed nations demonstrates that U.S. agriculture would secure far greater advantages than it would incur adjustment costs. The so-called "Flanigan Report," for example, estimated that substantially complete liberalization of trade in the grains-oilseeds-livestock sector would increase U.S. agricultural exports by $9 billion by 1980, compared with an increase of only $1 billion in farm product imports. Moreover, the same source estimated that--alongside this $8 billion gain in U.S. balance-of-payments--taxpayers in the U.S. would be able to save $4 billion annually in farm program costs while farm income would increase by $4 billion. 2/ Obviously, the trade gains the U.S. could expect from such liberalization could not be secured without reciprocal and mutually beneficial concessions to our trading partners. For this reason, it is crucial that agricultural trade negotiations be

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1/ Agricultural Trade and the Proposed Round of Multilateral Negotiations, in Congressional Record (April 12, 1973), S-7210.

2/ Ibid., S-7209.

tied to industrial negotiations. Equally clearly, the nation as a whole would gain substantially from this kind of major progress in the agricultural sector.

A. European Community's Common Agricultural Policy (CAP)

Turning to agricultural policies and border practices that distort world agricultural trade and whose incidence falls especially hard upon the U.S., one of the most obvious examples is the Community's Common Agricultural Policy. Originally covering agricultural production and trade among the EC-Six, this policy has recently been extended through enlargement to the new member-countries--the United Kingdom, Denmark and Ireland. The CAP now covers about 95 percent of European agricultural production. Of major concern to the U.S., however, is the CAP for grains, which was established in 1962 and achieved unified prices around the mid-1960s. The CAP for grains has been a source of stress in relations between the U.S. and the Community for several years, and many in the Community have accused the U.S. of seeking to destroy the entire idea of a common agricultural policy for the Community. This is not the case, and any negotiation with the Community concerning the CAP for grains must begin by making clear that the U.S. does not seek destruction of a common policy. U.S. negotiators, however, must direct their attention to the trade-inhibiting and trade-distorting effects which have followed from the particular form given to the CAP for grains and the manner in which it has been administered.

The CAP for grains and rice includes the following internal measures: (1) a "target" price meant to support grain-farmer incomes at politically acceptable levels; (2) a "threshold" price set at or near the domestic target price and below which imports from third countries--including the U.S.--cannot enter; (3) absence of restraints on production; and (4) an "intervention" price at which a governmental agency will purchase any production which cannot be marketed commercially. In order to insulate this system and domestic producers from external market developments, there are variable levies to make up the difference between threshold or minimum import prices and lower world prices, with export subsidies ("restitution" payments) to facilitate sales into export markets.

EC intervention and target prices are high and well above world price levels, as can be seen in the following table of 1971 prices:

Commodity	Intervention Price	Target Price
	--dollars per metric ton--	
Wheat:		
Non-durum	100.72	109.44
Durum	119.85	127.50
Corn	79.31	96.89
Barley	92.02	100.21

Import levies have also been very high. For example, EC variable levies for the week of October 4, 1972, were \$1.26 per bushel for wheat (non-durum), \$1.13 per bushel for corn and \$1.04 per bushel for sorghum.

The combination of very high internal prices, absence of restraints on production and absolute protection from external competition through the variable levies has provided a substantial stimulus to EC production of grains. The following table compares EC production, on the average, between 1960-64 and in 1971 for selected commodities:

PRODUCTION

Year	Wheat	Barley	Corn	Total Grains
		--1,000 tons--		
1960-64	26,163	10,812	6,397	56,511
1971	34,011	16,121	13,353	77,015

In other words, between these two periods EC wheat production increased by about 40 percent, barley production by about 50 percent and corn production by approximately 110 percent. Total grains production jumped by nearly 40 percent.

As a result of such policies, the EC has become a stagnant--if not declining--market for U.S. exports of feed grains and wheat. In 1958-59, such exports were valued at $269.7 million. By 1965-66, they had risen in value to $638.7 million. As of 1967, the CAP for grains was unified. Since then, as the following table illustrates, the EC has hardly been a growing market for such U.S. exports:

SELECTED U.S. AGRICULTURAL EXPORTS TO EC

(millions of dollars)

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
Corn	$ 376.6	$ 278.9	$ 338.5	$ 253.4	$239.2	$277.1	$ 352.6
Grain Sorg.	92.2	59.0	37.3	9.7	7.8	32.9	12.0
Barley	44.4	19.7	12.3	2.9	7.8	28.6	.2
Oats	23.8	10.1	3.0	1.8	-	9.8	-
Wheat	101.7	94.5	86.9	85.0	47.3	82.1	56.8
Total	$ 638.7	$ 462.2	$ 480.0	$ 352.8	$ 294.5	$ 421.0	$ 421.6

In other words, these grain exports from the U.S. to the EC declined steadily and markedly between 1965-66 and 1969-70. Even though they rebounded in 1970-71 and 1971-72, they recovered to a level only two-thirds as high as prevailed in 1965-66. Corn exports provide a good example. The U.S. is highly competitive internationally in production and export of corn. Yet, between 1965-66 and 1971-72, U.S. corn exports to the EC actually declined, and in no year during this period did they rise above their 1965-66 high. This provides forceful evidence of the trade-diverting impact of the CAP.

The trade-diverting effects of the CAP can also be illustrated by comparing U.S. exports to the EC subject to variable levies with U.S. exports to the EC not subject to variable levies:

U.S. AGRICULTURAL EXPORTS TO THE EC

(millions of dollars)

Year	Total	Variable-levy Commodities	Non-variable-levy Commodities
1955-56	$ 850.8	$ 315.1	$ 535.7
1956-57	1250.7	359.2	891.5
1957-58	876.3	185.0	691.3
1958-59	791.4	309.0	482.3
1959-60	1120.8	332.5	788.3
1960-61	1100.8	372.9	727.9
1961-62	1184.0	495.7	688.3
1962-63	1069.6	414.0	655.7
1963-64	1322.9	499.3	833.6
1964-65	1370.9	518.6	852.4
1965-66	1593.6	715.9	877.7
1966-67	1509.9	522.4	987.5
1967-68	1402.9	530.5	872.4
1968-69	1299.9	402.4	897.6
1969-70	1410.8	351.3	1059.5
1970-71	1765.9	479.5	1286.4
1971-72	1891.2	461.2	1430.0

Examining each of these columns separately suggests some interesting trends. Looking first at total U.S. agricultural exports to the EC, the first four years covered--1955-56 through 1958-59--contains some sizable fluctuations; after that period, U.S. farm exports grow relatively steadily through 1965-66, From 1966-67 through 1969-70, total agricultural exports from the U.S. to the EC then drop below the level achieved in 1965-66. Only in the last two fiscal years do total U.S. agricultural exports to the EC rise above that level.

Commodities subject to variable levies reflect the fluctuations in the total for the first four years. They, too, then climb steadily through 1965-66, more than doubling between 1959-60 and 1965-66. Since the 1965-66 level, U.S. agricultural exports subject to variable levies drop below the 1965-66 level and remain well below that level. For example, in 1971-72, the dollar value of U.S. agricultural exports subject to variable levies is more than $250 million below the 1965-66 level, a decline of more than one-third.

Commodities not subject to variable levies show the same fluctuations in the first four years as evidenced in the other two categories. Beginning with 1959-60, U.S. agricultural exports not subject to variable levies begin a slow and relatively steady climb. This upward trend continues right through the 1965-66 watershed for the other two columns (again, 1965-66 representing the last fiscal year prior to price unification under the CAP for grains), reaching a peak of $1.4 billion in 1971-72.

Two of the major reasons for this growth in non-variable-levy commodities have been the performance of oilseeds and products--principally soybeans and soybean meal--and tobacco exports. Oilseed and products exports totaled $212 million in 1959-60, $431.5 million in 1965-66 and $854.2 million in 1971-72. Unmanufactured tobacco exports rose fairly steadily from $82.8 million in 1959-60 to $105 million in 1965-66 and to $162.8 million by 1971-72. Since these two product areas have been the principal bright spots in U.S. agricultural exports to the EC, the U.S. was seriously concerned over 1969 proposals for consumption taxes for soybeans and soybean meal and is concerned over potential preferences for domestically-produced leaf in the CAP tobacco program.

Broadly speaking, one can summarize the impact of the CAP and variable levies on U.S. farm exports in the following manner. While in 1965-66 commodities subject to variable levies constituted about 45 percent of total U.S. agricultural exports to the EC (with a value of $715.9 million), by 1971-72 these commodities had declined to about 24 percent of total U.S. agricultural exports to the Community, with a value (only $461.2 million) less than two-thirds of the 1965-66 total. Consequently, variable levies have severely reduced both the absolute dollar level and the relative percentage which commodities subject to them constitute in total U.S. agricultural exports to the EC.

It is also misleading to suggest--as some Europeans have--that, because U.S. agricultural exports to the EC since 1964 have grown more rapidly than to the rest of the world, that the EC--on balance--remains an open market for U.S. farm exports. In the first place, 1964 does not seem to be the most logical year to use as a basis for comparison, since the full impact of the variable levies on grains was not felt until price unification under the CAP in 1967. Moreover, aggregate agricultural export figures conceal, under the success enjoyed by U.S. agricultural exports not subject to levies, the serious trade impact on commodities subject to those levies. In addition, U.S. agricultural exports to the rest of the world on an aggregate basis conceal some important trend-line developments. For example, U.S. agricultural exports under governmental programs and to certain less-developed areas of the world declined in this period as the U.S. reduced its non-commercial exports and some developing nations improved their ability to meet their own food needs. Thus, while in fiscal years 1961-65, U.S. agricultural exports under government programs averaged $1.5 billion per year, by 1969 and 1970 they had dropped, in both years, to about $1 billion annually. Similarly, average annual agricultural exports from the U.S. to India were $371.7 million for the period of fiscal years 1961-65. By fiscal year 1970, U.S. farm product exports to India had declined to $275.4 million. By contrast, U.S. agricultural exports to Japan averaged about $600 million each year in the 1961-65 period. By fiscal year 1970, they had increased to approximately $1.1 billion, an increase of about 85 percent.

The accompanying table helps to clarify this situation further:

Table I.--U.S. agricultural exports, calendar years 1961-70 1/

Year	To world		Commercial to EC 2/	Commercial to world excluding EC
	Total	Commercial		
			--Million dollars--	
1961	5,024	3,541	1,093	2,448
1962	5,034	3,555	1,125	2,430
1963	5,584	4,064	1,166	2,898
1964	6,348	4,704	1,408	3,296
1965	6,229	4,880	1,470	3,410
1966	6,881	5,528	1,560	3,968
1967	6,380	5,117	1,460	3,657
1968	6,228	5,039	1,367	3,672
1969	5,936	4,917	1,269	3,648
1970	7,259	6,217	1,559	4,658
1971 3/	7,695	6,696	1,801	4,895
			--Percent--	
1961	100	100	100	100
1962	101	100	103	99
1963	111	115	107	118
1964	126	133	129	135
1965	124	138	134	139
1966	137	156	143	162
1967	127	145	134	149
1968	124	142	125	150
1969	118	139	116	149
1970	144	176	143	190
1971 3/	153	189	165	200

1/ U.S. Bureau of Census and U.S. Department of Agriculture
2/ Excludes transshipments. For a summary of transshipments see table 4.
3/ Estimated.

Between 1961 and 1971, total U.S. agricultural exports increased from about $5 billion to $7.7 billion, an increase of 53 percent. Commercial agricultural exports went from $3.5 billion to $6.7 billion, an increase of 89 percent. Commercial exports to the EC increased by 65 percent (i.e., by less than the increase in all commercial agricultural exports), and commercial agricultural exports to the world excluding the EC doubled, a much better performance than the U.S. has enjoyed with the Community.

Taking into consideration all the relevant information, then, it seems clear that: (1) total U.S. agricultural exports to the EC have not shown steady growth; (2) commodities subject to variable levies have declined both absolutely and as a percentage of U.S. farm product exports to the EC; and (3) U.S. agricultural exports to the EC do not compare very favorably--in terms of growth--to the U.S. experience with commercial agricultural exports to the rest of the world.

High and protected internal prices have also artificially stimulated domestic grain production in the EC while retarding expansion of consumption. For example, between 1961 and 1969, total grain production in the EC jumped by 20 million tons. During the same period, EC grain consumption increased by only 13 million tons. Yet, while the EC stimulated uneconomic grain production, other sectors of agriculture saw their growth inhibited in spite of rising demand prospects. For example, while France increased her grain production by 87 percent between 1960 and 1969, she was able to raise her livestock production only 41 percent, in large part because high grain price supports attracted capital away from the livestock sector. Thus, surplus grain production at artificially high prices was encouraged while livestock production was discouraged, even though per capita meat consumption in the EC is only about half that in the U.S. This will become an increasingly pressing problem as rising per capita incomes in the EC generate increasingly insistent consumer demands for improved diets and especially for greater meat consumption.

Some of the strongest pressures for high grain prices have come from West Germany, a response to political pressures from its farm community. Yet high and continually rising grain prices have not alleviated the income problems of German farmers. An examination of the feedgrain-livestock sector of the German agricultural economy helps to explain this paradox. Currently, about 15.5 million tons of grain are consumed as feed in Germany, but only 1.4 million tons of feedgrains are sold by German farmers. Consequently, German cash sales of feedgrains--which would be benefitted by high grain prices--are only one-eleventh of total grains consumed as feeds, where high prices translate into high input costs. Moreover, while the bulk of the feedgrains fed in Germany are raised on the farm feeding the grain, Germany still must import--at artificially high prices--about 4 million tons of feedgrains annually. Finally, high grain prices have not proved an adequate stimulus to German farm production. While German output has increased at a rate of about 1.6 percent annually, imports have increased at a rate of about 5.4 percent annually. By the end of the 1960s, the value of imports had come to equal the value of production--at about \$5.5 to \$6 billion each. High feedgrain prices have not proved an aid to German farm income--which continues to lag well behind non-farm income--but it has retarded the growth of a livestock industry and, by frustrating livestock production, may have retarded growth in net farm income for German producers.

The artificial stimulus the CAP has given to EC grain production has also created other serious problems affecting U.S. agricultural exports, problems which are again related to the attempt to support farm income through high price support systems. In the first place, as U.S. experience also illustrates, price supports benefit the largest and most efficient producers, while accomplishing very little for the small farmer. For example, as Mr. Debattisse--a leader of the French national farm organization (FNSEA)--pointed out some years ago, a one-franc increase in wheat prices yields a relatively small number of large farmers an average of 3,000 francs while it yields some 350,000 small farmers an average of only 25 francs per year.

Secondly, it tends to lead to a continuing series of price support increases--which are inflationary in the economy and a serious burden on working people--while encouraging surplus production which must be disposed of in ways which disrupt the exports of traditional exporting nations like the U.S. The inequity of supporting farm incomes by high prices--which, in effect, represents taxation of consumers on a regressive basis--is illustrated by an Atlantic Institute Study. In a recent year, of total EC expenditures for agricultural support of $11 to $13 billion, EC consumers paid $6 to $8 billion. No democratic government would contemplate raising $6 to $8 billion in revenues from a tax falling most heavily on persons with the lowest incomes. Yet, financing agricultural support through high price policies, in effect, does exactly that.

Income support through high prices also feeds inflation and continuing pressure to increase prices. A comparison of U.S. and French wheat price support policies helps to illustrate this. The total U.S. "blend" price for a bushel of wheat in 1962 was $2.28; in 1971, it was $1.86. In that period, the loan rate (or price-support level) in the U.S. dropped from $2.00 to $1.25 per bushel. In France, the price support level rose from an effective rate of $2.11 in 1962 to $2.54 per bushel in 1971. While U.S. export subsidies for wheat declined from an average of 55 cents per bushel in 1962 to an average of 23 cents per bushel in fiscal year 1971, and have since been eliminated, French export subsidies rose from $1.05 to $1.25 per bushel.

Since EC income support moves largely through the price mechanism, the other side of the coin to high levels of protection and consumer prices has been substantial EC export subsidies. In fact, EC export subsidies are often larger than the world market price for the product. In early 1970, for example, the world price for soft wheat was around $50 per ton, and the Community export subsidy was $57 per ton. And, while both the U.S. and the EC support their dairy sectors at levels substantially above world market prices, the EC spent approximately $400 million subsidizing dairy exports in 1970, compared to $33 million by the U.S. Because of pressures felt within the EC to dispose of mounting surpluses, seriously trade-disruptive uses of export subsidies have frequently occurred. For example, several years ago butter selling in Amsterdam for 80 cents a pound could be bought in Beirut, Lebanon, as a result of export subsidies, for 20 cents a pound. And France sold feed wheat in Taiwan for 99 cents per bushel, a price only made possible by export subsidies which undermine markets for traditional exporting nations and disrupt commercial agricultural trade.

Subsidies for surplus disposal need not always take the form of export subsidies to have damaging effects on U.S. farm product exports. For example, a denaturing premium of 43 cents per bushel in France--to feed surplus soft wheat to livestock--reduces the potential for U.S. feedgrain exports to the EC.

While the impact of the CAP for grains on production and trade in the EC has been serious, the long-term impact on grain utilization rates may prove even more damaging to U.S. farm export prospects. For example, the disposal of surplus non-fat dry milk by feeding it to calves has provided a price incentive to veal production at the expense of red meat. Furthermore, the ratio between corn and wheat prices within the EC has not reflected their relative feeding values and has encouraged use of wheat for feed at the expense of corn which could have been exported from the U.S.

Most importantly, however, high internal feedgrain prices in the EC have encouraged substitution of other energy sources--like manioc--for feedgrains in mixed feeds:

> This has been dramatically illustrated in The Netherlands where a grain component of mixed feeds declined from 66.1 percent in the early 1960s to 34.8 percent in 1969 . . . 1/

In addition, high feedgrain prices have retarded growth in the livestock sector, where price elasticity of demand is relatively great. While it is difficult to quantify this effect, the continuation of per capita meat consumption in the EC at about 60 percent of the U.S. level, with its attendant depression of feedgrain consumption, has undoubtedly seriously reduced potential U.S. feedgrain export markets in the EC.

In other words, at least five major adverse consequences on U.S. grain exports stemming from the CAP can be identified: (1) with variable levies on wheat and feed grains approximately 80 to 100 percent of world price levels, the CAP imposes very high barriers to U.S. exports of these commodities; (2) similar high barriers to farm exports from other exporting nations has diverted perhaps 20 to 30 million tons of grain exports into other markets, heightening competition in these other markets while depressing world price levels; (3) high internal grain prices and absence of restraints on production have artificially stimulated EC grain production--which increased from 50 million tons in 1961 to 86 million tons this past year--and threaten to produce the same uneconomic distortions in the new member-countries.

1/ "The Impact on U.S. Agricultural Trade of the Accession of the United Kingdom, Ireland, Denmark and Norway to the European Economic Community," ERS, USDA Michigan State University Contract Project No.12-17-07-4-505, 19.

especially the United Kingdom; (4) high internal grain prices and distorted price relationships among grains, between grains and other feed materials and between grains and livestock have also artificially retarded growth in consumption of grains as feeds by both depressing animal numbers and encouraging substitution of other materials for feed grains; and (5) subsidized disposal of surpluses either through export subsidies or through denaturing premiums for wheat used as feed has undercut U.S. grain exports both in the Community and in many third-country markets.

B. Japan. Several Japanese barriers have proven equally as serious. Moreover, with a trade surplus of about $4 billion with the U.S. last year, the Japanese could easily increase their purchases of U.S. farm product exports. And, though many Japanese policies seriously restrict U.S. agricultural exports, it is also true that Japan has been a rapidly growing market for many U.S. farm product exports in recent years, becoming our largest single-country market.

Nevertheless, many of these barriers to agricultural imports are serious and deserve mention. For example, Japanese wheat and barley imports move through the Japanese Food Agency. Though these products are purchased on world markets at different price levels, they are sold in the internal market at a uniform and noticeably higher price level. This both retards domestic consumption in Japan of these commodities and prevents price competition from being reflected in patterns of commodity purchases to the same extent they would be under market conditions.

The Japanese also control investment patterns and, in many cases, have prevented direct investments by foreign concerns in the Japanese markets. As a result, while the domestic Japanese feed compounding industry has grown substantially in the past decade, that growth has been controlled, and foreign participation has been

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largely excluded. Such controls on investment and foreign participation prevents development of U.S.-controlled feed compounding and distribution facilities within Japan. Though it is difficult to quantify these effects, they have undoubtedly held U.S. grain exports below growth rates that would have been achieved in their absence.

The Japanese have also heavily subsidized domestic rice production--at levels approximately four times higher than world values. As a result, substantial rice surpluses have developed. In an effort to reduce these surpluses, the Japanese have provided substantial subsidies to dispose of these rice surpluses as animal feeds. While the rice surplus is now greatly reduced, this disposal program seriously undermined feed grain exports to that country.

The effects of this general program of Japanese central guidance and control of food policies is well illustrated by a 1969 study by Joseph Barse of the Economic Research Service of USDA. As he pointed out, the Japanese are in a position to guide centrally their food consumption and import policies, with the opportunity to choose among a variety of alternative "food strategies." The differences in Japanese import demand by 1985 between a "Western-oriented" and an "Eastern-oriented" food strategy are dramatic--ranging from a low of 18.8 million tons of grain imports under the "Eastern" strategy to a high of 50.2 million tons under the "Western" strategy. 1/ Obviously, the U.S. should no more suggest that it is dictating Japanese food plans than it should suggest that it seeks to destroy a common agricultural policy in the EC. But the U.S. can and should press for the same kinds

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1/ Japan's Food Demand and 1985 Grain Import Prospects, Joseph R. Barse, ERS, USDA, Foreign Agricultural Economic Report No.53, 71.

of open and equal access--for both imports and import-generating foreign direct investments--that Japan receives in the U.S. market.

C. Competing Exporters. Here, major distortions of agricultural trade arise primarily from various forms of subsidization of exports competing with U.S. exports. These subsidies can take many forms--direct governmental participation in marketing, as in various wheat boards; cash export subsidies, subsidized export credits, part-commercial-part-concessional sales arrangements and other arrangements that reduce the costs of exports to foreign customers below what they would be under normal market practices; and indirect subsidies--like transportation subsidies or subsidies on production inputs--which have the effect of reducing costs of producing or marketing agricultural commodities. Such practices tend to lead to fruitless competition among national treasuries, the long-term effects of which include depressing world price levels while distorting world resource allocation.

V. Summary. Several common threads run through many of these practices. First, they typically fall into the area of non-tariff barriers to trade. Secondly, these practices reach well beyond national borders, having become firmly embedded in domestic agricultural policies. As such, they have become capitalized over time into land values and other costs of production, making the burdens of adjustment even more serious. Many of these policies represent attempts by governments to deal with serious social inequities and problems. Removing such policies would not only create hardships for individuals but also impose real political risks on national governments which they are obviously reluctant to undertake. Clearly, bringing more rational and liberal policies into agricultural trading arrangements will be a difficult undertaking and will involve, as a practical matter, a longer time horizon than trade adjustments in other sectors. For these reasons, it is impossible to spell out specifically the kinds of U.S. initiatives to be taken in the area of agricultural trade. But the serious distortions which currently exist, the tremendous costs they impose on U.S. producers, taxpayers and balance-of-payments as well as on consumers and national economies abroad and the length of time that it will take to achieve substantial liberalization in agricultural trade all make it imperative to begin reform now. Congress and the Executive ought to make clear the high national priority the U.S. places upon achieving meaningful progress in agricultural trade reform in prospective multilateral negotiations.

HAROLD H. KASTNER CO.,
Sanford, Fla., June 1, 1973.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: It is indeed very encouraging to the producers of Fruits and Vegetables in Florida to know that your committee is conducting hearings related to foreign Trade and Tariff measures.

It is becoming increasingly more difficult to compete with Imports of these Products from Low-Wage Countries.

Being a producer of vegetables and representing many growers in the Sanford, Florida area, I want to sincerely urge you to consider legislation that will protect us from such unfair competition.

I have received the Statement prepared by the Florida Fruit and Vegetable Association presented to your committee concerning foreign Trade and Tariff matters and I highly recommend this well defined statement to you.

The Florida Fruit and Vegetable Association represents the vast majority of producers in Florida and the statement so prepared for your consideration expresses the feelings of every segment in our industry.

I want to express my appreciation to all the members of the House Ways and Means Committee for considering this very important issue.

Very truly yours,

HAROLD H. KASTNER.

Mr. CAREY. Thank you, Mr. Garstang.

The next witness before the committee is Mr. Bela Sternberg, president of the National Council of Music Importers. Mr. Sternberg, it is a pleasure to welcome you before the committee. We have a copy of your statement.

STATEMENT OF BELA STERNBERG, PRESIDENT, NATIONAL COUNCIL OF MUSIC IMPORTERS, ACCOMPANIED BY R. CHRISTIAN BERG, COUNSEL

Mr. BERG. My name is Christian Berg. I am with the law firm of Stitt, Hemmendinger & Kennedy. We are counsel to the National Council of Music Importers. We expect to be joined shortly by Mr. Noel Hemmendinger, a partner in my firm.

I wanted to introduce myself to the committee. Mr. Sternberg has a statement which he would now like to read.

The CHAIRMAN. Thank you. Will you proceed?

Mr. STERNBERG. Mr. Chairman, honorable committee, my name is Bela Sternberg, president of the National Council of Music Importers and president of Halifax Musical Instruments, Ltd., Syracuse, N.Y.

Before starting my testimony, I wish to thank Chairman Mills and the honorable committee for the invitation and the patient courtesy of listening to the opinion of the National Council of Music Importers regarding the Trade Reform Act of 1973.

The membership list of the National Council of Music Importers was forwarded to the chief counsel, Mr. John M. Martin. The members of the national council are importers of all types of musical instruments including pianos, guitars, band instruments such as trumpets, saxophones, clarinets, small and large horns; also percussion instruments such as drums, cymbals, and all types of educational musical instruments.

My own personal experience in the musical instrument manufacturing and international trade goes back 50 years, from which 20 years were spent in Europe and 30 wonderful years in the United States. My family's experience in manufacturing of musical instruments—importing and exporting—goes back three generations. Our factory, of course, was taken away by the Communist government in Hungary.

We importers are proud of the fact that in our business we can help thousands of youngsters to learn to play a musical instrument and use their time with a satisfying cultural experience. Young people will always find something to do and if they cannot use their energies for something good like learning to play a musical instrument, because it is not available at a price their parents can afford, they will find ways to use their surplus energies in the wrong way.

The use of musical instruments and the number of people who enjoy music in a country would, without doubt, indicate the cultural standard of a nation.

It is therefore natural that we are basically for free trade and would like to have all musical instruments freely imported and/or exported into any country.

It comes from the nature of the music trade that most of the large manufacturers are also substantial importers, not only in the United States, but also in other countries. The most important guitar manufacturers, such as Gibson and C. F. Martin, Guild and Gretsch, are all very large importers, realizing that not everyone can buy a high-priced guitar for $300 or $1,000. They realize that if the trade does not sell inexpensive guitars, many people will not be able to learn to play them, and there will not be enough players to buy the expensive instruments which are made in the United States.

In the band instrument line, the situation is partly similar. Some manufacturers make only high-priced or certain types of instruments. But in order to sell these to dealers, they have to carry inexpensive instruments also to be able to compete and sell a usable low-priced instrument to students and beginners. Also, to be able to compete, the manufacturer has to import large horns which he does not manufacture, so that he can sell the complete line to schools and other bands, Generally, the American producer is efficient in manufacturing high-quality instruments which are well accepted all over the world. Most imports are lower priced instruments, where the handwork, percentagewise, is the largest inbuilt value. It takes patient work for years to learn the trade, and sometimes generations are involved in making the same types of musical instruments.

Our trade shows, in a unique way, the benefits to be gained from freer trade. Because lower priced imported instruments are available to the consumer, many more people are able to learn how to play music, and to enjoy its benefits throughout their lives. Comparably priced instruments cannot be produced in this country because the skilled workers cannot be found and retained long enough for the high degree of skill and patience to be developed. Imports are therefore beneficial to the trade in that they offer a complementary and much-needed line of instruments. The recent currenly realinements threaten the balance of imported and domestically produced instruments which has existed for some years. The availability of student instruments at a reasonable price has been reduced, because of the higher price of imported instruments, and our society will suffer culturally. Economically, the American producers will suffer as well. Traditionally, American producers have specialized in higher priced instruments where proportionately the labor costs are lower. Students learn music with the lower priced imports and later as they become more proficient, they move up to the higher priced domestically made instruments.

If without the lower priced imports fewer people will be able to develop their musical talents, sales of higher priced domestically made instruments will also drop off to some extent as a result. The reduced domestic demand may well reduce the ability of domestic producers to specialize in higher priced instruments and hinder their ability to export. That is the connection between imports and exports. They have to learn to play the musical instruments before they can buy the higher priced instruments which are made here in the United States.

As I mentioned before, we are basically for free trade, but we also realize that to wish hard that everyone in the world should play fair and be honest, is unfortunately not enough. Therefore, the Congress and the President have to have enough power to force others also to play fair. It is necessary that the Trade Reform Act of 1973 show to the world that we are absolutely sincere in our determination not to injure other nations' trade with the United States if they keep the same policy toward us.

One example would be elimination of such nontariff barriers as "Buy American" practices which exist in some States. In New York, for example, purchases of brass wind instruments by the school system are restricted to American-made products. Such policies increase costs for the American taxpayer, artificially restrict trade, and generally hinder enjoyment of the musical experience.

I feel that if the market disruption test of title II, section 201, stands as it is proposed in the Trade Reform Act of 1973, it will have a disturbing effect on U.S. importers in general and on foreign exporters as well. The change from "major" to "primary" cause is, in this instance, very disturbing to international business. It further opens the door to influence and pressure on the Government not to look for the real cause, but to restrict international trade regardless of the impact imports may be having on a domestic industry.

Many times we find that union restrictions on labor productivity are the cause of closing down a factory and restraining manufacture. In this case, not only labor and owners of factories will lose, but the main loser will be the consumer, if imports would not fill the gap. However, because imports increased, the Commission could find that imports are the primary factor.

To give an example: In the Conn factory in Elkhart, the union made rules as to how much one man could produce, and the production limit was set so low that even the slowest worker could easily have earned 20 percent above the basic hourly rates. In order to keep production costs high and production low, the union demanded that any worker who produced above a certain amount in piecework instead of earning more, would pay in excess of the limit, the full 100 percent of his earning to the union. The worker would still have to pay taxes on his wages, and therefore, if he would produce more, he would earn less. Because they still had to be in the factory 8 hours a day, the best and fastest workers stopped working after lunch and were loafing around talking to other workers and disrupting production. No wonder that the factory had to be closed, after 85 years of operation, and moved to Abilene, Tex. They had to give up manufacturing low-priced trumpets and bought them instead from their competitors. Later, the competitors could not or did not want to sell to them, and they were forced to import student trumpets in order to be able to carry a full line of band instruments.

Because of better earnings and larger demands, the U.S. trade was higher and imports had a very good effect on the industry and on the consumer; for the industry, because it is hard for a band instrument manufacturer to exist without a full line of instruments; for the consumer, because prices did not jump up when one of the large factories had to close, not because of imports, but because of unrealistic demands by the union.

In a case like this, with the new wording. the Commission still could find that the primary factor of the disruption is imports, just because imports increased. No doubt that competitive manufacturers would want to take advantage of this situation. In order to avoid a causal connection between market disruption and increased imports, I suggest that the original wording of "major" should replace the "primary" cause. If this change of words would remain in the Trade Reform Act of 1973, it would encourage some companies who might be looking for a monopoly of trade. or for a high profit. to try to influence whoever acts for or proposes to the President, for a favorable decision, without disclosing all the facts.

The case I have mentioned was actually before the Tariff Commission earlier this year. and even though the facts were fully presented, three members of the Commission found that increased imports were the "major" cause of reduced U.S. production. Brasswind Musical Instruments, T. C. Publication 539. If they could do this under the present law, by looking just at the statistics and not at the real economic forces operating within the industry, imagine what might result if the law were changed.

Moreover, this case illustrates the danger of the "market disruption" test, because that would further encourage the Tariff Commission to disregard the real causes of the trends within the industry, and to recommend import restrictions when imports are not the real cause of the trouble.

I, therefore, propose that you keep the word "major" instead of "primary," in describing the relation between increased imports and serious injury and that you omit the market disruption test altogether.

We realize that the President should have substantial power to negotiate with foreign countries, but for the good of international trade, this individual power needs some limitation. Therefore, we propose that tariff increases by the President should be limited as previously—Smoot-Hawley—to 150 percent. It should be required that the Tariff Commission consider the most important silent party: the consumer's interest. and include its findings in the report.

We seriously think that this section—Section 337, Tariff Act of 1930—is unfair to the importers, especially when it comes to the question of patent infringement. This should be determined by the court. It is a legal case and should be handled the same way as any similar case—by the court, and not by administrative decision. No action should be taken by the Commission, in patent cases, because the court's decision will be binding.

Two hundred years ago, Adam Smith said the following, which is still true today:

> If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better to buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage.

It is our human failure that we cannot yet have the advantage of free trade between all nations, but let's try to use our power with control and care and build confidence between all nations, with a goal toward free trade. Free trading will help to destroy prejudices between nations.

[Membership list follows:]

MEMBERS OF NATIONAL COUNCIL OF MUSIC IMPORTERS

Antiqua Casa, Sherry-Brener, Ltd. of Madrid, Chicago, Ill.
Ardsley Musical Instrument Corp., New York, N.Y.
C. Bruno & Son, Inc., San Antonio, Tex.
Buegeleisen & Jacobson, Inc. New York, N.Y.
Elger Co., Ardmore, Pa.
Halifax Musical Instruments, Ltd., Syracuse, N.Y.
Hershman Musical Instrument Co., Inc., New York N.Y.
M. Hohner, Inc., Hicksville, Long Island, N.Y.
Imperial Accordian Manufacturing Co., Chicago, Ill.
Jax International Corp., Newark, N.J.
Kawai Piano (America) Corp., Harbor City Calif.
Limmco, Inc., Hicksville, N.Y.
Lo Duco Bros. Musical Instrument Inc., Milwaukee, Wis.
Merson/Unicord, Westbury, N.Y.
Midwest Musical Instrument Co., Effingham, Ill.
Midwest Music Supply, Inc., Minneapolis, Minn.
Multivox Corp. of America, Hauppage, Long Island, N.Y.
Musical Instrument Corp. of America, Syosset, N.Y.
Strum & Drum, Inc., Wheeling, Ill.
Westheimer Sales Co., Elk Grove Village, Ill.
White Eagle Rawhide Manufacturing Co., Chicago, Ill.
W M I Corp., Lincolnwood, Ill.
Yamaha International Corp., Montebello, Calif.

Mr. CAREY [presiding]. Thank you, Mr. Sternberg, for a statement that leads the committee into much fuller knowledge of the musical instrument and trade fields.

Do either of the other gentlemen have any further statements to make?

Mr. HEMMENDINGER. No, thank you.

Mr. CAREY. Are there any questions? Thank you for your statement.

The next witness is Mr. John E. Murray, Jr., vice president of Nicholson & Co., Inc., Cambridge, Mass.

Mr. Murray, we have your full statement, which is termed an oral statement before the committee. It will appear in the record in full. You are free to summarize it or point to any portion of it that you would care to emphasize to the committee at this time.

STATEMENT OF JOHN E. MURRAY, JR., VICE PRESIDENT, NICHOLSON & CO., INC., CAMBRIDGE, MASS.

Mr. MURRAY. Since the statement is relatively short, I think I will just read it as it is, since it contains all the valid points.

Mr. Chairman, members of the committee, ladies and gentlemen, my name is John E. Murray, Jr., vice president of Nicholson & Co., Inc., Cambridge, Mass.

My company manufactures adhesives for industrial use and has been successfully operated since 1931. Our annual sales volume is approximately $7 million. We service customers west to Kansas City and south to Texas, Georgia, and Florida. Our 1,200 customers range in size from corporate giants to owner-operated business.

I appear here today to present valid reasons for your immediate approval of H.R. 4922, with amendments, which would abolish the import duty on animal glue:

First, the import duty serves no useful purposes to anyone.

Second, the import duty puts U.S. companies using glue at a disadvantage and threatens the very existence of many of them.

Third, the important duty contributes to inflation.

Fourth, eventually, if the import duty is not abolished, many jobs could be lost and machinery will lay idle.

At this point, I would like to make clear what the substance is that we are talking about, that is, animal glue.

Animal glue is a product similar to ordinary gelatin in its chemical makeup and characteristics. It is a natural protein substance obtained from processing animal hides or bones. The important features to note are that animal glue cannot be artificially synthesized and there is no workable substitute for it.

It is used in making reinforced gummed sealing tape, rigid paper boxes, fine writing paper, books, sandpaper, games, puzzles, and a host of other miscellaneous products, including the paper on which U.S. currency is printed.

As we stated, the import duty serves no useful purpose because no domestic industry is being protected.

(*a*) Since there is not enough animal glue available in the United States right now, every U.S. animal glue manufacturer has its customers on allocation.

(*b*) Today, every U.S. animal glue manufacturer is buying, or seeking to buy, imported animal glue. In 1972, approximately 50 percent of the animal glue used in the United States was imported.

(*c*) Right now, prices on imported animal glue are higher than U.S. manufacturers' prices and removal of the import duty would not make imported glue prices lower than the prices of domestic producers.

(*d*) In the past, U.S. manufacturers of animal glue have purchased vast tonnages of imported animal glue, because they had to augment their own production.

(*e*) The world shortage is so critical now that companies will buy animal glue from anyone who can supply it.

(*f*) In certain cases, the tariff schedule has been circumvented. For example, Canada has a special import duty rate of 7 percent on animal glue to be used for manufacturing gummed tape. In 1972, 1.3 million pounds of animal glue were imported into the United States as originating in Canada. There is no animal glue produced in Canada.

Clearly, the animal glue involved was produced in nonmost favored nations and was shipped to the United States as a Canadian product to avoid the 20 percent ad valorem and 2.50 cents per pound import duty. A vigorous protest has stopped this circumvention of non-MFN duty for a time, but we have observed the same thing still going on.

The import duty puts U.S. companies at a disadvantage because—

(*a*) The import duty on animal glue is:

	Originating from MFN's	Originating from non-MFN's
Animal glue valued under 40 cents per pound: Item 455.40 (TSUS).	5 percent ad valorem plus 0.8 cents per pound.	20 percent ad valorem plus 2.5 cents per pound.
Animal glue valued over 40 cents per pound: Item 455.42 (TSUS).	6 percent ad valorem plus 2 cents per pound.	25 percent ad valorem plus 8 cents per pound.

These import duties are crippling my company's efforts to supply our customers and maintain our business which has taken 42 years to develop.

(*b*) The U.S. animal glue manufacturers are also hurt by the import duty because they simply cannot get enough animal glue to augment their own dwindling production.

(*c*) 25 percent of the animal glue imported by the United States in 1972 came from the People's Republic of China. At the recent Trade Fair in Canton, the Chinese raised the price on animal glue by 50 percent. The Chinese were well aware of the shrinking supply of animal glue around the world.

However staggering this increase is, the 20 perecnt import duty on top of the basic price increase makes the situation ever more difficult for U.S. companies.

(*d*) Other countries are able to buy animal glue more advantageously than U.S. importers. How can we compete with duty-free trading between members of the European Common Market and the European Trading Community? Other free world countries can and do import animal glue at an import duty rate of 12 percent, regardless of origin, with the exception of the United Kingdom and the Dominion of Canada.

(*e*) The continuing devaluation of the U.S. dollar, the shortage of animal glue raw materials, plus the unnecessary import duty will cause many companies in the United States to be without animal glue. For many of these companies it will be the end of the road.

As far as inflation is concerned, anything that would help reduce it is obviously beneficial. Animal glue is a very basic product and constant price increases cause further inflationary momentum. Abolishing the import duty would be a big help.

Since there is no substitute for animal glue and many manufacturing operations depend on it, many jobs could be lost and much capital equipment could be idled.

Realizing that the current situation would eventually develop, we have been urging the abolishment of the import duty on animal glue since 1963. Legislators contacted have been cooperative and sympathetic, yet we get no results. In view of the U.S. balance-of-payments deficit and the administration policy of maintaining current tariffs, we have not obtained relief. We wrote two letters to President Nixon on the situation: March 2, 1972, and February 15, 1973. We did not even get a reply to either of these letters, let alone any advice or help.

A letter dated March 2, 1972, on the subject, written by us to Premier Chou en Lai of the People's Republic of China, brought a reply from China National Native Produce and Animal By-Products Import and Export Corporation, dated March 31, 1972. At least someone is interested in our plight.

Additionally, no governmental official contacted, including Senators and Congressmen, has been able to explain or justify the need for an import duty on animal glue. The machinations of Government are too slow to be effective when small but vital interests are involved.

In 1972, Congressman Glen R. Davis of Wisconsin introduced H.R. 14849 to abolish the import duty on animal glue valued under 40 cents per pound. The legislation died. In 1973, he reintroduced it as H.R. 4922. This bill is supported by the National Paper Box Association—400 members—and the Gummed Industries Association—14 members. I appear today with the support of both of those organizations. Members of these associations have hundreds of millions of dollars worth of capital investment in machinery, the running of which depends on animal glue.

We implore your prompt and favorable committee report and recommendation on this bill, plus revision of the bill to include animal glue valued over 40 cents per pound—TSUS item 455.42—because we now must pay a price higher than 40 cents per pound for certain high testing glues; and to include fish glue—items 455.36 and 455.38—because this product is not even manufactured in the United States.

Clearly, we need action now on this bill and not months of delay while the normal legislative process takes place. The weak U.S. dollar and acute shortages of glue raw materials the world over have resulted in staggering price increases to our customers.

The U.S. import duty adds to the increases and impedes our ability to compete for available supplies. We are sure that if abolishment of the import duty is not effected immediately, then our customers will be without glue—forcing shutdowns and layoffs.

We plead in good conscience for your immediate action: Pass amended H.R. 4922 at once.

Thank you for the opportunity of appearing.

Are there any questions?

Mr. CAREY. Thank you, Mr. Murray. The committee and the staff have had the benefit of extensive correspondence with your industry and with your company in connection with this matter. It is quite evident that it is of great significance in maintaining your operations on a profitable basis.

So you can rest assured that when we get to markup of trade legislation, one of the principal topics of discussion certainly will be the context of Mr. Davis' bill and the situation in which you find yourself as a result of the imposition of a tariff obviously making your operations difficult at this time.

So it will be a matter to be considered. The staff is well versed on it. It is hoped that some form of relief will be forthcoming in terms of any bill reported out by the committee this year. Thank you for information. We appreciate your help.

May I add that as well as Mr. Davis' sponsorship, you may certainly be confident that Hon. James Burke of Massachusetts will be looking very carefully at all aspects of this. Certainly it is important to him to see that no job in the State of Massachusetts is lost or diminished as a result of my action we are taking here.

I think you can have some confidence that there will be relief forthcoming of some sort.

The gentleman from Pennsylvania.

Mr. SCHNEEBELI. I am interested in your statement that 25 percent of all the glue imported in this country last year came from the People's Republic of China.

What percentage of our trade with China would consist of animal glue?

Mr. MURRAY. I don't know.

Mr. SCHNEEBELI. What is it in dollar value?

Mr. MURRAY. About $2 or $3 million.

Mr. SCHNEEBELI. That is rather small. I guess our total trade with China is pretty small?

Mr. MURRAY. Yes.

Mr. SCHNEEBELI. It would be difficult to reduce it further so I think that would be one area where we are expanding our trade.

Mr. MURRAY. That is true. Practically no animal glue came from China in 1971. However, the imports doubled in 1972. The reason is that domestic producers couldn't keep up with the demand.

Mr. SCHNEEBELI. Is it going to increase this year?

Mr. MURRAY. I would think this year it may go as high as 40 percent. This means that of the total animal glue imported by the United States in 1973 about 40 percent will originate in China.

Mr. SCHNEEBELI. Do they have a lot to export?

Mr. MURRAY. No one really knows that. They are not too free and easy with their figures.

Mr. SCHNEEBELI. From what animals do they get this?

Mr. MURRAY. Mostly from steers, bones and hides of steers. It could be made from other animals, but basically from bones and hides of steers.

Mr. SCHNEEBELI. I believe there are some 800 million people over there, and there must be a high cattle population as well.

Mr. MURRAY. Yes. This affects the job employment of every State east of Kansas City because there are people in Florida, Minnesota, Michigan, Ohio, and everywhere that depend on animals for their job. It really is at a very critical state now.

We get calls from Florida that they are going to shut down the factory if they don't get a shipment.

Mr. SCHNEEBELI. This is probably one area where an increase in exports would be particularly welcomed because of the political factors. Thank you.

Mr. MURRAY. Yes.

[The following was submitted for the record:]

NATIONAL PAPER BOX ASSOCIATION,
Haddonfield, N.J., April 1973.

MR. JOHN M. MARTIN, JR.,
Chief Counsel,
Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: This Association representing the Rigid (set-up) Paper Box Industry would like to be placed on record during hearings commencing May 7 as favoring HR 4922 which specifies that import duties be abolished on animal glue in its raw form.

There is no suitable substitute for animal glues in the manufacture of Rigid Boxes. An increasing world-wide shortage of animal glues has forced prices constantly upward and made this important product scarce. Many U.S. glue plants are closing due to pollution problems or have converted to producing more profitable grades of edible gelatin products while U.S. producers remaining in this field are impeded by high import duties from competing for the diminishing supplies in foreign markets.

Since there is no substitute for animal glues used in manufacturing Rigid Boxes and since virtually every American glue producer must import raw animal glues, we believe there is no longer a need for protective tariffs on animal glues.

Committee approval of H.R. 4922 would be very helpful to the approximately 400 manufacturers of Rigid Paper Boxes, who are small businesses with annual total sales of approximately $435,000,000. Animal glues on average represent 4.5% of the sales dollar and elimination of import duties would reflect directly in efforts to control inflating prices of boxes.

We would appreciate your bringing these facts to the Committee's attention. Thank you very much.

Sincerely,

NORMAN T. BALDWIN,
Executive Director.

Mr. CAREY. The next witness before the committee is Mr. Robert B. Schwenger, of Kensington, Md.

Will you identify yourself before the committee, Mr. Schwenger. It is a pleasure to welcome you.

A number of us are aware of your long and valuable service to the Federal Government in the field of the interior and in trade matters. And your reputation precedes you with august dimensions. We would be pleased to have your statement and whatever advice you can give the committee at this time.

STATEMENT OF ROBERT B. SCHWENGER, KENSINGTON, MD.

SUMMARY

I am deeply grateful to the Committee for this opportunity to be heard. I would like to direct my remarks to what might be called the framework of trade policy embodied in the Administration's proposals. As I see it, the negotiating procedure by which the President proposes to use his requested authority will not carry us toward the reduction of tensions which he says is our most important objective. It will carry us away from it. I suggest that, to remedy this, the Congress prescribe a different procedure—one based in representative quasi-legislative problem-solving process rather than in secret executive-type negotiation. If this is done, the President will not at this time need the full authority he has requested. Moreover, a number of other problems before the Committee will be less important.

Mr. SCHWENGER. Thank you very much. I will read just selected parts of my prepared statement.

Mr. CAREY. Your statement in full will appear in the record. You may refer to it at any point where you feel it needs additional stress.

Mr. SCHWENGER. I will talk about what might be called the framework of trade policy that is embodied in the proposal of the administration.

As I see it, the method of intergovernmental trade discussion by which the President proposest o use the authority he is requesting will not carry us toward the reduction of tensions which he says is our most important objective.

It will tend to increase tensions.

I suggest that the Congress prescribe a different kind of trade discussion, one based in representative problem-solving process of a public quasi-legislative nature, to supplement and replace the secret executive-type negotiation that has been the practice.

If this is done, it will be clear that the President will not at this time need the authority that is requested, and a number of other problems before the committee will be less important.

The most important objective of the President's proposals, he says, is to establish cooperative economic understanding with the principal trading countries of the world.

The broad multilateral trade negotiations by which he proposes to proceed, however, have for some time now been marked by economic confrontation and conflict. At the committee's 1970 hearings I discussed the reasons for this.

The negotiations are bargaining sessions conducted as though the participants represented separate competing national economies, each with a single, clear interest as regards a particular trade barrier.

It is assumed that any trade intervention which helps one of them hurts the others.

But such negotiation becomes the bitterest kind of adversary process when it comes to barriers which governments use in order to achieve their domestic economic and social objectives. And that means most of the nontariff barriers that have proven unnegotiable. In a discussion format which makes an act of economic intervention seem domestically good but internationally evil, so to speak, governments cannot agree to sacrifice their domestic objectives. They resort to rationalizing—slanting the facts.

And the negotiations come to involve confrontations over competing national versions of the facts about the effects of particular trade barriers. There is bitterness which sometimes leads to irrational retaliatory actions. The negotiations lead to a kind of economic war. A new procedure is needed—one where facts can be found independently of differences over what to do about them.

But the administration proposals do not face this problem.

The issue is obscured by words about "moving away from confrontation and toward negotiation."

The context suggests analogy with the detentes achieved with the leaders of China and Russia, for whom trade is basically a political matter. Our trade with them is unpredictable and relatively small. We trade with their governments or not at all.

In the private-ownership world, however, there is a great and growing stream of predominantly nongovernment trade. The problem is to stop negotiation about intervention in that trade flow from becoming political confrontation, as it has tended to do in recent decades.

The President expects to negotiate a dramatic decrease in nontariff barriers if he is given greater authority; authority both to give concessions and to retaliate. Yet he recognizes that most of these barriers represent domestic economic and social policy. They cannot be modified in a trade-negotiation context.

Hence, greater power can only embitter the confrontations further.

The administration proposals also assume that carrot-and-stick confrontation tactics will bring nations to accept in good faith new trading rules that we consider fair.

Experience suggests otherwise. It all adds up to a continuation of intergovernmental recrimination over the trade difficulties that go with world technological advance.

What I would suggest is that the committee bill, regardless of whatever other provisions it may contain, provide that the President shall invite the other trading nations to join in removing the fact-arguing part of the negotiating process from the secret negotiating rooms. There should be a public multilateral discussion process—with opportunity for interested traders, producers and consumers as well as governments to supply facts. This would give a full international fact picture to inform national government decisions. It would do away with the fiction that each country had just one interest in a given trade problem. It would dramatically impose discussion of how to deal with the common economic problem underlying each trade problem—which intervention should be stopped and which is needed in order that technological advance may be applied so as to benefit all parties.

The executive branch is occupationally biased against such a non-adversary search for a viable consensus reflecting all the real interests involved.

What I am suggesting amounts to a more representative process internationally, a matter on which the Congress alone can give a lead. This suggestion is made on behalf of no interest or group. I am merely a concerned citizen with 45 years of relevant experience and study. I was one of the group which planned and negotiated the GATT.

Recently I was asked to do a short paper on how countries reached agreement on trade policy then and in the years since then.

The fact is that no trade policy has really been agreed, that is not functionally in the sense that any country observes it faithfully.

However, two imperatives have been recognized and accepted, and a third now seems near to acceptance.

These are imperatives which lead in the direction of cooperation.

The great depression had made it widely evident that the world is essentially one economy and that as a practical matter, an industrial government, in order to exercise effective economic jurisdiction within its own borders, must somehow concert its economic and trade policies with those of other industrial countries.

The classic prescription for concerting trade-barrier policy is laissez-faire—free trade—no trade intervention to concert. This assumes that the world economy will take care of itself through the free-market process. It was the guideline originally proposed for the GATT. However, no government intended to let its own domestic economy take care of itself. Hence, the multilateral negotiating turned into confrontation over trade barriers incidental to domestic intervention policies—rather than efforts to take the wraps off of the world economy.

But in the process that governments came to accept that tariffs and other trade barriers are not exclusively internal matters; they must be discussed with any interested government that wants to discuss them. This is the first of the imperatives I mentioned.

Meanwhile, a second guideline for concerting policy was proposed. In administering domestic intervention policies which affect foreign trade, the industrial governments were to be fair to one another's trade. But, just as with free trade, domestic considerations intervened, and there has been continuous controversy over the practicability and desirability of fairness as a guideline.

But governments came to accept a second imperative—that their internal economic policies—their intervention in their domestic economies, as well as their direct intervention in foreign trade, must be discussed and analyzed with other governments.

Currently, a third trade policy guideline seems to be taking form: Economic policy cooperation. It stems from the increasing number of economic objectives that individual national economies cannot hope to reach separately. To many, economic policy cooperation is taken—wrongly I believe—to foreshadow world government. It is apt to be more controversial than the free-trade and policy-fairness guidelines.

But, as with the other two, the heat of the controversy seems likely to forge accepance by governments of a third imperative—the need to discuss the international economy as a whole—to discuss together, and probably in public, the net effects of their aggregate economic policies on world trade, production and consumption considered as elements of a single economic continuum. They will recognize in practice that agreed world facts are superior to competing national propaganda as the basis for policy decisions. My suggestion for the committee's bill may be thought of as a congressional mandate to the President to take a lead in that direction. I believe the time is now right for such a legislative initiative.

This committee recognizes, I am sure, the antagonism that can be created when national prestige is invested in one set of alleged facts or another about the effects of a trade barrier. Most governments do it. Civil servants are constantly embarrased about it.

It often backfires. For example, the figures for damage to our poultry exports from Common Market trade barriers that we submitted to the 1963 GATT Panel arbitrating the "chicken war" were adjudged by the panel to be exaggerated several fold. Many of the "facts" we cited to back our pressure for the original Cotton Textile Agreement became recognized during the operation of the agreement, as largely incorrect.

A case of much current interest is the effect of trade on jobs. When we were negotiating the GATT after the war, the government used the statistically unsound technique of applying job coefficients to trade-value figures, showing millions of U.S. jobs added by trade. This was because we had a huge temporary export surplus due to war damage abroad and a U.S. economy built up by the war. As trade moved into balance, the fallacious jobs-added figure declined and is now a fallacious jobs-lost figure.

The Department no longer publishes the figures, but interested groups or students frequently up-date them. Thus, the AFL-CIO presentation at this current hearing—page 7 in Mr. Abel's May 17 testimony—extended the 500,000 jobs lost due to trade between 1966 and 1969—implied in the Labor Department presentation to the committee's 1970 hearings—to at least a million jobs lost now. These figures are without merit; and they make for negotiating deadlocks.

It is sometimes argued that trade is business and it is normal in business negotiations to use the facts that help your case. I don't know about that. But one can not hope to build a "new international economic order" among governments that use statistical tricks as negotiating weaponry.

And neither can such governments be well informed. Bureaucrats do not lightly report to their superiors information that contradicts official negotiating propaganda. How are we going to live with an internationalizing economic world if representative government keeps itself and the public ill informed by its own secretive nationalistic processes?

The following paragraphs represent the substance I would suggest for inclusion in whatever bill the committee may report.

First, for inclusion in the statement of purposes: To initiate a system of open public international cooperation in obtaining and reporting full information on the economic effects of government actions, as an objective basis for economic and trade policy decisions and for international cooperation in solving economic problems.

Second, for inclusion as a new title, "World Trade Information Forum."

(*a*) The President shall invite the governments participating in the multilateral trade discussions contemplated in this act, because of their growing economic interdependence and of their consequent need to make their economic policy and trade policy decisions in the light of complete and accurate information as to the effects of such decisions on one another and throughout the world economy, to join in the establishment of a continuing forum, whose papers and meetings will be open to the public, to obtain and report such information.

(*b*) In all stages of planning and negotiating a world trade information forum, the President shall work closely with the committees of the Congress dealing with trade legisation and shall associate the designees of those committees as full members of all U.S. delegations. The chief U.S. representative at meetings of the forum—as distinguished from trade negotiations—shall be named by the Congress.

(*c*) The information obtained and reported by a world trade information forum shall include, for each action by any government affecting trade which may be the subject of intergovernmental representation, the economic facts necessary to understand the full effects of that action—such facts as production and consumption of the product or products involved, employment, costs, prices, substitute-product consumption, and so forth.

(*d*) The President shall transmit to the Congress all facts reported by the world trade information forum together with, as regards each U.S. Government action reported on, any recommendations he may have for so modifying the action as to make it of net advantage to the United States and to avoid undesirable effects revealed by the facts but not intended in taking the action.

The foregoing sketches out one possible legislation means of taking the fact-establishing phase of international trade discussions out of the adversary, secret negotiation, and confrontation atmosphere. This is a large first step toward economic peace.

Once the full facts are reviewed cooperatively and publicly about an area of the world economy—say the production, trade, and consumption of a product on which several countries maintain nontariff barriers to trade, public reasonableness among the informed populations of the great industrial countries will temper the narrow interest confrontations of the negotiating rooms.

The times require a lead toward open understanding among peoples and their representatives. No lasting economic peace to be gotten by approaching our great industrial allies with glittering American catch words—"A New Atlantic Charter" or "A New Internationl Order"—defined in terms of American ideas of what is fair and what is unfair—oriented toward American contentions as to the facts—and reinforced by threats of greater U.S. trade restrictions.

Simple proposal to conduct an open search for all the relevant economic facts regarding a trade problem, with confidence that a reasonable solution acceptable to all can usually be found in cooperative discussion—such a proposal will open the way to economic peace. Let us say, "We know that you have trade problems, and you know that we have them, and both know that they are parts of world economy problems that concern us all. Let us look at them together openly."

I believe an approach something like the one I suggest would help restore, to the international-trade-discussion process, reciprocal confidence and reciprocal understanding that, in spite of vigorous specific differences, the trading nations have an overriding common interest in the international economy.

Thank you, Mr. Chairman.

[Mr. Schwenger's prepared statement follows:]

STATEMENT OF ROBERT B. SCHWENGER

ECONOMIC PEACE THE PRESIDENT'S MAIN OBJECTIVE

The President's message says that the most important objective of the proposals is "creating a new economic order", "strengthening the structure of peace" and "reducing tensions in the world economy". More specifically, it is to establish cooperative economic understanding with the principal trading countries of the world. This is indeed our most important trade-policy objective.

TRADE NEGOTIATION HAS MEANT LATENT ECONOMIC WAR

To reach that objective, according to the President, the present trading system is inadequate. It has meant economic confrontation and conflict. At the Committee's 1970 hearings on Tariff and Trade Proposals (part 10, pp. 2726 ff.), I discussed the principal reasons for this. In a word, negotiations under the Trade Agreements Program and the GATT are bargaining sessions—conducted as though the participants represented separate, competing national economies. It is assumed that any trade intervention which helps one of them hurts the others. This procedure worked fairly well in the early GATT days when we were getting rid of the excessively high trade barriers left over from depression and war. No government really wanted to maintain those barriers.

But that procedure becomes the bitterest kind of adversary process when it comes to barriers which governments use in order to achieve their domestic economic and social objectives. And that means most of the non-tariff barriers that have proven unnegotiable. In a discussion format which makes an act of economic intervention seem domestically good but internationally evil, so to speak, governments can not agree to sacrifice their domestic objectives. They resort to rationalizing—slanting the facts. And the negotiations come to involve confrontations over competing national versions of the facts. There is bitterness which sometimes leads to irrational retaliatory actions. The negotiations lead to economic war. A new procedure is needed—one where facts can be found independently of differences over what to do about them.

THE PRESIDENT PROPOSES CONTINUING TRADE NEGOTIATION

But the Administration proposals include no significant procedural reforms—no new policy framework whatever. They call for "broad multilateral trade negotiations"—which is the same "inadequate" approach that got us where we are.

The President's message obscures the issue with peculiar words about "moving away from confrontation and toward negotiation". The context suggests analogy with the detentes achieved with the leaders of China and Russia. But those governments own their national means of production; trade is basically a political matter for them. The most advanced type of trade negotiation to be hoped for with those countries would, if it were to prevail with one of the great private-ownership trading nations, be a great step backward even from the bitter negotiating confrontations of recent years. In one case, we trade with the government or not at all. In the other, we "confront" the government regarding its intervention in a great and growing stream of private trade. The President's analogy is not relevant. Our trade-policy problem in the private-ownership world is how to reform the trade discussion system so as to stop negotiation from being confrontation.

The Administration's proposed "reforms" would exacerbate this confrontation. Thus, greater authority is asked for—greater power both to concede and to retaliate. This is counted on to enable the President to negotiate a dramatic decrease in non-tariff barriers. Yet the President recognizes that most of these barriers are domestic economic and social policy. They can not be modified in a trade-negotiation context. Hence, greater power can only embitter the confrontations further. Thus, in the Kennedy Round, greater U.S. negotiating authority would not have brought more viable agreement in the abortive ASP negotiations, the CAP negotiations or the Wheat negotiations. Another proposed "reform" is to improve on the GATT's system of collective action to discipline countries that violate changed trade rules. But this assumes that carrot-and-stick confrontation tactics will bring nations to accept in good faith the rules *we* consider fair. Experience suggests otherwise. Some of the reforms are good—monetary reform, valuation standardization and marking-requirement fairness—but these are peripheral to the main trade-policy confrontations. It all adds up to a continuation of the present rat race: Economic conflict, patchwork agreement, and continuous recrimination over the trade difficulties attendant on world technological advance.

CONGRESS SHOULD REQUIRE OPEN AND REPRESENTATIVE PROCEDURE

What I would suggest is that the Committee Bill, regardless of whatever other provisions it may contain, provide that the President shall invite the other trading nations to join in removing the fact-arguing part of the negotiating process from the secret negotiating rooms. There should be a public multilateral discussion process—with opportunity for interested traders, producers and consumers as well as governments to supply facts. This would do away with the fiction that each country had just one interest in a given trade problem. It would automatically impose discussion of how to deal with the common economic problem underlying each trade problem—which intervention should be stopped and which is needed in order that technological advance may be applied so as to benefit all parties. The Executive Branch is occupationally biased against such a non-adversary search for a viable consensus reflecting all the real interests involved. What is proposed is an extension of the representative process internationally—a matter on which the Congress alone can give a lead.

MY CREDENTIALS

Before stating the historical perspective of this suggestion and offering some specific language, let me just mention that the suggestion is based on 45 years of experience and study—more than thirty of them spent working on the Trade Agreements Program for the Departments of Agriculture and Labor. I was one of the group which planned and negotiated the GATT. At the request of the staff of the Joint Economic Committee's Subcommittee on Foreign Economic Policy, I put the conclusions from a 1964–65 sabbatical year of study (including my present suggestion in an earlier form) into a paper for their September 1967 Compendium, *Issues and Objectives of Foreign Trade Policy.* A short, updated version was prepared last August for a service at my church under the title, *Where is U.S. Foreign Trade Policy Taking Us? Can the 1973 Trade Negotiations Help Toward Peace?* With your permission, I will submit a copy for inclusion in the record after my remarks.

HISTORICAL PERSPECTIVES: THREE GUIDELINES—THREE STEPS TOWARD COOPERATION

Recently I was asked to do a short paper, for a policy seminar at the Department of Agriculture, on how we reached international agreement on trade policy in the twenty-odd years I worked on the GATT. Studying the matter over, I realized that no trade policy had really been agreed—that is, not functionally in the sense that any country observed it faithfully. However, two fundamental things have been agreed—functionally—and a third, even more important thing now seems near to agreement. I will just summarize this perspective view and, if agreeable, submit the Department of Agriculture paper for inclusion in the record at the end of my remarks.

To begin with, the great depression made it widely evident that the world is essentially one economy and that, as a practical matter, an industrial government, in order to exercise effective economic jurisdiction within its own borders, must somehow concert its economic and trade policies with those of other industrial countries.

1. Free trade and the obligation to discuss trade intervention

The classic prescription for concerning trade-barrier policy among sovereign states, of course, is laissez-faire—free trade. If there is no trade intervention, trade policies are automatically concerted. This assumes that the world economy will take care of itself through the free-market process. It was the guideline originally proposed for GATT. However, no government intended to let *its own* domestic economy take care of itself. Hence, the multilateral negotiating turned into confrontation over trade barriers incidental to domestic intervention policies rather than efforts to take the wraps off of the world economy.

But in the process, without anyone's really noticing, governments came to accept an important obligation. I have called it "the ethic of economic agreements" or "the keep-talking imperative". Tariffs and other trade barriers are no longer considered exclusively internal matters; they must be discussed with any interested government that wants to discuss them—as long as necessary to reach some sort of understanding or agreement. If you remember the twenties, you will recognize this as a big step forward.

2. Fairness and the obligation to discuss domestic policy

Meanwhile, a second guideline for concerting policy was proposed. In administering domestic intervention policies which affect foreign trade, the industrial governments were to be fair to one another's trade. This was spelled out at the 1947 Havana conference in a 15-nation drafting committee on commodity agreements of which I was the chairman. Fairness was to be judged by historical shares of the market and by changes in comparative advantage as determined in in intergovernmental consultation. But, just as with free trade, there has been continuous controversy over the practicability and desirability of fairness as a guideline.

To avoid the problem, there has been a long unsuccessful search for a technique of supporting domestic producers without affecting trade. The Council on International Economic Policy, in the report transmitted to the Congress by the President on March 20, assumes (p. 45) that such trade-neutral supports are actually in operation for agriculture in some countries. But I believe that none has worked. All supports have affected trade and faced the problem of fairness.

While disputing fairness, governments drifted into functional agreement on a second imperative. They accept that their internal economic policies—their intervention in their domestic economies, as well as their direct intervention in foreign trade, must be discussed and analyzed with other governments. Stated badly, this still raises some hackles, but it is practiced none-the-less, although often in secret, and it helps concert policies.

3. Cooperation and the obligation to discuss the world economy

Currently, a third trade policy guideline seems to be taking form: Economic policy cooperation. It stems from the incerasing number of economic objectives that individual national economies cannot hope to reach separately: To feed the hungry; to forestall ecological disaster; to develop non-industrial areas and create a great world market permitting full use of new technology; to prevent restraint of trade multinationally; to develop ocean resources; to apply air transport technology; etc. To many, economic policy cooperation is taken—wrongly I believe—to foreshadow world government. For this and other reasons, it is apt to be more controversial—perhaps even more bitterly so—than the free-trade and policy-fairness guidelines.

But, as with the other two, the heat of the controversy may well forge acceptance by governments of a third imperative—a third important step forward. They may—and I believe they will—accept the need to discuss the international economy as a whole—to discuss together, probably in public, the *net* effects of their *aggregate* economic policies on world trade, production and consumption considered as elements of a single economic continuum. They will recognize in practice that agreed world facts are superior to competing national propaganda as the basis for policy decisions. Like all imperatives, when stated clearly, it is just a matter of common sense. My suggestion for the Committee's Bill may be thought of as a Congressional mandate to the President to take a lead in that direction. I believe time is now right for such a legislative initiative.

COMPETING FACTS EMBITTER NEGOTIATION

In the 39 years since the Committee reported the first Trade Agreements Act, it has heard more than its share of competing facts about the same trade situation; and the Committee recognizes, I am sure, the antagonism that is created by investing national prestige in one set of alleged facts or another. Most governments do it. Civil servants are constantly embarassed about it.

Sometimes it backfires. For example, the "estimates" of damage to our poultry exports from Common Market trade barriers that we submitted to the 1963 GATT Panel arbitrating the "chicken war" were adjudged to be exaggerated several fold, and the Department of Agriculture, unable to explain its own figures, apologized to the rest of the U.S. Interagency Trade Organization. Again, many of the "facts" we cited to back our pressure for the original Cotton Textile Agreement became recognized during the operation of the agreement, as largely incorrect.

A case of current interest is the effect of trade on jobs. When we were negotiating the GATT after the war, the Government used the staistiically unsound technique of applying job coefficients to trade-value figures, showing millions of U.S. jobs added by trade. This was because we had a huge export surplus due to war damage abroad and a U.S. economy built up by the war. As trade moved into balance, the fallacious jobs-added figure declined and is now a fallacious jobs-lost figure. When Secretary Goldberg presented the figures at the Committee's 1962 trade hearings, he pointed out that they were not valid (See p. 683ff. of part 2 of the hearings), but the Labor Department continued to compute and publish them. In 1970, under a research grant from the Manpower Administration, I analyzed their flaws and suggested an alternative approach (see *A Conceptual Framework for Measurement of the Impact of Foreign Trade on Workers*, Graduate School USDA Press, April 1971). Further suggestions are in an unpublished 1972 study for the International Labor Office which is now with the Secretary of Labor awaiting comment. The Department no longer publishes the flawed figures, but interested groups or students frequently update them. Thus, the AFL–CIO presentation to this hearing (p. 7 in Mr. Abel's May 17 testimony) extends the 500,000 jobs lost due to trade between 1966 and 1969 (implied in the Labor Department presentation to the Committee's 1970 hearings) to at least a million jobs lost now. These figures are without merit, and they make for negotiating deadlocks.

It is sometimes argued that trade is business and it is normal to use deception in business negotiations. I don't know about that. But I know that one can not hope to build a "new international economic order" among governments that feel free to use statistical tricks as negotiating weaponry.

And neither can such governments be well informed. A close friend some years back went from a top international economic post in the U.S. Government to a similar post in a large multinational firm. He was astonished, he said, at how much more fully and accurately informed he was kept on international economic matters. Bureaucrats do not lightly report to their superiors information that contradicts official negotiating propaganda. How are we going to live with the internationalizing economic world if representative government keeps itself and the public ill informed by its own secretive nationalistic processes?

THE SUGGESTED PROVISIONS

I know little about drafting legislation, but the following paragraphs indicate the substance I would suggest for inclusion in whatever bill the Committee may report.

1. *For inclusion in the statement of purposes.*—To initiate a system of open public international cooperation in obtaining and reporting full information on the economic effects of government actions, as an objective basis for economic and trade policy decisions and for international cooperation in solving economic problems.

2. *For inclusion as a new title: World Trade Information Forum.*—(*a*) The President shall invite the governments participating in the multilateral trade discussions contemplated in this act, because of their growing economic interdependence and of their consequent need to make their economic policy and trade policy decisions in the light of complete and accurate information as to the effects of such decisions on one another and throughout the world economy, to join in the establishment of a continuing forum, whose papers and meetings will be open to the public, to obtain and report such information.

(*b*) In all stages of planning and negotiating a world trade information forum, the President shall work closely with the Committees of the Congress dealing with trade legislation and shall associate the designees of those committees as full members of all U.S. delegations. The chief U.S. representative at meetings of the forum (as distinguished from trade negotiations) shall be named by the Congress.

(*c*) The information obtained and reported by a world trade information forum shall include, for each action by any government affecting trade which may be the subject of intergovernmental representation, the economic facts necessary to understand the full effects of that action—such facts as production and consumption of the product or products involved, employment, costs, prices, substitute-product consumption, etc.

(*d*) The President shall transmit to the Congress all facts reported by the world trade information forum together with, as regards each U.S. Government action reported on ,any recommendations he may have for so modifying the action as to make it of net advantage to the U.S. and to avoid undesirable effects revealed by the facts but not intended in taking the action.

ECONOMIC PEACE IS A PEOPLE PROCESS—REPRESENTATIVE, NOT EXECUTIVE

The foregoing sketches out one possible legislative means of taking the fact-establishing phase of international trade discussions out of the adversary, secret negotiation and confrontation atmosphere. It is a first step toward economic peace. It makes unnecessary the increased executive authority which, though it might be exercised more rapidly, would likely exacerbate economic confrontation and war. Once the full facts are established cooperatively and publicly about an area of the world economy—say the production, trade and consumption of a product on which several countries maintain non-tariff barriers to trade, public reasonableness among the informed populations of the great industrial countries will temper the narrow interest confrontations of the negotiating rooms.

The times require a lead toward open understanding among peoples and their representatives. There is no lasting economic peace to be gotten by approaching foreign governments with new American catch words—"A New Atlantic Charter" or "A New International Order"—defined in terms of American ideas of what is fair and what is unfair—oriented toward American contentions as to the facts—and reinforced by threats of greater U.S. trade restrictions.

An honest proposal to search for all the relevant economic facts with confidence that, whatever problems they may reveal, a reasonable solution acceptable to all can usually be found in cooperative discussion—such a proposal will open the way to economic peace. Let us say, "We know that you have trade problems, and you know that we have them, and both know that they are parts of world economy problems that concern us all. Let us look at them together openly."

I believe the proposed approach would help restore to the international-trade-discussion process those general elements of reciprocal confidence and reciprocal understanding that, in spite of vigorous specific differences, we work in a common economic cause.

WHERE IS U.S. FOREIGN TRADE POLICY TAKING US? CAN THE 1973 TRADE NEGOTIATIONS HELP TOWARD PEACE AND HUMAN BROTHERHOOD AND SISTERHOOD?

(By Robert B. Schwenger)

1. Julius Allen (Chairman of our Board of Trustees) framed the question title. My answer can be put easily. I think our foreign trade policy is taking us toward war. I do not mean a fringe war like Viet Nam. I mean war with the industrial countries that are our natural allies and with whom we should be building a great area of economic and political peace. Just read this morning's headlines: "Japanese warned on trade; Kissinger says new economic clash brewing." As we prepare to negotiate, you can find trade policy threats to some great country almost any morning. Our foreign trade policy obstructs the basic economic forces working toward peace. It deters economic cooperation with friendly governments· It magnifies economic differences—real and imaginary. It helps to perpetuate the war system among the private-ownership countries.

2. In order to build and consolidate peace, the policy would have to change from adversary trade negotiation behind closed doors to open international assessment of, and exploration of solutions to, the common eocnomic problems of which trade problems are a part.

3. This is my conviction after 45 years of relevant experience and study. Not all of my professional colleagues are impressed, but you may be interested in my reasoning. Let me first recall a couple of striking examples.

THE COMING STEEL CARTEL?

4. A new kind of steel-making furnace became available after the war. It reduced costs greatly. The Europeans installed it, and so did the Japanese. But the U.S. steel industry did not bother. It felt so secure in its domination of the American market that it stuck with its obsolete, high-cost furnaces—and, of course, its high prices. After a while, Europe began to ship steel to us; and the U.S. industry began to ask for higher import duties. It didn't get them at first, so, rather than modernize and charge competitive prices, the industry just gave up producing some products. It toyed with the idea of joining with the foreign producers in a price-fixing cartel, but it was scared off by our anti-trust laws. Eventually, it decided to put in the new furnaces, but too slowly and too late. The imports kept on increasing, so the U.S. industry, although still expanding its sales in the growing U.S. market, began to put on pressure for import controls. So a couple of years ago, the U.S. Government secretly put political and economic pressure on foreign governments, forcing them to agree to limit their steel exports to us. This may well be a first step toward a world steel cartel operated in secret by governments and industry.

6. We obviously have a common interest with the other private-ownership industrial countries in solving the problems of using new steel technology—trade problems and others. But in deciding how to solve them, governments must consider all the interests involved—consumers, the producers of competing products, the producers of raw materials, the general public with their economic objectives, etc. With proper handling, the advantages of important new technology could provide net benefits for most interests in all countries. As it is, however, the world gets unnecessary costs and not all of the advantages. The public lacks the information needed to understand what is happening. And ill will is created among the interested governments.

THE CHICKEN WAR

7. The other example is chickens—a fairly competitive industry. Before World War II, chicken was a luxury—a Sunday treat in my family. In response to high war-time demand, American producers did a technological revolution—and chicken became our cheapest meat. The new technique was easy to transfer to other countries, but there was a time lag; and we began to export our low priced chickens. The amount was only a very small part of American production, but it seemed a great deal to the foreign producers—especially in Germany. The European Common Market raised its import duty in order to maintain the guaranteed price to its producers. This checked the imports. The U.S. accused the Common Market of violating its trade-policy commitments. There was a bitter argument—really bitter! Harsh words and threats were exchanged at very high levels of governments. The U.S. retaliated—raising our duties on German trucks and French brandy. Meanwhile, the Common Market chicken producers caught up and began to produce a surplus for export. Soon both governments ,the Common Market and the U.S., were paying subsidies to their exporters in a struggle for the market in other countries.

8. About 1968, a study group on the whole mess was set up in Geneva. After long controversy over the facts, a sort of armistice appears to have been reached. However, in current economic discussion, there lingers an element of distrust and bitterness among these governments and many of their people left over from this disgraceful handling of a much-needed contribution to the world's supply of animal protein.

WHAT IS U.S. TRADE POLICY?

9. How do these things happen? In the post-war years, tre U.S. enjoyed world political predominance—back up by the major sector of the greatest economic production system the world has ever known. What sort of policy is it that could get us off onto such belligerent tangents when faced with technoloical improvements that bring blessings to humankind?

10. Essentially, our foreign trade policy is to reduce barriers to the development of world trade through intergovernmental negotiation. (In this context, the word, barrier, has come to mean any government action which changes the

course of trade from what it otherwise would be. A more accurate term would be "government intervention in trade" or "government trade action", but let's follow the official practice and use the word "barrier".) The policy then, is to bargain trade barriers down.

11. It was started in 1934. During the great world depression, as you know, every government tried very high trade barriers as a way of saving its own national economy—even though at the expense of others. It didn't work, of course, and governments ended by wanting to get rid of the high barriers—their own as well as others. And so they welcomed the idea of Secretary of State Cordell Hull to bargain the barriers away—like chips in a game. This worked—especially during the post-war years of general scarity and reduced international trade competition. The negotiations were relatively friendly and cooperative. The worst of the depression barriers were substantially reduced.

12. By the late 1950's, however, Europe was recovered. Trade competition was restored. Producers wanted the remaining barriers in order to keep foreign goods out of their markets. And the official bargaining policy made this seem to be in the national interest also. The age-old policy protectionism began to take over the trade-barrier reduction program. The Kennedy Round of trade negotiations from 1963–67 was an angry, unfriendly process, Governments tried to get the trade barriers of other governments down as far as possible but to keep their own up as high as possible. Threats were common. Half truths about the struggle were made public in an effort to rally patriotic support—much as is done for our negotiating positions over military conflict. Sometimes barriers were raised just for bargaining purposes. In 1967, just barely in time to beat the expiration of authority under the act, agreement was reluctantly reached. But the economic results, even as blown up in the defensive reports of the participants, were small justification indeed for the bitter aftermath—not only as regards chickens and steel but many, many other matters, both specific and general.

13. Last February, the U.S. persuaded the Common Market and Japan to agree to another "round" of negotiations in 1973. As of now, I see every reason to expect another long exercise in economic belligerence. How is this to be avoided?

THE NATIONAL ECONOMY ILLUSION

14. The basic difficulty is that bargaining imposes the concept of a national economy as a separate economic process—an aggregate whose trade interests are implied to be opposite to those of other national economies. Trade barriers good for the U.S. are bad for the Common Market or for Japan or others—and vice versa.

15. The fact, of course, is that the world is rapidly becoming a single economic system—one world economy. The private-ownership industrial countries are particularly interdependent. The bulk of the world's trade moves back and forth within their part of the world economy. Hence, it is much more nearly true to say that trade barriers which are good (or bad) for the U.S. are good (or bad) for the Common Market and Japan and Canada and the others.

16. Hence, a trade policy that requires negotiators to "come out fighting" does no country much good. It just distracts governments from their main international economic business—which is to get together to discover what measures of intervention are needed to handle the problems that come with growth of the world economy, and then to take those measures, and to drop all of the measures not needed.

A WORLD MIXED ECONOMY VS. A WAR SYSTEM ECONOMY

17. You will note that this does not mean free trade. It would lead to the maintenance of some trade barriers jointly or in coordination. For in the world economy, as in the national industrial economies which make up such a large part of it, free market decisions alone do not satisfy the economic and social objectives of the people and their governments. Each of these private-ownership industrial countries has evolved a dynamic political-economic process for governing its economy. There are a bewildering variety of groups—labor unions, large firms, trade associations, special citizens' organizations for all sorts of humanitarian or recreational or other purposes, local councils, consumer groups, and so on—even church groups—which either wield some market power directly or persuade government to intervene on their behalf to modify free-market decisions as to economic change made under the iron law of supply and demand.

The process is in constant flux. It is not laissez-faire and it is not totalitarian. It can be called the mixed economy without straining terminology too much. We are immersed in it. And the great foreign-trade-policy, and foreign-economic-policy problem is to help evolve a viable mixed-economy process for the world.

18. This gets tricky because the sovereign nation state, to which we all owe allegiance, doesn't really cotton to cooperative economic governing arrangements with other governments. It has contingency plans to fight them if necessary. This dilemma is new. Sovereigns have fought over trade ever since they emerged out of feudalism to provide the broad national market areas required to take advantage of early technological innovation. Some of those early sovereigns would gladly have solved the problem by conquest—broadening their market area to the whole world. (So would some recent ones, as far as that goes.) But the limits enforced on each sovereign by the power of the others resigned them to the nation-state war system instead—or rather to the intermittent-war-and-armistic system. And in that system, join economic governance seemed somehow to threaten the economic basis for the national military stance. And even with large scale war less likely, this has been a hard one to get around. In today's world there may not be much to it, but it answers to fears that government can play upon to maintain itself.

19. The problem is compounded because of business concentration. Even within our own national mixed economy, there is debate as to whether business managers have not become too powerful for government—and, in many cases brought to limit their manipulation of the economy against the interest of the people, it is not clear where government stands. Internationally, there is now emerging a managerial community (the multinational corporations) which govern a large and growing chunk of the world economy. They do a great deal of development, but basically they do it in the interest of their own power and wealth. They already manage a very large part of the trade of the world. For them, freedom from government barriers is just fine—although they sometimes like to use one government against others. Cooperation among governments in a mixed-economy process would be a nuisance to them—just as the anti-trust laws have been. In this situation, sovereign governments are somewhat confused. Under the present beligerent program, they tend to a kind of state capitalism—supporting their own corporations against those of other countries. The public interest is relegated to inconsistent slogans: liberalize trade, prevent market distruption, don't discriminate, access to markets, etc. A government uses whichever slogan happens to be useful to support its corporations in a particular conflict with other governments.

SECRECY INHIBITS RATIONAL DECISION

20. You may wonder why public discussion of all this does not constrain governments to behave more rationally. Much of the answer lies in the secrecy of the trade-policy process. This is how it operates: the U.S. government prepares a secret so-called "position" for its negotiators—listing the foreign government barrier reductions it wants to get and the U.S. barrier reductions it is willing to concede in return for them. Although much advance work is done to get full facts, the mechanics and the hierarchy of the secrecy make it difficult to point all of the relevant facts toward the precise questions to be decided. Moreover, in the small group making the final decisions, even the available facts tend to be neglected in the face of representations by a powerful special interest—or of the economic theory of an important participant—or of some concept of political or military expedience—or, on some occasions, just of anger at the alleged malice of some foreign government or negotiator. Sometimes, just as in military negotiations the position taken in secret is so clearly contrary to the national interest that it would never be seriously considered if the process were open.

21. Subsequently the negotiators come together to bargain also in secret. They are bound by their "positions". The game is to "win". Their instructions contain not only the position but also a kit of pseudo-facts supporting it—like the "facts" in a salesman's kit. The negotiators are bound by these facts, too; they must assert them to be true. They report the bargaining arguments back to their governments and then wait for more instructions. Any joint objective analysis of a problem in the common interest is a departure from the game rules. Negotiators sometimes do it, of course, being human beings rather than cogs in a national war machine—but it is done on a personal basis and usually stops right there in the secret negotiating meeting.

GOVERNMENTS ARE TRYING

22. Of course, governments are wrestling with the problem of cooperation. In these times of increased transportation and communication—and of widespread troubles—and of incredibly great world economic potentialities, the search for lines of understanding and cooperation is an underlying imperative. We are all groping—and governments feel impelled to grope too, even though it is against their nature. They try to agree on the control of weapons—at least those no longer useful for achieving national objectives. They are looking for a way of managing a world currency jointly. You can list a lot of other areas—each in your own field of activity. Even in the trade field, governments do get together to some degree, as on changes in coffee trade—and textiles and steel and tin and meat and formerly wheat. And they have agreed that the 1973 negotiations are to be preceded by "a comprehensive review of international economic relations". In preparation for the negotiations, all sorts of information on hitherto obscure kinds of trade barriers have been put together by an intergovernmental group—and there is an effort to suggest codes as to how far each kind shall be permitted.

23. Perhaps even more cooperative things are being done in the secret preparatory work, but all the government trade gropings I know of are basically in the bargaining rather than the problem-solving context; and general U.S. trade policy is still announced in terms of adversary negotiation and self-righteous confrontation over who is most guilty of obstructing natural, free-market trade. Moreover, even though the U.S. has forced other governments in recent years to agree to restrain trade in steel and in textiles and meat when it suited our purposes, we flatly asserted in the February communication on the 1973 negotiations that international agreements on a commodity basis, which the Common Market said it wanted to explore, do not offer a useful approach. How pious can you get?

ELEMENTS OF A WAY OUT

24. Now how do we break out of this trap and get to open intergovernmental study of problems and of possible solutions? Let me suggest one possible way which I believe might be widely welcomed if the U.S. were to take the lead or, at least, be willing to go along. It would include some or all of the following:

(*a*) Governments might join in a declaration of economic interdependence and common economic purpose. This would promulgate a sense of community.

(*b*) The governments would agree to discuss together in public all the facts to be found regarding any trade barrier that was challenged—the publicly announced purpose of the barrier, the effects of the barrier on the production, trade, consumption and prices of the product involved and also on its raw materials and on substitute products, the possibility of alternative measures for carrying out the announced purpose, and any other relevant facts. (There would be no bargaining—no effort to decide on any trade-barrier change).

(*c*) But each government would commit itself, after receiving the report of the fact-finding meeting regarding any of its trade barriers, to reconsider the barrier in open public discussion with a view to discontinuing it if it were no longer considered to be needed, or, if still needed, to modifying it so as to accomplish the announced purpose with less adverse side-effects on other countries.

(*d*) A continuing international forum would be maintained for the fact-fiinding discussions.

(*e*) There might be established, by Congress and the top legislative body in each country an independent trade-fact authority with responsibility for assuring that both the multilateral discussion and the national reconsideration were as open to the public and as fully informed as possible.

(*f*) Governments would commit themselves to consider whether to cooperate in facilitating any technological economic transition found in the fact-finding to be at the root of the trade-barrier problem.

25. I believe that public intergovernmental discussion of common economic problems, however reached, would help not just in trade-barrier matters, but all across the international economic spectrum—in such things, for example, as the trade policies of regional blocks (e.g., the Common Market)—the expansion of trade with the Soviets—the development of the economies of the poorer countries. But most important, of course, it would focus attention and effort on the common interest of nations in cooperative handling of the problems of change. It

would offset the natural propensity of governments to seek a conflict of interest in every international matter so that they can get credit for taking the side of their constituents against foreigners. The Peace Committee of the Church is considering convening a discussion group of members of the congregation interested in reviewing their own experiences in various fields where this governmental propensity to seek conflicting rather than common interest may be interfering with forming the building blocks of positive peace.

WE LEARN BY GOING WHERE WE HAVE TO GO

26. No one can set out a detailed solution to the trade policy problem in advance. I am reminded of one line in Roethke's poem, "The Waking", which was read to us so beautifully last Sunday:

"I learn by going where I have to go." So it is with our collectively. There are imperatives that a society must accept if it wishes to survive. We do so wish; and if we accept understandingly what I believe to be the inescapable imperative for open international process among the great industrial governments, we will learn our policy not particularly from a theory or a blue-print, but from going together where we have to go.

HOW INTERNATIONAL TRADE POLICY IS MADE INTERNATIONALLY[1]

(By Robert B. Schwenger)

1. When asked to discuss this question, I suddenly realized that little if any international trade policy was "made internationally". Each national government makes its own. They disagree vigorously about them. They agree on a compromise. They violate the compromise when it proves inconvenient. What we have is an unstable accommodation to shifts in national power. At the risk of telling you things you all know, I decided to rethink the matter in terms of some of our post-war efforts.

WHAT IS INTERNATIONAL TRADE?

2. International trade is not a very useful concept. Its components have little in common except for the accident that each is that part of the movement of a product which happens to cross a national border where there is an intercurrency payments accounting. Otherwise, international trade means different things to different countries and to different groups within countries. Meanings which have been important for efforts to make international trade policy internationally include:

(1) The adjustment of production so as to exchange relatively cheap goods for relatively dear goods. For the industrial-country theorist, this increases the *efficiency* of use of national production resources and thereby increases national income. In the dynamic real world, the adjustment tends to be relative rather than absolute.

(2) The earning of foreign exchange through exports and the spending of exchange for imports. This influences a country's balance of *international payments* and the foreign value of its currency.

(3) Dependence for national defense purposes on foreign supplies that may be cut off; but also access to defense necessities not available from home resources.

(4) A means for a pre-industrial country to obtain capital goods for national *economic development;* but also an inflow of consumer goods that impede the development of domestic industries and of luxury goods for the wealthy.

(5) An element of national economic activity which is difficult for a government planner to predict or control.

(6) The internal life blood of the emerging *world economy* (as trade within a country is the life blood of the national economy). It is indispensible if new technology is to be used for the benefit of the people, but susceptible to control by the economically powerful in their own interest.

3. To be accepted internationally a trade policy must afford a reasonable degree of accommodation to all meanings of international trade that correspond to important real interests. To endure, such a policy must be guided by some objective concept—some generally accepted measure of trade equity—rather than just brute negotiating power.

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[1] Summary of a talk at the 1973 USDA–AID Agricultural Policy Seminar, Washington, D.C., April 10, 1973.

THE POST-WAR FAILURE TO AGREE ON FREEING TRADE

4. At the end of the war, the dominant industrial powers proposed a policy of eliminating trade barriers—i.e., stopping government intervention in international trade. They argued that, after a transition period, the international economy, if left alone, would take care of itself through the *free-market* process in a way beneficial to all. This, of course, was naive. No government lets even its own national economy take care of itself. All governments, especially the dominant industrial governments, insisted on keeping their own favorite trade barriers.

5. The result was the GATT—with a general trade-freeing rule, but with all sorts of exceptions. Trade barriers are permitted to remedy a deficit in *international payments*, to fulfill a multilateral commodity understanding, to assure *national defense*, to aid *economic development*, to prevent injury to a domestic industry, to conduct a government monopoly, and so on and on. The exceptions are complicated in their language. Moreover, the GATT members as a group can add to them by granting waivers from the rules. They provoke disagreement.

6. This is made worse because the GATT operates by negotiation, or trade bargaining. The negotiations are secret and, as it works out, each negotiator is bound by prior secret instructions. This worked fairly well to get rid of the very high trade barriers left over from the depression and war. However, when it came to trade barriers that govenments really wanted—as supplements to, or substitutes for, current intervention in their own economies, the adversary negotiating process brought out postures of economic nationalism and mercantilism. As early as 1960, the negotiations were probably *increasing* trade barriers on balance. Meetings of the GATT membership were almost continuous. But they were made more like a parley over weapons than a forum for making international trade policy internationally.

7. However, the GATT process revealed that *one important step* toward such a policy had been taken almost without anyone's noticing. I have called it recognition of the "ethic of economic agreement". It could be called acceptance of "the keep-talking imperative". Before the war, governments considered their trade intervention an internal affair—something they could refuse to discuss with interested foreigners. But the world has become too small and too dangerous for that. World opinion now seems to require that a government never refuse to discuss its trade intervention with another interested government. If this is true, it is a very valuable step toward recognition of community of interest.

SUPPORT POLICY, COMMODITY UNDERSTANDINGS AND "FAIRNESS"

8. From the start, the industrial governments refused to abandon their agricultural support policies and leave their basic farm-product prices to the free market. Therefore, the GATT rules permit trade barriers on primary (not just agricultural) commodities in surplus supply, provided that they deal fairly with the trade of other nations. *Fairness* is to be judged by historical market shares and by changes in comparative advantage, as determined in consultation among governments. What was contemplated was multilateral commodity understandings.

9. There has been continuous controversy over this matter. As concerns *policy*, it has been argued that agreements freeze inefficient patterns of trade, consumption and resource use, "distorted" from free-market patterns. This is circular reasoning, since, for these commodities, it is the free market that produces unacceptable distortions in the form of tendency to surplus and agricultural depression. That's why we have the national supports that make the discussion of fairness necessary. One is caught between opposite distortions, as it were.

10. Governments have tried to avoid the problem by seeking a method of national agricultural support that will be "trade neutral"—i.e., that will not alter trade from what it would have been without intervention. This has failed—and seems logically impossible, though it si still sometimes proposed.

11. The self-sufficiency objectives of many importing countries are not consistent with either the free-market or the fairness guides to international trade policy. For densely populated less-industrialized countries, such as India, there has tended to be agreement that self-sufficiency in basic foods is an appropriaate policy objective nevertheless. But intervention to increase the agricultural self-sufficiency ratios in industrial countries remains highly controversial.

12. As concerns *action* by officials responsible for basic agricultural commodity programs, the controversy is over immediate decisions as to such matters as

price levels, subsidies, and who gets certain foreign government deals. They can carry out their jobs much better if they can consult their opposite numbers in other governments as to the world market for their commodity. For them, international interdependence is a daily fact of life. Sometimes they operate short-term intergovernmental commodity understandings that are never formally recorded. Sometimes they care on undeclared economic warfare.

13. The result of all this has been very few formal commodity agreements. A great number of intergovenmental organizations have been involved. There has been a proliferation of informal commodity groups and conversations. But little solution to policy problems.

14. However, a *second step* is being taken toward making trade policy internationally. It is being recognized that not only a government's intervention in international trade but also its internal intervention—its domestic economic policies—must be discussed with foreigners as part of international trade policy deliberations. The realization of this imperative has been emerging not only in agricultural-program discussions but also in other forums—various sectoral trade discussions, OECD economic policy and labor-market discussions, har monization discussions in the EEC, etc.

UNCTAD AND THE DESIRABILITY OF BROADLY BASED DEVELOPMENT

15. The above discussion thus far has related primarily to the efforts of the private-ownership industrial countries to agree on trade policy among themselves. The less industrialized countries were expected to benefit incidentally. Developed-country trade officials tended to preach to them the virtues of free trade.

16. That is why UNCTAD was formed (about 1964). Thereafter, less-industrialized-country trade problems were taken more seriously. Thus far, however, the results are not striking. Commodity discussions have increased. A unique agreement on generalized preferences was reached and put partly into effect. It has been agreed in principle that developing countries need not give entirely reciprocal concessions in negotiations. But the main problems of developing-country trade remain.

17. However, a new objective measure to serve as a guide in the making of trade policy internationally may be taking form in the awareness of governments. To free-market competition and policy fairness, it seems likely that we are adding the economic desirability of breadth and depth in development—the value to developed areas of the development of developing areas—not the moral or social or humanitarian value but the economic value. Old developed countries see the lesson clearly for medium old developed countries, but it comes hard for newly developing countries. One thing that would help is to move from negotiating confrontation over trade differences toward consultation and cooperation regarding the difficulties underlying those differences. Governments must deemphasize the concept of international trade as an external phenomenon and make trade policy as part of economic policy for the international community.

THE REY REPORT

18. Some recent studies give hope in this direction. One is the Jean Rey group's report for the OECD last September on *Policy Perspectives for International Trade and Economic Relations*. The other is the series of FAO studies on international agricultural adjustment culminating in last summer's Geneva study of *Agricultural Development in Developed Countries*.

19. Although its mandate was to study opportunities for progress toward liberalization of international trade, the Rey Report concluded that any negotiations to that end would have to be supplemented by cooperation in a framework of "common action on a permanent basis" to deal with the problems that underlie trade problems.

20. The Report stresses the fact of interdependence and the need for economic adjustment. It recognized growth in the developing countries as an economic interests of the developed countries. It referred to two areas important in international trade policy which I cannot go into in this talk: The need for a reliable monetary framework and the influence of multinational firms. It is to be hoped, in spite of some indications to the contrary, that the secret preparations for the trade discussions to begin next fall are being carried out in the kind of broad framework suggested in the Rey Report.

THE FAO ADJUSTMENT STUDY AND THE INTERNATIONAL ECONOMY

21. The FAO proposes that governments consider, in an international economy perspective, the full economic facts regarding their national agricultural support and trade policies. Individual commodity market studies point to surplus supply situations. The *Indicative World Plan for Agriculture Development* shows the growing dependence of most less-industrialized countries on increased agricultural production for growth and for export earnings—indicating the implications for the adjustment of agriculture in the industrial countries. The Geneva Study brings out that the industrial countries have a major problem of their own. Their agricultural production capacity is outrunning the growth in the market at home and abroad (except very temporarily in years of weather disaster). They are maintaining an oversized, underskilled farm labor force, most of them on farms too small to use technology efficiently, and most of them getting an inadequate income.

22. FOA proposes that these facts be reviewed and supplemented, and their implications drawn, not in terms of ultimate goals but in terms of *directions* of adjustment clearly required in the immediate future on any reasonable basis. This would be multilateral open discussion of national policies—carried on in a series of meetings.

CONCLUSION

23. Many other developments and intergovernmental discussions reinforce the ones I have selected for discussion here. Others point in a less optimistic direction. The future is uncertain.

24. Yes, since 1934, when free traders flocked to Washington to work in Cordell Hull's reciprocal trade agreements program, three new imperatives for making trade policy internationally have moved toward acceptance—each loosely associated with a valid trade-policy guideline concept. Under a free-trade guideline, governments felt obliged to discuss their foreign-trade intervention with one another and to keep talking as long as they disagreed. Under a policy fairness guideline, governments are beginning to feel obliged to discuss their domestic economic intervention with one another—its purpose, its actual effects, and the alternatives. And on the not too far horizon, in a world where economic discrepancies inhibit the most effective use of new techniques, one can see governments recognizing the obligation to discuss together the net effects of their aggregate policies on trade, production and consumption in the international economy as a whole—and probably to do so publicly. This would greatly help you, in the capitals of the less-industrialized world, to make your great potential contribution in the making of international trade policy internationally—which is to say, in making of trade policy as a part of international economic policy.

Mr. CAREY. Thank you, Mr. Schwenger.

I find your proposals very interesting and certainly much in line with traditional concept in our country that we are far better with open covenants, openly arrived at, than we are with agreements concluded without public scrutiny. By which agreements perhaps the public interest is ill-served when they become public.

You would agree tht it will be difficult, however, to form the kind of negotiating team that would carry forth what you term representative negotiation rather than executive negotiation.

Are you suggesting that there be congressional membership of such a team?

I want to make the record clear. I mentioned earlier your distinguished career in Interior. I should have said as part of the trade agreements team of Labor and Agriculture.

Mr. SCHWENGER. That is right.

Mr. CAREY. But in your experience, what kind of a team would best comprise the membership of a world information forum that you are talking about?

Mr. SCHWENGER. Well, I think that what I have in mind would break the present process into two parts, and the teams, to use that word, would be different. The difficult thing in combining negotiations regarding what governments will do about trade intervention and factual discussion as to the effects of what they do is that the facts, as I have said, become adversary.

You get cases where we tell another country that so many people have been unemployed because of the increase in our imports from them. They say let's take a look at the facts. We say, indignantly, "Don't you take our word for it?" That is exactly what happened in one case just a couple of years ago.

The gathering and analyzing of facts in order to make policy decisions is really a problem that comes much nearer to the deliberative, lawmaking processes of the Congress than to those of the executive which, by the nature of things, has its performance to depend and its programs to advocate. This is true without regard to who is in Congress and who is in the White House.

So I would visualize that the fact forum that I speak of, or something which constitutes a place where facts were observed, would be rather open, and I should think the membership of that would be congressional primarily. There is not any reason why, in a world industrial economy which is developing to a kind of mixed economy, such as that which our own economy has developed, all governance should be carried out by meetings of executives. Why shouldn't there be an evolving quasi-legislative phase for dealing with such economic problems in that world economy as go beyond what the free market can handle, just as there has to be within the industrial countries that make it up?

I think that ministerial governments, such as many of the European governments, would understand this point of view.

Mr. CAREY. I was about to remark that on the basis of my experience traveling with other members of the committee to the Common Market countries, that what you are describing is very similar to the way they work out their trade problems within the Market.

There is ministerial contact. There is legislative contact. The parliament of the European Economic Community has trade inputs. They sort of wash their linen in public with regard to what will happen in one country as a result of an action taken in another country.

So perhaps the Common Market is even more ideally suited to this type of thing than we are, rather than start fencing on an adversary basis with their team.

So, to the extent that organization makes policy, we might try to frame our organization so that it is more suitably addressed to ministerial governments of the kind that are working now within the Common Market.

Mr. SCHWENGER. You mean change our form of Government?

Mr. CAREY. No. Only insofar as the trading team is concerned.

Mr. SCHWENGER. Yes; I understand. I wanted to be sure that is what you were saying.

Mr. CAREY. There have been enough recent suggestions, upon which I will not comment, about changing our form of Government.

Mr. SCHWENGER. I think I agree with what you are saying. In that connection, it is notable that, in the argument that the administration has been using for the additional power they request for these forthcoming trade negotiations, they say they have to have power to match the power on the other side.

To the extent the other side means ministerial governments, those governments have not only greater power in the sense of a wider range of negotiating authority, but also they have a much more immediate responsibility for reference back to the source of that power. That is, a prime minister who can negotiate anything he wants can also be thrown out of office tomorrow if he negotiates something the parliament and people do not like.

So, when the President asks for additional authority as though the other side were some kind of all-powerful dictator, one gets a distorted idea of the kind of confrontation he is up against.

I think this is relevant to your question because I think that if you did separate out the factfinding part from the action negotiating part, then you would not be interfering with the right of the executive to do negotiating, foreign trade negotiating, for the United States as a whole, but you would introduce on the international level what might be said to correspond somewhat to the hearing and factfinding function of the Congress, still leaving the executive part to the executive. He would then have to act in terms of a public picture that was relatively complete and not one that which was slanted by largely American versions of fact.

It is a matter of having a frame of reference which is sufficiently complete so that the action taken eventually will be decided on the basis of some knowledge of what it is going to do outside of the American area and vice versa when some of the other countries take action they will understand the impact on the American area.

Mr. CAREY. What you are saying is that on the trade side it would pretty much resemble the configuration of the way the United Nations carries on its discussion. Certainly they are open. All sides are represented.

I am not talking about the United Nations as a perfect organization, but I happen to believe it is an indispensible organization.

The idea of a forum in which all matters are discussed from every possible view, finally leads to some resolution that while not agreeable to all is not unreasonable to most.

That might be the way we should proceed to foreign trade in the future.

Mr. SCHWENGER. That is a close analogy, and I did consider it in developing my suggestions. There is one problem. The United Nations and specialized agencies which have factfinding or statistical sections do their best to make an accurate world picture to underlie the policy problems that are before them and their member governments.

The FAO particularly has been trying its very best to get a picture of the needs of agricultural adjustment in the world; a picture thrown out of focus a little bit this year by an extraordinary production situation.

But they have this problem: They are intergovernmental organizations. There is a compulsion inherent in the nature of these organizations for their statistical services to defer, as regards facts from any particular country, to the statistical services of the national government, especially the large national governments. We would not take kindly to a figure published by the United Nations that said that our estimates of agricultural production were wrong or our estimates of one thing or another were wrong, even though they might be wrong.

I am not saying they are wrong, but I am saying in case they were, we would want to be the one to correct them.

Whereas, if you had the kind of forum I am talking about, the specialized trade forum, with participation of representatives of the different parliaments from whom the policies originated and who are responsible for them, it would tend to break this down. They themselves would want the facts correct, even though they were not the same facts they had been getting from their own national government statistical agencies.

Now, this may sound like a small thing, but it is really very basic, it seems to me. It is really very basic to have an openly recognized picture of the reality that you are talking about when you are dealing with policy that is going to affect economic flows, economic processes.

Mr. CAREY. I regard your recommendation as exceedingly valuable and certainly backed by extensive, effective experience in the very field in which we are groping to come up with some answers.

I would hope that at some point we would have the benefit of the study you refer to on page 8, AILO study, in which I presume you participated and one which is now before the Secretary of Labor awaiting comment.

The suggestions that are embodied there I expect would be of value to our committee in trying to resolve our difficulties in getting answers.

Will that be available once those comments are received?

Mr. SCHWENGER. I should think that it might even be available now. I prepared it as what the International Labor Office calls an external collaborator—an independent contractor—so that I believe it would be alright for me to show the committee a copy without implying any endorsement of the material by the ILO.

Mr. CAREY. If you felt inclined to do so, I am sure the committee would be pleased to receive it.

Mr. SCHWENGER. I will ask the ILO if it sees any objection.

Mr. CAREY. Thank you very much for very valuable testimony.

The gentleman from Pennsylvania.

Mr. SCHNEEBELI. Mr. Schwenger, you are chairman of the board of trustees in your church?

Mr. SCHWENGER. No; the chairman, Julius Allen, introduced me when I gave the talk to the congregation on the 1973 trade negotiations which is submitted with my written statement. I have been on the board of trustees, but I was not the chairman.

Mr. SCHNEEBELI. Well, it is suggested that we approach the coming trade negotiations in a morally lofty frame of mind.

I am wondering if possibly during the Kennedy round we were imbued on our side with too much altruism. I wonder if we were honest to the point of being naive.

I think many members of the committee feel the Kennedy round was not too successful. I wonder if it was because our trading partners did not reciprocate our approach?

Mr. SCHWENGER. I am inclined to doubt that. It is a complicated question.

Mr. SCHNEEBELI. Maybe I am being a little cynical. It is late Friday afternoon.

Mr. SCHWENGER. I have discussed this matter a great deal ever since the Kennedy round. There are so many problems with judging the question, I may not pick the most important ones, but one very important difficulty of the Kennedy round which affected us greatly was the European problem of achieving their goal of economic union.

Mr. SCHNEEBELI. Were we too premature? Were we trying to deal with an entity that had not created its own position yet?

Mr. SCHWENGER. I can tell you my personal view about the agricultural confrontation which was the big confrontation over the Kennedy round. I think it may be behind the opinions we have of what happened.

The commitment to unite their agriculture in a common market represented an enormously difficult commitment. I think you might get an idea of what was involved if you visualized the problems of a United States-Canadian free-trade area in which we were going to have free trade in wheat, potatoes, and all of the hundreds of things that flow back and forth across the border.

Mr. SCHNEEBELI. They had even more difficult, nationalistic problems.

Mr. SCHWENGER. That is true.

Mr. SCHNEEBELI. The EEC is a difficult thing to handle.

Mr. SCHWENGER. Yes; in order to solve their internal problem, just as we do when we get comparable problems, they used a certain amount of direct or indirect subsidy, and they tried to keep our trade from interferring or making it more costly than it might otherwise be, just as we do when we have supports that tend to attract imports.

That is the basic problem. We went through it in the late thirties, and then with the surpluses in the fifties. We felt that we had to do something about our imports.

Mr. CAREY. Thank you very much.

The committee stands adjourned until 10 o'clock on Monday morning.

[Whereupon, at 3:10 p.m., the committee adjourned to reconvene at 10 a.m., Monday, June 11, 1973.]

TRADE REFORM

MONDAY, JUNE 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. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Our first witnesses this morning, appearing together, are Mr. Swearingen and Mr. Collado.

STATEMENTS OF JOHN E. SWEARINGEN AND EMILIO G. COLLADO, AMERICAN PETROLEUM INSTITUTE AND WESTERN OIL & GAS ASSOCIATION

The CHAIRMAN. You gentlemen have been before the committee in the past. We welcome you back.

We would like you to identify yourselves for this record, and we will then recognize you.

Mr. SWEARINGEN. Thank you very much, Mr. Chairman.

Mr. name is John E. Swearingen. I am chairman of the board of the Standard Oil Co. of Indiana, and I am appearing before you today on behalf of the American Petroleum Institute, on whose board of directors I also serve, and on behalf of the Western Oil & Gas Association.

Mr. COLLADO. My name is Emilio G. Collado. I am executive vice president of the Exxon Corp.

The CHAIRMAN. We are glad to have both of you with us and you are recognized, sir.

STATEMENT OF JOHN E. SWEARINGEN

SUMMARY

1. The U.S. oil industry is currently facing a triple challenge: 1) meeting current energy demand; 2) expanding our domestic resource base; and 3) insuring access to diversified foreign supplies until we can achieve an acceptable balance between secure supplies and mounting demand.

2. For the non-Communist world, total oil demand can be expected to more than double—from a level of 44 million barrels a day in 1972 to 91 million a day by 1985—with most of the increase occurring outside the U.S. The rate at which new reserves are discovered over this period becomes critical.

3. It is particularly important that no actions are taken which will impair the ability of U.S. companies to compete on equal terms overseas in the race to gain a share of the new foreign reserves needed to meet demand here at home. If the freedom of U.S. companies to compete on equal terms on the international

oil scene is not preserved, we are going to have to turn to foreign companies owned or partially controlled by foreign governments for the imported oil we will require.

4. If we continue on our present course, we will wind up dependent on imports to meet between one-half and two-thirds of our projected oil needs by 1985.

5. It appears that certain actions should be taken promptly:

A. The new reserves of oil and gas on Alaska's North Slope must be allowed to start flowing to markets.

B. The frequency of exploratory lease sales on federal lands must be increased and the amout of acreage offered must be expanded in line with the President's recent energy recommendations. To insure the diversity of supplies necessary to protect our national interest in the period immediately ahead, U.S. companies must be encouraged to continue the search for new reserves overseas.

C. Governmental support of research on extraction and processing of non-conventional fuels, plus policies which will encourage private synthetic fuels investment, would greatly strengthen our energy base in the 1980's.

D. Fuels must be allowed to compete freely at price levels established by market forces.

E. Voluntary conservation of energy must be encouraged.

F. To encourage construction of needed domestic refinery capacity and to maintain the nation's ability to move the required energy to market, tax provisions such as accelerated depreciation and the investment tax credit should be preserved.

Mr. SWEARINGEN. I will try to brief the remarks submitted to the committee in fuller written form.

My name is John E. Swearingen. I am chairman of the board of the Standard Oil Co.—Indiana—and I am appearing before you today on behalf of the American Petroleum Institute, on whose board of directors I also serve. I am also appearing on behalf of the Western Oil & Gas Association. Following my remarks, Mr. Emilio G. Collado, executive vice president of the Exxon Corp., will also have a statement on behalf of the institute and the Western Oil & Gas Association.

Because of the international character of the energy supply system, and the central role played by the U.S. petroleum industry in world energy trade, legislation on foreign trade is likely to have both specific and far-reaching impacts on the Nation's energy flow and on the domestic economy.

The U.S. oil industry is currently facing a triple challenge: (1) meeting current energy demand to its utmost ability; (2) expanding our domestic base; and (3) insuring access to the foreign supplies needed until we can achieve an adequate balance between secure supplies and mounting demand.

Of these three challenges, the third is most germane to the business currently before this committee. I think it is clear that, if the freedom of U.S. companies to compete on equal terms on the international oil scene is not preserved, we are going to have to turn to foreign companies owned or partially controlled by foreign governments for the imported oil we will require.

Domestic oil demand is currently projected to rise to over 25 million barrels a day by 1985, versus about 16 million barrels a day last year. If we continue on our present course, we will wind up dependent on imports to meet between one-half and two-thirds of our projected oil needs by 1985—and the major portion of the imports would have to come from the Eastern Hemisphere.

Nearly 80 percent of all non-Communist world-proved reserves of oil lie in the Middle East and North Africa. At the end of 1972, according to the annual report by Oil and Gas Journal, proved non-Communist crude reserves totaled some 569 billion barrels, of which 356 billion barrels were in the Middle East and an additional 82 billion barrels in North Africa—giving these two areas nearly 440 billion of the 569 billion-barrel known supply. By contrast, proved U.S. reserves amounted to only 37 billion barrels, and the total for the entire Western Hemisphere was only 80 billion barrels.

By combining the demand estimates of the National Petroleum Council for the United States and those of the European Economic Community for the remainder of the non-Communist world, we find that some dramatic changes in the traditional demand balances appear to be in the offing.

While U.S. demand is projected to rise from 16 million barrels a day last year to 22 million a day by 1980 and 26 million by 1985, demand in Western Europe is expected to climb from 14 million barrels a day in 1972 to 25 million by 1980 and to 29 million by 1985. From a level of 5 million barrels a day in 1972, Japan's needs are expected to reach 9 million in 1980 and 11 million by 1985. Projected growth outside the major industrialized areas is even more startling. From only 9 million barrels a day in 1972, demand in these areas is expected to soar to 18 million a day by 1980 and to 25 million by 1985.

For the non-Communist world as a whole, according to these estimates, total oil demand can be expected to more than double—from a level of 44 million barrels a day in 1972 to 74 million a day by 1980 and to 91 million a day by 1985—with most of the increase occurring outside the United States. Over the period covered by the forecast, from 1972 through 1985, this means that oil consumption in the non-Communist world would total some 350 billion barrels.

Obviously, the impact on reserves would be significant. As I noted earlier, proved reserves at the start of 1972 were estimated at 569 billion barrels for the entire non-Communist world. Since consumption at the rate we have been discussing would use up all but 40 percent of these reserves by 1985, the rate at which new reserves are discovered over this period becomes critical.

While any such forecasts are admittedly hazardous, the best estimate of the National Petroleum Council indicates that the new reserves that may be discovered throughout the non-Communist world between 1972 and 1985 could total another 485 billion barrels. This could be an optimistic estimate. Discovery of this quantity of new reserves would require finding nearly as much oil in each year through 1985 as the United States currently has in its total inventory.

Even if such a discovery rate were to be maintained, we would still arrive at 1985 with a sharply reduced reserve inventory in relation to consumption. The non-Communist world ratio of reserves to annual production in 1973 was 36, meaning that we had a 36-year proved supply at 1972 demand levels. Yet, by 1985—even if 450 billion barrels of new reserves are indeed found—the 1985 ratio of reserves to production would drop to only 17, and many observers think that 17 is unrealistically high. With demand continuing to rise, such a margin would be inadequate in any case.

This is not a very rosy forecast, and it emphasizes the critical importance of increasing the investment incentives necessary to bring forth new oil reserves on the scale which is going to be called for.

It is particularly important that no actions be taken which will impair the ability of U.S. companies to compete on equal terms overseas in the race to gain a share of the new foreign reserves needed to meet demand here at home.

There are other disquieting factors in this situation. The concentration of present reserves in the Middle East and North Africa, combined with our growing necessity to rely on imports over the next 5 to 10 years, at least, means exposure to the possibility of supply interruptions resulting from actions taken on political grounds. But there is also a growing possibility of supply interruptions based on purely economic considerations. We are dealing with a vital commodity likely to be in increasingly limited supply, while its price is rising. Many of the countries with the largest present reserves are already receiving oil-derived revenues too large to be employed internally. In such circumstances, a producing country could decide to limit production in its own economic interest, and we have already had several demonstrations of such actions.

All of these forces point to the necessity for the United States to do everything within our power to act to lessen our dependence on foreign supplies of energy. It is important to remember that our dilemma is man-made. We still have an abundance of energy sources to draw upon. In regard to oil and gas, we have a very large potential resource base remaining offshore and in Alaska. There are also huge potential reserves in the shale deposits in the Rocky Mountain area and nearby in Canada—in the Athabasca tar sands.

Meanwhile, another alternative to insure against the potential insecurity of foreign supply is a national emergency storage program.

Our coal reserves are also vast, and constitute an important future source of synthetic fuels through liquefaction or gasification. Although the cost of either oil or gas from nonconventional sources will be higher than anything we have been accustomed to in the past, the point is that a secure resource base is there, awaiting development. In addition, our uranium reserves are more than adequate to support an accelerated program of nuclear power generation, and this source of power can be expected to take over a growing share of the load.

Although the United States is not yet on the brink of an immediate crisis, we are in very serious straits. We should be able to cope with the rapid growth in fuel demands which lies ahead—at least, if we are willing temporarily to moderate some of the more extreme environmental requirements. Modest delays in implementing sulfur standards would greatly reduce the pressure on scarce oil and natural gas by allowing the use of abundant coal. However, in order to meet our expanding energy needs, it is going to be necessary to rely heavily on imports—particularly over the short term—with serious consequences in terms of national security and monetary stability. In addition, it is clear that a substantial rise in the cost of supplying energy is inevitable—whether the source is domestic or foreign, conventional or synthetic.

In these circumstances, it is essential that we maximize the extent to which our needs can be met from secure sources, both by increased development of domestic supplies of all types, and by increased efficiency of energy use.

Looking at the range of alternatives open to us, it appears that certain actions should be taken promptly:

1. The new reserves of oil and gas on the North Slope must be unlocked and allowed to start flowing to markets. This was the largest domestic single field discovery in our history, and the need for its output is increasing by the day.

2. To bring forth new oil and gas reserves on the scale which is going to be called for, incentives for domestic exploration must be increased.

3. The frequency of exploratory offshore lease sales on Federal lands must be increased and the amount of acreage offered must be expanded. In the areas which remain essentially untested, such as the Gulf of Alaska, the Bering Sea, and off the east coast, we need to move at once to determine whether these large prospective areas do, in fact, contain oil or natural gas in commercial quantities. The sale of a few test blocks now can contribute greatly in determing the extent of reserves under U.S. control, and, consequently, the probable degree of reliance we will have to place in imports over the next decade.

4. At the same time, to insure the diversity of supplies necessary to protect our national interest in the period immediately ahead, U.S. companies must be encouraged to continue the search for new reserves overseas.

5. Governmental support of research on extraction and processing of nonconventional fuels, plus policies which will encourage private synthetic fuels investment, would greatly strengthen our energy base in the 1980's.

6. Fuels must be allowed to compete freely on the basis of energy content, cleanliness, and other values, at price levels established by market forces. More realistic fuel prices would provide funds for stepped-up exploration and development of oil and gas, make possible expanded secondary and tertiary recovery programs to increase the yields from present reserves, and bring closer the day when it will be economic for synthetic fuels to come into the market. Tremendous capital investments will be required, but we have no alternative but to pay the necessary costs to insure that society's needs are met in this vital area.

7. Voluntary conservation of energy must be encouraged. The potential savings from small reductions in per capita energy consumption are very great, and economies can be achieved in homes, in transportation, in agriculture, in business and industry, and in government.

The central need is to lessen our dependence on foreign sources by taking vigorous steps to expand our domestic energy resource base. The energy message sent to Congress in April outlines a number of proposals to establish and carry out national policies to accomplish this goal. In addition, the new oil import program which became effective on May 1, by virtue of its long-range nature, provides a better and badly needed longer range planning environment than we have seen in the past. Among other things, it should help to mitigate near-term shortages of both crude and finished products, while also assisting to stimulate domestic refinery expansion.

All of the actions needed will demand governmental initiatives. The great bulk of our potential energy resources lies on lands under Federal control, and beyond reach until approval is given to proceed. Many of the measures called for will be unpopular in some quarters, and will be resisted. But, without the coordination of Federal energy policies and the formulation of a comprehensive long-range energy program along these lines, we are going to edge closer and closer to a genuine crisis in which the country could be effectively paralyzed.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

[The prepared statement of John E. Swearingen follows:]

STATEMENT OF JOHN E. SWEARINGEN, ON BEHALF OF THE AMERICAN PETROLEUM INSTITUTE AND THE WESTERN OIL & GAS ASSOCIATION

Mr. Chairman and members of the committee, my name is John E. Swearingen. I am Chairman of the Board of the Standard Oil Company (Indiana), and I am appearing before you today on behalf of the American Petroleum Institute, on whose Board of Directors I also serve, and on behalf of the Western Oil & Gas Association. Following my remarks, Mr. Emilio G. Collado, Executive Vice President of the Exxon Corporation, will also have a statement on behalf of these two petroleum industry associations.

It might be helpful to the Committee to define the operations of the company I represent. In terms of assets, Standard Oil Company (Indiana) ranks as the sixth largest oil company and the 12th largest industrial company in the United States. With 73 per cent of our net assets concentrated in the United States, we are not as active on the international scene as many of our major competitors—although we have been expanding aggressively overseas over the past decade. In 1972, 84 per cent of our total revenues were derived from the United States, 3 per cent from Canada, and 13 per cent from overseas operations.

I would like to comment today on some of the broad aspects of the energy problems facing the United States. While some of this ground may have been covered in previous hearings before the Committee, it seems desirable to recapitulate a few of the salient factors in our national predicament at this point in your deliberations. Although I will not attempt to deal with specific legislative proposals before the Committee, I would like to remind the Committee that, because of the international character of the energy supply system, and the central role played by the U.S. petroleum industry in world energy trade, legislation on foreign trade in general is likely to have both specific and far-reaching impacts on the nation's energy flow and on the domestic economy.

Aside from temporary disruptions during periods of war, the United States is facing the threat of a widespread shortage of fuels for the first time in our history. After generations of euphoria, this country is awakening to the act that unlimited supplies of heat, light, and power can no longer be taken for granted. The problem is so fundamental, and its impact so far-reaching, that it may well become one of the most serious challenges to be met in the coming decade.

Conservative projections by the National Petroleum Council point to a doubling in U.S. energy demand by the mid-1980's. In terms of British Thermal Units, domestic energy demand is expected to rise from a level of some 68 quadrillion btu's in 1970 to about 125 quadrillion by 1985. Yet the nation's proved reserves of oil and natural gas, which provide three-fourths of all the energy we consume, have been declining in relation to the quantities we are consuming. The available natural gas is already inadequte to meet demand in most areas of the country, and the most severe crunch is still to come.

While gas can be imported in the form of LNG (liquified natural gas), the capital costs and time factors involved in such projects are so great that we cannot look to this source to meet more than a fraction of the demands which lie immediately ahead.

In regard to oil, there are large known reserves of crude outside the United. States. Nearly 80 per cent of all non-Communist world proved reserves of oil lie in the Middle East and North Africa. At the end of 1972, according to the annual report by the *Oil and Gas Journal*, proved crude reserves totaled some 569 billion barrels, of which 356 billion barrels were in the Middle East and an additional 82 billion barrels in North Africa—giving these two areas nearly 440 billion of the 569 billion barrel known supply. By contrast, proved U.S. reserves amounted to only 37 billion barrels, and the total for the entire Western Hemisphere was only 80 billion barrels.

The National Petroleum Council has projected domestic oil demand to rise to over 25 million barrels a day by 1985, versus about 16 million barrels a day last year. If we continue on our present course, we will wind up dependent on imports to meet between one-half and two-thirds of our projected oil needs by 1985—and the major portion of the imports would have to come from the Eastern Hemisphere.

Nor is there much short-term help to be seen from energy sources other than oil or natural gas. Huge reserves of coal have been barred from the maket by sulfur ceilings and other technical limitations. The promise of atomic energy is still largely unrealized, through a combination of economic, technological, and ecological pressures. On current timetables, no significant quantities of electricity from the long-awaited breeder reactor appear likely before 1990.

While we have a range of non-conventional energy sources available to draw upon—including tar sands, oil shale, and liquefied or gasified coal—none of them promises to take over any significant share of the burden for some time to come. Unsolved technological problems, the time lag in bringing new facilities into being on any large scale, and the tremendous costs present serious barrier.

Neeedelss to say, the problem didn't develop overnight. It takes time to convert the world's leading energy producing and consuming country from our historic position of self-sufficiency into a candidae for membership among the have-not nations.

In regard to oil, we have been losing ground for a number of years. Since 1960, we have consumed petroleum liquids at a faster rate than we have been adding to our domestic reserves. While discoveries have been rising, demand has risen even more rapidly. Since 1967, the same pattern has prevailed in the case of natural gas, with the gap between annual consumption and additions to reserves growing rapidly wider. The only exception to this pattern was in 1970, when a huge addition of 9.6 billion barrels of oil and over 25 trillion cubic feet of gas were credited to reserves on the Alaskan North Slope. While these are welcome additions, we had better not have any illusions that they mean our troubles are over. This was the largest single field discovery in the United States to date. Moreover, while these discoveries are on the reserve books, the oil and gas are still in the ground because of continuing delays in pipeline construction. We can hardly wait another hundred years for another discovery of similar magnitude. If we continue on our present cource, in fact, we would have to find about five more "North Slopes" by 1980 just to maintain our present depressed reserve level.

With energy consumption continuing to spiral, these fundamental trends would have had to lead to trouble sooner or later, unless they were reversed. But the belated recognition that something needed to be done to arrest the deterioration of our natural environment served to bring the matter to a head much sooner than anyone had expected. Caught up in a wave of national concern over clean air and water—which every thoughtful American shares—Congress enacted a series of ambitious pollution control measures.

As far as our growing energy dilemma was concerned, the environmental crusade became a two-edged sword. On one hand, environmental requirements sharply increased our fuel demands. Vehicles began to consume more fuel as emission control requirements resulted in lower-compression engines and lessened efficiency. The banning of high-sulfur fuels from use increased demand for scarce, but clean, natural gas and low-sulfur fuel oil.

At the same time, environmental objections have been used to block any proposed expansions of our energy producing capabilities. Opposition on environmental grounds has delayed offshore exploration for oil and gas, prevented development and movement to market of huge new oil and gas reserves in Alaska, slowed the surface mining of coal, stalled nuclear power plant construction, and—in general—made difficult any effective action to resolve our dilemma by increasing domestic energy capacity.

Imported petroleum is the only remaining short term supply solution. However, both superports and additional refining capacity will be required if we are to bring in and process the huge quantities of foreign crude oil needed to fill the gap.

As I have said, our present predicament has been building up for some time. And for a number of years, spokesmen for the petroleum industry, myself included, have tried—without success—to call attention to what was happening and the likely outcome of the course of the nation was following.

Nevertheless, events gradually began to make some converts even among the doubters, as one development after another demonstrated that we did indeed have a problem. The Office of Emergency Preparedness announced that shortages of electrical generating capacity in most areas of the country could well lead to brown-outs or black-outs. Gas distributors began to notify large industrial users that their supplies would have to be cut back, and new residential applicants were put on waiting lists. Heating oil shortages were next to arrive, followed by the most dramatic development of all—so far as the general public is concerned—namely shortages of motor fuel. The growing gasoline shortages provide a clear-cut example of the dilemma into which we have been allowed to drift by lack of coordinated national energy policies.

Motor fuel demand is at unprecedented levels, in part because of a booming economy and record automobile sales. In response to public demand, an overwhelming percentage of the newer models have such power-consuming options as air-conditioning and automatic transmissions. The outcome of all these developments is higher gasoline consumption per mile.

On the supply side, the pinch is growing. Little new refinery capacity has been added in the United States in recent years. Unsatisfactory product price levels plus uncertainties over federal oil import policies and future fuel specifications have combined to make the large investments impossible to justify. Further aggravating the situation are sharply higher demands for fuel oil from industrial users faced with restrictions on use of coal and shortages of natural gas.

Even the refining capacity which does exist is not being fully used because of shortages of crude. Federal policies which have failed to give adequate encouragement to domestic exploration and production have resulted in declining U.S. oil reserves. Nor is foreign crude of the types needed by domestic refineries currently available in the quantities required.

As for bridging the gap with imported gasoline, supplies are also tight on the world market and prices are high. The upshot is that spot shortages of gasoline and diesel fuel have occurred, and will continue throughout the peak driving months. At the same time, it is worth noting that the situation is not yet critical. If every driver used just one gallon of gasoline less each week for example, there would be no immediate shortage. However, while conservation measures can assist greatly in easing the immediate pinch, the urgent need is to expand our energy supplies to prevent more drastic shortages in the years ahead.

In any event, we have at last arrived at the point of general recognition that the nation has some serious energy problems. Unfortunately, there is as yet insufficient realization of the full extent of our predicament, and I would like to try to note some of the more sobering aspects which have so far failed to receive the attention they deserve.

To begin with, we had better give up the idea that there are any quick or easy solutions. Since the automobile is one of our largest energy consumers, and also the most visible, many people think this is the place to start. The notion of converting cars to run on electricity or natural gas has superficial appeal both on grounds of oil conservation and environmental improvement and it has any army of enthusiastic supporters. Yet, with both electricity and gas in increasingly short supply, any ideas that we could turn to these sources for the enormous amounts of power required to keep the nation's vehicles moving are simply visionary—even if cost and technological problems were of no concern.

With the country now largely urbanized, proposals to accelerate development of new mass transit facilities as an alternative to the automobile have somewhat greater logic on their side. Mass transit can be a more efficient way to move people in terms of fuel economy, and it is becoming clear that something is going to have to be done about vehicle congestion in our major cities. Yet here again, we have nothing resembling a panacea. Our existing rapid transit facilities are already heavily subsidized with public funds and nearly all are in trouble for a number of reasons, including the public's demonstrated preference for private transportation. Even new conventional public facilities tend to be obsolete before they are completed. While there are exciting new possibilities of advanced, computerized systems providing personalized rapid transit, the effective technology is still not in hand. According to some experts, it would take a crash program like Apollo to yield genuine results—over a similar 10- to 15-year time period.

Such quandaries have fostered the growth of another school of thought, and this one also is championed on grounds of both energy conservation and environmental improvement. Let's simply cut back on the use of energy. While many would endorse the concept in the abstract, it would be hard to enlist a quorum in practice, since the result would be an immediate decline in our standard of living.

Obviously, cutbacks would have to be ordered and enforced by the government. A recent task force report from the Office of Emergency Preparedness listed over 100 implementing actions designed to eliminate some 50 per cent of the shortage between energy supply and demand anticipated between now and 1985. The adoption of even a significant portion of the proposals would drastically reshape

American life. Regulation of everything from freight movements to consumer products would be involved, along with mandatory four-day workweeks wherever performance of essential functions could still be achieved. An array of new legislative measures, both punitive and incentive in design, would have to be enacted. In all, it would take an enormous substitution of governmental authority for private freedom of choice to reach even the limited goals involved. The possibility that a majority of the American people would support such Draconian measures at this stage is remote, nor is it likely that a democratically elected government would seriously recommend them.

This brings us to imported energy, and it is inescapable that imports—particularly oil imports—are going to have to rise. There is simply nowhere else we can turn for the immediate future if we are to keep the country running. Since this means turning increasingly to areas half way around the world for our daily supplies of energy, we are obviously going to pay a price in terms of lessened national security.

Whatever the merits of opening our doors to unlimited imports in the period when this country still had the ability to produce more than we consumed, the world oil picture has changed beyond recognition. At home, with demand for oil and gas climbing to new levels every year, efforts to boost our own output have been discouraged by such measures as the 1969 tax increases on oil and gas production. In the past, price ceilings for gas at the wellhead were set so low that it has sold for half or less of the price of alternative fuels on a btu, or heating, basis—thus inflating demand for gas and lessoning the economic incentives to find and develop more supplies.

Meanwhile, the oil exporting nations have been busy advancing their own interests. They have joined together to demand both higher taxes on the oil and substantial participation in the operations of the oil companies conducted within their territories. Apart from a sharp rise in the cost of foreign oil, this new relationship between the oil exporting and importing nations has altered international relations in ways we are only starting to comprehend.

There are several things about the new pattern which is emerging which are thought-provoking, to put it mildly. Two of the Free World's economic, political, and cultural power centers have for some time been dependent on imported fuels to meet a major portion of their needs. I refer to Western Europe and Japan. If U.S. dependence on imports is allowed to grow unchecked, we are likely to enter a new era in our dealings with our allies. For one thing, we will all be competing in the same markets for the supplies of energy we all must have to survive.

Moreover, the degree of competition is likely to become more intense than is generally recognized. The most rapid rates of growth in oil demand are taking place outside the United States.

In 1972, estimated non-Communist oil demand totaled 44 million barrels a day. The bulk of this was used to fuel the economies of the nations in the Atlantic Alliance, with the United States consuming 16 million barrels a day and Western Europe consuming 14 million barrels a day. Japanese demand averaged 5 million barrels a day, with other areas accounting for the remainder.

By combining the demand estimates of the National Petroleum Council for the United States and those of the European Economic Community for the remainder of the non-Communist world, we find that some dramatic changes in the traditional balances appear to be in the offing.

While U.S. requirements are projected to rise from 16 million barrels a day last year to 22 million a day by 1980 and to 26 million by 1985,[1] demand in Western Europe is expected to climb from 14 million barrels a day in 1972 to 25 million by 1980 and to 29 million by 1985. From a level of 5 million barrels a day in 1972, Japan's needs are expected to reach 9 million in 1980 and 11 million by 1985. Projected growth outside the major industrialized areas is even more startling. From only 9 million barrels a day in 1972, demand in these areas is expected to soar to 18 million a day in 1980 and to 25 million by 1985.

For the non-Communist world as a whole, according to these estimates, total oil demand can be expected to more than double—from a level of 44 million barrels a day in 1972 to 74 million a day by 1980 and to 91 million a day by 1985—with most of the increase occurring outside the U.S. Over the period covered by the forecast, from 1972 through 1985, this means that oil consumption in the non-Communist world would total some 350 billion barrels.

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[1] NPC Case III—Petroleum Requirements, *U.S. Energy Outlook*, Summary Report, National Petroleum Council, December, 1972.

Obviously, the impact on reserves would be significant. As I noted earlier, proved reserves at the start of 1972 were estimated at 569 billion barrels for the entire non-Communist world. Since consumption at the rate we have been discussing would use up all but 40 per cent of these reserves by 1985, the rate at which new reserves are discovered over this period becomes critical.

While any such forecasts are admittedly hazardous, the best estimates of the National Petroleum Council indicate that the new reserves that may be discovered throughout the non-Communist world between 1972 and 1985 could total another 450 billion barrels. This could be an optimistic estimate. To maintain such a discovery rate would mean the discovery of new oil reserves roughly equal to the present total reserve inventory in the entire United States during each year through 1985.

Even if such a discovery rate could be maintained, we would still arrive at 1985 with a sharply reduced reserve inventory in relation to consumption. The non-Communist world ratio of reserves to annual production in 1972 was 36, meaning that we had a 36 year proved supply at 1972 demand levels. Yet, by 1985, even if the 450 billion barrels of new reserves are indeed found, the ratio of reserves to production in 1985 would drop to only 17, and many observers think that 17 is unrealistically high. With demand continuing to rise, such a margin would be inadequate in any case.

This is not a very rosy forecast, and it emphasizes the critical importance of increasing the investment incentives necessary to bring forth new oil reserves on the scale needed. It is particularly important that no actions are taken which will impair the ability of U.S. companies to compete on equal terms overseas in the race to gain a share of the new foreign reserves needed to meet demand here at home.

There are other disquieting factors in this situation. The concentration of present reserves in the Middle East and North Africa, combined with our growing necessity to rely on imports over the next five to ten years at least, means exposure to the possibility of supply interruptions resulting from actions taken on political grounds. But there is also a growing possibility of supply interruptions based on purely economic considerations. We are dealing with a vital commodity likely to be in increasingly limited supply, while its price is rising. Many of the countries with the largest present reserves are already receiving oil-derived revenues too large to be effectively employed internally. In such circumstances, a producing country could decide to limit production in its own economic interest, and we have already had several demonstrations of such actions.

All of these forces point to the necessity for the United States to do everything within its power to lessen our dependency on foreign supplies of energy. We still have an abundance of potential energy sources to draw upon. In regard to oil and gas, we have a very large undeveloped resources base remaining offshore and in Alaska. There are also huge potential reserves in the shale deposits in the Rocky Mountain area; and nearby in Canada, in the Athabasca tar sands. Our coal reserves are vast, and constitute an important future source of synthetic fuels through liquefaction or gasification. Although the cost of either oil or gas from non-conventional sources will be higher than anything we have been accustomed to in the past, the point is that a secure resource base is there, awaiting development. In addition, our uranium reserves are more than adequate to support an accelerated program of nuclear power generation, and this source of power can be expected to take over a growing share of the load. Another alternative to insure against the potential insecurity of foreign supply is a national emergency storage program.

But in the absence of any comprehensive policy to guide our efforts, progress in every one of these areas has been stalled by a series of unrelated decisions reflecting conflicting political, economic, and social interests.

Over five years after the discovery of huge oil and gas reserves on the Alaskan North Slope, approval of a pipeline to bring these badly needed supplies to market has still not been given, but we are sharply increasing our imports of oil from overseas. Regulated gas prices, set artificially low to keep consumer prices down, have succeeded in discouraging the search for new gas as well as the development of more expensive synthetic substitutes. Simultaneously, proposals to import liquefied natural gas from overseas at prices up to four or five times that of domestic gas have been given federal blessing.

Many citizens and their political representatives continue to demand low cost energy, while steadfastly opposing offshore drilling, deepwater tanker ports, or new refining facilities in their area. The multiple impacts of environmental concerns on energy supply and demand have already been noted. Delays in opening federal acreage to petroleum exploration through accelerated lease sales to private bidders willing to pay the government tremendous sums for exploratory rights are accompanied by Congressional proposals to set up a rival government-run and tax-financed oil and gas TVA. With our trade balances already in serious deficit, attempts are still being made to enact restrictive legislation hampering the freedom of U.S. firms to compete abroad.

This list does not begin to cover all the contradictions inherent in the dangerously haphazard approach we have taken to the energy situation. It is enough, however, to suggest that there is an urgent need to bring some order out of all this chaos, and there are encouraging signs that the government is finally about to come to grips with the problem.

Although the United States is not yet on the brink of an immediate crisis, we are in very serious straits. We should be able to cope with the rapid growth in fuel demand which lies ahead—at least, if we are willing temporarily to moderate some of the more extreme environmental requirements. Modest relaxation in sulfur standards would greatly reduce the pressure on scarce oil and natural gas by allowing the use of abundant coal. However, in order to meet our expanding needs it is going to be necessary to rely heavily on oil imports—particularly over the near-term—with serious consequences in terms of national security and monetary stability. In addition, it is clear that a substantial rise in the cost of supplying energy is inevitable—whether the source is domestic or foreign, conventional or synthetic.

In these circumstances, it is essential that we maximize the extent to which our needs can be met from secure sources, both by increased development of domestic supplies of all types, and by increased efficiency of energy use.

Looking at the range of alternatives open to us, it appears that certain actions should be taken promptly:

1. The new reserves of oil and gas on the North Slope must be unlocked and allowed to start flowing to markets. This was the largest domestic single field discovery in our history, and the need for its output is increasing by the day.

2. To bring forth new oil and gas reserves on the scale which is going to be called for, incentives for domestic exploration must be increased.

3. The frequency of exploratory offshore lease sales on federal lands must be increased and the amount of acreage offered must be expanded. The bulk of the nation's potential petroleum reserves lie on the continental shelf, and we cannot afford to postpone their development. In the areas which remain essentially untested, such as the Gulf of Alaska, the Bering Sea, and off the East Coast, we need to move at once to determine whether these large prospective areas do in fact contain oil or natural gas in commercial quantities. The sale of a few test blocks now can contribute greatly in determining the extent of reserves under U.S. control, and, consequently, the probable degree of reliance we will have to place on imports over the next decade.

4. At the same time, to insure the diversity of supplies necessary to protect our national interest in the period immediately ahead, U.S. companies must be encouraged to continue the search for new reserves overseas.

5. Governmental support of research on extraction and processing of non-conventional fuels, plus policies that will permit private synthetic fuels investment are mandatory. A determined effort now can greatly strengthen our energy base in the 1980's.

6. Fuels must be allowed to compete freely on the basis of energy content, cleanliness, and other values, at price levels established by market forces. This would do more than any other single factor to help resolve our dilemma. More realistic fuel prices would provide funds for stepped up exploration and development of oil and gas, make possible expanded secondary and tertiary recovery programs to increase the yields from present reserves, and bring closer the day when it will be economic for synthetic fuels to come into the market. Tremendous capital investments will be required, but we have no alternative but to pay the necessary costs to insure that society's needs are met in this vital area.

7. Voluntary conservation of energy must be encouraged. The potential savings from small reductions in per-capita energy consumption are very great, and economies can be achieved in homes, in transportation, in agriculture, in business and industry, and in government. Fair market prices for fuels plus programs to promote public awareness of the importance of economy measures could result in substantial energy conservation with little adverse effect on the economy.

8. To encourage construction of needed domestic refinery capacity and to maintain the nation's ability to move the required energy to market, tax provisions such as accelerated depreciation and the investment credit should be preserved.

All of these steps demand governmental initiatives. The great bulk of our potential energy resources lie on lands under federal control, and beyond reach until approval is given to proceed. Many of the measures called for will be unpopular in some quarters, and will be resisted. But without the coordination of federal energy policies and the formulation of a comprehensive long-range energy program along these lines, we are going to edge closer and closer to a genuine crisis in which the country could be effectively paralyzed.

As I have indicated, the central need is to lessen our dependence on foreign sources by taking vigorous steps to expand our domestic energy resource base. The Energy Message sent to Congress in April outlined a number of proposals to establish and carry out national policies to accomplish this goal. In addition, the new oil import program which became effective on May 1, by virtue of its long-range nature, provides a better and badly needed longer-range planning environment than we have seen in the past. Among other things, it should help to mitigate near-term shortages of both crude and finished products, while also assisting to stimulate domestic refinery expansion.

However, the basic decisions lie in the hands of the Congress—with many of the most significant of these matters under the guidance of this Committee itself. In terms of impact on the quality and direction of life in America, I cannot cite a subject which entails responsibilities comparable to those you are facing in regard to energy.

As your deliberations proceed, whether on domestic of foreign-oriented proposals, I would ask that you try to maintain a realistically broad view of the petroleum industry in its role as the major supplier of energy to our economy.

The United States oil industry is currently facing a triple challenge: 1) meeting current energy demand to its utmost ability; 2) expanding our domestic resource base; and 3) insuring access to the foreign supplies needed until we can achieve an adequate balance between secure supplies and mounting demand.

Of these three challenges, the third is most germane to the business currently before this Committee. I think it is clear that, if the freedom of U.S. companies to compete on equal terms on the international oil scene is not preserved, we are going to have to turn to foreign companies owned or partially controlled by foreign governments for the imported oil we will require. I might also note that, unlike many economic ventures given more flexibility of options, overseas oil exploration and development cannot be accused of exporting jobs in the sense that term is commonly used. Natural resources are found where God put them, and if they are not developed at that location they are not developed at all. On the contrary, to the extent that American oil companies are active overseas, we are creating jobs for Americans.

It should be further noted that the capital requirements to be faced if these multiple challenges are to be met will be enormous. As I think the Committee is aware, cautious estimates place the capital needs of the petroleum industry within the United States alone at no less than $17 billion a year by 1980—simply for oil and gas production, processing and distribution—and these are in 1970 dollars. Capital requirements overseas will be even higher, but must also be borne by U.S. companies if we are to have access to the foreign supplies required to supplement domestic supplies. To the extent that tax policies act to impede the formation of capital on such a scale, so will they impede the future flow of petroleum energy.

When it comes to energy, we have no real option. Energy is simply not a discretionary item in a modern society, and unless the flow continues, we will not have time to work out solutions to even our immediate problems—much less devise better formulas for the future.

Thank you.

The CHAIRMAN. Mr. Collado.

We will get permission later for your longer statement to be used in the record.

STATEMENT OF EMILIO G. COLLADO

Summary

1. The U.S. petroleum industry has a strong general interest in enactment of the Administration's proposed Trade Reform Act. Growth in U.S. exports will be required to help defray the growing balance-of-payments costs of oil imports. Expansion of international trade through the reduction of trade barriers provides a strong stimulus to non-inflationary economic growth. More restrictive U.S. trade policies could result in foreign retaliation against U.S. investments abroad, including oil investments.

2. It is clear that the United States must exert leadership to get meaningful international trade negotiations started. The broad negotiating authority provided to the President in the proposed "Trade Reform Act" would make this possible.

3. My company has forecast that the U.S. energy import bill (virtually all petroleum) by 1980 will be roughly in the $25 billion range. The rough calculations suggest that, after taking into account the projected trade and investment flows with the OPEC countries only, we will have a net "energy deficit" in our balance of payments in the $5–8 billion range by 1980. The prospect of this potential source of balance-of-payments pressure underscores the need for the United States to improve its economic performance vis-a-vis Western Europe and Japan in the areas of prices and productivity. These substantial energy import costs also suggest the need to encourage other major sources of receipts in our balance of payments—such as income from foreign direct investments.

4. After U.S. merchandise exports, the income remitted from U.S. direct investments abroad is the largest single item in U.S. current receipts in our Nation's balance of payments. Exports going directly to or through foreign affiliates currently represent about 25 percent of all U.S. merchandise exports. There is little to support the alleged "export of jobs" by American companies which make foreign investments.

5. Making foreign investment opportunities unattractive to U.S. companies will not promote greater investments in the United States. Investment opportunities in the U.S. will continue to be evaluated in terms of their own profitability and must be attractive in themselves.

6. If U.S. tax policy renders privately-owned American oil companies unable to compete effectively with foreign companies, our country would become largely dependent for essential foreign supplies on foreign companies, owned in whole or in large part by foreign governments. In this event, there could be no assurance of even-handed treatment of all countries in a petroleum supply crisis.

7. For U.S. companies to participate in future exploration, development, and distribution of petroleum abroad clearly requires maintenance of the present U.S. system for taxing foreign source income. Enactment of the Administration's tax proposals would sharply erode the current methods for determining the allowable credits for foreign taxes paid.

8. Statements by Treasury officials indicate that the "tax holiday" and "runaway plant" proposals would have a fairly narrow application. However, the detailed technical explanation suggests very broad and far-reaching changes which would significantly impair U.S. investors, including American oil companies, in carrying on foreign operations.

9. The Administration's proposal for "recovery of foreign losses" would deter U.S. companies on the per country basis from searching for oil in new foreign areas. Yet finding and producing new, diverse sources of petroleum is important in easing our dependence on a few countries for a substantial portion of our Nation's energy supply.

Mr. Collado. Thank you, Mr. Chairman.

My statement concerns foreign economic policy considerations relating to trade policy and United States taxation of foreign source income.

I fully concur with the views just expressed by Mr. Swearingen.

The U.S. petroleum industry has a strong general interest in enactment of the administration's proposed Trade Reform Act. Growth in U.S. exports will be required to help defray the growing balance-of-payments costs of oil imports, and further multilateral trade liberalization would help to provide growing export opportunities. Also, the expansion of international trade provides a strong stimulus to noninflationary economic growth.

We believe that broad new negotiations for trade liberalization are urgently needed to help our country achieve national goals of reducing inflation, promoting healthy economic growth, and assuring high levels of employment. For all these reasons, we endorse the administration's bill, which gives the President the wide flexibility that is needed to carry on meaningful trade negotiations.

Rapid changes in international competitive conditions can cause serious economic hardships for individual firms and workers. We support the principle in the bill that, where serious injury occurs or threatens, and imports are the primary cause, temporary relief should be provided against the pressure of imports, and workers affected should receive adjustment assistance.

In contrast to the constructive and forward-looking approach in the bill before you, some proposals would attempt to solve our country's economic problems by imposing sweeping new import controls. However, our trading partners would certainly retaliate against our exports to their markets, thus causing unemployment in U.S. export industries.

Moreover, denying American industry and consumers access to lower-cost imports would contribute to U.S. inflation and inhibit a major competitive stimulus to improvements in productivity. We also oppose efforts to add trade-restricting features onto the administration's trade bill.

My company has forecast that the U.S. energy import bill by 1976 will be more than triple last year's $5 billion level. By 1980, we expect annual U.S. energy imports will be roughly in the $25 billion range. Of course, there will be some related balance-of-payments offsets to these imports, in the form of U.S. oil company profit remittances and the like. However, the bulk of energy imports will need to be paid for by other means—such as greater exports of U.S. goods and services, increased income from U.S. investments abroad, and increased foreign investment inflows into the United States. We have made projections of such sources of balance-of-payments receipts with respect to the OPEC oil-producing countries only. We emphasize that such projections are highly conjectural.

My company's rough calculations suggest a net "energy deficit" in our balance of payments in the $5–$8 billion range by 1980. This compares to a small net surplus of $0.5 billion last year. This potential source of balance-of-payments pressure underscores the need for the United States to improve its economic performance, so that our overall international trade performance (apart from energy) could improve. We also need to encourage other major sources of receipts in our balance of payments—such as income from foreign direct investments.

After U.S. merchandise exports, income remitted from the U.S. direct investments abroad is the largest item in U.S. current receipts in our Nation's balance of payments. Last year, income from foreign direct investments exceeded outflows for new investments by $7 billion. Moreover, exports to foreign affiliates currently represent about 25 percent of U.S. merchandise exports.

It has been suggested that U.S. foreign investments—particularly manufacturing investments—result in job losses in the United States. This assertion is not supported by the facts. In general, U.S. companies would not undertake all the risks associated with foreign investment if foreign markets could be supplied economically by investments in the United States. If U.S. companies did not respond to such investment opportunities, foreign companies would certainly do so.

I have submitted a detailed statement concerning our views about U.S. tax policy toward foreign-source income, and have resubmitted my statement of last March to this committee concerning U.S. foreign tax policy. To summarize it briefly, if privately owned U.S. oil companies are rendered unable to compete effectively with foreign companies, our country would become largely dependent for essential foreign supplies on foreign companies. In this event, there could be no assurance of even-handed treatment of all countries in a petroleum supply crisis. Our national interests is served by U.S. tax policies to promote discovery of the diversified crude oil supplies abroad by U.S. companies, and continued development by them of reserves in existing producing countries.

While emphasizing the basic soundness of prevailing U.S. tax policy toward foreign-source income, the administration has singled out three areas where it believes existing tax policy, in combination with certain features of foreign tax systems, results in "distortions" of investment and of U.S. tax revenues. The Treasury has developed several proposals to deal with these alleged "distortions." First, where foreign governments extend "tax holidays" or similar tax incentives to attract investments in manufacturing or processing industries, the administration proposes to tax currently the earnings from such investments irrespective of whether such earnings are distributed. Second, where a major purpose of new or additional U.S. foreign manufacturing or processing investments appears to be to take advantage of a significantly lower foreign tax rate and supply the U.S. market, the administration proposes to tax currently the undistributed earnings of such investments.

These two proposals, of course, would not affect the foreign competitors of U.S. subsidiaries abroad. We should, therefore, expect these foreign-owned companies to gain a substantial competitive edge over their U.S. counterparts in the countries affected. A far more appropriate way to deal with such alleged distortions, however, seems to us to lie in efforts toward international harmonization of such tax policies, and not in unilateral actions against U.S. companies.

Concerning the relevance of such proposals to the international oil industry, it is clear that investments in petroleum production must occur where the resources are found, and investments in foreign refineries are largely made to serve foreign markets. As depicted in the various statements by Treasury officials, the "tax holiday" and "runaway plant" proposals would seem to have a fairly narrow application. However, we feel we must point out that the detailed technical explanation of the proposals suggests a very broad and far-reaching statute.[1]

We have submitted a brief statement reflecting our analysis. It appears to us that general tax incentives for investment similar to those provided in the U.S. tax system might qualify as "tax holidays" and result in current taxation. Almost all existing investments by U.S. oil companies in foreign corporations could be affected where these companies are also engaged in either refining or chemical operations.

Moreover, once a corporation has met the test resulting in current taxation, it seems that all of its income would be taxed currently, and this would continue as long as the corporation remained in manufacturing or processing activities.

Treasury officials have indicated that such a severe impact was not intended. However, if the proposals are as extreme as described in the technical explanation, then U.S. foreign investors, including U.S. oil companies, would be significantly impaired in carrying on their operations abroad. Therefore, we believe any legislative action should be confined to whatever abuses exist.

The proposals would also place new limits on the use of the foreign tax credit in cases where the "tax holiday" or "runaway plant" provisions have triggered current taxation. Income taxed currently under either provision could no longer be included in the income base for determining the "overall" foreign tax credit limitation. This would seriously depart from the principle underlying the overall foreign tax credit—that, where foreign operations are highly integrated across national frontiers, it is realistic to treat all income from foreign operations as a whole rather than compartmentalizing such foreign-source income, as proposed by the Treasury.

The Treasury proposals would also seriously undermine the per-country basis for determining the foreign tax credit.

Weakening the foreign tax credit by carving up foreign-source income in order to increase the tax burden on American companies abroad would impair severely the competitive position of these companies.

A third Treasury proposal concerns foreign losses. Where foreign losses have the effect of reducing U.S. tax on U.S.-source income, the "lost" U.S. tax revenues would be recovered in subsequent years by a reduction in the amount of the allowable credit for foreign income taxes paid on income from the "loss" country. Such losses commonly occur in foreign petroleum exploration activities.

If recognition of such losses by the U.S. taxing authority is later undone by disregarding part of the foreign income taxes paid on subsequent income, existing incentives for foreign exploration activity will have been effectively denied.

The natural result will be to discourage U.S. companies using the per-country method from the search for overseas supplies of oil in new foreign areas. Companies in foreign consuming countries receive a wide variety of special tax and nontax incentives for petroleum operations abroad which are at least as valuable as the tax treatment currently provided by the United States.

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[1] On the day of this testimony, the Treasury issued a press release further explaining these proposals. An API comment on this release follows Mr. Collado's prepared statement.

Having diverse sources of supply and having U.S. companies participate in developing and distributing those supplies is important to the United States.

Denying existing incentives such as intangible drilling costs for foreign oil exploration will not encourage greater oil exploration in the United States. The amount of exploration activity in the United States depends on a number of factors prevailing in this country, including U.S. tax policy toward domestic exploration. In any case, we need to search for more oil at home and abroad.

In conclusion, we strongly support enactment of the administration's proposed trade bill but, for the reasons I have just discussed, we believe the administration's tax proposals would seriously impair the ability of American companies to compete in their foreign operations.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Emilio G. Collado and further material submitted for the record follow:]

STATEMENT OF EMILIO G. COLLADO, ON BEHALF OF THE AMERICAN PETROLEUM INSTITUTE AND THE WESTERN OIL & GAS ASSOCIATION

My name is Emilio G. Collado. I am a Director and Executive Vice President of the Exxon Corporation; and my statement is submitted on behalf of the American Petroleum Institute and the Western Oil & Gas Association. My statement concerns foreign economic policy considerations relating to trade policy and U.S. taxation of foreign source income. I fully concur with the views expressed in the statement submitted by Mr. Swearingen.

I. THE TRADE REFORM ACT OF 1973

The U.S. petroleum industry has a strong general interest in enactment of the Administration's proposed Trade Reform Act. This is true for a number of reasons. First, the U.S. economy is becoming increasingly dependent on imported oil to meet its growing energy needs. Growth in U.S. exports will be required to help defray the growing balance-of-payments costs of oil imports, and further multilateral trade liberalization would help to provide opportunities for export growth. Second, the expansion of international trade through the reduction of trade barriers provides a strong stimulus to non-inflationary economic growth. A growing economy is certainly the most favorable climate in which our industry, as well as others, can grow and prosper. Third, more restrictive U.S. trade policies could result in foreign retaliation against U.S. investments abroad, including oil investments.

Petroleum has for many years been the largest single commodity in world trade. U.S. companies are major participants in this trade. Although petroleum is sometimes subject to special national security trading regulations, international petroleum operations are best carried on in an environment in which total world trade is expanding on a relatively unrestricted basis, without threats of major trade disputes among nations.

The world has changed substantially in recent decades, and our international economic rules and institutions—created in an early postwar world—must be adapted to today's circumstances. Western Europe and Japan are now strong economic powers and are able to assume commensurate responsibilities in the world economy. Specifically, these countries should be encouraged to join us in new efforts to promote a fairer and more open multilateral trading system. International monetary rules must also be adapted to today's conditions. The United States as well as other countries must be able to achieve international payments adjustment more promptly and effectively through more frequent exchange rate adjustments, without periodic crisis or frequent resort to currency restrictions. New links are being forged between East and West; the United States ought to prepare to participate in the trade opportunities that will arise.

In restoring strength to our balance of international payments, the United States must challenge the restrictive trading practices of others, so that our country's trade can benefit fully from the comparative producing advantages we have in some sectors, such as agriculture.

We must seek reductions in non-tariff barriers to international trade, which inhibit the effectiveness of exchange rate changes in adjusting international trade positions. Finally, we must improve our economy's ability to adapt in positive ways to changes in our international competitive circumstances, while minimizing the adjustment burden on workers affected by such changes.

We believe that broad, new negotiations for trade liberalization are urgently needed to help us achieve our national goals of reducing inflation, promoting healthy economic growth, and assuring high levels of employment. It is clear that the United States must exert leadership to get meaningful international trade negotiations started. The broad negotiating authority provided to the President in the proposed "Trade Reform Act" would make this possible. It is largely for this reason—the desirability of new, broad-scale negotiations to reduce international trade barriers—that we strongly support enactment of the Administration's bill.

We understand that the bill would provide the President with unlimited authority to raise, lower, or eliminate tariffs altogether, and that this would restore his necessary "housekeeping authority" as well as giving him the wide flexibility that is needed to carry on meaningful trade negotiations. In general, we strongly support the granting of such authority. However, we believe consideration should be given to whether the authority to raise tariffs should be without any limits whatever. We welcome the broad authority to negotiate in the difficult, but increasingly important area of non-tariff barriers, whose existence can effectively frustrate a country's ability to adjust its international payments position through exchange rate changes or improved performance in the areas of prices and productivity. The United States has a major stake in successful negotiations in this area. We believe the procedures contemplated in the draft trade bill would facilitate such negotiations.

We are aware that rapid changes in international competitive circumstances can cause serious economic hardships for individual firms and workers. Therefore, we support the principle of the bill that, where serious injury occurs or threatens, and imports are the primary cause, temporary relief should be provided against the pressure of imports, and workers affected should receive adjustment assistance. We commend the streamlining in the administration of worker adjustment assistance, and endorse the adjustment assistance provisions in the Administration's trade bill.

We endorse the principle that we should apply trade sanctions against countries which "unjustifiably" or "unreasonably" restrain our exports. We also believe it would serve our country's interest for the President to have authority to extend Most-Favored-Nation treatment to additional countries, including particularly the Soviet Union and Eastern European countries, through the conclusion of new bilateral agreements with them or by means of their accession to existing multilateral commercial agreements.

For all these reasons, we favor enactment of the Administration's trade bill. We are aware of proposals which would attempt to solve our country's economic problems by imposing sweeping new import controls, thereby insulating American industry and labor from the pressures of international competition. Far from contributing to improvement in our economic situation, we believe such restrictions would aggravate our current economic ills. Although the major intent of such restrictions is to increase U.S. employment, the opposite result is more likely. True, jobs in industries competing with imports would be preserved by preventing import growth; but, our trading partners would certainly retaliate against new U.S. import restrictions, and cut off the access of our exports to their markets, thus causing unemployment in U.S. export industries. Moreover, while preserving relatively low-productivity, low-wage jobs in individual industries competing with imports, generally denying American industry and consumers access to lower-cost imports would contribute to U.S. inflation and inhibit a major competitive stimulus to improvements in productivity. Thus, our country's overall standard-of-living would suffer. Finally, the inevitable foreign retaliation which would be provoked by such restrictions would preclude any improvement in our international trade balance. In deed, introducing sweeping new U.S. import controls could set off an international trade war, virtually shutting down our foreign trade sector. There is no reason why American labor, consumers, and industry should bear the substantial economic costs which such restrictive policies would entail. We also oppose efforts to add restrictive features on to the Administration's trade bill.

II. ENERGY REQUIREMENTS, FOREIGN INVESTMENT, AND THE U.S. BALANCE OF PAYMENTS

Putting our growing energy import requirements in perspective, my company has forecast that the U.S. energy import bill (virtually all petroleum) by 1976 will be more than triple last year's $5 billion level. By 1980, we expect annual U.S. energy imports to be roughly in the $25 billion range. Of course, I should caution that the underlying price and volume projections are highly tentative, reflecting, among other things, the uncertain extent to which U.S. demands can be met from domestic energy sources. In addition, there will be some related balance-of-payments offsets to these imports, in the form of U.S. oil company profit remittances, energy exports (primarily coal), shipping earnings, and the like. However, the bulk of energy imports will need to be paid for by other means—such as greater exports of U.S. goods and services, increased income from U.S. investments abroad, and increased foreign investment inflows into the United States. We have made projections of such sources of balance-of-payments receipts with respect to the OPEC[1] oil-producing countries only (although we recognize that OPEC expenditures in third countries will, to some extent, indirectly result in greater U.S. exports and increased investment inflows). That is, based on reasonable assumptions with respect to oil revenues, the size of government economic development budgets, import propensities, and investment preferences of the OPEC governments, we have made rough calculations of future U. S. exports of goods and services at the OPEC countries and their long-term investments in the United States. Of course, we emphasize that such projections are highly conjectural. They are based on historical trade and investment patterns which, on the trade side at least, should be altered in our favor as a result of recent international currency realignments. I should note also that, within the general projections, there are vast differences among the OPEC countries with respect to their ability to absorb investment capital into economic development plans and in the amount of surplus capital funds which would be available for long-term investments abroad.

My company's rough calculations suggest that, after taking into account the projected trade and investment flows with the OPEC countries only, we will have a net "energy deficit" in our balance-of-payments in the $5–8 billion range by 1980. This compares to a small net surplus of $0.5 billion last year. The prospect of this potential source of balance-of-payments pressure underscores the need for the United States to improve its economic performance vis-a-vis Western Europe and Japan in the areas of prices and productivity. In this way, our overall international trade performance (apart from energy) could be expected to improve, particularly if barriers to our exports are reduced. However these substantial energy import cost also suggest the need to encourage other major sources of receipts in our balance-of-payments—such as income from foreign direct investments.

After U.S. merchandise exports, the income remitted from U.S. direct investments abroad is the largest single item in U.S. current receipts in our nation's balance-of-payments. Last year, remitted income from foreign direct investments (including royalties and fees) exceeded $10 billion. Even after offsetting net capital outflows for new investments, income exceeded outflow by $7 billion. Moreover, foreign investment has been directly related to substantial U.S. merchandise exports. U.S. companies with foreign direct investments have generally accounted for roughly half of all U.S. exports, and exports going directly to or through foreign affiliates currently represent about 25 percent of all U.S. merchandise exports. Contrary to allegations by some groups, imports from foreign manufacturing investments are not a major source of U.S. import growth. Imports from foreign manufacturing affiliates in 1970 accounted for 12 percent of our total imports and, if one excludes imports under the U.S.-Canada Automotive Trade Agreement, the percentage declines to only 5.5. A recent study by the U.S. Department of Commerce also indicated that the positive interantional trade balance of U.S. companies with manufacturing investments abroad increased by $2.3 billion from 1966 to 1970, while all U.S. manufacturing companies suffered a $1.7 billion deterioration in their trade balances.

Notwithstanding this contribution to a positive international trade balance, it has been suggested that U.S. foreign investments—particularly manufacturing investments—result in job losses in the United States. (In the case of raw materials production, the argument is generally not raised because it is recognized that investments in raw materials production must be made where the

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[1] Organization of Oil Exporting Countries.

resources are available.) With respect to manufacturing and processing industries, it is alleged that production abroad by U.S. companies substitutes for U.S. production and employment, and that the markets supplied by production abroad could alternatively be supplied from the production of plants in the United States. This assertion is not supported by the facts.

In general, U.S. companies would not undertake all the risks associated with foreign investment if foreign markets could be supplied economically by investments in the United States. Competitive cost conditions, including transport costs, access to lower-cost materials, and foreign barriers to U.S. exports may require foreign investment to penetrate or maintain a presence in the foreign market. If U.S. companies did not respond to such investment opportunities, foreign companies would certainly do so before long. Moreover, when U.S. companies have responded, as noted earlier, the clear result has been substantial and growing exports from the United States. Thus, there is little to support the alleged "export of jobs" by American companies which make foreign investments. With this in mind, I would like to turn now to the general area of U.S. tax policy toward the foreign-source income of U.S.-owned companies operating abroad.

III. ADMINISTRATION PROPOSALS CONCERNING TAXATION OF FOREIGN-SOURCE INCOME

As the President stated in his Trade Message, present U.S. tax policy toward foreign-source income is fundamentally sound, and ". . . there is no reason that our tax credit and deferral provisions relating to overseas investment should be subject to drastic surgery". Our present system assures that the foreign operations of U.S. companies and their foreign subsidiaries bear a tax burden that is at least equivalent to their local competitors abroad. When foreign earnings are distributed to U.S. shareholders they are subject to full U.S. taxes, with proper allowance of credit for foreign income taxes paid on such income. As Assistant Secretary Hickman has pointed out, today's statutory income tax rates in the major foreign industrial countries in which U.S. companies operate are generally in the same range as the U.S. corporate income tax rate. (In the case of oil-producing countries, corporate income tax rates are generally higher than in the United States.) Thus, the foreign investments of U.S. companies are generally not tax-inspired.

In considering possible changes in U.S. tax policy toward foreign investments, it should be noted that making foreign investment opportunities unattractive to U.S. companies will not promote greater investments in the United States. Investment opportunities will continue to be evaluated in terms of their own profitability, and must be attractive in themselves. Moreover, whatever changes might be made in U.S. tax laws to make foreign investment less attractive to U.S. companies, such changes would not affect foreign companies, and we should expect them to step in quickly and fill the void. As the president stated in his Trade Message, ". . . Our income taxes are not the cause of our trade problems and tax changes will not solve them".

Proposals which would drastically change U.S. tax policy by eliminating the foreign tax credit altogether would quickly shut off the flow of American investment abroad. By only allowing foreign income taxes to be deducted from foreign-source income subject to U.S. taxes (instead of providing for a credit against U.S. tax liability), foreign income would effectively bear the burden of two taxes, the U.S. and the foreign tax. This would not only make potential new investments unattractive, but also the burden of two taxes on existing investments would be too great for U.S. companies to remain viable competitors with foreign companies. Thus, they would be forced to withdraw from foreign operations, and foreign companies would take their places.

Before turning to the Administration's specific tax proposals, it would be useful to consider the particular aspects of petroleum industry operations abroad. We appeared before this Committee last March 19th and discussed the implications of the U.S. energy outlook and its relation to U.S. foreign and domestic tax policy. Rather than repeat all the detailed discussion presented at that time, I would like only to summarize the main points in my March presentation as it relates to U.S. tax policy toward foreign-source income. I have, therefore, submitted the full text of my March testimony along with this statement.

First, U.S. tax policy toward foreign petroleum industry operations must be evaluated in the light of the importance of those operations to the U.S. national interest. If privately-owned U.S. oil companies are rendered unable to compete effectively with foreign companies, our country would become largely dependent for essential foreign supplies on foreign companies, owned in whole or in large part by foreign governments. In this event, there could be no assurance of even-handed treatment of all countries in the event of a petroleum supply crisis. Companies owned by producing country governments have an obvious advantage in access to supplies. Companies owned by governments or private citizens in foreign consuming countries receive a wide variety of special tax and non-tax incentives for petroleum operations abroad which are at least as valuable as the tax treatment currently provided by the United States. (See Appendix A–I of the attached March 19 testimony.)

In addition to promoting increased North American production, our national interest is served by U.S. tax policies to promote discovery of diversified crude oil supplies abroad by U.S. companies, and continued development by them of reserves in existing producing countries. For U.S. companies to participate in future exploration and development clearly requires maintenance of the present U.S. foreign tax credit system. Moreover, to ensure that U.S. tax policy does not penalize American companies relative to their foreign competitors, the U.S. should also maintain present policies with respect to the taxing of earnings of foreign subsidiaries, percentage depletion, and the expensing of intangible drilling costs.

While emphasizing the basic soundness of prevailing U.S. tax policy toward foreign-source income, the Administration has singled out three areas where it believes existing tax policy, in combination with certain features of foreign tax systems, results in "distortions" in investment and of U.S. tax revenues. The Treasury has developed several proposals to deal with these alleged "distortions".

Two of the Treasury's proposals are closely related. As described in the statements by Secretary Shultz and Assistant Secretary Hickman before this Committee, they are:

A. "Tax Holidays"

Essentially, where foreign governments extend "tax hodidays" or "similar tax incentives" to attract investments in manufacturing or processing industries, and U.S. investors respond to such incentives by making new or additional investments, the Administration proposes to tax currently the earnings from such investments from that time forward irrespective of whether such earnings are distributed or not. Exceptions to this treatment could be provided through the negotiation of bilateral tax treaties.

B. "Runaway Plants"

Where a major purpose of new or additional U.S. foreign manufacturing or processing investments appears to be to take advantage of a significantly lower foreign tax rate and supply the U.S. market, the Administration proposes to tax currently the undistributed earnings of such investments. Specifically, each year if exports to the U.S. market account for more than 25 percent of the corporation's gross receipts, and the foreign effective tax rate is less than 80 percent of the statutory U.S. corporate tax rate, the foreign corporation would be subject to current U.S. taxation.

These two proposals, of course, would not affect the foreign competitors of U.S. subsidiaries abroad. (Indeed, no country taxes currently the earnings of non-resident foreign subsidiaries of their corporations.) We should, therefore, expect these foreign-owned companies to gain a substantial—and, in the case of foreign "tax holidays", an overwhelming—competitive edge over their U.S. counterparts in the countries affected. Moreover, if it is attractive to export to the United States from these countries, foreign-owned companies are likely to do so. Despite these probable results, we recognize the Administration's effort to correct distortions, if any, owing to the tax policies of foreign governments. A far more appropriate way to deal with such alleged distortions, however, seems to us to lie in efforts toward international harmonization of such tax policies, and in unilateral actions against U.S. companies.

Concerning the relevance of such proposals to the international oil industry, it is clear that investment in petroleum production must occur where the resources are found, and investments in foreign refineries are largely made to serve foreign markets. Refineries serving the U.S. market may be located offshore for a number of reasons (e.g., host government requirements, environmental considerations), not merely because of tax considerations. Indeed, U.S. companies in general do not invest abroad because of tax considerations.

As depicted in the various statements by Treasury officials, the "tax holiday" and the "runway plant" proposals would seem to have a fairly narrow application. However, we feel we must point out that the detailed technical explanation of the proposals suggests a very broad and far-reaching statute. We have attached a statement reflecting our analysis and interpretation of the Treasury's technical explanation of these proposals. (See attached Analysis of Administration Proposals.) Basically, it appears to us that general tax incentives for investment similar to those provided in the U.S. tax system might qualify as "tax holidays" and result in current taxation. If so, then, the "tax holiday" criterion would be so pervasive as to render the "runaway plant" test superfluous.

Moreover, once a corporation has met the test resulting in current taxation, it seems that *all* of its income would be taxed currently, not merely the income related to any new investments allegedly attracted by tax incentives. Finally, once triggered, current taxation would apparently continue as long as the foreign corporation remains in manufacturing or processing activities. Conceivably, almost all existing investments by U.S. oil companies in foreign corporations could be affected where these companies are also engaged in either refining or chemical operations. Treasury officials have indicated that such a severe impact was not intended. However, if the proposals are as extreme as described in the Treasury's technical explanation, then U.S. foreign investors, including U.S. oil companies, would be significantly impaired in carrying on their operations abroad. Therefore, we believe any legislative action should be confined to whatever abuses exist, if any.

C. "Limitation on the Use of the Foreign Tax Credit"

Also of great concern are the proposals which would place new limits on the use of the foreign tax credit in cases where the "tax holiday" or "runaway plant" provisions have triggered current taxation. According to the technical explanation, these new limitations would apply to distributed as well as to undistributed income:

First, income taxed currently under either provision could no longer be included in the income base for determining the "overall" foreign tax credit limitation. This constitutes a serious departure from the fundamental principle underlying the overall foreign tax credit. The principle is that, where foreign operations are highly integrated across national frontiers, it is realistic to treat all income from foreign operations as a whole—rather than compartmentalizing such foreign source income, as proposed by Treasury. Of course, there are many U.S. companies whose foreign operations are economically integrated, with international specialization among foreign countries in various stages of the production process or according to different product lines. In the international oil industry, as well as in other industries, the more fully integrated U.S. companies operating across national frontiers would be severely penalized relative to foreign competitors if such provisions were enacted.

Second, in the Treasury's technical explanation of its proposals, there is also a suggestion that compartmentalization of income within a foreign country, according to corporate entities, may be required. This would undermine the pre-country basis for determining the foreign tax credit. Those companies whose operations are less fully integrated across national frontiers but which have more than one operation within a given country would also be severely penalized.

Unless the Treasury's "tax holiday" and "runaway plant" proposals are very narrowly confined, the resulting limitations on the foreign tax credit would severely reduce the effectiveness of the credit. The result would be to impair seriously the competitive survival of American business abroad. We continue to feel strongly that both the overall and per-country limitation methods of computing the credit under existing law should be maintained, and not eroded, as discussed in my statement to this Committee last March 19th (attached).

D. "Recovery of Foreign Losses"

Where foreign losses have the effect of reducing U.S. tax on U.S. source income, the "lost" U.S. Treasury tax revenues would be recovered in subsequent years by a reduction in the amount of the allowable credit for foreign income taxes paid on income from the "loss" country. Such "recovery" would not be made to the extent the foreign country has permitted the loss to reduce taxes paid to the foreign country. Also, such "recovery" in any year is limited to the tax on 25 percent of the corporation's income (computed using U.S. tax accounting principles) from the "loss" country. Recovery is also required when the assets which gave rise to the loss are disposed of or the form of ownership is altered.

Such losses commonly occur in foreign petroleum exploration activities. If recognition of such losses by the U.S. taxing authority is later undone by disregarding part of the foreign income taxes paid on subsequent income, existing incentives for foreign exploration activity, such as the expensing of intangible drilling costs, will have been effectively denied. The natural result will be to discourage U.S. companies using the per-country method from the search for overseas supplies of oil in new foreign areas. This is particularly true since, as stated earlier, foreign consuming governments generally provide incentives to their nationals for foreign oil operations which are at least as valuable as those provided by the United States.

Finding and producing new, diverse sources of petroleum is important in easing our dependence on a few countries for a substantial portion of our nation's energy supply. It is clear that we will depend increasingly on imported oil for some time to come. Having diverse sources of supply and having U.S. companies participate in finding, developing, and distributing those supplies is important to the United States.

Making foreign investment opportunities less attractive will not promote greater investment in the United States. Similarly, denying existing incentives for foreign oil exploration will not encourage greater oil exploration domestically. The amount of exploration activity in the United States depends on a number of factors prevailing in this country, including U.S. tax policy toward domestic exploration. In any case, the projected U.S. energy demand and supply situation indicates we need to search for more oil at home *and* abroad.

IV. CONCLUSION

Broad, new negotiations to reduce international trade barriers are urgently needed to help us achieve our national goals of reducing inflation, promoting healthy economic growth, and assuring high levels of employment. The Administration's proposed "Trade Reform Act" would make it possible for the United States to participate in such broad negotiations. Therefore, we strongly favor its enactment. We believe that highly restrictive U.S. trade policies—such as are currently advocated by some groups—would aggravate our country's economic ills and impose substantial costs on American labor, consumers, and industry. We oppose efforts to add restrictive features on to the Administration's bill.

Our growing annual oil import bill, even after taking into account possible balance-of-payments offsets, is a potential source of pressure on the U.S. balance-of-payments over the decade ahead. This underscores the need for the United States to improve its economic performance vis-a-vis Western Europe and Japan and to work toward further multilateral reductions in international trade barriers. It also emphasizes the need to encourage other important sources of U.S. balance-of-payment receipts, such as income remitted from U.S. foreign direct investments.

We believe that enactment of the Administration's tax proposals—despite their intent merely to correct alleged "distortions"—would penalize American companies in their operations abroad and impair their ability to compete with foreign-owned companies. Moreover, it appears from the Treasury's technical description of these proposals that their enactment could severely discourage foreign investment activity by sharply eroding the current methods for determining the allowable credits for foreign taxes paid. Finally, the proposal for the "recovery of foreign losses" would severely burden U.S. petroleum industry taxpayers using the per-country method. If enacted, these proposals could significantly curtail the ability of U.S. companies to provide growing strength to the U.S. balance-of-payments, and—in the case of the oil industry—could impair their future contribution to the further discovery, development, and distribution of foreign oil resources.

Analysis of Administration Proposals for Changes in Taxation of Foreign Income

This memorandum analyzes the Nixon Administration's proposals for changes in the taxation of foreign income first announced in President Nixon's message to Congress dated April 10, 1973, as part of a proposal for enactment of a Trade Reform Act of 1973. Included with the proposals was a "Summary of Treasury Recommendations on Changes in the Taxation of Foreign Source Income." The proposals were explained in more detail in the written explanation submitted by Treasury Secretary George P. Shultz when he testified before the House Ways and Means Committee on April 30, 1973, and by Secretary Shultz and Assistant Secretary Hickman in their Trade Bill testimony before that Committee on May 9 and May 10, 1973. This analysis deals first with the proposal entitled "Recovery of Foreign Losses" and then with the proposal entitled "Foreign Tax Haven Manufacturing Corporations."

RECOVERY OF FOREIGN LOSSES

This proposal provides for "recovery" of "foreign losses" of U.S. taxpayers either through (1) reduction of the foreign tax credit limitation in a subsequent year or years or (2) increasing gross income in a subsequent year or years in which there is a disposition of property which in a preceding year has given rise to such a foreign loss.

The proposal defines the term "foreign losses" to mean "the amount by which the gross income for the taxable year from sources within a foreign country or possession of the United States or from sources without the United States, as the case may be, is exceeded by the sum of the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of any expenses, losses, and other deductions which cannot definitely be allocated to some item or class of gross income." In applying this definition the principles of sections 862 and 863 and the Regulations thereunder would be followed. As applied to a taxpayer on the per country limitation a foreign loss would be computed, where it existed, foreign country by foreign country. In the case of a taxpayer on the overall limitation a foreign loss would be computed, if appropriate, for all the taxpayer's operations outside the United States. In the remainder of this analysis reference will be made only to taxpayers on the per country limitation. Presumably the inclusion of apportioned or allocated expenses or losses and other deductions in the computation of the foreign losses would involve items of parent company overhead and their similar expenses which might not be allowable as a deduction in arriving at foreign income tax liability.

Recovery through reduction in foreign tax credit limitation

In orqder for the foreign losses to be recovered through reduction in the foreign tax credit limitation there must be taxable income from sources within the foreign country in which the losses occurred in a year subsequent to the loss year. This taxable income could be generated by operations in the foreign country other than those operations that generated the loss. To the extent the foreign loss has been "allowed by the foreign country where the loss was incurred and has thereby reduced the amount of foreign tax paid" there would be no reduction in foreign tax credit limitation. The technique for accomplishing the recovery is to reduce taxable income from the foreign country solely for the purpose of computing the foreign tax credit limitation. The amount of the reduction in taxable income would be the amount of foreign losses in previous years which had not either been allowed by the foreign country where the loss was incurred or applied to reduce the foreign tax credit limitation in an intervening year. In any year the total reduction in taxable income from the foreign country for recovery of foreign losses could not exceed 25 percent of such taxable income from the foreign country. Any remaining unrecovered foreign loss would be recoverable through the same technique in subsequent years but the recovery period would not extend beyond the first ten years (after the loss year) in which the taxpayer chooses to take the benefit of the foreign tax credit provisions.

The precise meaning of the exception to application of the reduction in the foreign tax credit limitation "to the extent that the loss has been allowed by the foreign country where the loss was incurred and has thereby reduced the amount of foreign tax paid" is not clear. The use of the phrases "has been allowed" and "has thereby reduced" suggests that the loss must already have been allowable as a deduction under the foreign income tax law and that the fact that the loss might be allowable as a deduction in some future year under the foreign tax law would not be sufficient to avoid reduction of the foreign tax credit limitation. Even though the loss might be allowable under the income tax law of the foreign country, it still might not reduce the foreign income tax, if other deductions allowable under the foreign income tax law were sufficient to reduec taxable income to zero. In such a situation, since the foreign income tax had not been reduced by allowance of the loss as a deduction, presumably the foreign tax credit limitation reduction would still be operative. This fact is significant in those situations in which a taxpayer would be paying taxes to the same foreign country on account of other operations in that country and the reduction in the foreign tax credit limitation would have the effect of reducing the amount of these taxes that could be used as a foreign tax credit. The proposal is also not clear in indicating whether the allowance of the loss under the foreign income tax law must be through a provision similar to our net operating loss deduction or whether complete or partial recovery of the expenditure which produced the loss through a deduction such as depreciation or amortization would suffice.

Recovery through inclusion in gross income in the case of certain dispositions

Foreign losses not recovered through a reduction in the foreign tax credit limitation might still be recovered through inclusion of such unrecovered losses in the taxpayer's gross income through enactment of a new section 84 to be applicable in the case of certain dispositions of property giving rise to the loss. The new section 84 would provide for the inclusion in gross income of an amount equal to foreign losses in preceding years, reduced by that portion of the foreign losses which had been recovered through reductions in the foreign tax credit limitation in the year of disposition or in any intervening years between the loss year and the year of disposition. It should be noted that in the year of disposition recovery through reduction in the foreign tax credit limitation is accomplished first and only the remaining unrecovered loss is included in gross income under section 84.

The types of dispositions giving rise to this inclusion in gross income would include (1) sales or exchanges, (2) reorganizations, (3) transfers of property, such as a transfer of a foreign branch to a newly incorporated affiliate of the transferor corporation, and (4) election by a corporation previously included in a consolidated return to be treated as a "Possessions Corporation" under section 931 of the Code. The proposal indicates, however, that section 84 will not be applicable in any case "in which the property which is disposed of is not a material factor in the realization of income, or is not a substantial portion of the assets held for the production of income by the taxpayer."

There are several questions of importance to the petroleum industry raised by the foregoing definition. The first is whether the conventional "farm out" of an interest in an oil and gas property in consideration of the transferee's agreement to conduct drilling operations would constitute such a disposition. If it would, with the result that all prior "foreign losses" would have to be included in gross income, such a result would be a severe deterrent to making such farm out agreements. Another area of doubt is whether a transfer of an interest to the host government pursuant to a participation agreement of the sort which has been reached with a number of Middle East countries recently would be a transfer triggering recovery under section 84. Finally, a similar question exists regarding application of the provision to abandonment of oil and gas properties. Presumably abandonments would not trigger section 84, particularly if the property abandoned was of relatively nominal value, since the property abandoned would not be a material factor in the realization of income and on a value basis would not represent a substantial portion of the assets held for the production of income by the taxpayer.

Although there is no specific statement regarding any adjustment of basis by reason of the inclusion of unrecovered foreign losses in gross income under section 84, it seems obvious that such an adjustment would be appropriate. For example, if a taxpayer who owned property with a basis of $100 which had given rise to foreign losses of $200 sold that property for $500, restoration of the $200 foreign losses under section 84 should result in an increase in basis to $300, so that the gain on the sale would be only $200.

FOREIGN TAX HAVEN MANUFACTURING CORPORATIONS

This proposal provides that all earnings and profits of certain controlled foreign corporations (CFC) would be taxed currently to its U.S. shareholders and that a separate foreign tax credit limitation would be computed with respect to the amounts taxed currently.

The proposal contemplates addition of a new section 951(a)(1)(C) to the Code. Presently section 951(a)(1)(A) provides that a U.S. shareholder of a CFC will include in his gross income his pro rata share of the corporation's Subpart F income for the taxable year. Section 951(a)(1)(B) provides that a U.S. shareholder of a CFC will include in his gross income his pro rata share of the CFC's increase in earnings invested in U.S. property for the taxable year. The new section 951(a)(1)(C) would provide that a U.S. shareholder of a CFC which qualifies as a foreign tax haven manufacturing corporation (FTHMC) will include in his gross income his pro rata share of the FTHMC's earnings and profits for the taxable year. The proposal contemplates that a CFC may qualify as a FTHMC under either a tax incentive test or a runaway plant test.

Tax Incentive Test

In order for a CFC to be classified as an FTHMC under the tax incentive test the first requirement is that it be a corporation which at any time during the taxable year uses in its manufacturing or processing operations tangible property or real property the total unadjusted basis of which exceeds ten percent of the unadjusted basis of all tangible property and real property of the CFC as of that time. This ten percent requirement is a relatively modest one; it would appear that *virtually every CFC in the petroleum industry which operates a refinery or petrochemical plant would meet this first requirement.*

The second requirement to be met is an investment requirement. The investment requirement is sub-divided into two categories, that of new investment and that of additional investment. In either case, it is immaterial whether the source of such investment is new capital or reinvested cash flow. The distinction between new investment and additional investment is stated in terms of separate facilities. The only indication of the scope of the term "facility" is contained in the statement that the test will be determined "on the basis of a single plant or production unit which lends itself to separate treatment." If the investment is made in a facility which was not in existence and identifiable as such on April 9, 1973, the facility is a new investment and *any amount of expenditure after April 9, 1973 in such a new investment will meet the investment test.* On the other hand if the facility was in existence and identifiable as such on April 9, 1973, then the investment test is not met until the total additional investment (including replacements) in such existing facility after April 9, 1973, exceeds 20 percent of the sum of the unadjusted basis of the tangible property and real property of the facility on April 9, 1973. Once this cumulative 20 percent investment test is met, the investment requirement is satisfied.

The third requirement is a tax incentive requirement. The proposal indicates that the type of foreign tax investment incentive which would meet this requirement would be defined in broad terms. The following quotation from the Technical Explanation indicates the breadth of the proposed definition.

"It will 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 arrangements. However, the fact that there is a generally low rate of tax in a country will not be considered by itself a tax incentive. 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 bearing no relationship to useful life."

The proposal would give the Treasury the authority to exempt tax benefits which are determined to be insignificant in amount or effect and would preserve discretion in the Executive, subject to Senate approval, to enter into bilateral income tax treaties which would make these rules inapplicable to specific incentives. It seems obvious, however, that *were the definition to be as broad as is proposed and were the Treasury to exercise the maximum authority it requests the tax laws of virtually every major foreign country in the world would qualify, including a tax law identical to that of the United States.* In his testimony Assistant Secretary Hickman indicated that the Treasury has identified 61 countries that may be covered by the proposal.

In order for the tax incentive requirement to be met there must be a relationship between the time the tax incentive is in effect of a new investment, the investment must be made during a taxable year for which a foreign tax investment incentive is allowed or allowable to the CFC or in anticipation of a tax incentive to be allowed or allowable in the future. In the case of the additional investment test some portion of the additional investment in excess of the 20 percent increase must be made during a taxable year for which a foreign tax investment incentive was allowed or allowable to the CFC or in anticipation of a tax incentive to be allowed or allowable in the future. Other than the statement that an investment in anticipation of a tax incentive would be treated the same as one made during the year in which the incentive applies, *there seems to be no necessity for any relationship between the investment and the tax* *incentive.* For example, apparently if an incentive is allowed or allowable with respect to facility A of an CFC which was already in existence on April 9, 1973, and a new investment is made in facility B to which no tax incentive applies, the tax incentive test will nevertheless be met and current taxation of all of the earnings of the CFC will result. In the light of this fact and the breadth of the tax incentive definition, *it appears that virtuallly any petroleum industry CFC which makes a new investment in manufacturing or processing operations in a foreign country after April 9, 1973, would become a FTHMC with the result that its earnings and profits would be taxable currently to its U.S. shareholders.*

Once a CFC qualifies as an FTHMC under the tax incentive test the CFC continues to be an FTHMC for all future years until it ceases to be engaged in manufacturing or processing operations. Thus the U.S. shareholders of the CFC would be taxed currently on the earnings and profits of the CFC for all years thereafter in which the CFC continued to be engaged in manufacturing or processing operations, regardless of whether the tax incentive continued to be operative or had any impact upon the CFC.

In the light of this analysis it seems clear that the tax incentive proposal is extremely broad and would be quite far reaching in its consequences.

Runaway Plant Test

Even if the CFC should not qualify as an FTHMC under the tax incentive test, perhaps because the tax provisions of a given country are found not to meet the broad definition or the Secretary of the Treasury exercises his discretion to exempt that provision from the tax incentive test, a CFC operating in that country might still be an FTHMC because of its meeting the runaway plant test in a given year.

The runaway plant test involves virtually the same investment requirement as is involved in the tax incentive test. As in that test the CFC must meet either a new investment requirement or an additional investment requirement. If any new investment in manufacturing or processing facilities is made after April 9, 1973, the investment requirement will be met. Once the aggregate of additional investment (including replacements) in an existing manufacturing or processing facility exceeds 20 percent of the unadjusted basis of tangible property and real property used in such facility on April 9, 1973, the investment requirement will be met. The distinction between this investment requirement and that utilized in the tax incentive test is that *in the runaway plant test there need not be any relationship between the timing of the additional investment and the time when a tax incentive is in effect or is anticipated whereas in the case of the tax incentive test the additional investment requirement is met only if the 20 percent increase is achieved in a year in which a tax incentive is in effect or if the investment was made in contemplation of a tax incentive.*

The second requirement under the runaway plant test is that the corporation be subject to an effective foreign tax rate of less than 80 percent of the statutory U.S. corporate tax rate. On the basis of the current statutory U.S. tax rate of 48 percent this requirement would be met if the effective foreign tax rate is less than 38.4 percent. The foreign effective tax rate is to be determined by dividing the foreign income tax paid or accrued by the taxable income of the foreign corporation. For this purpose the taxable income of the foreign corporation is determined by applying U.S. tax accounting rules for determining a U.S. corporation's taxable income from sources outside of the United States under Chapter 1 of the Code without regard to the provisions of subchapters F (exempt organizations), G (corporations used to avoid income tax on shareholders), M (regulated investment companies and real estate investment trusts), N Parts II–IV (nonresident aliens and foreign corporations, income from sources without the United States and domestic international sales corporations), S (election of certain small business corporations) and T (cooperatives and their patrons).

The third requirement under the runaway plant test is that the CFC's manufacturing or processing operations involve substantial production designed for use, consumption, or disposition in the United States. The manufacturing or processing operations of the CFC will be considered to involve substantial production for export to the U.S. if 25 percent or more of its gross receipts for the year are realized from the manufacturing or processing of property which is sold or leased for ultimate use, consumption, or disposition within the United States. For the purposes of this rule it is not necessary that the CFC itself be the entity which sells the property. For example, it could merely be manufacturing or processing the property for the seller on a sub-contract arrangement. Finally, the property does not have to be sold directly to U.S. persons so long as there is a reasonable expectation that its ultimate destination is the United States.

Once the investment requirement is met in a given year it continues to be met for all subsequent years until the CFC ceases to engage in manufacturing or processing operations. However, the effective foreign tax rate requirement and the export to the U.S. requirement must both be satisfied in a given taxable year in order for the CFC to be a FTHMC for that year.

Operation Through a Branch in Another Foreign Country

If the CFC is a FTHMC for a given taxable year with respect to the country in which it is incorporated then all of its earnings and profits will be currently taxable to its U.S. shareholders even if part of such earnings or profits are from outside of the country of incorporation. On the other hand, if the CFC is not an FTHMC with respect to the country in which it is incorporated and it is doing business in one or more other foreign countries, its operations in each of such other foreign countries will be separately tested as though it were operating as a separate corporation in such other foreign country or countries. If on such assumption the operation in a given country would qualify the corporation as an FTHMC, then current taxation under the proposal will be applied separately to the earnings and profits attributable to the branch activities in such foreign country.

Amount Taxed Currently to U.S. Shareholder of an FTHMC

The effect of a CFC's qualifying as an FTHMC is that the proposal would tax currently to the CFC's U.S. shareholders the corporation's earnings and profits for the year (or earnings and profits of one of its branches treated as an FTHMC), the earnings and profits to be determined in accordance with rules normally applicable to domestic corporations. The foregoing rule is subject to several limitations or exclusions. One limitation is that the amount of such earnings and profits in any given year will be reduced by the sum of the deficits in earnings and profits for prior taxable years beginning after December 31, 1972. and the excess of the sum of deficits in earnings and profits over the sum of earnings and profits (i.e., any net defiit) for taxable years beginning after December 31, 1969. and before January 1, 1973. However, any such deficit in earnings and profits for a prior taxable year will be taken into account to reduce subsequent years' earnings and profits only to the extent that it has not been taken into account to reduce earnings and profits for an intervening taxable year in determining the amount currently taxable under this proposal or in determining the amount of Subpart F income taxed under section 951 (a)(1)(A). The amount of earnings and profits for the taxable year is further reduced to the extent such earnings and profits represent income which has been subject to U.S. tax by reason of its being effectively connected with a trade or business within the United States.

In order to specify when an actual distribution represents earnings and profits included in gross income under the new proposal, section 959(c) would be amended to provide that actual distributions are to be treated as being made first out of earnings and profits taxed currently under the new rules.

Impact on Foreign Tax Credit Limitation

Under section 960 foreign taxes paid or accrued by the CFC with respect to earnings and profits taxed currently under the new rules will pro ratably be deemed to be paid by its U.S. shareholders in applying the foreign tax credit rules. However, the proposal would amend section 904(f) so that a separate foreign tax credit limitation would be applied with respect to the amounts currently taxed under the new provision to U.S. shareholders. Although this suggested provision is not described in detail, *apparently this would involve a separate foreign tax credit limitation computation in which the foreign taxes deemed paid by the U.S. shareholder with respect to such earnings and profits would be creditable against the U.S. tax liability with respect to the earnings and profits taxed currently to the U.S. shareholder of a CFC. Although not stated explicitly, apparently the calculation would be made separately for each CFC qualifying as an FTHMC and no other foreign taxes paid or deemed paid by the U.S. shareholder with respect to any other foreign operation would be allowable as a credit against the U.S. tax with respect to the earnings and profits taxed currently under this proposal.* No specific statement is made with respect to the creditability of foreign withholding taxes imposed on actual distributions from an FTHMC, but presumably the provisions of section 960(b) which deals with recalculation of the foreign tax credit limitation in a year in which previously taxed earnings and profits of a CFC are received would be applicable.

Initial Appraisal of the Treasury's June 11, 1973, Release Further Explaining Its "Foreign Tax Haven" Proposals

The Treasury Deparment's June 11 memorandum deals only with its proposals with respect to "foreign tax haven manufacturing corporations." No effort is made to temper the impact of its proposal for recovery of foreign losses. The principal purpose of the Treasury statement is to describe more explicitly the scope of its proposals for taxing currently the earnings and profits of controlled foreign corporations which operate in countries offering certain tax incentives.

OBJECTIVE OF THE PROPOSALS

The Treasury's June 11 statement indicates that its tax haven proposals have a very narrow objective:

"To deal with those situations in which foreign tax systems provide tax inducements which are so major that they cause American capital which would otherwise be invested in the United States to be invested abroad—thus exporting jobs and prosperity."

Were the proposed legislation to implement this stated objective, its scope would, of course, be much narrower than the earlier statements of the proposals would indicate.

However, three basic objections to the earlier proposals still apply:

(1) As did earlier statements, the June memorandum makes achievement of this narrow objective ultimately dependent upon negotiation of suitable treaties or issuance of executive orders. In the absence of such treaties or orders, the scope of the legislation would, after five years, be substantially broader than the stated objective.

(2) An investment which does fall within the scope articulated in this statement still would taint all other income of the controlled foreign corporation which makes the investment, thus causing all of the corporation's income to be taxed currently. Moreover, tainting would still occur even though the tangible manufacturing or processing assets constitute as little as 10 percent of the corporation's total tangible assets and whether or not they generate any of the profits.

(3) Nothing in the statement indicates an intention to withdraw the recommendation that income taxed currently under the provision be subject to a separate foreign tax credit limitation calculation.

These three defects must be corrected if the Treasury proposals are to be, in fact, in accord with the stated objective.

TAX INCENTIVES COVERED

The statement defines more specifically the types of tax incentives which would be covered by the proposal. This definition includes (1) exemption of manufacturing and processing income from income tax for a period of years, perhaps three to five years, (2) reduction of more than 30 percent from the generally applicable corporate income tax rate, and (3) a combination of capital cost recovery incentives (including grants of cash or property) producing an aggregate cost recovery greater than 50 percent in excess of the maximum equivalent cost recovery under U.S. income tax law over some minimum period, such as the first 30 percent of the cost recovery period assumed for ADR purposes. The Treasury statement still does not make it clear that the tax incentive provisions covered must be applicable to the manufacturing or processing investment which triggers current taxation. The statement further lists a number of tax incentives and government aids which would not be covered, e.g., local tax incentives, construction costs of roads and harbors, and remission of property taxes, etc.

Narrowing of the definition is highly appropriate, but evaluation of the effect of this more specific definition will require a more detailed examination of the income tax laws of foreign countries and comparison with U.S. cost recovery provisions to determine which countries would qualify as tax havens. However, it does appear that income tax laws of the United Kingdom, Canada, and perhaps other Commonwealth countries are probably included. That the provision still has considerable scope is apparent from the fact that treaty negotiations are contemplated with a view to narrowing it further. It would be helpful if the Treasury Department would identify those countries whose tax laws contain incentives which would fall within the operation of the narrowed criteria.

WAIVER OF TAX HOLIDAY BENEFITS

The statement indicates that a controlled foreign corporation may avoid tax holiday status by waiving tax benefits to the extent required to bring it outside the enumerated tests. Of course, such a waiver may in some instances result in incurring higher foreign income taxes. In many controlled foreign corporation situations, waiver will be impossible because of the need to protect the rights of minority shareholders. Finally, some foreign income tax laws may prohibit waiver of the tax benefit or may not permit a partial waiver of the sort described in the Treasury statement.

TIME LIMIT

The statement contemplates a period of perhaps five years during which treaties would be negotiated. During this period, either income from certain types of investment would not be subject to the proposal or certain investments made during the period would not trigger application of the proposal. Investors would not know, however, what tax treatment to expect after five years. Experience has demonstrated the uncertainties attending bilateral tax treaty negotiations and implementation. Those uncertainties make it clear that conditions for exemption of investment should not be premised on the prospective existence of a tax treaty. Thus, a period of considerable uncertainty would ensue. This uncertainty would act as a substantial deterrent to the types of investment involved, despite the stated narrow objective of the proposals.

EXEMPT INVESTMENTS

The Treasury memorandum cites certain foreign investments which should be exempt from the tax haven provisions because "there is no reasonable possibility that United States exports could replace the foreign manufacturing or processing operation":

(1) Processing of raw materials where the country of origin and destination are both foreign;

(2) Processing required in the foreign country by local law;

(3) Processing which would be "uneconomical" outside the country of destination because of existing tariffs there;

(4) Processing which must be done before raw materials can be "economically" transported; and

(5) Processing which would be impracticable in the United States because of "excessive transportation costs".

A sixth exemption should be processing of foreign raw materials for sale in the United States where foreign processing is technologically required, liquefaction of natural gas before ocean transport. Finally, the standard expressed in the statement should be broader. It should encompass any manufacturing or processing investment for which "there is no reasonable possibility" that an alternative investment could be made in the U.S.

All of these exemptions are appropriate, indeed, essential; but all may be negated by the five-year limitation. Deletion of that limitation is the single most important requirement for conforming the proposals to their objective. These exemptions should be embodied in the statute and not made contingent upon treaty negotiations.

In regard to the first exemption, what if a foreign plant uses foreign raw materials and sells 99 percent of its output abroad? Does the 1 percent exported to the United States disqualify the plant from the first exemption? A test akin to that in the runaway plant provision should be applied to the first exemption. If 75 percent of the output is for foreign markets, the plant should be exempt.

The statement of the second exemption in terms of "local law" is too narrow. Frequently, processing may be required in a foreign country not by reason of the provisions of local law but as a result of other governmental action such as regulations or administrative procedures. In some situations, processing in the foreign country may be required as a condition to the right to carry on other operations in that country. This exemption should be broadened to include such situations.

EXPANSION OF EXISTING INVESTMENTS

The statement explains that the 20 percent increased-asset test is intended to distinguish between modernization and replacement of existing facilities on the one hand and expansion or wholly new investments on the other. Worn-out or obsolete facilities cannot be replaced, and certainly cannot be modernized, unless depreciation cash flows, adjusted for inflation, may be freely reinvested. In addition, investments required by local law or regulation, such as pollution control facilities, should not count toward the 20 percent increased-asset limitation.

TAXATION OF ALL EARNINGS

The Treasury continues to adhere to the idea that if a controlled foreign corporation makes any new or additional investment which would cause it to come within the scope of the proposal, *all* the earnings and profits of the controlled foreign corporation would be taxed currently to its U.S. shareholders. Current taxation occurs no matter how unrelated the remainder of the income might be to the investment which triggers the proposal's application. The only relief which the Treasury Department suggests from this arbitrary result is to indicate that the earnings from a tax holiday or runaway plant investment can be "quarantined" from the earnings of other investments by using a separate corporation for the new investment. It cites as a reason for requiring a separate corporation the need to facilitate the segregation of earnings. The statement gives no recognition to the fact that separate incorporation might require that increased foreign income taxes be incurred or that separate incorporation might be otherwise prevented for various other reasons such as the presence of minority shareholders.

Furthermore, in the case of so-called "additional" investments, the feasibility of achieving separate incorporation seems rather remote. Are we to have separate corporations for replacement units in existing plants? Mere facilitation of segregation of earnings is a wholly inadequate basis for penalizing income from investments not covered by the proposal. It is just as feasible to determine the earnings from an investment which is part of a single corporation as it is to segregate those earnings in a separate corporation.

FRAGMENTATION OF THE FOREIGN TAX CREDIT

Finally, the proposal contains no statement which indicates any intention to withdraw the requirement that a separate foreign tax credit limitation calculation be made for income taxed currently pursuant to the proposal. Our statement in our testimony before the Ways and Means Committee pointed out how undesirable it is to fragment the foreign tax credit limitation calculation, whether the taxpayer be on a per country basis or on an overall basis, and how inconsistent such fragmentation is with the underlying premise of both of these methods of computing the foreign tax credit limitation.

CONCLUSION

The Treasury statement makes a significant improvement in the technical explanation of the Administration's tax proposals. However, a number of major modifications remain to be made if the proposals are to be in accord with their stated objectives. Among these are:

(1) Publication of a listing of foreign countries which will qualify as tax havens;

(2) Embodiment of the suggested exemptions directly in the statute without their being contingent upon treaty negotiations;

(3) Permission for a foreign plant processing foreign raw materials to sell, say, 25 percent of its output to the United States;

(4) Restriction of the proposals to cover income only from new investments or true expansions; and

(5) Elimination of the fragmentation of the foreign tax credit.

Moreover, these necessarily complex proposals cannot be adequately evaluated until they have been reduced to definitive statutory language. It is essential that the Administration make such language publicly available prior to Congressional consideration of the proposals.

We continue to believe that these proposals constitute an unduly sweeping effort to solve a minor problem. We agree with the President's conclusion in his Trade Message that:

"In most cases, in fact, Americans do not invest abroad because of an attractive tax situation but because of attractive business opportunities."

To the extent, if any, that the tax policies of foreign countries may cause distortions, it would be far better to rely on efforts toward international harmonization of such tax policies rather than on unilateral actions against U.S. companies.

The Treasury has not provided any additional or clarifying comments on its proposal for "recovery of foreign losses." If enacted, the Administration's proposal would deter U.S. companies on the per country basis from searching for oil in new foreign areas. Yet finding and producing new, diverse sources of petroleum is important in easing our dependence on a few countries for a substantial portion of our Nation's energy supply.

STATEMENT PRESENTED BY EMILIO G. COLLADO, EXECUTIVE VICE PRESIDENT, EXXON CORP., NEW YORK, N.Y., ON BEHALF OF THE AMERICAN PETROLEUM INSTITUTE, MID-CONTINENT OIL AND GAS ASSOCIATION, ROCKY MOUNTAIN OIL AND GAS ASSOCIATION, AND WESTERN OIL AND GAS ASSOCIATION, AT TAX REFORM HEARING, MARCH 19, 1973

SUMMARY

1. U.S. taxation of foreign-source income of American petroleum companies must be evaluated in the light of the importance of their activities to the national interest of the United States. The United States will require large volumes of petroleum imports during the next 10 to 15 years and thereafter, even if essential efforts to increase domestic production of oil and gas are substantially successful.

2. If privately owned U.S. companies were unable to continue to compete effectively in the international oil industry, this country would inevitably become largely dependent for its essential foreign supplies on companies owned in whole or in large part by foreign governments. And there could be no assurance of even-handed treatment of all countries in a supply crisis.

3. The participation of U.S. companies in the world oil industry has decided positive implications for the U.S. balance of payments. In 1971, remitted earnings exceeded new outlays by about $1.5 billion.

4. U.S. taxation of foreign-source petroleum income must not be amended to leave U.S.-owned companies at a competitive disadvantage relative to foreign-owned companies. Companies owned by producing country governments have an obvious advantage in access to supplies. Companies owned by governments or private citizens of the other principal consuming countries receive special tax and non-tax incentives at least as valuable as the tax treatment provided by the United States.

5. Percentage depletion, expensing of intangible development costs, and accelerated depreciation should not be denied to foreign operations. Raising taxes on foreign exploration would not, itself, cause U.S. companies to increase domestic exploration. Domestic exploration rises only when domestic economic incentives improve.

6. There seems to be rather widespread agreement that the foreign tax credit is essential to the competitive survival of American business abroad, but a number of specific proposed petroleum tax provisions would seriously impair the foreign tax credit. Among these suggestions are: (1) abandon the over-all method, or abandon the per country method, or impose the method giving the higher tax; (2) make the foreign tax credit a preference item; (3) classify the income tax on producing income as a royalty; (4) "recapture" foreign exploration and development losses; and (5) tax undistributed earnings of U.S.-owned foreign corporations currently. All should be rejected because they would seriously disadvantage the competitive posture of American petroleum companies abroad.

UNITED STATES TAXATION OF FOREIGN-SOURCE INCOME OF AMERICAN PETROLEUM COMPANIES

My name is Emilio G. Collado. I am a Director and Executive Vice President of the Exxon Corporation; and my statement is submitted on behalf of the American Petroleum Institute, the Mid-Continent Oil and Gas Association, the Rocky Mountain Oil and Gas Association, and the Western Oil and Gas Association. My statement concerns U.S. taxation of the petroleum industry's operations abroad. I fully concur with the views expressed in the statements submitted by Messrs. Dorsey, True, Spencer, and Dunlop.

I. THE NATIONAL INTEREST IN U.S. OIL OPERATIONS ABROAD

U.S. taxation of foreign source income of American petroleum companies must be evaluated in the light of the importance of their activities to the national interest of the United States. A continued American presence in the international oil industry contributes to the economic, strategic, and diplomatic security of this country. It also has a substantial positive effect on the U.S. balance of payments.

As has been indicated in earlier testimony, the United States will require large volumes of petroleum imports during the next 10 to 15 years and thereafter. Because of the long lead times required to develop new supplies, there is virtually no possibility of avoiding a major increase in imports in the next few years. Even if efforts to increase domestic production of oil and gas are substantially successful and import dependence begins to decline after the late 1970's, the country may still be importing about 6 million barrels a day in 1985—an amount about twice the 1970 level and equivalent to the present production of Saudi Arabia, the largest exporting country.

In addition to domestic economic requirements, foreign source oil is of significant strategic importance, since—in the words of the Department of Defense—"The U.S. alone cannot realistically plan to fuel any Free World type of emergency . . ."[1] In a deficit oil position itself, the United States will not be in a position to help meet the needs of its allies in the event of an interruption of international supplies.

Diversification of foreign sources of supply would also diminish the restraints which might be imposed on American international diplomacy if the country were heavily dependent on one or two foreign oil sources. The security of Free World supplies requires ready access to diverse and growing sources of foreign oil.

In the case of the United States, the best way to minimize the problems of future access to foreign-source petroleum is to encourage U.S.-owned companies to continue to operate abroad. American companies will apply their managerial and technological expertise to diligent development of the discovered-but-undeveloped reserves in the Middle East, as well as to exploration for new reserves in that area. Moreover, they will apply that same expertise in attempting to diversify sources of foreign supply. If privately owned U.S. companies were unable to continue to compete effectively in the international oil industry, this country would inevitably become largely dependent for its essential foreign supplies on companies owned in whole or in large part by foreign governments.

It is a commonplace in world affairs that not to be represented in international councils is a severe handicap in obtaining appropriate recognition of a nation's interests. If U.S.-owned companies own or control part of international oil supplies, it is much more likely that an allocation of supply equitable to the United States, as well as to others, will be obtained in the event of an international oil crisis. With U.S.- and foreign-owned private companies continuing in their key position as producer-distributors of international oil supplies, the legitimate interests of the United States and its allies would be considered in any such crisis. In the absence of an American presence in the international oil industry, there could be no such assurance of even-handed action for all countries in a supply crisis.

In addition to the national security significance of U.S.-owned foreign oil supplies, the participation of U.S. companies in the world oil industry has decided positive implications for the U.S. balance of payments. American ownership of foreign crude producing facilities provides some balance of payments offset to the increasing costs of U.S. oil imports, since the profit component of those supplies accrues to U.S. interests. Profits attributable to American ownership of petroleum producing, transport, refining, and marketing facilities serving foreign markets also have a positive effect on the balance of payments. In 1971, income remitted from United States petroleum investments abroad amounted to $3.5 billion, which was almost half of total remittances by all United States foreign investors. Of course, it is necessary to continue to invest money abroad in order to be able to replace and expand facilities. However, capital exports from the United States by American-owned petroleum companies were less than $2 billion in 1971. Thus, remitted earnings exceeded new outlays by about $1.5 billion. In the decade ending in 1971, remittances exceeded capital exports by an average of $1 billion annually.

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[1] Submission to the 1969 Task Force on Oil Import Control.

In addition to these direct earnings, U.S. foreign petroleum investments result in receipts of fees and royalties and in substantial U.S. exports of capital equipment and other merchandise for use in U.S.-owned facilities abroad. The annual income received from foreign petroleum investments by U.S. companies also results in additional U.S. tax revenues when this income is taxed upon distribution to individual U.S. shareholders.

II. U.S. TAX POLICY AND U.S. OIL OPERATIONS ABROAD

If American petroleum operations abroad are to remain viable, U.S. taxation of foreign-source petroleum income must not be amended to leave U.S.-owned companies at a competitive disadvantage relative to foreign-owned petroleum companies. Companies owned by producing country governments have an obvious advantage in access to supplies, while companies owned by the governments or private citizens of the principal consuming countries of Europe and Japan generally receive special tax and non-tax incentives for foreign oil exploration ventures. The combined incentives for foreign oil ventures provided by other major countries are generally at least as valuable as the tax treatment provided by the United States—and in some cases are more valuable:

EXHIBIT I.—SUMMARY STATEMENT OF TAX TREATMENT AND OTHER INCENTIVES FOR FOREIGN PETROLEUM OPERATIONS

By companies domiciled in—

(1) *France: Does not tax.*

Other Incentives: None for private companies. (Government finances wholly owned government company and owns substantial interest in large private company.)

(2) *Italy: Does not tax.*

Other Incentives: None for private companies. (Government finances wholly-owned government company.)

(3) *Japan: Taxes on over-all basis with credit.*

Other Incentives: Exploration loans of up to 50% not repayable in the event of failure; government guarantees of bank loans for exploration and development; percentage depletion at 15% with reinvestment requirement; expensing of dry holes.

(4) *Netherlands: Does not tax.*

Other Incentives: Allows deduction of foreign losses from domestic income.

(5) *United Kingdom: Taxes on per country basis with credit.*

Other Incentives: Expensing of all pre-discovery costs; expensing of plant and machinery expenditures; rapid depreciation of other post-discovery expenditures. Allows a form of averaging of foreign losses and profits similar to U.S. over-all method. Allows deduction of a net foreign loss. (Government owns substantial interest in large private company.)

(6) *West Germany: Taxes on the per country basis with credit.*

Other Incentives: Outside the Common Market, exploration loans up to 75%, not repayable in the event of failure—50% of a loan may not be repayable in the event of discovery; expensing of all exploration costs; rapid depreciation of tangibles and intangibles. Allows deduction of a net foreign loss.

(7) *United States: Taxes on the per country or the over-all basis with credit.*

Other Incentives: Percentage depletion; expensing of dry holes and intangibles on producing wells (but *no* deduction of pre-discovery costs other than dry holes, until properties are abandoned). Allows deduction of a net foreign loss.

NOTE.—This exhibit is drawn from a more detailed analysis in Appendix A, attached. Also see that appendix for notes and explanations.

While the details of these foreign government combined tax/incentive/financing packages vary from country to country, it is clear that most foreign competitors of U.S. oil companies have strong incentives from their governments and in many cases unique advantages, e.g., direct or indirect government financing in whole or part by France, Italy, Japan, the United Kingdom, and West Germany. U.S. tax policy should not impose competitive constraints on American companies by adversely changing U.S. tax treatment of foreign petroleum operations.

(1) Avoidance of Double Taxation

The primary tax requirement for continued competitiveness of U.S. oil operations abroad is that the United States continue its traditional policy of avoiding double taxation of foreign-source income. Since all other major consuming countries avoid double taxation, U.S. abandonment of this policy would render American companies non-competitive.

The United States avoids double taxation by allowing a credit for foreign income taxes paid. If the United States were to treat foreign income taxes as a deduction from income rather than as a tax credit, U.S.-owned companies would be double taxed—once by the foreign country and once by their home country. For example, with a 50% tax rate at home and 50% abroad, their combined tax rate on foreign income would be 75% (50% foreign plus 25% U.S.). Foreign-owned competitors would pay only 50%. Thus, the American-owned companies would be fatally disadvantaged relative to their foreign competitors who have to pay no home-country taxes on their foreign operations.

As former Assistant Secretary of the Treasury Stanley S. Surrey has said, "American investment would not proceed at all without the foreign tax credit because ... two taxes would be imposed and the overall burden of two taxes would be so great that investment would practically cease." [2] We emphasize that only American investment would cease. Oil companies owned by others—especially by foreign governments—would be only too glad to step in to fill the ownership gap left by the tax-induced departure of their U.S. competition.

(2) *Equal Treatment of Foreign and Domestic Income*

A second traditional goal of U.S. taxation of foreign source income has been equality of treatment of like investments at home and abroad. As we have seen, substantial petroleum imports are going to be required to supplement domestic sources. Accelerated domestic exploration and development is essential, but continued foreign exploration and development is also necessary to meet U.S. energy requirements. For this reason, U.S. petroleum tax policy should continue to encourage foreign oil operations. For example, percentage depletion, expensing of intangible development costs, and accelerated depreciation should not be denied to foreign operations. Making foreign operations by U.S. companies more difficult would not, itself, mean that the companies would increase domestic exploration. Domestic exploration rises when—and only when—domestic economic incentives improve. That improvement cannot be achieved by raising taxes on foreign exploration.

In short, the national interest need for increasing the security of overseas oil supplies requires that the U.S. government use the utmost care to avoid foreign tax policies which would disadvantage foreign operations of U.S.- owned petroleum companies. Certain suggested foreign tax changes now pending before the Congress would do this.

III. VARIOUS ADVERSE CHANGES IN U.S. TAXATION OF FOREIGN-SOURCE PETROLEUM INCOME SUGGESTED BY OTHERS

While there seems to be rather widespread agreement that the foreign tax credit is essential to the competitive survival of American business abroad, a number of specific proposed tax revisions would seriously impair it.

(2) *Change the Method of Computing the Foreign Tax Credit*

Two methods are used in determining the allowable foreign tax credit. The per country method treats the income and taxes from each foreign country separately in determining the amount of the allowable foreign tax credit. The overall method treats all foreign profits and all foreign income taxes as a whole. Taxpayers may choose that method which appears more suitable on a long-term basis considering their particular business circumstances, but they may not change methods from year to year.

In both cases, the foreign investor always pays the higher of the U.S. or foreign tax rates. Under the United States credit system, if the foreign income tax rate is less than the U.S. rate, the U.S. government collects the difference from the taxpayer. However, if the foreign income tax rate is higher than the U.S. rate, the taxpayer bears the difference; no additional tax is paid to the U.S. The amount of the allowable credit is limited to the amount of U.S. tax which would otherwise be due on the foreign source income. Accordingly, the allowance of the foreign tax credit cannot reduce a company's income tax on U.S. source income.

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[2] *Hearings before the Committee on Foreign Relations, United States Senate, 90th Congress, 1st Session, on Tax Convention with Brazil, Executive Journal, 1967*, pp. 19-20. Professor Surrey reaffirmed his view that the foreign tax credit should be retained in his recent appearance before the Committee on Ways and Means, February 5, 1973.

Of course, a net foreign loss is deductible in accord with the treatment of losses by other countries which tax foreign source income earned by their nationals. (See Exhibit I and Appendix A.)

Some critics of U.S. foreign tax policy would eliminate the overall method. Some would eliminate the per country method. Some would force the taxpayer to use the method giving the higher tax.

The Over-All Method.—The over-all method is particularly important to firms which operate worldwide integrated businesses in competition with foreign-owned worldwide integrated businesses. For example, in a manufacturing industry, components may be produced in a number of countries, assembled within a single country, and the final product sold on the world market.

The vertical integration of the international oil industry, which traces back to the early years of this century, is also a good example of interrelated foreign business operations. Investments in foreign oil producing activities are often in countries far removed from the major consuming areas. The additional investments in refineries, pipelines, tankers, and other distribution facilities which are required to bring this production to market often occur in a number of other countries, all of which may have internal taxing concepts and income tax rates which differ substantially from each other and from those of the United States. The over-all method has been criticized for permitting averaging of incomes and taxes in different countries where a U.S.-owned firm may "fortuitously" do business. There is nothing fortuitous about the inter-county integrated operations of the established international companies. Sales in Europe and production in the Middle East are part and parcel of the same operation. In assessing the effect of taxes on the economic feasibility of such integrated ventures, it is the over-all tax burden on the competing international firms which matters.

As is shown in Exhibit I above, in order to avoid double taxation of foreign source income earned by their nationals, some governments use an averaging concept or an over-all foreign tax credit system which obtains results similar to the United States over-all method. Other countries impose *no* domestic income tax on foreign source income. Multi-national companies domiciled in those countries which impose no tax on foreign operations automatically bear a foreign income tax burden which is the average of all foreign taxes paid—again a result similar to the U.S. over-all method.

Since the principal foreign-owned worldwide competitors of U.S. integrated international oil companies are domiciled in countries falling in one of these categories (France, Italy, Netherlands, U.K.), the U.S. over-all method providing for averaging of all foreign taxes enables the more completely integrated U.S. company to compute its foreign-source income tax obligations in a manner closely similar to that available to its primary foreign competitors. For example, if a U.S. company and a foreign competitor domiciled in, say, France derive half of their income from a country with a 60% tax rate and half of their income from a country with a 40% tax rate, the foreign-owned company's over-all foreign income tax burden would be 50% ([60+40]÷2=50). On the U.S. over-all basis, the U.S. company would also pay the foreign average of 50%, which is higher than the 48% U.S. rate. On the other hand, if the U.S. would collect an 8% tax on income earned in the second country, whose date is 8 percentage points lower than the U.S. rate. Thus, the U.S. company would pay 54% over-all on the per country basis ([60+40+8]÷2=54).

Use of the over-all method, therefore, places a U.S. oil company which is more completely integrated from crude production through refining and marketing in a better position to achieve competitive tax equality with its principal foreign-owned integrated international competitors in world markets. Accordingly, the option to compute the foreign tax credit on the over-all basis corresponds to the competitive requirements of integrated foreign operations of U.S. firms. The more complete the degree of integration, the more economically appropriate is the application of the over-all method.

It has been suggested that the over-all method of computing the foreign tax credit encourages the export of U.S. manufacturing jobs to low tax rate countries in order to permit the taxpayer to take advantage of the excess credit being generated in a high tax rate country. This argument overlooks the other and paramount aspects of a business decision to go overseas, particularly such compelling factors as proximity to market or supplies and host government requirements that local markets be served by the products of local plants. As the U.S. Tariff Commission has recently said, ". . . while tax considerations always are relevant, they seldom are dominant in the multinational company's decision to invest abroad.[3]

For example, production of crude petroleum must occur where the natural resources are geographically located. Similarly, the location of pipeline operations is determined by the source of the oil or gas and the site of the market being served. Governments often require that refined products be manufactured within the country. And service stations can only be located at the market. In determining the site of business facilities, compelling factors such as these generally far outweight any advantage which might accrue from use of the over-all method. The over-all method is not used as a device to export U.S. operations and jobs to foreign countries; rather, it enables integrated U.S. companies to meet the competition of foreign-owned integrated companies.

The Per Country Method.—The per country method for computing the foreign tax credit is vitally important to many companies in high-risk industries when they are entering new foreign areas. On the per country method, operations in each foreign country are given the same U.S. tax treatment for purposes of computing the foreign tax credit as would prevail for comparable operations in the United States. Thus, U.S. tax treatment is neutral in its effect on investment decisions for an operation in the U.S., in foreign country A, or in foreign country B. The decision on whether to conduct operations in the U.S., in foreign country A, or in foreign country B rests on basic economic considerations, not on U.S. tax considerations.

The foreign competitive position of less completely integrated U.S. firms requires the per country method, especially if a considerable part of their foreign endeavors is composed of risky ventures such as petroleum exploration in new foreign areas. The ability to deduct foreign losses with a resultant decrease in U.S. tax is necessary for their competitive survival in the race for new oil sources against foreign-owned companies receiving the combined tax/incentive/financing assistance outlined in Exhibit I and Appendix A. Recall that West Germany and the United Kingdom permit full loss deduction on a country-by-country basis. And we have seen that other countries such as France, Italy, and Japan provide direct or indirect financial assistance to foreign oil operations conducted by their citizens. Japan, for example, grants exploration loans up to 50 percent, not repayable in the event of failure.

The per country method is needed for purposes of foreign loss deductions because such deductions are usually not available on the over-all method. Foreign loss deductions for U.S. tax purposes are available on the U.S. per country method when there is a net loss in an individual country, but a loss deduction would only be available on the over-all method in the event of a net loss in all foreign countries combined.[4] However, a U.S.-owned company on the per country method could fully deduct any loss in a new country from its other taxable income.

If restricted to the over-all method, new entrants may be restrained in their efforts to find and develop foreign petroleum reserves in new areas. In petroleum exploration and production, the chance of loss is high; and foreign tax rates are generally at least as high as U.S. rates. After one successful foreign venture under these conditions, the costs of any further foreign exploration and development would increase because the U.S. tax deductions would be effectively lost as a result of the operation of the over-all limitation. This would have the effect of nearly doubling the capital required. That capital burden may be beyond the capability of many smaller petroleum companies, thus eliminating them from

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[3] U.S. Tariff Commission, *Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor* (Washington: 1973) p. 12.

[4] For example, if a U.S. company on the over-all method has its foreign source income equally divided between two countries having tax rates of 54% and 42%, its over-all foreign tax rate is 48 ([54+42]÷2=48). Hence, there is no U.S. tax on the foreign source income. If the U.S. company pursues a risky venture in a third country and incurs a loss, its total foreign tax could not be reduced because the third country loss would not be deductible in other foreign countries. The third country loss could also not reduce the U.S. tax, since there was no U.S. tax on foreign source income with a 48% average foreign rate. If the average foreign rate had been, say, 40% before entry into the third country, an 8% U.S. tax would have applied (48—40=8). And the third country loss would reduce that tax on the over-all basis. However, foreign tax rates in the major countries are generally sufficiently close to U.S. rates that any such U.S. tax is unlikely to be large. The third country loss would lead to a full reduction in U.S. tax on U.S. source income (i.e., 48% of the loss) only if the company had a combined loss in the first two foreign countries—no doubt a rare situation. Thus, a U.S. company on the over-all method can realize little or no reduction in U.S. tax from a foreign loss in a new country.

the search for foreign oil and gas. At this time of impending energy crisis, it is important that these companies be encouraged to seek new oil reserves in diversified locations abroad, as well as domestically, in order to increase the security of petroleum supplies for the United States and its allies.

The Method Which Gives the Higher Tax.—The United States once required taxpayers to use the method which gave the higher tax; but Congress determined that this approach was undesirable and abandoned it in 1954.

Forced application of either method of computing the foreign tax credit to any given taxpayer is likely to produce a bias against some form of activity. For those presently using the over-all method, forced application of the per country method would produce onerous competitive results in worldwide integrated production and distribution networks and discourage development in existing producing countries. In the case of taxpayers presently using the per-country method, expansion into new areas of exploration would likely be limited by a forced change to the over-all method. Neither of these results would be in the national interest. The over-all method encourages exploration and development operations of the more completely integrated firms in existing producing countries where success in obtaining needed incremental oil supplies is more likely. The per country method encourages companies concentrating on exploration and production to engage in risky attempts to achieve diversification of sources of supply, which is essential to increase the security of imported supplies. Both activities are required in the national interest.

One of the objectives of sound international tax policy is to promote tax neutrality between foreign and domestic investment decisions in order that tax policy will not, itself, distort the economic decision on where to locate a facility. The U.S. policy of having its foreign investors pay the higher of the U.S. or foreign tax approaches international tax neutrality when applied under the existing option to choose either method. The foreign tax rate may be higher than the U.S. rate, but only because the *foreign* country chooses to levy higher rates. U.S. action to force the taxpayer to use the less favorable method is almost certain to produce bias against foreign investment because it will almost always lead to a higher tax rate on a foreign investment than on a similar investment at home.

(2) Make the Foreign Tax Credit a Preference Item

Various proposals before the Congress would subject the foreign tax credit to the Minimum Tax on Tax Preferences. There is nothing preferential about the foreign tax credit. It is a recognition by the U.S. government that the host country has prior taxing jurisdiction over income earned by business facilities located within its boundaries. Making the foreign tax credit a preference item would constitute double taxation of foreign income; it is merely a step toward eliminating the foreign tax credit. Moreover, since foreign-owned companies are generally not subjected to any such flat-rate tax on their source income, the proposal would diminish the competitive capabilities of U.S. investors abroad.

(3) Classify the Income Tax on Producing Income as a Royalty

This suggestion would achieve much the same result as abandoning the foreign tax credit because it would make the foreign income tax a deduction from income, not a tax credit. American firms would then find themselves double-taxed just as if the foreign credit had been converted to a deduction.

A foreign government deals with the oil industry in two capacities: (1) as the owner of natural resources in place; and (2) as a sovereign taxing power. The foreign government collects a royalty as the owner of the natural resources; and it levies an income tax on the profits in its capacity as the taxing sovereign. Each payment is separate, and each is made for different reasons. In recognition of this distinction, a U.S. tax deduction is allowed for the royalty; and a U.S. tax credit is allowed for the income tax to the extent that the U.S. would tax the same income. Thus, a tax credit is *not* allowed for oil royalties paid to foreign governments.

This system of payments parallels payments to the U.S. government on its own oil lands. It collects a royalty as the landowner and levies an income tax on the profits as the taxing sovereign. There is no reason to treat payments to foreign governments differently—particularly because the Internal Revenue Service reviews the validity of the foreign tax as an income tax.

Proponents of the royalty argument sometimes contend that the substantial producing country tax increases of 1971 were not resisted by U.S. oil companies because increased taxes could be credited against their U.S. income taxes.

Hence, these critics conclude that the U.S. companies would have bargained harder against producing country tax increases if the taxes had been deductible rather than creditable. In fact, those tax increases by the principal exporting countries generated superfluous U.S. foreign tax credits because the tax rates imposed by those countries had already surpassed U.S. tax rates. U.S. oil companies are not mere tax collecting agents of the producing countries under the U.S. foreign tax credit system. They have every incentive to resist producing country tax increases. They cannot pass those increases on to the U.S. Treasury through reductions in their U.S. income tax liabilities.

(4) *Recapture of Foreign Losses*

Proposals of this type would allow the deduction of petroleum exploration and development losses but would then require that the expenses be included in taxable income when the operations become profitable.

Since there is no requirement for recapturing domestic exploration losses such as dry holes, this proposal would create an un-neutral bias against foreign petroleum exploration—even though there is no evidence that domestic exploration has been reduced in favor of foreign exploration. Rather, domestic exploration has been reduced for want of attractive projects at present prices and for want of offshore lease sales by the U.S. government. There is no reason to raise the taxes on foreign oil exploration in order to attempt to assist domestic; both are needed, and raising taxes on foreign exploration does not make domestic exploration more attractive. Any provision which would "recapture" foreign dry hole losses would be un-neutral and should be rejected.

A loss recapture provision could also cause a successful venture to bear losses from an earlier, unrelated failure in the same country. In the earlier years of a successful new project, this could result in a particularly heavy tax burden on the new project. The host government would tax the successful venture at regular rates; and the U.S. government would simultaneously, in effect, apply a surtax on the new project to recoup the loss deduction from the earlier, unrelated failure. Other countries, of course, do not pursue any such policy. Thus, if a U.S. company were to conduct one unsuccessful exploration venture in a country, it would thereafter be competitively disadvantaged in bidding on other acreage in that country. Any profits it might earn from the later acreage would be reduced by recapture of the earlier loss, while its foreign-owned competitors could retain the full profit unreduced by home country tax. This is surely not in the U.S. national interest. The provision would even discriminate against some *U.S.-owned* companies in favor of others. Those who had already experienced dry holes in the country would be disadvantaged relative to new U.S.-owned entrants. Since dry holes are a common fact of life in oil exploration, this criticism of recapture is by no means insubstantial.

(5) *U.S. Taxation of Earnings of Foreign Corporations*

Some critics allege that unlike the current taxation of earnings of domestic corporations, the U.S. "defers" levying on income tax on earnings of U.S. controlled foreign corporations. As a result, these critics urge that the U.S. should accelerate the income tax on the earnings of U.S.-owned foreign corporations by taxing their U.S. shareholders before the shareholders actually receive dividend income from the foreign corporations—even though the corporation has paid an income tax to the foreign country in which it resides and operates.

A U.S. corporation is taxed on corporate earnings in the year in which they are earned. But its shareholders are taxed only when they receive dividends—and then only on the dividends distributed, not on the undistributed profits. The legal justification for U.S. taxation of both corporate and shareholder earnings is based upon the long-standing concept of treating the corporation and its income as an entity which is separate and distinct from the shareholders and their income. I understand that disregard for this concept by taxing one entity based upon the undistributed profits earned by another, would raise an important constitutional issue. This matter was brought to the committee's attention during the panel discussions on Taxation of Foreign Income, and I am sure that you will undoubtedly wish to examine this aspect of the question carefully before giving any serious consideration to such a proposal. Note that if the income of the corporation is to be treated as that of the shareholder, there is no basis for the corporate income tax. For logical consistency, those who advocate current U.S. taxation of the undistributed earnings of U.S.-owned foreign corporations should also advocate elimination of the U.S. corporation income tax—with current taxation of shareholders on their share of total corporate earnings, distributed as well as undistributed.

One argument for recapture of foreign exploration and development losses relates to losses resulting from expensing of intangible drilling costs on productive wells. In the United States, the effect of expensing intangibles on a project is a matter of timing: the deduction is taken in the year of investment; but it is not available on a capitalized basis later, as is ordinary depreciation. As a result, taxes are lower in the first year; but later they are higher than if the costs had been capitalized and depreciated. The total tax over the life of a domestic project is unchanged.

Abroad, however, the host government begins to exercise its prior jurisdiction and collect tax once production begins. Since the foreign tax is creditable against the U.S. tax, the U.S. tax will be reduced; and the allegation is that the U.S. Treasury may never "recapture" the expensed intangibles.

It is not clear that this is actually a problem. In many cases experienced to date, some U.S. tax has been paid by the corporation. Moreover, the argument ignores the taxes paid by U.S. shareholders on dividends repatriated from the project. Without the incentive of the intangible deduction, U.S. oil exploration abroad would be reduced because of the competition of foreign-owned companies, whose multiple exploration incentives from their governments would not be affected by the change in U.S. tax laws. Reduced U.S. exploration abroad would undoubtedly mean reduced success and, accordingly, reduced profits and dividends. In turn, reduced dividends would mean reduced shareholder tax payments to the U.S. Treasury. (We have pointed out that reduced foreign investment does not, itself, cause an offsetting increase in domestic investment and profits; such an increase requires improved rates of return on domestic investment.)

It is incorrect to allege that earnings of foreign corporations are not taxed currently. Earnings of U.S.-owned foreign corporations are taxed currently by the host government, not by the United States. Similarly, foreign countries do not tax U.S. earnings of foreign-owned U.S. corporations currently. If the United States were to attempt to tax the undistributed earnings of foreign corporations owned by Americans, it is likely that foreign governments would be offended by this incursion into their jurisdictions, as they have been by similar past actions. It is even more likely that they would retaliate, say, by levying a special dividend withholding tax on U.S.-owned corporations. Thus, taxation of undistributed profits of foreign corporations could well be self-defeating—the *foreign* gvernment would pick up the revenue sought by the U.S. government. Of course, the U.S. company would suffer competitively in either event because its foreign-owned competitors would face no such special tax.

As in the case of a domestic corporation, when the earnings of a foreign corporation are distributed as dividends to a U.S. taxpayer, the U.S. acquires the jurisdiction to tax—and does tax the dividends as income, subject to the foreign tax credit. There is no "deferral" of U.S. tax in the case of dividends from foreign corporations. They are taxed at the same time and in the same fashion as dividends from U.S. corporations, that is, when income is realized by the shareholders upon receipt of a dividend from the corporations. Thus, it is incorrect for the proponent to allege that the U.S. "defers" tax on earnings of those foreign corporations. In fact, their proposal would *accelerate* the tax on undistributed foreign earnings as compared with the taxation of the undistributed earnings of domestic companies.

Moreover, as we understand proposals to accelerate the tax on profits of U.S.-owned foreign corporations, tax would apply even if a distribution: (1) is impossible for a want of cash; (2) is illegal under local law; (3) is inadvisable for sound business reasons; or (4) is prevented by foreign shareholders. In the last case, the U.S. might collect tax on "income" which the U.S. shareholder might never receive. Of course, minority shareholders clearly do not possess sufficient control to dictate corporate dividend policy. It must be recognized that even in the case of a wholly owned foreign corporation, various financing agreements and government regulations may restrict corporate action. A sovereign foreign government may, for example, block the remittance of dividends in order to combat a balance-of-payment crisis.

Furthermore, while acceleration proposals would, in effect, disregard the corporate entity in order to tax undistributed foreign corporate earnings, they do *not* disregard the corporate entity for purposes of imputing corporate losses to shareholders. This heightens the inequity and inconsistency of the proposal. If undistributed profits are taxable, undistributed losses should surely be deductible—and with appropriate carryover provisions.

Finally, if an acceleration proposal is adopted, the economic consequences are clear: affected U.S.-owned foreign corporations operating outside the United States would be placed at a competitive disadvantage relative to their foreign-owned competitors because other governments do not tax undistributed earnings of is citizens' foreign investments. Since foreign-owned competitors would continue unaffected by the new U.S. tax burden, an acceleratin proposal could result in loss of foreign markets by U.S.-owned companies. Dividend remittances to the U.S. would fall as foreign market profits shifted to foreign-owned corporations. And U.S. exports now going to markets created and maintained by American-owned foreign subsidiaries would decrease. Accordingly, the U.S. balance of payments would suffer. In the case of petroleum, the national security would diminish as control of foreign supplies passed out of the hands of U.S.-owned companies.

IV. CONCLUSION

Proposals to increase the U.S. tax on foreign source income of U.S. petroleum companies raise a serious question of national policy. Should United States taxation of the foreign petroleum operations of American companies be increased at a time of impending world energy crisis? The answer is a clear "No". Oil imports are rising rapidly in the United States, Europe, and Japan. And, under present circumstances, most of the increment in imports must come from the Middle East, the site of the world's principal discovered-but-undeveloped reserves. The potential adverse economic, strategic, and diplomatic security consequences of reliance on so limited an area for much of our oil are evident. In addition to promoting increased North American production, United States tax policy should promote discovery of diversified crude oil supplies overseas by U.S.-controlled companies, as well as accelerate development and new exploration in existing producing countries. But increased U.S. taxation of foreign source income would do exactly the opposite. At the most inopportune of times, it would seriously, if not fatally, disadvantage the operations of American petroleum companies abroad.

APPENDIX A-1.—TAXATION OF INCOME OF FOREIGN BRANCHES; DIVIDENDS AND INTEREST FROM FOREIGN SUBSIDIARIES UNDER THE TAX SYSTEMS OF CERTAIN MAJOR COUNTRIES IN THE FREE WORLD

Country	Basis of taxation	Foreign branches		Income from foreign subsidiaries	
		Taxability of income	Treatment of foreign income taxes	Dividends	Interest
Australia	Incorporation	Taxed at normal rate, exempt if subject to taxation by host country [1]		Exempt, if taxed by host country or the foreign tax credit may be elected.	Exempt, if taxed by host country.
Austria	do	do	Credit under per country limitation	Taxed at normal rates, with direct taxes as a credit.	Taxed at normal rates.
Belgium	Residence	Taxed at a reduced rate, exempt if subject to tax of host country [1]		Taxed at a reduced rate	Taxed at a reduced rate if taxed by country of source.
Canada	do	Taxed at normal rates [1]	Credit under per country limitation with 5-year carryover prosivion.	Exempt up to 1976	Taxed at normal rates.
Denmark	do	Taxed at 50 percent of normal rate [1]	Credit, under per country limitation	Taxed at normal rates, excess foreign income taxes refunded.	Do.
Finland	Incorporation	Taxed at a reduced rate, exempt under most treaties [1]	Deduction only	Taxed at normal rates	Do.
France	do	Exempt from taxation [1]		Taxed at 5 percent of normal rate and foreign tax credit for direct taxes.	Taxed at normal rate, credit for withholding taxes.
Germany	do	Taxed at a reduced rate, exempt under most treaties.[1]	Credit under per country limitation	Exempt or the foreign tax credit may be elected under the deemed paid system.	Taxed at normal rate.
Greece	do	Taxed at normal rates [2]	Credit	Taxed at normal rates	Do.
Indonesia	do	Exempt [3]		Exempt	Exempt.
Italy	do	do [3]	Deduction only	Taxed at a reduced rate	Taxed at normal rates.
Japan	do	Taxed at a reduced rate [1]	Credit under overall limitation, except for income not taxed by host country.	do	Taxed at a reduced rate.
Netherlands	Residence	Income exempt if taxed by host country, losses allowed against domestic income, with a carryover provision.		Exempt, if subject to tax by country of source.	Taxed at normal rate.
Norway	do	Taxed at 50 percent of normal rate, exempt under most treaties.[1]	Deduction	Taxed at normal rate with credit for taxes withheld at source.	Taxed at normal rate with credit for taxes withheld at source.
Spain	Incorporation	Taxed at normal rate, exempt under most treaties if taxed by host country.[1]	Credit under per country limitation	Taxed at 67 percent of normal rate	Taxed at a reduced rate.
Sweden	do	do [1]	do	Exempt	Taxed at normal rate.
United Kingdom	Residence	Taxed at normal rate [1]	Credit under per country limitation, with no carryover or carryback for excess creditable foreign taxes.	Taxed at normal rate with foreign tax credit under deemed paid system.	Do.
United States	Incorporation	do [1]	Credit, under either the overall or per country limitation.	do	Do.

[1] Similar tax treatment for foreign branch losses.
[2] No tax benefit from net foreign branch losses.
[3] Foreign income is not subject to income tax and foreign losses are not permitted to offset domestic income. They are included in the company tax, which is levied at the rate of 18.75 percent on the income in excess of 6 percent of net worth.

APPENDIX A–II.—SUMMARY OF INCENTIVES GRANTED BY FOREIGN GOVERNMENTS IN REGARD TO THE PRODUCTION OF OIL AND GAS UNDER PETROLEUM AND/OR TAX LAWS

ARGENTINA

Immediate deduction is allowed for exploration costs as well as amortization thereof. An option is available to deduct exploration expenses and normal depreciation on capital assets against non-petroleum activities. There is a 10-year loss carryover period.

AUSTRALIA

Recovery of Expenditures

A taxpayer is permitted to recover allowable capital expenditures in regard to exploration and producing activities before any production income becomes subject to income tax. This provision accumulates expenditures for formation, exploration/development and production as deductions against future income from the sale of petroleum production. Income tax is thus postponed until the deductions have been fully offset against producing sales. A petroleum exploration company is allowed to transfer the tax deduction for any producing or exploration expenditures from itself to its shareholders. In this way, the shareholder can claim the deduction for the stock investment in a petroleum exploration company against current taxable income and the deferred deduction, of the exploration company is correspondingly reduced. Also, dividends paid wholly and exclusively out of the non-assessable net income of the company are tax-free income to the shareholder.

Partial Additional Deduction for Investment

A deduction for ⅓ of the "calls" on shares to the stockholder investing in the exploration venture is allowed. Since the exploration company may claim a tax deduction for its expenditures, this will result in an aggregate deduction of 133⅓% between the company and its shareholders.

Direct Subsidies

Subsidies are also used to create favorable conditions for petroleum exploration activities. Originally limited to a subsidy of ½ the cost of a company's approved-stratigraphic drilling program; now extended to include off structure drilling, detailed structure drilling, borehole surveys, and geophysical surveys employing magnetic, seismic, gravimetric or other physical methods of obtaining petroleum exploration information. Both past and future subsidies are not taxable, but the taxpayer's deduction for exploration expenditures has to be reduced by the amount of subsidy received. The government now pays up to 30% of the cost of all geophysical surveys and test drilling operations. In the case of stratigraphic drilling the limit is 40%. For onshore seismic surveys it is 50%.

BELGIUM

Allows producers a tax-free reserve limited to 50% of the taxable profits from Belgian production. Such reserves must be reinvested in Belgium within 5 years.

BRITISH HONDURAS

Allows percentage depletion of 27½% of gross income limited to 50% of net petroleum income after royalties but before depletion. Intangible drilling costs are deductible when incurred, limited to 50% of net petroleum income after royalties but before depletion.

CANADA

Exploration, intangible drilling and lease acquisition and retention costs are deductible when incurred. Any excess of these costs over production income may be offset against refining, marketing or transportation income and any excess over total corporate income may be carried forward indefinitely.

Depletion is allowed at 33⅓% of overall net production profits. All drilling, exploration, lease and operating costs on a company-wide basis must be deducted before depletion is calculated. For 1977 and subsequent taxation years depletion will have to be earned. The allowance will be equal to the lesser of:

(a) 33⅓% of net production profits as described above, or

(b) 33⅓% of eligible drilling and exploration expenditures. Eligible expenditures do not include lease acquisition or producing wells equipment costs. Eligible expenditures incurred after November 7, 1969, and before January 1, 1977, will earn depletion for use in 1977 or subsequent years.

COLOMBIA

Allows normal percentage depletion of 10% of the gross value of production less any royalties or participations, limited to 35% of net income before depletion. In addition, a special depletion allowance, computed on the same base, of 18% in the East and Southeast Region, and 15% in the rest of the country, is also allowed. The total of normal and special depletion is limited to 50% of net taxable income in the East and Southeast Region and to 45% in the rest of the country. These limitations are based on the taxpayer's net income from all activities. Amounts allowed as special depletion must be reinvested within three years in petroleum-related facilities. Failure to reinvest results in their restoration to taxable income, but over-investment may be carried forward to apply against future reinvestment obligations. Exploration costs on non-producing properties are amortized at 10% per year. Intangible drilling costs on producing properties are deductible when incurred.

ECUADOR

Intangible drilling costs are deductible when incurred.

FRANCE

Allows producers a reserve equal to 27½% of the gross value at the wellhead of the crude oil extracted. This reserve is limited to 50% of the net profit from production and from the first stage of processing in the producer's own refineries.

For the tax exemption to be retained such amounts must be reinvested within 5 years, either in the way of fixed assets or research work for new discoveries of oil or gas, or by making investments in certain companies approved by the government.

If not entirely reinvested within this time limit, the part of the reserve not reinvested is required to be restored to the taxable profits of the fiscal year during which such 5-year period expires, and taxed as ordinary income.

GERMANY

Domestic oil and natural gas exploration and production is governed by the so-called Hanover Regulations of December 13, 1957, without any limitation in time. According to these regulations any expenditures for geophysical surveys, for exploration wells and for dry wells can immediately be charged to expense. Commercial discoveries are depreciated over 8 years as follows: 32, 23, 14, 10, 6, 5, 5, 5 percent.

The Federal Government on April 27, 1970, established guidelines for the granting of loans and subsidies for the years 1969 through 1974 to secure and improve the petroleum supply of Germany. Loans are granted for exploration of petroleum and natural gas deposits outside the European communities to the amount of 75% of the exploration expenditures. The interest rate is 5%. If there is no discovery or if production must be discontinued the loan not yet repaid can be converted into a subsidy. Even with discovery and production, up to 50% of the loan can be waived if the financial situation of the borrower "makes this appear necessary".

Prerequisites for the two types of incentive are that the company is domiciled in Germany and produced petroleum in Germany prior to 1969 and continues this petroleum production during the period from 1969 through 1974 or processes petroleum in the Federal Republic and itself or the companies holding a direct or indirect share in it did not have as of January 1, 1969, the customary financing possibilities for the implementation of the privileged projects.

There is a decree for the period 1970 through 1975 concerning the tax treatment of the foreign investments of the German petroleum companies. According to this decree preliminary valuation reserves (write down of investments) can be set up by the German petroleum production company for participation or quasi-participation loans to foreign petroleum companies with respect to the expenditures of these foreign companies for exploration work abroad. These preliminary valution reserves are admissible to the extent the expenditures of German companies would be currently deductible business expense under the German law. This applies to expenditures for geophysical surveys, exploration wells and dry wells. In the event of a commercial discovery the preliminary valuation reserve is to be dissolved (restored to income) in four equal amounts beginning from the fourth business year following the business year of the commercial discovery.

If the German petroleum company does not hold a participation in a foreign company but has a permanent establishment of its own abroad, it can treat the aforementioned expenditures immediately as deductible business expenses in Germany.

GUATEMALA

Allows percentage depletion of 27½% of gross income, limited to 50% of net income. Exploration and intangible drilling costs can be expensed. Losses can be carried forward indefinitely.

ITALY

50% of income from hydrocarbon production in the Italian waters and in the Italian continental shelf are exempt from income tax provided they are reinvested in prospecting for and/or exploring for liquid or gaseous hydrocarbons either in these areas or in the other Italian areas not reserved to E.N.I., and provided they do not exceed 50% of the production cost. This exemption applies only to the national income tax (presently about 30%) and not to local income tax (about 11%). It will expire unless subsequently extended by January 1st, 1988.

In addition to the above specific incentive, the law also grants an exemption from the national income tax for a maximum of 70% of profits of any company, wherever located, invested directly or indirectly (i.e. through a specific company) for petroleum research in southern Italy and islands. This benefit will expire in December 1980 as will all other tax benefits granted for the industrial development of South Italy.

GUYANA

Allows percentage depletion and deduction of intangible drilling costs at a "reasonable" level as established by the Commissioner.

HONDURAS

Allows percentage depletion of 25% of gross production, limited to 50% of net taxable profits. Exploration expenses as well as intangible drilling costs can be expensed. Losses can be carried forward for ten years.

ISRAEL

Allows percentage depletion of 27½% of gross income, limited to 50% of net income.

JAPAN

Allows percentage depletion for companies conducting petroleum exploration, subject to a recapture to the extent that, within a 3-year period, an amount equivalent to the deduction has not been invested in further exploration. The amount is 15% of sales revenue, limited to 50% of net income. A current deduction of intangible drilling and development costs for unsuccessful wells is also provided. These incentives apply to both domestic and overseas exploration.

Enterprise tax (12%) on production income is exempted regardless of where the income accrues. This is a saving of approximately 8%, since enterprise tax is deductible from corporation tax. This is available for locally formed Japanese-owned corporations who are mining right holder. Such incentives may be extended to foreign corporation's Japanese branch holding of mining rights.

Tax-free reserve is allowed for Japanese domestic corporation which has made investment in or made monetary loan to another corporation carrying on resources exploiting business outside Japan (including Japan continental shelf) or carrying on investment in a resources exploitation business undertaken outside Japan (again including Japan continental shelf). A five-year flat recapture for period from sixth year to tenth year, can be set up at 100 percent of the stock investment or loan so made during exploration stage, and at 30 percent thereof during production stage. The system was introduced in 1970 and the said 30 percent reserve rate will be raised to 50 percent from April 1, 1973.

Overseas Incentives

The government has organized the Petroleum Development Public Corporation (PDPC) as a government-owned entity for the purpose of channeling government funds into exploration and production in order to promote the development of petroleum resources and to ensure stabilized supplies of petroleum.

The PDPC accomplishes these objectives by:

(1) Making these investments and loans necessary for petroleum exploration in overseas areas,

(2) Guaranteeing debt resulting from loans necessary for overseas petroleum exploration and production.
(3) Leasing equipment required for oil exploration, and
(4) Giving technological guidance on oil exploration and production.

The loans referred to in (1) are extended on favorable terms and repayment is required only if the venture financed is successful. Loans amounts may be as high as 50% of the cost of the undertaking, and joint exploration ventures by Japanese and foreign companies, in which the Japanese interest is at least 50%, may also receive these benefits. To date, the PDPC has commited itself to extend financial support to exploration ventures in Alaska, Southeast Asia, and the Persian Gulf.

Domestic Incentives

While PDPC financing is primarily for exploration and production overseas as outlined above, PDPC is also providing financial assistance for exploration ventures in Japan continental shelf. In some cases loan amounts exceed 50 percent of total cost, which is a standard for overseas ventures, and are as high as 70 percent.

NICARAGUA

Allows percentage depletion of 27½% of wellhead value less royalties, limited to 50% of net taxable income before depletion. Intangible drilling costs and dry hole costs are deductible once production is attained. Losses may be carried forward ten years.

NIGERIA

Exploration losses, intangible drilling costs and dry holes can be expensed only after first bulk sale. Such expenses prior to bulk sale are capitalized and allowed as capital allowance against future production income in relation to expected life of production. Losses during producing years may be carried forward indefinitely.

NORWAY

The government may grant companies engaged in the exploration and exploitation of offshore oil and gas deposits the right to carry losses forward over a 15-year period rather than the normal 10-year period.

PAKISTAN

Allows percentage depletion at the rate of 15% of the wellhead value. subject to a maximum of 50% of net income.

PERU

Allows percentage depletion from 15% to 27½% of the gross value of production (adjusted for transportation in certain areas) depending on whether a national or foreign company is involved and the region in which production is located. A foreign company with production in the Coastal Region is limited to 50% of net profit after deducting depletion and the 20% minimum advance payment of income tax. All others are limited to 50% of net profit before deduction of depletion and the advance payment of income tax. Deduction for intangible drilling costs is also allowable.

SPAIN

Allows percentage depletion of 25% of the field value of production less royalties, but limited to 40% of the net profit before deducting depletion: Similar rules apply in the Spanish Sahara.

ST. MAARTEN

Allows percentage depletion at rates deemed reasonable by the Commissioner.

TRINIDAD AND TOBAGO

Allows percentage depletion of 10% of the gross value of production of submarine wells limited to 40% of income without the deduction of certain specified allowances. Intangible drilling costs are deductible when incurred.

TURKEY

Allows percentage depletion of 27½% of the gross income from production after deducting rentals and royalties, limited to 50% of net income before deduction of depletion.

UNITED KINGDOM

1. Cash grants of 20% or 22% are available for expenditure on onshore mining. No cash grant is available at present for offshore mining.

2. Tax rules on revenue expenditure permit immediate write-off once trading has begun.

3. Capital expenditure including all exploration up to the time that a field is found to be commercial by any operator is also written off for tax in the year in which the expenditure is incurred against other current profits of the trade.

4. Losses including relief for capital expenditure not allowed currently (e.g. pre-trading) can be carried forward indefinitely against subsequent profits of the same trade.

5. Production capital expenditures that qualify as plant and machinery are eligible for 100% write-off in the year incurred. Other capital expenditure (excluding plant and machinery) incurred in proven fields on further drilling, whether the wells are productive or dry, may be written off in accordance with the capital allowance rules relating to oil wells, which involve an initial allowance of 40% and subsequent writing-down allowances calculated by reference to reserves (with a minimum of 5%), based on the reducing balance.

STATEMENT OF W. T. SLICK, JR., SENIOR VICE PRESIDENT, EXXON COMPANY, U.S.A. (A DIVISION OF EXXON CORPORATION)

Mr. Chairman, I am W. T. Slick, Jr., Senior Vice President of Exxon Company, U.S.A. We appreciate the opportunity to present our views to this Committee. In the course of my statement I will address most of the questions published in the call of these hearings; however, I am submitting as an attachment to my statement detailed answers to each of your questions.

It is generally recognized that the U.S. is now in a tight energy supply situation. This has been carefully documented by government and industry spokesmen alike, and I will not burden the record with yet another supply/demand projection. But it is important to emphasize that conditions of tight supply are expected to prevail not just this year but for at least the next three to four years. Consequently, it is essential that we address the time frame at least through 1976 and not limit our attention to 1973 only.

The obvious ways to alleviate this situation are to (a) increase supplies and (b) to the extent practical, moderate demand for energy. In passing, let me point out that allocation systems cannot do either: allocation systems can only redistribute available supplies.

I would like to discuss briefly some corrective actions we believe would be very helpful in relieving this potentially serious near term supply situation. These actions fall generally in two major categories:

—First, reexamining the nation's timetable for environmental improvements in the light of the supply outlook.

—Second, encouraging the conservation of energy through more efficient and more prudent use of energy generally.

ENVIRONMENTAL RELAXATIONS

The energy problems the nation faces today have been seriously aggravated by the environmental laws and regulations enacted in recent years. Many of these actions have had the double-barrelled effect of increasing petroleum demand while decreasing effective capacity for meeting that demand. A recent survey by the National Petroleum Refiners Association indicated that environmental controls on refinery operations and petroleum products are the major restraining factor on full utilization of refinery capacity in the U.S.

Temporary measures are needed to modify certain environmental standards. I am not proposing that the nation's goals for environmental improvement should be abandoned; Exxon USA supports the view that protection of the natural environment is desirable. But we do feel that the nation should take a second look at its environmental timeable with a view toward improving energy supply.

For example, there is some spare high sulfur "sour" crude in the world. But all U.S. refineries are not operating at full capacity. This comes about because environmental controls require the use of low sulfur "sweet" crude in some refineries which are metallurgically capable of processing sour crude. If these regulations could be relaxed, the effect would be to allow a number of U.S. refineries to substitute at least in part sour crude oil feedstock for sweet crude. This would free sweet crude for refineries which can only process low-sulfur oils. These steps would help maximize the use of available U.S. refining capacity and would increase product availability.

Second, heavy fuel oil sulfur specifications could be relaxed temporarily to allow sulfur up to 1.0% in areas now requiring lower levels. This step also would allow some higher-sulfur crude to be substituted for low-sulfur crude.

Third, standards for SO_2 emissions from utility plants could be relaxed temporarily to permit the use of coal in place of fuel oil in geographic areas where public health would not be endangered.

Fourth, heating oil sulfur specifications could be relaxed temporarily to allow more use of European product. European refining capacity was generally not designed to produce heating oil with sulfur contents as low as those required in major consuming areas of the U.S.

Fifth, the timetable and the level of auto emission standards should be reexamined to seek a more balanced position between engine cleanliness and engine efficiency.

These temporary relaxations would be of considerable help in making available additional supplies over the next three or four years.

ENERGY CONSERVATION

Along with a more moderate approach to the nation's environmental timetable, more thought and effort must be given also to conserving energy and using it wisely. Because the U.S. economy and way of life is so energy-intensive, it is likely that some energy can be conserved through the elimination of wasteful practices and improvements in the efficiency of use. The energy supply industries are uniquely circumstanced to eliminate waste and improve efficiency in their own operations and to encourage and aid consumers to do likewise. Many have already done so; more should be done.

In the short term, voluntary consumer efforts to reduce overheating, overcooling, overlighting—and, perhaps most importantly, to avoid wasteful driving habits—will be ways in which we can conserve energy. Longer-term, energy can be conserved by more organized approaches to large energy-consuming sectors of the economy such as transportation, where mass transit could lead toward more efficient energy use.

EXXON OPERATIONS IN A TIGHT SUPPLY SITUATION

Exxon USA is quite concerned about the supply outlook for the next several years. We have given careful thought as to how to respond to our customers' needs in the present tight supply situation. At this point, I want to describe to the Committee the conclusions we have reached.

For the next several years, the U.S. will need the energy it can get from all available sources. Exxon USA is fully utilizing its supply capability to provide as much product as possible for its customers and we will continue to do so.

We are now producing crude oil in the U.S. at maximum efficient capacity. Also, our crude oil imports have been increased to supplement domestic supplies. We are operating our five U.S. refineries at maximum capacity and, in the process, we are uing as much sour crude as metallurgy and environmental regulations will allow. By operating these facilities at an "all out" pace, and by increasing our imports of products, we anticipate that our total supplies of gasoline, heating oil, and other distillates this year will be somewhat greater than they were in 1972.

Exxon USA recently announced a number of projects to expand our refining capacity by 350,000 barrels per day, to a total of 1.5 million barrels per day. A major expansion of our Baytown, Texas, refinery accounts for 250,000 barrels per day of this capacity. We hope to have this project on stream in 1976. The Baytown facilities will be able to process either domestic or foreign high-sulfur crude oil to make environmentally acceptable products. The rest of the expansion results from a series of smaller projects at our Baytown, Texas, Baton Rouge, Louisiana, and Bayway, New Jersey, refineries. Some of the increase from these expansions will be available later this year. Additional desulfurization facilities to permit refining increased volumes of high-sulfur crude in both new and existing capacity also are included in these projects.

Concurrently, we have taken a close look at our communications efforts with consumers. We believe that an aggressive product advertising program is not appropriate in the current situation. Our advertising is therefore being oriented to communicate important facts about the energy situation, including ways in which consumers can conserve energy.

However, even with the operating steps in production, refining, and imports that I have described, the general tight supply situation brought about requests for supplies that exceeded our supply capability.

Under these circumstances, we believe our primary obligation is to serve our existing customers. Nevertheless, it is likely that even some of our existing customers will be unable to obtain all the supplies they could utilize. So it became necessary for us to develop some principles by which we could allocate our available supplies to our customers. I want to describe to you what we are doing in this regard.

Exxon USA's program for handling its business during this tight supply period takes into account both the scope and the diversity of the population of customers the company serves. It is the most responsible program we have been able to devise to treat them fairly. We have also taken pains to see that this program is legally sound.

To illustrate the complexity of formulating an allocation system for a large supplier such as Exxon USA, it might be helpful to describe briefly the nature and diversity of our customers. Exxon USA operates only about 1,000 service stations. In addition, we supply approximately 7,000 resellers and 20,000 service station dealers, who in turn serve some 15 million individual consumers. In addition to these independent businessmen who rely on us for supplies, we also serve directly about 190,000 home heating oil customers and 115,000 consumer accounts. These consumer accounts include local, regional, and national industrial and business firms of all descriptions; farm and ranch accounts; health and educational institutions; public transit systems; trucking firms; contractors; municipalities; state governments; the Federal Government; and both investor-owned and publicly owned utilities.

Exxon USA is also a major purchaser and reseller of crude oil. We buy from more than 750 producers, and sell to more than 275 companies. With certain of these firms, we have both purchase and sales agreements.

In a business of this magnitude, a number of problems had to be overcome in developing an allocation system. First of all, we needed to recognize recent commitments made immediately prior to the current period of tight supply; thus, we could not go back very far in time in selecting a base period for guidance of our operations. We found that while one particular base period satisfactorily served a particular customer group purchasing a given product, that same base period did not necessarily well serve other customer groups purchasing the same or other products. Furthermore, we found that a single allocation formula could not treat fairly all customers within a given group. We also found that a responsible allocation system required that we forgo the normal good business practice of trying to upgrade our sales mix, both as to customers and as to products.

On May 9, 1973, Exxon USA issued a public statement describing the program that the Company has undertaken. Under this program, we are using our current supply capability to make available products in the same basic proportions as we have in the past. In addition, we are providing these products to each of our customer groups in the same basic proportions as in the past. Individual customers in each group are being treated fairly. We are making supplies available to all our customers to whom we were committed when supplies became short so long as they meet their obligations, and unless they choose to leave us. Stated differently, we have not cut off any customers, and we have continued to furnish supplies even after contracts have expired. We are recognizing our responsibility to customers where we were their last supplier. And, until our supply capabilities increase substantially, we probably will not be able to take on commitments to supply new customers.

With respect to crude oil, Exxon USA is a net purchaser of domestic crude. We purchase 853,000 barrels per day and sell 704,000 barrels per day for a net purchase of 149,000 barrels per day. Nevertheless, under our program, we are currently selling more than 145,000 barrels per day of domestic crude to independent refiners from whom we purchase less than 15,000 barrels per day as offsetting volumes.

In our program, we are not attempting to distinguish between "essential" and "non-essential" uses of our supplies. We do not believe that such judgments fall properly within our province. Nevertheless, we feel it is important to recognize that a substantial portion of the supplies we make available ultimately is delivered to customers carrying our priority activities as defined in the statement concerning "Allocation of Crude Oil and Refinery Products" issue by Mr. W. E. Simon on May 10, 1973, and subsequently modified by "Guidelines" dated May 21. We are, however, unable to quantify total sales of our products to these so-called priority customers since many of them are supplied through resellers. Similarly, we have no way of knowing the proportion of fuels purchased by priority customers which is actually used in carrying out priority activities.

Considering all of the factors involved, we believe our program represents the fullest extent of voluntary action that is feasible for our Company to undertake. It does the best job possible of supplying the customers we serve. We plan to continue to operate under the program I have outlined.

APPROPRIATE ROLE FOR GOVERNMENT

As discussed earlier, the supply outlook for the next several years ranges from tight to short. How great the magnitude of shortages actually will be will depend on how the public, industry, and government react. Several factors that will be important are as follows:

First, the actual level of U.S. consumers' demand in the months and years ahead. In good measure, this will depend particularly on how the public perceives the situation and how, as individuals, they decide to adjust their habits. For example, it is generally recognized that there is a significant discretionary component in motor gasoline demand, and we would expect that even some modest reduction in discretionary consumption could make significant inroads on the potential shortages. Furthermore, there are similar opportunities for discretionary reductions in energy consumption both directly in how we light, heat and cool our houses, businesses and government facilities, as well as indirectly in all of the consumption patterns in the economy. We believe that many in government recognize the potential savings that can be made by consumers, and we applaud efforts to communicate to the public on this subject.

Second, actions by the Federal Government on price controls. Price controls that are overly rigid and ignore supply problems can further aggravate an already difficult situation. The present price controls apply to only 23 companies and are primarily directed at the supply end of the system. Directionally, therefore, they tend to worsen the situation.

Third, actions by federal, state and local governments concerning environmental standards. Some standards achieve environmental improvement at the expense of either higher consumption, lower supply, or both.

Fourth, the actual foreign supply availability situation on which the U.S. must rely increasingly for crude oil and petroleum products.

Fifth, the actual operating results of the domestic petroleum companies. In this regard, during the past two weeks, we have seen some encouraging signs. Refining utilization has been quite high. Total gasoline production has been up substantially over last year, and inventories are improving. However, the distribution system still appears to be under severe strains.

When we in Exxon USA take all these considerations into account, we conclude that shortages this summer may be scattered, temporary, and, in total, relatively minor. Let me hasten to add, however, that we recognize that individuals and businesses which are directly affected by such shortages will justifiably feel that they are encountering serious problems.

Some well-intentioned measures to solve these problems may in themselves create more severe dislocations. The petroleum products supply system is highly complex. Solving one seemingly isolated problem is likely to create a host of others. In fact, some actions can introduce distortions into the system and in this way actually reduce supplies. Consequently, we believe that ways must be sought to permit market forces to function to the maximum extent practicable, not only to reduce demand and allocate available supplies, but also to stimulate added supplies. As a corollary, government actions should be kept to the absolute minimum consistent with serving the public good.

Looking beyond this summer, shortages are likely to occur in the next three to four years which could go well beyond the consumer inconvenience level that could develop this summer. In that even, government may well have to take stronger measures. But a significant amount of planning will be required to ensure that such measures are effective.

We believe that it would be useful to define a number of criteria against which to measure the desirability of steps taken to cope with the supply situation. These criteria should recognize that the situation will likely get worse before it starts to improve, and will be of three to four years duration. They need to recognize that the nation's increasing reliance on foreign energy sources during the period may be inevitable but should be minimized. They need to be quite fundamental because of the extensive involvement of energy in our society. Once developed, these criteria would provide a framework for testing individual decisions and actions, such as those involving allocation of supplies, reconsideration of the timetable for environmental improvement, management of crude and product inventories, pricing policies and fiscal policy.

One of the unique roles for the Federal Government is the establishment of priorities for supplying various consuming sectors in the event of shortages of essential goods and services. These judgments hould not be left to the independent discretion of state and local governments—or, for that matter, to suppliers. In this area, sweeping generalizations are dangerous, and any programs that are adopted need to be explicit.

Petroleum fuels are consumed in a wide variety of end uses. Reducing supplies to certain of these—such as home heating—can have a direct effect on the health and welfare of citizens. In other uses, such as in the industrial sector, the effects on citizens and on the economy are complex and must be thought out carefully. For example, no one would question the need for food, and as a consequence the need to supply fuel to the farmers, the food processors and all segments of the food supply chain. But even in this instance, some foods are essentials; other are luxuries. Even relatively non-essential uses of energy, such as recreation and tourism, are essential to those who earn their livelihood by providing such services. Furthermore, individual consuming sectors need to be examined closely when establishing priorities. For example, while recognizing the essential nature of public transportation, it is safe to say that not all travelers are serving equally high priority national needs. But here again, the interrelationships are complex. Even non-essential travel provides the livelihood for those employed in the transportation industries, as well as for all those who provide services to the traveler at his destination, regardless of why he is traveling. These examples should suffice to make the point that the government's role in determining priorities is exceedingly complex and one which cannot be taken lightly. Hasty or arbitrary measures, taken without adequately ascertaining the nature of the problem or defining the probable practical effects on the economy and on society at large, must be avoided.

Government may find it necessary to impose a system of mandatory regulations to assure that essential or priority needs are met. Mandatory controls would be a very drastic measure. We therefore urge that, if they are deemed by Government to be necessary, an opportunity for review and comment be afforded to both consumers and suppliers before regulations are finally adopted. We believe that the following principles should be incorporated in any such regulations:

First, actions should preferably be limited to ensuring supplies for consumers with essential needs; this can probably best be done by establishing guidelines for supplying priority users and handling hardship cases and exceptions through an appeals and review process. Government efforts to allocate all supplies to consumers would be burdensome, unnecessary and undesirable for many reasons.

Second, all suppliers of petroleum should share the burden of meeting essential needs—whether such suppliers are large or small. No supplier should be excused from sharing in that burden on the grounds his supplies are limited, since all suppliers are by definition limited in times like these. To do otherwise would have the perverse effect of penalizing those who have more effectively conducted their business to date so as to assist those who have, for whatever reason, been less prudent.

Third, market forces should be relied upon to the maximum extent practicable to handle the vast majority of energy needs. The system for manufacture, transportation, distribution and marketing of petroleum is very complex. Market forces do provide incentive to individual competitors to continually improve the efficiency of their respective distribution systems to the benefit of the consumer. Furthermore, as previously pointed out, effectively managing the supply and distribution system of the entire industry would be an impossible task for any central authority.

Fourth, any steps taken by government should have a finite and limited life with positive actions required to extend their applicability.

Fifth, since this situation may have to be dealt with over a several-year period of time, the definition of priority needs should be responsive to changes in other national priorities.

Sixth, and most importantly, the overriding principles to which all others must be subservient is the well-being of the consumer who, in the final analysis, is the one who stands to suffer or gain the most.

PRICE CONTROLS

Exxon USA is quite concerned not only over the ability of the consumer to obtain needed supplies but also that ways be found to guard against unreasonable increases in prices that could develop in times of tight supply. Motor gasoline prices have already shown some tendency to increase in isolated areas.

The present price controls apply to only 23 companies, and they apply primarily at the wholesale level. Generally speaking, these 23 companies have little control over retail prices. For example, Exxon products are sold in about 25,000 service stations, but Exxon itself only operates about 1,000 of these. We have no control over prices in stations we do not operate.

In the interest of protecting the consumer and controlling inflation, we believe the time has come for the Cost of Living Council to give serious consideration to the need or desirability of imposing price controls on petroleum products at the retail level for so long as other controls on the economy are necessary. Such controls should include all service station gasoline, home heating oil and other critical products.

CONCLUSION

We have heard and read many reports about the impact of the supply situation on individuals, on segments of the industry, and on sections of the country. I am sure the Committee has as well. Some of the reported cases of hardship are, I am sure, accurate; others, I am equally sure, are exaggerated. But, as I have noted several times, we expect the situation will likely get worse before the necessary major expansions of refining capacity can be brought on stream. This clearly implies a need for better institutions to cope with the situations that are likely to develop. I have attempted in my statement to point out that the petroleum industry is extremely complex and that the role of petroleum in the economy is even more complicated. It seems appropriate, therefore, that as the Oil Policy Committee and others in government seek to establish the mechanisms to deal with the problem, advice and assistance be sought from appropriate segments of the economy, including the petroleum industry. There are many ways in which this can be done. These hearings are but one. We hope our comments here have been helpful and we stand ready to offer our views on various aspects of both the problem and any proposed solutions.

In closing, Mr. Chairman, we have prepared answers to the questions published in the call of these hearings, and I am submitting a copy for the record as an attachment to my statement.

Exxon Company, U.S.A., Replies to Questions Included in "Notice of Public Hearing Regarding Allocation of Crude Oil and Refinery Products"

1. What legal problems will complicate compliance with the voluntary allocation program? To what extent will they limit compliance?

Answer. Legal problems complicating compliance with the voluntary allocation program fall into two categories: (1) contractual liability issues, and (2) anti-trust exposure.

(1) Contractual—It is possible that situation might arise in which compliance with the voluntary allocation program would result in our not being able to fully meet contractual obligations. Features of the program most likely to cause this are first, the particular base period of the program, which could result in our supplying former customers at the expense of existing customers, and second, allocations to priority customers made at the request of the Office of Oil & Gas and at the expense of our existing customers. The basis upon which we may avoid incurring civil liabilities to our customers for their damages resulting from our failure to comply with our contract commitments are either under principles of state law, Uniform Commercial Code, or under the specific terms of our written contracts. Under the provisions of the Uniform Commercial Code, a seller is relieved of an obligation to deliver by reason of an occurrence of a contingency the non-occurrence of which was a basic assumption on which the contract was made or by compliance in good faith with any applicable foreign or domestic governmental regulations or order whether or not it later proves to be invalid. In the event a seller's capacity to perform is only partially eliminated,

the seller must allocate product and deiveries among his customers and may at his option include regular customers not then under contract as well as his own requirements for further manufacture. He may so allocate in any manner which is fair and reasonable. Obligations under contracts governed by Uniform Commercial Code principles will in part be determined by a construction of whether or not compliance with the voluntary allocation program is construed to be compliance with a "domestic governmental regulation or order." If voluntary compliance is determined to constitute compliance in good faith with a domestic governmental regulation, then the resultant reduction of volumes of product delivered under contracts to our customers would not give rise to claims for damages by customers whose available product were more severely limited than would have been the case if we had not voluntarily complied. If compliance with the voluntary program is not so construed we could be held liable for our failure to perform. The actual outcome of any individual difference of views on contract interpretation on this point would therefore likely become a subject of litigation.

(2) Antitrust—The voluntary allocation program requires that producers, crude oil buyers, gas plant operators, refiners, marketers, jobbers, and distributors agree that they will make product available in accordance with the criteria established by the guidelines. There is no clear indication in the guidelines as to the parties who are to be construed as agreeing. In its worst construction, the guidelines may be interpreted to mean that each of the named parties agree with each of the other named parties to take the action indicated. In its best possible light, the construction would be that each individual party would agree with the governmental agency to take the action indicated. In either event, however, it is probable that the result would be that the courts would view the agreement as one between competitors in the market place in an area which is forbidden under the antitrust law, specifically agreements to divide or share markets. The Justice Department opinion to the Office of Oil and Gas gives little comfort in the area of assurance that governmental action would not be taken against those parties committing to the voluntary allocation program. Further, the opinion gives absolutely no assurance that customers, competitors, or others injured by the action taken pursuant to the agreement of voluntary compliance could not pursue remedies in the courts for resulting damages. Damages recovered for a violation of Section 1 of the Sherman Act would be trebled and each successful plaintiff would be entitled to recover attorney's fees as well. In addition, the exposure to civil liability is magnified by the prospect that class actions might be allowed in which large numbers of injured customers, competitors, or others could recover astronomical damages.

2. What problems other than legal problems will tend to limit effective compliance with the voluntary program? To what extent will they prevent compliance? Would these problems be any different if the program were made mandatory?

Answer. We found in the development of our allocation program that, while a particular base period satisfactorily served a particular group purchasing a given product, that same base period did not necessarily well serve other customer groups purchasing the same or other products. Furthermore, we found that a single allocation formula could not treat fairly all customers within a given group. Considering all the factors involved, we believe our program represents the fullest extent of voluntary action that is feasible for our Company to undertake. It does the best job possible of supplying the customers we serve. We plan to continue to operate under our program.

While the terms of the OOG voluntary program may—on the average and in the general case—do an adequate job of allocating supplies, the concerns we have that our individual customers be treated fairly would not change if the program were made mandatory.

3. If the program were made mandatory under the provisions of the Economic Stabilization Act, would this eliminate the legal problems you expect under the Voluntary Allocation Program? What legal problems would you expect under a Mandatory Allocation Program? To what extent would they complicate compliance?

Answer. In the event allocation is ordered by the government under the Economic Stabilization Act, certain of the potential liabilities for failure to comply with contractual obligations would probably be eliminated in that under the terms of many written contracts, such governmental action would relieve the supplier of the obligation to deliver product. Further, the compliance with a government order of allocation by a supplier would not under most foreseeable circumstances be construed as action taken by a competitor pursuant to a conspiracy to accomplish a forbidden purpose under the antitrust laws. An order directing suppliers to comply with the guidelines for voluntary allocation under Section 1b would not relieve the problems of interpretation of obligations under the section. Government order directing a supplier to take a specific action such as delivering a stipulated volume of product to a specific customer would raise minimal legal problems. A governmental regulation directing the supplier to comply with nebulous standards would give rise to interminable litigation between existing customers, prospective purchases and others not enjoying the status of customers.

A mandatory program along the lines of the voluntary program would have to be very specific as to how individual instances are treated to avoid extremely large numbers of lawsuits over interpretation. The more specific and detailed the program is made the more burdensome and potentially counter-productive the program would become.

4. To whom should the allocation program be extended? Should coverage be limited to major companies? If the program coverage is limited, what criteria should be applied?

Answer. All suppliers of petroleum should share the burden of meeting essential needs—whether such supplies are large or small. Furthermore, no supplier should be excused from sharing in that burden on the grounds his supplies are limited, since all suppliers are by definition limited in times like these.

As to consumers, the proposed program is arbitrary, ignores many practical considerations, and does not provide fair treatment to all customers and all classes of trade. It is inadequate in its treatment of priorities. Any mandatory program that might be adopted should preferably be limited to ensuring supplies for consumers with essential needs.

5. In your opinion, how should the allocation program be administered?

Answer. The nation's system for manufacture, transportation, distribution, and marketing of petroleum is very complex. Effectively managing this system would be an impossible task for any central authority. Administrative efforts by government should be kept to the absolute minimum consistent with the public good. Following these concepts, actions should preferably be limited to ensuring supplies for consumers with essential needs. This can probably best be done by establishing guidelines for supplying priority users and handling hardship cases and exceptions through an appeals and review process.

Serious consideration should be given to creating an advisory committee to assist government in developing implementation machinery that will not prove to be counter-productive to meeting consumer needs. Such an advisory committee needs to include some expert judgment on the needs of both the consumer and the suppliers. It might function through either existing institutions and procedures or one created especially for this purpose.

6. What limits, if any, should be set on proportional allocations? Should we require a supplier to make available amounts greater than base period sales and exchanges if the supplier has greater volumes available for proportional allocation than he had during the base period?

Answer. Under Exxon USA's allocation program, we are using our current supply capability to make available products in the same basic proportions as we have in the past. We are providing these products to each of our customer groups in the same basic proportions as in the past. Individual customers in each group are being treated fairly. We are making supplies available to all our customers to whom we were committed when supplies became short so long as they meet their obligations, and unless they chose to leave us. We are recognizing our responsibility to customers where we were their last supplier. And, until our supply capabilities increase substantially, we probably will not be able to take on commitments to supply new customers. In developing our program, we found it impossible to meet essential objectives by applying a single allocation formula and utilizing a single base period. As long as these two concepts are in any allocation program, the question of whether allocations should be proportional or limited to base period volumes fails to come to grips with the basic difficulties of such a program.

One specific example may help illustrate this latter point. Our Company manages its supply operations in accordance with a seasonal year operating program. A seasonal year consists of the last three quarters of a calendar year and the first quarter of the next year. Contracts are based, in many instances, on that seasonal year. Throughout the seasonal year, operations are adjusted to account for actual variations from normal weather. The proposed allocation system establishes as a base period *actual* sales in the last half of one and the first half of the subsequent seasonal (and contract) year. It establishes future allocation on the basis of past weather as well as this split in contract years.

Numerous other examples can be cited. A proportional allocation system based on any historical base period would be unable to recognize the large number of new petroleum consumers—new businesses, new manufacturing facilities, new municipalities—created each year. Also, such a system would not be an adequate mechanism to govern the disposition of production from the large amount of new refining capacity which will be needed to satisfy the needs of the nation's consumers in the years ahead.

7. *In your opinion what would be the best procedure for administering priority allocations? Should each supplier be required to set aside a certain portion of his supplies for priority classes of customers? Should we assign priority allocation to each supplier or rely upon suppliers to make priority allocations up to a certain percent of their supply?*

Answer. Assuming by use of the word "require" that the question refers to a mandatory allocation program, priority allocations can probably best be administered by establishing guidelines for supplying users and handling hardship cases and exceptions through an appeals and review process.

The approach which makes the most sense to us would be to require *each* supplier to set aside a small portion of his supplies which could subsequently be called upon by government to meet essential needs. After reaching a decision on a particular hardship case, government would order a supplier to deliver a stipulated volume of product to a specific customer. By such a procedure, legal and other problems would be minimized. In matching suppliers with hardship customers, care would have to be taken to avoid distorting established supply systems so as to minimize the costs to society of such allocations.

8. *What category of customers should receive priority allocations? List in the order in which you think they shoud be considered.*

Answer. One of the unique roles for the Federal government is the establishment of priorities for supplying various consuming sectors in the event of shortages of essential goods and services. These judgments should not be left to the independent discretion of suppliers. In this area, sweeping generalizations are dangerous, and any programs that are adopted need to be explicit.

Petroleum fuels are consumed in a wide variety of end uses. Reducing supplies to certain of these—such as home heating—can have a direct effect on the health and welfare of citizens. In other uses, such as in the industrial sector, the effects on citizens and on the economy are complex and must be thought out carefully. For example, no one would question the need for food, and as a consequence the need to supply fuel to the farmers, the food processors and all segments of the food supply chain. But even in this instance, some foods are essential and others are luxuries. Even relatively non-essential uses of energy, such as recreation and tourism, are essential to those who earn their livelihood by providing such services. Furthermore, individual consuming sectors need to be examined closely when establishing priorities. For example, while recognizing the essential nature of public transportation, it is safe to say that not all travelers are serving equally high priority national needs. But here again, the interrelationships are complex. Even non-essential travel provides the livelihood for those employed in the transportation industries, as well as for all those who provide services to the traveler at his destination, regardless of why he is traveling. These examples should suffice to make the point that the government's role in determining priorities is exceedingly complex and one which cannot be taken lightly. Hasty or arbitrary measures, taken without adequately ascertaining the nature of the problem or studying the probable practical effects on the economy and on society at large must be avoided.

Since the situation of tight supplies may have to be dealt with over a several-year period of time, definition of priority needs should be responsive to changes in other national priorities.

9. *What problems or conflict do you foresee between the pricing provisions of the Voluntary Allocation Program and the requirements of the Cost of Living Council? How could these problems or conflicts be avoided?*

Answer. Section 5(a) provides that petroleum products prices shall not exceed "normal refinery or terminal rack prices, or normal delivered domestic contract barge or cargo prices charged by major companies." The standard is essentially one which cannot be measured against the requirements of price controls regulations of the Cost of Living Council. In fact, the standard is so broad that it is essentially meaningless. Section 5(b) provides that the price of crude oil charged by major oil companies to independent refiners shall not exceed the posted crude oil prices at the time of sale plus pipeline charges. Because posted prices may vary between major oil companies within given fields and from field to field, the standard is ambiguous. If controlling effect is given to Section 5(c) providing that no price controls are contemplated in this program other than those promulgated by the Cost of Living Council, Sections 5(a) and 5(b) are meaningless and there could be no conflict between the pricing provisions of the program under consideration and the requirements of the Cost of Living Council. Conflict between the program under consideration and the regulations of the Cost of Living Council can be avoided by giving controlling effect to Section 5(c).

We can see at least one potential conflict of objectives between the Oil Policy Committee in establishing its allocation program and the Cost of Living Council in its price controls. The present price controls are primarily directed at the supply end of the supply and distribution system. Directionally, therefore, they tend to worsen the situation and increase the hardship on consumers that OPC's allocation program is trying to minimize.

On the other hand, Exxon USA is quite concerned not only over the ability of the consumer to obtain needed supplies but also that ways be found to guard against unreasonable increases in prices that could develop in times of tight supply. Motor gasoline prices have already shown some tendency to increase in isolated areas.

The present price controls apply to only 23 companies and, hence, apply primarily at the wholesale level. Generally speaking, these 23 companies have little control over retail prices. For example, Exxon products are sold in about 25,000 service stations, but Exxon itself only operates about 1,000 of these. We have no control over prices in stations we do not operate.

In the interest of protecting the consumer and controlling inflation, we believe the time has come for the Cost of Living Council to give serious consideration to the need or desirability of imposing price controls on petroleum products at the retail level for so long as other controls on the economy are necessary. Such controls should include all service station gasoline, home heating oil and other critical products.

10. Should a special board be established to handle complaints or should they be handled by the section of OOG administering the allocation program?

Answer. We think that the task of handling complaints should be performed along with other administrative requirements by the OOG with the assistance, when needed, of other existing agencies who have expertise to bring to bear on the various situations which may arise. For practical purposes, the several regional offices of OOG could be combined with regional offices of OEP, and a system of decentralized review boards established.

In any case, special care should be taken to define clear and specific guidelines for granting allocations to priority consumers or in "hardship" cases.

11. In a voluntary program what penalties, if any, could be imposed for noncompliance? What incentives could be provided to induce compliance? Should license-fee exemptions under the MOIP be contingent upon compliance with the voluntary allocation program?

Answer. The concept of imposing penalties for "noncompliance" with a voluntary program seems to us to be self-contradicting.

We believe that many companies will take the view that the period of tight supply will not continue indefinitely. With this in mind, they will recognize that the value of their business in the long run will depend on retaining the good will of their customers. As a result, such companies will see the incentive to act responsibly and additional incentives should not be provided. Conversely, the adverse customer reaction to those suppliers who do not act responsibly during the period of tight supply will provide the ultimate penalty when a more normal supply situation is reestablished.

We should learn from lessons of the past when the MOIP was used for purposes for which it was not intended. To again resort to such a practice would be most unfortunate. Additionally, suspension of license-fee exemptions could very easily lead to a reduction in imports at a time the country could not afford it—certainly such action could not increase imports.

12. What criteria should be established to determine when allocations are no longer necessary and when the program should be terminated? Should a schedule for phasing out the present program or any modified program be established at this time? What can we do to prevent independent refiners and marketers from becoming so dependent upon allocation controls that perpetual extension of the program is required?

Answer. We believe that it would be useful to define a number of criteria against which to measure the desirability of steps taken to cope with the supply situation. These criteria should recognize that the situation will likely get worse before it starts to improve, and will be of three to four years duration. They need to recognize the nation's increasing reliance on foreign energy sources during the period may be inevitable but should be minimized. They need to be quite fundamental because of the extensive involvement of energy in our society. Once developed, these criteria would provide a framework for testing individual decisions and actions, such as the determination of when government encouraged or mandated allocations are appropriate. Putting a finite life on any steps to be taken by government would ensure that such a determination would be made periodically during the period of time until the supply situation is corrected.

The last part of the question wisely recognizes one of the basic pitfalls in any efforts by government to administer a major industry or segment of an industry. The record of performance in efforts at allocation and price controls—even in times of war—and such peacetime activities as natural gas price controls and regulation of the railroads provides ample cause for concern in this area.

13. Do you have any other suggestion for improvements of the present voluntary program or inclusion in a mandatory program? Should a force majcure provision be added to the current program?

Answer. Our comments on the present voluntary program have been adequately covered in our answering the preceding twelve questions. In summary, we do not believe it is possible to devise a single simple allocation formula that would be workable and fair. The magnitude and complexity of the petroleum industry suggests to us rather clearly that any government efforts—if they are to be responsive to consumer needs and avoid making the problem worse—must be limited to handling hardship cases on some sort of exception basis.

It is difficult to determine the intent or the meaning of the question regarding force majeure. It would seem that, the question would not be pertinent to a voluntary program, but only to a mandatory program. It would be appropriate for a party to be excused for failure to comply with the provisions of a mandatory program in the event of natural disaster, or should available supply be reduced for other uncontrollable events.

14. Should the voluntary program be made mandatory? If so, what are your recommendations, if any, on the specific nature of the program that should be adopted?

Answer. When we in Exxon USA take into consideration the various factors influencing the supply/demand situation this summer, we conclude that shortages may be scattered, temporary, and in total, relatively minor. However, we recognize that individuals and businesses which are directly affected by such shortages will justifiably feel that they are encountering serious problems.

Some well-intentioned measures to solve these problems may in themselves create more severe dislocations. The petroleum products supply system is highly complex. Solving one seemingly isolated problem is likely to create a host of others. In fact, some actions can introduce distortions into the system and in this way actually reduce supplies. Consequently, we believe that ways must be sought to permit market forces to function to the maximum extent practicable, not only to reduce demand and allocate available supplies, but also to stimulate added supplies. As a corollary, government actions should be kept to the absolute minimum consistent with serving the public good.

Looking beyond this summer, shortages are likely to occur in the next three to four years which could go well beyond the consumer inconvenience level that could develop this summer. In that event, government may well have to take stronger measures. But a significant amount of planning will be required to ensure that such measures are effective.

Government may find it necessary to impose a system of mandatory regulations to assure that essential or priority needs are met. Mandatory controls would be a very drastic measure. We therefore urge that, if they are deemed by government to be necessary, an opportunity for review and comment be afforded to both consumers and suppliers before regulations are finally adopted. We believe that the following principles should be incorporated in any such regulations:

First, actions should preferably be limited to ensuring supplies for consumers with essential needs; this can probably best be done by establishing guidelines for supplying priority users and handling hardship cases and exceptions through an appeals and review process. Government efforts to allocate all supplies to consumers would be burdensome, unnecessary and undesirable for many reasons.

Second, all suppliers of petroleum should share the burden of meeting essential needs—whether such suppliers are large or small. No supplier should be excused from sharing in that burden on the grounds his supplies are limited, since all suppliers are by definition limited in times like these. To do otherwise would have the perverse effect of penalizing those who have more effectively conducted their business to date so as to assist those who have, for whatever reason, been less prudent.

Third, market forces should be relied upon to the maximum extent practicable to handle the vast majority of energy needs. The system for manufacture, transportation, distribution and marketing of petroleum is very complex. Market forces do provide incentive to individual competitors to continually improve the efficiency of their respective distribution systems to the benefit of the consumer. Furthermore, as previously pointed out, effectively managing the supply and distribution system of the entire industry would be an impossible task for any central authority.

Fourth, any steps taken by government should have a finite and limited life with positive actions required to extend their applicability.

Fifth, since this situation may have to be dealt with over a several-year period of time, the definition of priority needs should be responsive to changes in other national priorities.

Sixth, and most importantly, the overriding principle to which all others must be subservient in the well-being of the consumer who, in the final analysis, is the one who stands to suffer or gain the most.

15. What additional measures should be taken to insure the accomplishment of program goals?

Answer. Our suggestions have been comprehensively covered in the answers to the previous fourteen questions.

The CHAIRMAN. Without objection, both of your longer statements will appear in the record at the conclusion of each of your oral statements.

Mr. Collado, may I ask you briefly to comment on this suggestion for treating overseas income as a separate idea, perhaps a substitute idea for the three areas that the administration directs its attention to.

First, what do you think would be the reaction if we should do away with the alternative method of determining foreign credit, that is, to put all businesses on the overall limitation rather than to continue the overall plus the country by country? What would that do to us?

Mr. COLLADO. I think, Mr. Chairman, this is a subject that I went into at some detail in the statement that was submitted in March and it is laid out in some detail in that document that you have before you.

In the present short remarks I didn't attempt to repeat it. As you know, the oil industry differs somewhat from manufacturing in respect to the impact that these different methods of dealing with the foreign tax credit have upon them. In general only relatively few of the older established, more mature and very widespread companies in fact use the overall. Most companies, particularly companies going abroad and into new countries perhaps for the first time, or with less widespread operations than those that have wide marketing and refining operations, have used the per country.

Now, they use the per country because they are encouraged, as you are in the United States, to explore by the fact that you do get this treatment of losses that we have been talking about here. My own feeling is very srong that for this kind of company, which happens to be the majority of companies in the United States, that if you take away the incentive for foreign exploration which is provided by the loss treatment under the per country limitation you really take away a very great amount of incentive to go abroad and look for the oil. Since I think we very much need this oil, I think this is a very poor way to go about finding the oil that we need.

The CHAIRMAN. What about this thought that we assume a return of a certain percent of overseas earnings each year, whether or not those overseas earnings are actually returned to the United States, that is, for tax purposes?

Mr. COLLADO. It is sort of a minimum distribution scheme?

The CHAIRMAN. Well, I am not thinking in terms of minimum. I don't have a particular percentage in mind but I am aware that about 51 percent of the total of our earnings abroad are brought back and are taxed in the year in which they are earned. That varies, of course. Some companies will leave money for longer periods of time and in greater amounts but the average is about 51 percent.

I am also thinking in terms of the DISC provision in the law that enables the American company producing here to establish such a corporation and reserve against taxes half of the earnings on those overseas sales.

Is there any possibility that we might find a solution in this suggestion?

Mr. COLLADO. I think probably the way I would approach this, Mr. Chairman, is that any such device is something of a compromise between immediate taxation of all retained earnings and the present system which is that we do not tax them at all. No foreign country has a comparable system in which there is any taxation whatever of earnings until they are brought back home.

So clearly, to the extent that this provision is meaningful, it would impair the competitive position of American-owned companies vis-a-vis their foreign competitors. In our industry, our foreign competitors are very strong and active. As you know over the years our share of the world production, marketing, and trade has been declining very markedly. We have trouble keeping up with them.

If this is done, its impairment depends on the small print, how it is done, whether it is done across the board similarly to the overall, whether it is done company by company. It would make a very large difference whether it is done company by company rather than in some consolidated form.

What percentage would bite and what percentage would not bite? It depends very much on individual companies and industries. I think clearly any move in this direction is a move away from permitting the American foreign investor to have a relatively free competitive play against his foreign competitors.

The CHAIRMAN. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Mr. Collado, following up the chairman's inquiry, have you submitted any information on how our principal trading partners tax their oil companies with respect to depletion, intangible drilling costs, and so forth?

Mr. COLLADO. Yes. That is an appendix to the large document which I think is before you which is the one we submitted in March. There is a full appendix on that, sir.

Mr. SCHNEEBELI. Thank you. Mr. Collado, we are told that by 1980, probably $20 billion a year will be paid by this country to the Mid-east on the oil we import? What can we do about this large amount of money?

Mr. COLLADO. The situation I think is described rather fully by Mr. Swearingen in his statement. We have a situation in the world whereby the demand for all kinds of energy by the United States, Canada, Japan, Western Europe, and in addition all those underdeveloped countries that don't happen to be the oil-producing countries, is moving at a rate that is tending to exceed the rate of new discovery of energy sources.

As he pointed out, there are all kinds of alternative energy which come in at economic prices which perhaps for the most part are somewhat higher than the historical costs of hydrocarbons. On the other hand, the nations that are blessed with these large reserves of oil—and if you study the reserve position and the prospects for increased production—are limited to a very, very few countries—one in particular gets almost 50 percent of the increase in production. This is their natural resource. This is their national patrimony, and they are in a pretty strong position, and they are going to try to get well paid for it.

The Secretary of the Treasury spoke in Paris. I heard him last Wednesday on this subject. Their whole desire is to convert their national patrimony, which is in the form of hydrocarbons in the ground, into some other kind of long-range productive assets so they can assure their people of a suitable income in the future.

Our problem, the problem of the consuming countries generally, is to see that these things are in some proper kind of balance. I don't think anybody seriously believes that energy could stay as cheap as it has been historically. Part of our troubles today comes from the fact that we have distorted these sources of energy by certain arbitrary decisions that kept the price very low. Price regulation, for example, has discouraged exploration. The real question is: What will prevent the price of oil from going to infinity?

The answer is finding oil from other places, producing gas from coal, producing oil from shale, producing oil from tar sands and, above all, getting on with nuclear and perhaps in the longer run more exotic forms of power. There comes a point at which the market system equates what you pay for these energy forms.

In the meantime, we are going to pay more for oil because it is the only thing we have to look for in the next 3 or 4 years to meet the demand that we managed to create with our rather lavish consumption of energy. There is no simple answer. We have to do a whole lot of things.

Now, in regard to the rest of your question: In terms of having to pay for imports, some part is the cost of production and transportation, it is not only payments to governments. Then what happens to that money and how does international trade remain viable when there is a particularly large amount of outgoing payments? There you are back to the old business of your competitive position, patterns of trade, and exports to the producing countries.

Many of these countries have large populations and they will absorb the proceeds of their oil in conventional ways, imports of capital goods, et cetera. Others with relatively small populations will probably put a large proportion of their total into some form of international investment. This becomes an interesting and very new factor in international trade and investment.

Mr. SCHNEEBELI. To a great extent, aren't we dealing with countries with very small populations?

Mr. COLLADO. Well, it depends.

Mr. SCHNEEBELI. At the present time?

Mr. COLLADO. Iran, for example, which is a substantial producer, has a population of about 30 million. They will probably have a conventional use of the money.

Mr. SCHNEEBELI. How about Saudi Arabia?

Mr. COLLADO. They are more likely to accrue foreign investments.

Mr. SCHNEEBELI. Mr. Swearingen, of the many alternative actions possible in this energy shortage situation, which ones lend themselves to relief in the short term most effectively and which are the best long term relief prospects?

Mr. SWEARINGEN. There is no practical way to solve the problem in the short run; by that I mean in the next 2 to 3 years. We are going to be dependent on imports, both crude and refined products for this period of time. If you passed a bill in the Congress today to build the Alaskan pipeline and bring another 2 million barrels of oil a day into our supplies, it would probably be 3 years or maybe even 4 years before that line could be built and put into operation.

If we embark on a program to intensify exploration of the coasts and the Gulf of Mexico or Alaska and elsewhere, you are talking here in terms of a program that will require 7 to 10 years to bring forth any substantial new supply. If you are thinking in terms of manufacturing oil or gas from coal or shale to obtain any substantial supply, you are talking of a program in the order of $100 billion to $200 billion. There is no way that this money could be spent effectively in a short period of time.

This, in my opinion, is a program that will require 10 to 15 years to bring forth any substantial supply. What I do say is I think we should start on all of these things as promptly as we can and my priorities would be just about as I have described them to you now. We will have to depend on imports for the next 5 to 10 years. We should proceed as rapidly as we can to get ourselves out from under complete dependence on foreign sources, get the Alaskan pipeline moving, intensify exploration, start into a program of extracting oil and gas from coal and shale.

Mr. SCHNEEBELI. Those 37 billion barrels of U.S. reserve do not include production from shale?

Mr. SWEARINGEN. No.

Mr. SCHNEEBELI. What is the price differential between shale produced and ——

Mr. SWEARINGEN. Well, the current price of oil is rapidly changing.

Mr. SCHNEEBELI. I realize this.

Mr. SWEARINGEN. But the typical gulf coast oil sells for about $4 a barrel today, in this price range. To produce oil from coal or shale would require a price in the neighborhood of $6 to $8 a barrel in order to make those investments viable.

Now, when I use a figure like this I am talking in terms of today's value of the dollar. If you are measuring the value of your dollar changes, why, the price that would be required would have to change also.

Mr. SCHNEEBELI. What is the shale reserve? Doesn't that lend itself to a little more encouragement?

Mr. SWEARINGEN. Yes. We have recoverable reserves of oil locked up in shale of the order of 200 to 300 billion barrels. This could supply a very substantial part of our requirements. Most of the shale land that is exploitable is owned by the Federal Government. The Federal Government has declared a moratorium on leasing any of their acreage. Private ventures cannot build a mine or plant until they get a lease from the Federal Government. This again is in the Government's hands as to when this resource will be brought into production.

I would like to point out to you, Mr. Schneebeli, the environmental problems involved in mining these huge quantities of material and what to do about the refuse from the operations and where to get the water supply and how do you attract people to carry on the operation, build the cities, build the roads, all of these things have great environmental impact.

Mr. SCHNEEBELI. That is very interesting. I wish I could continue but my time is up.

The CHAIRMAN. Mr. Burke will inquire.

Mr. BURKE. Mr. Collado, on page 2 of your statement you indicate that last year's level of imports on oil was $5 billion. And by 1980 we expect an annual import of $25 billion, which means an increase of $20 billion a year in imports. Last year we had a $6.5 billion deficit on trade and if that continues on to the year 1980 we would have then a $26.5 billion deficit in trade, if conditions didn't change.

Do you think this country is able to buy all the goods they are buying now that they do not need and have the ability to continue on that path and also be able to buy the things they do need?

Mr. COLLADO. Well, I think, Mr. Congressman, that we have to put these things into a time frame perspective, for one thing, on both trade and perhaps prices. Even modest price increases will raise all the trade figures considerably by 1980. So the relative numbers won't seem quite so far out of range as perhaps they look today. The $25 billion range for 1980 oil imports is a fairly respectable number that a number of people are using. It is based both on assumptions of volume and of assumptions of price.

In my longer statement I made a number of reservations about the accuracy of any kind of projections of this sort. As you know, no one who has ever projected the U.S. balance of payments, and some very important research organizations, in this city and elsewhere have been doing it for years, anywhere near correctly and this probably won't be correct either.

The import figure here, as was brought out in qualitative terms by Mr. Swearingen, is a residual number. If we take all the steps that he has talked about, which the administration has talked about, it is possible that that number could be small. The Secretary of the Treasury used the figure of $15 billion "before 1980."

My own feeling is that it is going to take a lot of good luck to keep it that small. But what I do say is we still would probably have an important deficit in the energy sector, but it would be a more manageable proportion in the $5, $6, $7 or $8 billion range by 1980 after allowing for increased U.S. exports to the producing countries and for increased investments by them in the United States.

Now you have to remember that to make these calculations we have had to use past patterns of trade. The U.S. dollar has gone down by some 30-odd percent against the stronger currencies of Europe and Japan in its exchange value in less than 2 years. That has changed our competitive position very, very markedly. At the monetary conference we attended in Paris last week, the Europeans were quite clearly of the feeling that they don't want the dollar any lower because they think we would be getting a great competitive edge over them.

This gives us the opportunity to reach out and get the exports necessary to provide the means of payments for those raw materials and other things we need in this country to live with. I think it is a feasible thing but not easy. It is going to be very difficult. I think if the administration and industry all work on this—and frankly I think the consumers, as Mr. Swearingen points out, must also get into this thing, because we are very lavish with our use of energy—we should be able to make considerable strides in the next 5 to 10 years in being much more effective in our use of energy. For these reasons I think it is feasible, but not easy.

Mr. BURKE. Of course I am interested in the balance of trade. If your predictions are even close, I think it would have at least a $10 billion deficit in balance of trade, if your figures are projected even in a modest way.

What concerns me is whether or not we are able to continue to keep the market open for the glutting of our markets with the goods that have disrupted many other industries, not referring to oil, referring to textiles, shoes, electronics, and other industries that have found great competition from foreign imports and whether or not it would be economically sound for this country to allow these goods to glut the market and will we have enough money to buy the energy and the other things that we need.

In other words, can we continue a policy of open, free trade on many of these articles that are causing great unemployment and at the same time have enough money to buy the oil and the other things that we do need?

Mr. COLLADO. I guess I am a very great believer in the open-market oriented trading system.

Mr. BURKE. I am too. But I think even an eighth-grade child can add up figures. If we are going to import $25 billion in oil in 1980 and in 1972 we imported $5 billion and we have a $6.5 billion trade deficit, something has to give.

Now, where are we going to give? Are we going to report out of this committee a bill that is going to be a free trade bill and allow the importation of all kinds of articles that are going to disrupt the labor market, cause high unemployment, and buy all of these other goods and then are we going to have enough money to buy the $25 billion in oil that is going to be needed? Where is the money coming from?

Mr. COLLADO. I guess my feeling, Mr. Congressman, is that unless we are able to negotiate more open export possibilities with our trading partners, more particularly with the Japanese and the Europeans, it will not be possible for us to take advantage of our strong competitive edge that we have from this present price of our currency. We have a situation in which inflation in this country is moving rapidly enough but somewhat less rapidly than it is in Europe. It is much faster in Europe than it is here.

If we don't have an open trading system, we can never pay for this oil. I don't think we can get that open system for our exports if at the same time we are blocking out their imports. So I think this kind of a bill is absolutely essential if we are going to be able to live in 1980.

Mr. BURKE. In other words, you are confident that if we put through a real free trade bill here that we are going to be able to import all the goods we are importing now and be able to buy the oil we will need? Actually what you are saying is that we can't slow down the imports on some of these items we don't need because if we do they won't buy our exports and if they don't buy our exports we can't trade with them.

Now, don't you think that our negotiators have the ability to sit down and bring about reasonable trade agreements? Don't you think that they are able to convince Japan that they can't increase their imports, say, of footwear or textiles 30 to 35 percent a year, that they should hold themselves within what the market calls for?

Mr. COLLADO. I think, Mr. Burke, that we tend to disregard the fact that the very measure that has improved our export competitive power has made the cost of goods we have been importing very much more expensive. As you know, the prices of Volkswagen and Datsun have taken a large increase. This would be an important factor bearing on the extent to which we continue to import. This becomes a competitive situation.

Mr. BURKE. That is just a temporary condition. Within 2 years that will eliminate itself and we will be back where we started.

Mr. COLLADO. Not necessarily, if their costs are going up faster than our costs, which they have been in the past year, even with the relatively high degree of inflation we have experienced in recent months. Over any consistent period of time and right now, in general, most of these countries are having higher cost increases than we. When you add that to the fact that we have changed the currency so extremely, we have changed the game plan very considerably in my opinion. This is obviously a question of judgment because there is no way that you can project this scientifically on a machine and come out with an answer that at least I would be prepared to say was very valuable.

Mr. BURKE. I am a little disappointed in your response. I was hoping that a large industry such as yours could take a look at the problems that we face and particularly up in my area where we are not only short of fuel, but we have over 7.2 percent unemployment and we have high welfare. It seems to me that there is nobody in this country in the large industries who wants to face up to the fact that we just can't import all this oil and import all the textiles and shoes and radios and televisions and sporting goods and everything else with it, and stand up economically. Yet you people seem to think we can. So who am I to argue with people as big as you are?

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Mr. Collado, like Mr. Burke, I am deeply concerned with our balance-of-trade problems. I find, however, in recent months that there are more people in the country who have a more immediate concern with the fuel shortage problem.

Having said that, let me ask you: To what extent did U.S. consumption exceed production in 1972 while we were importing $5 billion in crude from abroad?

Mr. SWEARINGEN. Mr. Congressman, that figure is about 5 million barrels a day. We used about 16 million barrels a day in this country, of which we imported about 2.5 million in the form of crude, and about 2.5 million in the form of refined products. So that is 5 million out of 16 million. Almost one-third.

Mr. COLLIER. Until several of the recommendations that you recommend could be adopted, recognized that implementation is quite a way down the road, then obviously we cannot produce what is needed for domestic consumption?

Mr. SWEARINGEN. Mr. Collier, I don't necessarily accept that premise that we cannot produce all that we need. As I tried to outline in my statement, we do have a number of alternatives.

I think it is unlikely, unless we stumble into some very large oil fields offshore and Alaska, that we don't now know about, that this country will ever be in a position of having a surplus that could be exported outside this country.

Mr. COLLIER. Will we have enough for domestic consumption?

Mr. SWEARINGEN. I think if we really set ourselves about it we can make enough oil out of coal and shale to supply our own requirements and make ourselves independent of sources in the Middle East or elsewhere. Now it will be more costly than oil has been in the past but I don't know that that is necessarily true in the future.

May I just make a remark along the lines of Mr. Burke's question about the balance-of-payments problem.

If we are going to go down the road of continuing to buy oil from other countries we will have to pay for that by increased exports but we will be doing this in the face of similar pressures on Western Europe and Japan who will have to pay for their imported oil with exports and increasing exports to cover the deficit is going to be a very difficult task.

Our country at least has one major advantage over the Europeans and the Japanese, and that is we do have some unexplored territory for conventional sources of oil and gas under our own control. We do have large sources of oil shale and coal which can be converted to oil and gas. This is not true in Japan and most of Western Europe. We have an alternative; they don't.

Mr. COLLIER. But you are suggesting, however, that one of two things could happen. Either there could be found a solution to producing within the environmental standards on one hand, or a relaxation of the standards. Is that it?

Mr. SWEARINGEN. That is correct. I might just add one other thought in this connection. The environmental standards that have been set here for all practical purposes prohibit the burning of coal in most central power stations, certainly coal from Illinois with which you are familiar. In the short run if these standards were relaxed for a period of several years until we get into production on some of these alternatives which we have been talking about, if we were able to burn coal in central station powerplants this would provide a source of oil for other purposes where oil is now being used on the boilers to generate electricity.

Mr. COLLIER. I think in addition to the problems that have been outlined which face the industry and the American consumer, there is a need for greater public understanding of these problems. In fact, there is such a confusion and misunderstanding that we find ourselves on the horns of the dilemma in trying to cope with a serious balance-of-payments problem on one hand and the need for solving the fuel problem on the other.

In the type of mail I am receiving, and I presume it is reflected in that of my colleagues, there is a need for public understanding as to just how we got into the kind of position we find ourselves and what the alternatives are. I think that it is why your industry has trouble in trying to develop a better public understanding. I know that they have made an effort but I am wondering if it has been adequate up to this time.

Mr. SWEARINGEN. Mr. Collier, obviously it hasn't been adequate if we haven't gotten the message through. I would agree with you that we have not gotten the message through. I and other industry spokesmen over a period of years have tried to alert the American public to this impending problem. Now it is here with us. We in our own company have intensified our advertising and changed the direction of it to try to explain this problem and how it can be cured.

We can publish advertisements but we can't make people read them. Now, all I can say to you is we are just as aware as you that the public must be educated on the need to take further steps both to increase supply and to reduce consumption.

I hope we can get the message across but I am really at a loss as to what we can do much more than we are doing now.

Mr. COLLIER. One other question. In percentage, what has the increase in price been on crude, particularly that which is purchased from OPEC, in the past 3 years. Do you have a figure available? If not, I would like to have it for the record.

Mr. COLLADO. It has been very substantial, in the range of 60 percent. I am talking about the so-called reference prices in the producing country areas. There have been very big fluctuations over the years in tanker rates. At the moment they are very high so the delivered cost is very much influenced by that.

A third of the cost of a barrel of oil on the eastern seaboard of the United States is in transportation from, say, the Persian Gulf.

Mr. COLLIER. Has the price of crude oil that we have imported been higher or about the same as the increase at the gas pump?

Mr. COLLADO. The price of crude, I am sure, has moved through a considerably greater amplitude than the price of products. Would you say so?

Mr. SWEARINGEN. Yes. As a result of them the gasoline price should go up about a penny a gallon for every 25-cent increase in the price of crude per barrel. The gasoline market has changed quite substantially in the past 2 or 3 years from one of a large surplus to one of a shortage. So you are not seeing the price wars that have plagued our industry here for many, many years. But at the same time, I think you must recognize that the oil industry is under the price control of the administration at the present time, and we are not permitted to increase prices beyond 1½ percent.

So the price of gasoline is being held down when the price of crude is going up.

Further in relation to the question you have just asked, a year ago imported crude oil was quite a bit cheaper in this country than domestic. Today the reverse is true.

Mr. COLLIER. Thank you.

The CHAIRMAN. Mrs. Griffiths.

Mrs. GRIFFITHS. I would like to ask you, does Standard Oil of New Jersey ration gas and oil to its filling stations?

Mr. COLLADO. In our domestic company, we now call it Exxon, we have a system of allocation whereby in general the supplier is attempting to continue to provide to all of its current customers what they received last year plus a little more. This is a form of allocation system.

Mrs. GRIFFITHS. How do you keep an inventory of how much gas or oil you sell each day or week or month? Do you total it each day?

Mr. COLLADO. They have a very complicated system computerized for the purpose. It takes a great deal of doing to follow it carefully.

Mrs. GRIFFITHS. How do you know what your supplies are?

Mr. COLLADO. Well, that is relatively easier. We know what we produce in the refineries, and know what we buy.

Mrs. GRIFFITHS. When were you first aware that you were going to have to ration gas to your suppliers this year?

Mr. COLLADO. Well, I suppose some time a year or so ago. This is really a question that I would refer to my domestic colleagues. Perhaps I better have them give you some information. It so happens that a vice president of Exxon Co., U.S.A., is testifying in the Oil Policy Committee hearings about oil on Wednesday of this week. He will be able to answer that much better than I can.[1] It is not my personal field. But we were becoming increasingly aware last summer and fall that there were possibilities of stringency. We indicated that it was our view that we would be able to supply all of our customers last winter if there were no untoward interferences either with crude supply or of possibly a breakdown in a refinery or any number of other things. In fact, we did.

This year with the increasing demand—the demand particularly for motor gasoline has moved up very remarkably in this country as compared to a year ago. Now, in some measure that is merely the economic upturn. We had a relatively low point in the first part of last year as you will recall, but beyond that the general consumption has gone up for a number of reasons. One of the things is that the new automobiles, because of not only the expensive gadgets that have been put on them such as air-conditioning and so forth, but especially some of the requirements for the environment, are consuming much more gasoline than they used to, and the efficiency in terms of miles per gallon has gone very, very far down. The result is that for a variety of reasons the gasoline demand in this country has really moved considerably out of line with what people expected. In these circumstances our people still feel they can supply all our current customers and with a little increment this year.

Our people feel that under these circumstances there may be spot difficulties and individuals may be inconvenienced but a major serious cutback will not be necessary. If consumers could be a little more moderate, this would not be such a serious problem.

Mrs. GRIFFITHS. You pointed out that you have put ads in the paper explaining these shortages for a long time, and apparently nobody reads them. It seems to me you have the best and simplest way in the

[1] See statement of W. T. Slick, Jr., p. 4537.

world of telling people they are not going to have gas and oil. If a year ago you knew the situation was really critical, why didn't you put a notice in every filling station you owned that: "Next year beginning at such and such a date, you will not be able to buy more gas or oil in this station than you bought last year, and we will accept no new customers"?

Why don't you have it on television? I have seen all those Exxon ads, "Buy Exxon." Why didn't you just say we can't take any new customers? If you had said that in June of last year then something could have been done and quickly. Have any of you ever bothered to talk to the automobile companies and tell them this situation was really critical?

Some friends of mine arrived in the city the other day and I inquired hastily about the gas problem. "Oh," she said, "I didn't have any problem at all." She said, "I drive a foreign made car and I get 30 miles to the gallon." Why haven't you told the automobile companies? The car I drive gets about 7 miles per gallon. That would be a fourfold increase or better of the supply of gas in this country if everybody drove one that got 30 miles to the gallon.

Mr. COLLADO. Mrs. Griffiths, we have been telling people these things for years. In 1969 there was a major investigation into energy requirements in the United States. I suppose, well, this is a big room but a somewhat smaller room was filled with documents. Our own company put in over a thousand pages and all of these things have been pointed out. We have been talking about this and talking about this. It is like a Greek tragedy marching to an inevitable disaster. You can see yourself marching and they are not doing anything.

Mrs. GRIFFITHS. But the terms you talk in circles translate into "if we paid no taxes we would have more money for research." That is how it translates to the average person. You have a marvelous system. Just change those ads on the TV to "There will be no new customers this year. We have to check on how much you used last year and that is all you can have." It would work like a charm and it would be absolutely devastating.

Mr. SWEARINGEN. Mrs. Griffiths, may I just respond briefly to your point?

Mrs. GRIFFITHS. Surely.

Mr. SWEARINGEN. There is no way that we can identify and determine whether a person who pulls in the driveway of one of our service stations is an established customer or not. When we sell directly to a consumer like a fleet of laundry trucks or a business or to a farmer we have a contractual arrangement to supply with them and we can determine those customers.

But your suggestion here of saying, "We are not going to take any more customers at the service station," I think is an impractical one unless we come down to some kind of rationing and identification systems such as we had in World War II.

Mrs. GRIFFITHS. It would be quite simple to do. All you have to do is give them an identification card.

Mr. SWEARINGEN. We would have a very great difficulty I think with someone who pulled up into one of our stations and we refused to serve them.

Mrs. GRIFFITHS. You might have a little counterfeiting. But the truth is you are sitting on a keg of dynamite.

Mr. Collier has just pointed out to you that we are getting some rambunctious mail from our constituents. They are mad. The first person who was refused gas out in California killed the station operator. I don't think you can continue. I think you have to have some organized system of rationing if you are going to do this and it is either going to mean somebody is going to come in some day and say let's nationalize this or they will come in some day and say we are going to ration it by the Government and put on a price control. I don't think you can sit there and say we have been saying this for years. It is long past the time when something should have been done. You are the people sitting in the driver's seat. You had available to you means of explaining it very simply.

Thank you very much.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Collado, I have heard criticism of the oil consuming countries, that they don't get together to try to make common cause in the face of the oil producing countries which obviously are now in a position to take advantage of a sellers market. I am somewhat skeptical about this suggestion because it would seem to me that energy being such a vital commodity to competition, since our manufacturing and cost of living depend on the cost of our energy to a substantial degree and since we are all competitors in the oil consuming countries, it just apears to them that this isn't a very feasible suggestion. I believe I also heard that recently there have been some special steps taken by the Japanese, for instance in the Persian Gulf states, indicating that they are quite willing to go out and make special deals on their own, further eroding any possibility of a united front by the oil consuming nations.

Well, I wish you would comment on this and suggest from your point of view if there is some concerted action possible? Are we simply going to have to allow ourselves to be whipsawed by the oil producing nations as we go into this period of increasing shortage?

Are there any areas in which cooperation can be availing for the oil consuming nations? If so, who should take the initiative? Should the governments involved or the various international oil companies? How does this generally translate in terms of the shortage situation you have described to us and do you see any possibility of some kind of universal policy with respect to oil exploration incentives within the oil-consuming nations?

I notice in the statement that has been given to us, for instance, that there are wide ranges of incentives given by different countries. Ours are mostly tax incentives. Some other countries apparently pay very substantial direct subsidies. Well, could you just explore this area for me, the area of cooperation among the oil-consuming countries generally?

Mr. COLLADO. This is a very broad range of questions which we have obviously been thinking about for a long time and which have become the subject of a great deal of current discussion both in the private circles and in governmental circles. Conferences on the international energy situation have now become very fashionable and they occur somewhere in the world every month or two. Some of these are official, some are quasi-official, and some are purely private although private ones usually have quite a few governmental representatives attending in their personal capacities.

It is quite clear that there are several areas in which it is appropriate for consumer governments to consider cooperative actions. The most obvious one of them, and we have had some experience in the past with this one, is in the area of emergency allocation of supplies in periods of short, severe crisis.

We have had such a situation back in 1956–57 when the Suez Canal was shut down for the first time. We had another in 1967. We have had some others of a more minor duration. The OECD, the organization of the main developed countries, including all of Europe, Canada, the United States, Australia, New Zealand and Japan, has an arrrangement on the European front for an allocation system. It is rather out of date. There is serious discussion going on in Paris of a broader system for dealing with the problem if there are important cutbacks in production or exports by significant producing nations. If this happens for any length of time clearly something should be done about it.

This is an area where I think it is possible for the consuming countries to have plans for their own needs which do not necessarily attract a feeling of confrontation with the producing countries. This is the big issue.

If you confront the producing countries you may intensify certain political aspects of the problem and I don't think many of us feel that we would really like to have an out-and-out confrontation. I suppose the ultimate confrontation would be for all the manufacturing nations to say we won't give you any manufactured goods unless you give us oil.

Well, I think this is unthinkable and nobody is seriously talking about it. Now, another area where the Europeans have made considerable steps and which I think we should give serious thought to, I discussed this once with Mr. Burke, is the area of some kind of energy storage. Unfortunately a period of shortage such as we have now comes in very considerable measure because of lack of suitable refinery capacity and lack of so-called sweet crudes; again it gets back to the sulfur business. We could manage the problems satisfactorily if we had not moved so fast with the environmental problems. We managed to compound the difficulties. This is one reason why a year ago we thought we would be able to do better if we didn't have these impositions. Nevertheless, the Europeans have built up somewhat greater stockpiles than exist in this country.

The third area is of course intergovernmental cooperation on research in these alternative forms of energy that we were talking about before, that Mr. Swearingen outlined, not only in the nuclear areas where the Europeans have Euratom and have done a lot of work, but in coal gasification, liquefaction, and other things. The thing we are all working on is desulfurization either of flue gases or the fuel in order to reduce the environmental problem and at the same time stretch the ability to produce a satisfactory product.

Now, these things are pretty obvious. They were all mentioned in one way or another in the President's recent message. Beyond that you probably have to consider, and I think this stems from something Mr. Swearingen said, that one of the things we should avoid is a mad rush of the consuming countries, suddenly realizing what the outlook is for the next 10 or 15 years, to try to button up unilateral deals to the disadvantage of others.

We have to live in the world and if we have a world where all the other countries are cutting each other's throats for oil, this could be an unattractive world from many points of view. I think that is one of the reasons why just a little over a year ago, the Deputy Secretary of State proposed at the OECD a major inquiry among the developed major manufacturing nations of how best to deal with this problem. They have a Commission working on this subject.

I happen to have talked to that Commission only last week in Paris. They are working on it. In my opinion they could work a lot faster on it but at least they are beginning to.

Mr. CONABLE. May I question how effective an allocation system is going to be if we have not taken all the reasonable steps necessary to develop our own internal oil supply? It would seem unlikely to me when we have the Northern Slope to be developed that the Europeans would look with great sympathy, in view of the degree of their shortage, on giving us any substantial allocation of Middle Eastern oil, for instance. It would seem to me that an allocation system is not going to be very much to our advantage if we have not taken all these internal development steps here.

Mr. COLLADO. This is part of the change in the world's circumstances. You see, in all the previous critical periods, which were many, the United States had spare producing capacity. There have been something over 20 shutdowns by one or other major producing nations for some periods of time, and there have been two or three quite general ones, especially the one in the summer of 1967. It was also the fact that both Venezuela and Canada had some spare capacity. And by a rationalization of transportation it was possible to take care, frankly, with no great strain on our own consumers, of most of the needs of the Europeans who were the short ones. They just don't have the resources. Nor do the Japanese.

The difference today is we are all in the "have not" capacity—the United States, happily, much less so than most of these other countries. So the problem of devising an allocation system to prevent the countries really from cutting one another's throats really becomes more serious and important.

It is not easy but I think we have to work at it. If we are dawdling with some of the things we ought to be doing, so are the Europeans. The Europeans are dawdling with the use of atomic energy and coal also. This is not a U.S. phenomenon. This goes on in other parts of the world. The only people who are not dawdlers are the Japanese. They are working very hard.

Mr. CONABLE. Thank you.

The CHAIRMAN. Mr. Burleson.

Mr. BURLESON. Mr. Collado, in your statement you made reference to the need to search for more reserves both at home and abroad. Your particular companies, either yours or the major companies as a whole, using any measure you wish, what exploration efforts do you make here at home?

Mr. COLLADO. Speaking for Exxon, we participated in the discoveries in Alaska. We are hoping some day to realize some of the product from those discoveries. We have been active in the Gulf of Mexico. We are active and are still doing some deepwater production research in the west coast offshore, and we continue to pursue onshore developments.

We have found some fields, for example in Florida recently, and other places outside of the United States. I don't think you asked that specifically. We are doing exploration, I would say, in a great many parts of the world, for example, Canada and the North Sea, particularly the British, Scotish, or Norwegian parts of it. We are involved in various parts of Australia; gas and oil discoveries out there that have been quite promising. We are in Indonesia and in the whole Malaysian area, the Gulf of Siam. You name it, we are almost every place in the world.

All around the edges of Africa, we have people exploring, looking for new supplies. Now in the Middle East itself we are continuing to explore for oil. We just announced here a couple of weeks ago a large new contract with the Government of Egypt to explore in the eastern Mediterranean north of Egypt in the offshore west of the Suez Canal. Other companies are in most of these same places.

Mr. BURLESON. Could you give me an estimate of what your business is or the major companies generally are in wildcatting operation in the contiguous 48 States?

Mr. SWEARINGEN. Perhaps I can respond to that question, Mr. Burleson. Last year in the United States there were not quite 30,000 wells drilled, of which some 18,000 wells were classified as exploratory wells. Of those wells, very few were drilled outside the contiguous 48 States.

Mr. BURLESON. What is needed in the way of incentives? The discussion here of the shortage, the so-called "energy crisis," I would like to put that in quotes, too. I don't think there is any, but there is a problem, there is no question about that, but what is needed to develop our own resources?

Mr. SWEARINGEN. The first thing we need, Mr. Burleson, is to have the Federal Government decide they are going to release some of the acreage that nobody is permitted to drill on until they get a permit or lease from the Federal Government.

Mr. BURLESON. What other incentives are needed, whether it is your operation or the so-called independents?

Mr. SWEARINGEN. Iwould remind you that the Tax Reform Act of 1969 took about $500 million a year out of the oil companies. So by the reduction, which was the principal item, obviously people can't drill wells unless they have the money to spend on them and a place to drill. I think one of the things this committee should seriously consider is whether the Congress didn't move in the wrong direction in 1969 in this specific matter.

Mr. BURLESON. Well, I agree with you. When the industry generally has been the whipping boy for all these years, this is the thing, to talk about seeing the shortage come on, this is the thing that some of us, without any crystal ball, have been talking about for 12 to 15 years, of allowing the incentives to be reduced, chipped away. There is something. It is certainly obvious in my area of the country that people are just not going out and investing high risk capital in trying to find new supplies. In the secondary recovery area, what do you operate? Do you make those efforts in the 48 contiguous States?

Mr. SWEARINGEN. Yes. Practically every field that our company has any interest in that is adaptable—and by this I mean there are some marginal fields where such processes can't work, but practically all of the major properties which we have are under some sort of a secondary recovery operation.

Now, I think it is more proper to describe that as saying we are using modern producing techniques in order to extract the maximum amount of oil that can be taken from the reservoir. This involves such things as injection of gas, injection of water or other fluids in order to assist with the recovery of oil that is underground in the rock and to improve the recovery level of the oil in place.

Now, in addition to this, our own company, and I am sure there are some others as well who are doing some in-fill drilling at the present time, reducing the spacing in order to permit the oil to be produced at a faster rate than was possible with the original spacing in the field.

Mr. SCHNEEBELI. Would the gentleman yield? What was the result of that recent atomic explosion in Colorado?

Mr. SWEARINGEN. Yes. There is a large area in western Wyoming and northeastern Utah and western Colorado which is underlain by a very tight sandstone which can be up to 2,000 feet in thickness. It contains gas but the rock is so tight that it will not give up the gas just by drilling a hole into it.

Now, this atomic blast that was made just about 2 or 3 weeks ago I understand was successful. I don't believe they have opened the hole to sample the gas yet but I am not really up to date on that. This is a possibility for producing large amounts of that gas.

Mr. SCHNEEBELI. Thank you.

Mr. BURLESON. My time is up.

The CHAIRMAN. Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

My first question is this: Are shortages of petroleum products about the same across the broad spectrum of consumption? For example, automobile gasoline, aviation gasoline, diesel oil used in trucks, farm equipment, et cetera?

Mr. SWEARINGEN. Yes, for all practical purposes, it is true, Mr. Pettis.

Let me explain, if I can just take a minute, to say to you that crude oil that comes out of the ground has to be processed in a refinery; that is it has to be converted into products the customers want.

Typically, crude oil will contain 5 to 30 percent gasoline, poor quality, but gasoline. The next heaviest fraction is the kerosene. The next heaviest is fuel oil that is used for home heating purposes, and diesel comes in this area. Then at the bottom of the barrel you have heavy black fuel oil which is used typically for burning in central powerplants or industrial establishments.

A refinery is set up so it can take the lightest 80 percent of the crude oil, and by the way the processing goes on, you can either produce fuel oil or you can produce gasoline. If you take fuel oil, you can crack it up and make gasoline out of it.

Now, what happened to us last winter was that we had an extraordinarily heavy demand for fuel oil. We actually run our refineries on a seasonal basis. In the summertime, we make large amounts of gasoline and store fuel oil for winter demand, because there is a great variation between winter and summer on fuel oil use.

Last winter our company made considerably more fuel oil than we did the winter before because the customers, and largely the electric utilities, required this much more fuel oil. In doing so, we were not able to crack that fuel oil to make gasoline that we could sell this summer.

So what we are experiencing right now on a gasoline shortage is very closely related to the fuel oil problem we had last winter. By making fuel oil, we couldn't make gasoline.

So coming back to your specific question now, with this kind of a flexibility in a refinery to make a range of products, what we try to do is satisfy all of our customers, or dissatisfy them, practically to the same extent.

Mr. PETTIS. The second question is in two parts. In your existing refineries, are any of these refineries running short of crude?

Mr. SWEARINGEN. In our own company, this is not the case. We experienced some temporary supply problems early in the spring. At the present time, our refineries are running at 100 percent of capacity. We don't have all the crude of the character we would like to have, but we are making do.

I don't want to be technical here, but there are different kinds of crude oil. I guess the most important differentiating characteristic is whether it contains large amounts of sulfur or not. Sulfur in oil is very corrosive. So that a refinery designed to run sweet crude or low sulfur crude cannot run high sulfur crudes because of the corrosive nature of it. It would eat the refinery tanks and distillation towers and furnaces to a point where they would be unusable in a period of 3 to 6 months. It would ruin them if we tried to run high sulfur crude in a low sulfur refinery.

There are many small refineries in the mid-continent that were designed to run sweet crude from Oklahoma, Texas, and Wyoming. This is in short supply, and these refineries have not been able to get a sufficient quantity of low sulfur crude to run their refineries at full capacity.

Mr. PETTIS. Second, on an industry basis, are there serious constraints to the building of new refineries, or maybe, to put it another way, are new refineries coming on line, or into production?

Mr. SWEARINGEN. No, Mr. Pettis, there is no new refinery currently under construction in the United States. The most recent new refinery was built up near Chicago and placed on stream late last year.

I would say everybody wants refined products, but nobody want a refinery in their backyard.

If we are going to have to depend in the short run on imported supplies of crude, the most refinery deficient area of the country is along the east coast, but various States up and down the east coast have enacted law. Delaware is one that comes to mind, which prohibit any further industrial construction along the Delaware River.

As a conseuqence, finding a site which the environmentalists and the citizens of the area will permit to be dedicated to refinery use is becoming extremely difficult, and in some cases actually impossible.

Mr. PETTIS. My last question is kind of a hypothetical question.

As you know, we have been talking here about how we might reduce the consumption of gasoline. I had the experience of asking a supplier of fuel for my airplane this last week whether or not the tax we now put on aviation fuel had really cut back on the consumption of aviation fuel. He said no, quite the opposite. He said we are selling far more aviation fuel today than we did before that tax was put on.

Now my question: If there were to be a tax put on automobile fuel, do you believe that it would in any way affect the consumption of automobile fuel?

Mr. SWEARINGEN. I am not sure I understand your question. We talked about both aviation gasoline and motor.

Mr. PETTIS. I was trying to extrapolate. If it had no effect on the consumption of aviation fuel, and it was his opinion that it had not had any because of consumption having gone up in spite of the added tax, if we were to add a 1, 2, or 3 percent tax to automobile gasoline at the Federal level, would this in any way affect the total consumption of fuel?

Mr. SWEARINGEN. Yes; I think it would quantitatively move in the direction of decreasing consumption. Any time a product becomes dearer, people use it more sparingly.

I think there is a great debate among economists not only in the industry but outside as well as to the quantitative measure of an increase in price against consumption of gasoline.

I just say to you that gasoline at 40 cents a gallon, which includes typically 11, 12, or 13 cents of tax today, is still only 10 cents a quart. What else can you buy for 10 cents a quart? I don't think you can even buy a bottle of water for 10 cents a quart.

Mr. CONABLE. If you will yield, have there been any authoritative studies of this comparison?

Mr. SWEARINGEN. There are a number of attempts to do this. Various economists in the industry have done this. The National Petroleum Council looked at it. Some studies have been made at Harvard University.

These happen to be things I am acquainted with, but I will not say I know thoroughly.

But the fundamental problem here is that all of these measures, which have been made at a price level which has existed in the past, and say the effect of price on consumption is such-and-such at the 25-to 30-cent level, and I think you are making quite an extrapolation when you say the same factors would apply at the 40- and 50-cent level. So you have these problems.

But even among the people who made these studies, the relationships vary from a figure of maybe one-tenth to as high as, I have seen figures as high as .75, which says that taking the one-tenth, if the price of gasoline were to double, go up 100 percent, consumption would go down 10 percent, or, using the higher factor, if the price went up 100 percent, consumption would go down 75 percent.

A range between 10 percent and 75 is so large that it is almost unusable, really, in trying to quantify a measure of the effect of a tax imposition on consumption.

Mr. PETTIS. My last question:

Are there any industry endeavors being made in the area of recapture, or maybe that is not the word, recycling of used petroleum products?

Mr. SWEARINGEN. Yes, sir. The only one not destroyed in use is motor oil. You burn the gasoline in our automobile engines, and it comes out as carbon monoxide, or carbon dioxide, and water. So most of our products are consumed in use.

The industry has undertaken a wide-scale effort to direct drainings from crank cases, put them back into the refinery, not for reuse as motor oil, but to clean them up so they can be burned. But it is a very small thing.

Mr. PETTIS. Thank you.

The CHAIRMAN. Mr. Corman will inquire.

Mr. CORMAN. What is the price of a gallon of premium gasoline when it leaves the refinery on its way to the gasoline station?

Mr. SWEARINGEN. Well, to answer that question, Mr. Corman, I will have to make an assumption. We will talk about a refinery in Texas.

At a refinery in Texas, the price of premium gasoline today in tank car lots or larger would be of the order of 15 to 15½ cents a gallon, something like that.

Mr. CORMAN. Would you happen to have any figures for the Southern California area?

Mr. SWEARINGEN. It wouldn't be greatly different.

Mr. CORMAN. As I understand it, crude oil is $4 a barrel now. Right?

Mr. SWEARINGEN. Yes. That is 10 cents a gallon, roughly, in a 42-gallon barrel.

Mr. CORMAN. You said that if it goes up 25 cents a barrel a penny should be added for a gallon of gasoline. But a gallon only costs 15 cents. There must be some cost in there besides the crude oil.

Mr. SWEARINGEN. There certainly is. I started out reminding you a minute ago that the taxes add up to about 13 cents.

Mr. CORMAN. I am trying to figure out why it would go up 1 cent a gallon for every 25 cents a barrel. That seems to reflect more than the cost of the oil in the cost of the gasoline.

Mr. SWEARINGEN. Well, it requires about 1.4 gallons of crude oil to make one gallon of gasoline. This again is a rule-of-thumb number. But I would be glad to sit down and go through the arithmetic with you afterwards.

Mr. CORMAN. If you are selling it for $4 a barrel now, and each 25 cents is supposed to represent a penny, then that would mean that you have 16 cents worth of crude oil in that 15 cent-a-gallon gasoline you are selling.

Mr. SWEARINGEN. I was talking about a change in the price, and not an absolute price level.

Mr. CORMAN. Yes. I am trying to figure out how much of that penny is profit, and how much is cost. I anticipate that the cost of oil will have to go up, and the cost of gasoline will have to go up, also. I am wondering what would be a reasonable amount.

Mr. SWEARINGEN. Let's turn it around and say to you our own company last year, on all of its operations, made a return on the assets employed in the business of a little under 9 percent, which I don't think is an extravagant figure when you look at all manufacturing being a typical 10- to 11-percent figure.

Mr. CORMAN. What was your effective rate of tax?

Mr. SWEARINGEN. Our total rate of tax——

Mr. CORMAN. Federal income tax is all I am interested in. Do you know what that was?

Mr. SWEARINGEN. Our Federal rate—first of all, let's talk about overall. Overall, our rate of tax for the company as a whole was about 23 or 24 percent.

Mr. CORMAN. What would be included in overall tax?

Mr. SWEARINGEN. That would include foreign income taxes as well as domestic income taxes. The rate of tax on our foreign income is slightly higher than the rate of tax on our domestic income.

I would just remark to you, Mr. Corman, in this respect, if we earned a higher return on the assets employed in our business, the rate of tax would be higher.

Mr. CORMAN. I am trying to figure out how to get more taxes out of you. I realize you are trying to figure out how to get more profits.

Mr. SWEARINGEN. I would be delighted to pay more taxes, if we got a better return on our facilities.

Mr. CORMAN. A lot of people would be delighted to pay 20 percent on their income when they get up to figures like yours.

You mentioned shortages and passing along information. What have been the communications with the automobile manufacturers, and what has been their reaction to this problem?

Mr. SWEARINGEN. They are very much aware of it.

Mr. CORMAN. Do you see any evidence of their concern resulting in any action? As I understand it, each new car burns more gasoline than the model for the year before.

Mr. SWEARINGEN. Yes. I certainly can. That is the success of the small cars which they are now manufacturing, which they did not manufacture 10 years ago. I am talking about the Pinto, Mustang, and their counterparts among all of the automobile manufacturers.

I think the automobile manufacturers are willing to produce whatever car the public wants to buy. If there were a demand for twice as many small cars as they are now producing, I think there is no question they would gear up in order to produce them.

Mr. CORMAN. I have detected that the foreign manufacturers have been able to sell some small cars in this country.

Mr. SWEARINGEN. They have.

Mr. CORMAN. I wondered if perhaps that has had a greater effect on Detroit than your conversations with them.

Mr. SWEARINGEN. I must say I don't try to pretend to run their business.

Mr. CORMAN. I certainly agree with you that our economy works better when we let the free market fix prices rather than trying to do it through governmental regulations.

On the other hand, it seems to me that what so often frustrates the free market is vertical monopolies.

What do you think would be the result in the oil industry if we broke up the vertical monopoly; that is, the existing system where one company controls the process from the drilling of the oil to pumping it into the tank of the motorist? What if that system were broken up, and a different business entity drilled for oil, refined it, and distributed it to the motorists?

Mr. SWEARINGEN. Mr. Corman, first of all, I would like to ask you to define for me what a monopoly is.

Mr. CORMAN. The courts have generally said if anyone has enough of a control of the market to unduly influence it, that constitutes a monopoly.

I have never been able to figure out a percentage, because in the Los Angeles area, I know a grocery market was made to divest itself because it was going to control 7 percent of the market.

But I would assume one could say that in the auto industry General Motors has a monopoly. They control more than half of the market. They have a vertical monopoly in that they control it from the manufacture through to the distribution.

It has always seemed to me that that presents some problems. I don't know for sure. Perhaps it doesn't.

Mr. SWEARINGEN. Let me try to express my opinion in response to your question. It may not be exactly what you have asked.

First let me say to you that there is no one company in the business of refining and marketing oil in the United States that has a market share in excess of 10 percent. The top six or seven companies have market shares ranging from about 6 percent to eight and a fraction percent.

Now, if that average is seven, and seven companies are involved, that is roughly half of the business which is handled by seven companies. Now, you may choose to define that as a monopoly. I certainly would not.

Now, there are a number of measures that economists use to define a monopoly. One is market share. Another is ease of entry into the business.

There is nothing that I know of that prevents someone, a member of this committee, if he chooses, to go into the oil business. If he thinks the return on capital is such to make him risk his money, he can certainly do this. There are no restraints on anyone going in the oil business, or any phase of the oil business, that they choose to go into.

There are a lot of other measures of monopoly, and I am not an economist by training, and I will not try to go into all of that. But I want to try to disabuse you of the allegation, not the fact, the allegation that the oil industry is a monopoly, because it is not.

But coming to the import of your question, what would happen if the industry was split up into a series of horizontal pieces, if somebody was in the refining business, he could not be in the production business, and if you were in the production business, you couldn't be in the transportation business.

The only reason the industry has moved in this direction is to improve the efficiency of production, refining, marketing, and distribution, the entire chain from getting crude oil out of the ground into the customer's hands.

If you impose any arbitrary restraints on business, you are going to have a less efficient system than you have now. The only reason we have come to this is because the people who were not integrated from one end to the other of the business found they could not compete in the business with those who were.

Mr. CORMAN. This problem once occurred in the movie industry and the producers had to divest themselves of distribution. I can't say for sure whether that was good or bad, but the reason intrigued me.

My last question: How is it that the independent distributors seem to be more efficient than the major oil company distributors, in that they sell their gasoline cheaper?

Mr. SWEARINGEN. Well, this is the old supply-demand equation at work, Mr. Corman.

Well, first of all, let me talk a minute about the economics of retailing of gasoline.

If you build a service station and put up your investment and buy the lot and employ the people, your fixed costs are relatively high. There is hardly a service station you or I have ever seen that couldn't handle twice as many customers if they could just get the people to come across the driveway and buy from this particular outlet.

This means that the fixed costs are high for selling, distributing gasoline, and the variable costs are very low. If you can double the throughput of single service stations, you can reduce the cost by perhaps 2, 3, or even 4 cents a gallon.

This means there is always some element of the market, and I am a believer that gasoline is relatively inelastic in its response to price, but there are a lot of people who shop around for the lowest price, just as they do with supermarkets or anything else.

So here is a man, an operator of a station, who says: I am going to give away some part of this saving to a customer to get him to come in and buy from me instead of my competitor. So he lowers the price 2, 3, or 4 cents a gallon and builds up his volume to two, three, or four times normal. He does that by attracting customers away from somebody else's station.

There is always a certain number of outlets that can do this, but everybody can't, because all you are doing is taking in each other's washing. Everybody doesn't do that.

Mr. CORMAN. I wonder why it is that only the independents seem to be able to do it. The price of gas at Exxon is 2 cents cheaper if the station is across the street from an independent than it is if there is no independent on the other side of the street.

Mr. SWEARINGEN. This again I think disproves your theory of monopoly, because prices are set locally by local conditions. Here again the economics of the business is such that cost savings can be passed along to the hand of the consumers if you can get the volume of support.

Mr. CORMAN. Thank you.

The CHAIRMAN. Mr. Duncan.

Mr. DUNCAN. Thank you.

Will the increased imports have any effect or inhibit future investments of domestic exploration of oil?

Mr. SWEARINGEN. Looking down the line, I would say you would be looking at it at the present time. I would think it is unlikely it would have any measurable effect.

I say this on the premise that foreign oil is going to be more expensive than domestic, or at least they would be equal.

If foreign oil were cheaper than domestic oil, I would say the reverse were true.

Mr. DUNCAN. Is the domestic oil industry producing at its maximum efficient rate at this time?

Mr. SWEARINGEN. Yes; it is.

The CHAIRMAN. You have other questions, do you not?

Mr. DUNCAN. Yes.

The CHAIRMAN. Other members of the committee have other questions. It will be necessary for us to ask you to come back this afternoon. Can you be here at 1?

Mr. SWEARINGEN. Yes.

The CHAIRMAN. We will resume at 1 p.m.

[Whereupon, at 12:03 p.m., the committee recessed, to reconvene at 1 p.m.]

AFTERNOON SESSION

Mr. GIBBONS [presiding]. The committee will resume its hearings.

Let me personally thank the witnesses for coming back.

Let me ask a few questions, if I may.

Mr. Swearingen, I think your company is Amoco, or have I got the wrong brand name?

Mr. SWEARINGEN. Amoco is one of our companies.

Mr. GIBBONS. I was looking over your annual statement the other day, Mr. Collado. I am going to ask you some questions about that.

I don't have your annual report in front of me to refresh my recollection, so my figures may be way out of the ball park, but as I recall, your total income last year was roughly around $21 or $25 billion. Is that right?

Mr. COLLADO. $22 billion.

Mr. GIBBONS. Yes, sir, that is what I recall. Now, is that your worldwide income, or your U.S. income?

Mr. COLLADO. That is worldwide.

Mr. GIBBONS. From all your worldwide operations?

Mr. COLLADO. Yes.

Mr. GIBBONS. I notice you attached to your statement a chart showing a number of interesting things. I am going to ask you some questions about them, because I don't really understand all of them.

As I recall, in your annual statement you had for percentage depletion a figure of about $200 million. Do you recall that?

Mr. COLLADO. Let me refer to the annual report I have here, sir.

Now, we don't show depletion separately in the annual report. It shows depreciation and depletion of about $1 billion.

Mr. GIBBONS. Somewhere I saw the figure of around $200 million. What I wanted to ask you is this: Does that represent just U.S. depletion?

Mr. COLLADO. The annual report shows only cost depletion. We do have percentage depletion both at home and abroad.

We have it in American incorporated companies who operate with branches wherever they may be. We have a few scattered countries in the world in addition that have some form or another of depletion allowances of their own. In fact, there are several.

Mr. GIBBONS. Do you sell to jobbers, direct to your stations, or what?

Mr. COLLADO. We do as I think most companies do. We have stations of our own. We have some that we actually operate in the United States ourselves. We have a manager. We have a much greater number of stations that are operated by independent station operators. Some of those we actually own and lease to them. Others we help in the financing.

But the greater number of the stations are not operated and owned by ourselves. They are operated and owned by independent people.

Mr. GIBBONS. The question I really wanted an answer to was this: Do you sell, let's say, a low octane or a medium octane or the standard type of gasoline on the same basic worldwide price, or does it vary from country to country?

Mr. COLLADO. It varies greatly from country to country. There are all sorts of different circumstances.

Mr. GIBBONS. I am not talking about the excise tax.

Mr. COLLADO. No, but there are different reasons why. The cost of production differs from one part of the world to another. Transportation costs are quite different. It is quite different in different countries.

Mr. GIBBONS. The reason I am asking the question is that the other day when the administration had its trial balloon going up on an increase in the gasoline excise tax, I did some quick comparisons between the European excise taxes and our own. One of the things I gathered, although I have to admit the data I used was incomplete, was that it appears that your European price was lower than the U.S. price, before excise tax. Am I right in that conclusion—that your European price would be less than the U.S. price?

Mr. COLLADO. I think it depends on what product you are talking about.

Mr. GIBBONS. Gasoline, medium and high grade.

Mr. SCHNEEBELI. If the gentleman will yield, certainly the retail price is much higher. It is around 20 cents.

Mr. GIBBONS. I think it was around 20 cents over there, and around 22 cents over here, as I computed the prices.

I realize it is hard to figure the prices backward like this.

Mr. COLLADO I would not have that all in mind.

One of the things, of course, that has happened that has confused the easy examination of statistics is the very great changes in exchange rate of the dollar in the last year or 2, all the comparisons we used to make have been shot down

If you look at the dollar value of prices in Western Europe, it has gone way up, partly because the local currency moved sideways or up a little, and the dollar went down.

[The following was submitted for the record:]

A tabulation of retail gasoline prices and excise taxes around the world was submitted to the committee following the February Panel Discussions on General Tax Reform. These data for January 1973, before the latest dollar devaluation, appear at page 1444 of part 9 of the printed record, and are as follows:

RETAIL PRICE TO CONSUMERS OF SELECTED PETROLEUM PRODUCTS IN VARIOUS COUNTRIES

MOTOR GASOLINE—RETAIL OUTLETS, JANUARY 1973

		Regular grades, U.S. cents per U.S. gallon				Premium grades, U.S. cents per U.S. gallon			
		Research octane number	Retail price	Local tax	Price excluding tax	Research octane number	Retail price	Local tax	Price excluding tax
North America:									
United States	Average (4th quarter)	93/94	37.0	11.9	25.2	100	41.0	11.9	29.2
Canada	Edmonton	91	42.4	14.6	27.8	97	46.6	15.2	31.4
	Montreal	96	39.1	17.6	21.5	100	43.2	18.1	25.1
	Toronto	96	45.7	18.0	27.7	100	49.9	18.5	31.4
Latin America:									
Argentina	Average	86	26.6	15.0	11.6	95	34.1	18.8	15.3
Bahamas	Nassaua	87	55.0	20.8	34.2	100	65.0	21.7	43.3
Bermuda	Average	87	45.8	13.9	31.9	97	50.8	13.9	36.9
Brazil	Rio de Janeiro	83	45.1	16.4	28.7	93	55.8	19.0	36.8
Chile	Santiago	81	27.2	7.6	19.5	93	39.9	11.4	28.5
Colombia	Bogotá	84	15.5	7.3	8.2	95	20.6	9.3	11.3
Costa Rica	San Jose	87	52.3	25.9	26.4				
Dominican Republic.	Santo Domingo	87	37.3	18.8	18.5	95	41.1	18.8	22.6
El Salvador	Average	87	52.0	25.7	26.3	95	55.6	25.7	29.9
Guatemala	Guatemala	87	46.0	22.2	23.8	95	50.0	22.2	27.8
Guyana	Georgetown	83	32.6	13.2	19.4	95	37.5	13.2	24.3
Haiti	Port-au-Prince	87	70.0	42.4	27.6	95	75.0	42.4	32.6
Honduras	Tegucigalpa	87	48.0	19.7	28.3	95	53.0	19.8	33.2
Jamaica	Kingston	83	36.4	15.4	21.0	97	46.0	18.9	27.1
Nicaragua	Managua	87	44.6	19.8	24.8	95	50.0	21.3	28.7
Panama	Panama	85	44.3	22.3	22.0	95	47.3	22.4	24.9
Paraguay	Asuncion	84	51.1	20.4	30.7				
Puerto Rico	Average	93	35.0	11.0	24.0	100	38.6	11.0	27.6
Suriname	Paramaribo	83	63.2	36.0	27.1	95	68.1	36.1	32.1
Trinidad	Average	83	23.3	7.5	15.8	95	30.4	11.2	19.2
Uruguay	Montevideo	75	43.1	17.3	25.9	95	47.5	19.0	28.5
Venezuela	Caracas	74	8.8	.9	7.9	83	13.2	1.8	11.4
Venezuela	Caracas					95	26.4	9.7	16.7
Europe:									
Austria	Average								
Belgium	do	91	87.5	66.5	21.0	99	92.0	67.5	24.5
Denmark	do	93	80.2	56.4	23.9	100	83.0	56.7	26.3
Finland	do	92				100			
France	do	90	80.6	57.9	22.7	99	87.3	60.9	26.4
Germany	do	91	75.0	53.0	21.4	98	84.5	54.5	30.0
Greece	do	84				96			
Ireland	do	90	62.3	40.6	21.7	99	66.9	40.6	26.3
Italy	do	86	97.6	74.2	23.5	99	104.8	76.7	28.0
Netherlands	do	92	85.5	59.5	26.0	98	88.5	60.0	28.5
Norway	do	93	86.2	60.2	26.0	100	89.8	60.9	28.9
Sweden	do	94	77.5	53.0	24.5	100	81.0	53.0	28.0
Switzerland	do	90				98			
United Kingdom	do	91	65.7	44.0	21.7	101	70.3	44.0	26.7
Far East:									
Australia	Melbourne	89	45.9	17.1	28.8	98	49.2	17.1	32.1
	Sydney	89	44.4	17.1	27.3	98	47.6	17.1	30.5
Cambodia	Phnom Penh	83	32.4	23.5	8.9				
Hong Kong	Average	85	50.1	26.5	23.6	97	55.3	26.5	28.8
India	Bombay	83	70.9	57.3	13.7	93	73.3	57.5	15.8
	Calcutta	83	72.8	57.9	14.8	93	74.9	58.0	17.0
Japan	Osaka	90	61.4	36.0	25.4	97	73.9	36.0	38.0
	Tokyo	90	62.7	36.0	26.7	97	75.2	36.0	39.2
Malaysia	Kuala Lumpur	85	61.5	49.9	11.6	98	66.5	49.9	16.6
Pakistan	Karachi	80	52.6	38.2	14.4	90	55.1	38.1	17.0
Philippines	Manila	83	17.2	4.4	12.7	95	20.5	4.4	16.1
Singapore	Singapore	85	62.2	40.0	22.2	98	66.6	40.0	26.6
Thailand	Bangkok	83	34.4	16.2	18.2	95	37.9	16.4	21.5
Viet Nam	Saigon	83	37.5	21.5	16.0	95	40.1	42.0	18.0

Mr. GIBBONS. Do other foreign countries, particularly let's say European countries like France and Germany and Belgium or the United Kingdom, do they give you a better break on capital recovery or on, say, depletion, than we do?

Mr. COLLADO. I would say that they differ all over the place.

Mr. GIBBONS. That is my impression, that they do differ quite a lot.

Mr. COLLADO. There are some countries that have had special investment allowances of one kind or another for a long time. The United Kingdom used to use these very extensively. They have changed it from time to time.

It is very hard to generalize. I think we did generalize in my statement, that on the exploration and producing side, which I was primarily addressing that testimony to, the advantages offered by the foreign governments to people operating under their tax systems, they are not all tax advantages, they may be other kinds, too, are at least equal to and in some cases considerably exceed our own.

That is what appendix A–II to my testimony here in March, I thought, brought out.

Mr. GIBBONS. I have not seen the March one. I apparently overlooked it. But there is one attached to this one. Is this the same one?

Mr. COLLADO. We put the whole March statement including appendixes as an attachment to this one today so we could abbreviate it today, No. 1.

Mr. GIBBONS. Good. I didn't realize that.

Mr. COLLADO. We have been here twice with somewhat the same material, but the administration subsequently submitted tax proposals that were not before this committee in March.

Mr. GIBBONS. So it your contention, then, that generally speaking, while the capital recovery or depletion allowance treatment is all over the lot, the treatment is about comparable as between the Europeans and us. Is that correct?

Mr. COLLADO. Yes. In some cases you might say, it is even more favorable, or more tending to encourage, on exploration.

Mr. GIBBONS. Do you think it would be a good idea for countries such as ours who are taxing multinationals to get together and treat you the same way all over the world, or would you rather get together and catch as catch can, as you have been doing?

Mr. COLLADO. There is a certain degree of harmonization going on in the Common Market. They have made considerable strides in that direction.

We suggested that probably the way to attack certain of the problems we talked about this morning would be through arrangements of harmonization. They are not easy, but I think they are possible to achieve.

Mr. GIBBONS. How about the case of Japan? Do they treat you more or less favorably than we do?

Mr. COLLADO. They treat their own exploration companies quite favorably. They help them very considerably.

I was thinking more of the competition they provide for us, rather than how they treat us.

Mr. GIBBONS. Essentially, it is a capital recovery system we are talking about, wherever it is. Whether we call it depreciation, depletion, or any of these things, it is a way of your recovering capital.

Someone told me this morning that at a Gulf station you could get all of the high test you wanted, but that they now have to ration the lower grades of gasoline. I don't know whether that is true in any other station. I have not run into any problem yet. My Exxon card has been getting me all I need. Maybe they see those congressional plates when I roll in. That might help.

What would be the rationale for something like that?

Mr. COLLADO. I really don't know anything about that particular situation. As I understand it, as was brought out earlier this morning by Mr. Swearingen in answer to Mr. Pettis' question, these things are being handled pretty much on a uniform basis. I suppose at an individual station you could find situations where they have more of one grade than another.

Mr. GIBBONS. We will have to take a brief recess to vote. We will be back in 5 minutes.

[A recess was taken.]

Mr. CAREY [presiding]. The committee will resume hearings on the trade reform legislation.

The gentleman from Florida was questioning. He will resume when he returns.

Just briefly, Mr. Collado, to paraphrase your point on taxation, if we adopted the administration proposals at this time, or any other options that have been laid before the committee, you feel they would greatly inhibit your ability to secure the energy resources we need to cope with the impending and current demand.

Mr. COLLADO. That is right, sir. The degree to which you are inhibited, of course, depends on the degree to which the new measures, whatever they are, really bite. If they don't bite, then I suppose they don't have much impact.

The principal point I think that all of these measures tend to set up is some kind of a tax disadvantage to an American company as contrasted with a company, either privately or governmentally owned, of some other nationality. And wherever we are inhibited from going, they will go in quickly and fill in the void.

So I am saying if it is as we believe, important that there be a strong American interest in the oil industry internationally in order to provide as much of the diversified supply of energy to the United States as possible, as well as to bring in investment and other returns from operations elsewhere, then anything you do to worsen the present situation makes it that much harder to compete against these other people who are free of these inhibitions.

Mr. CAREY. Mr. Shultz, when he was before the committee, responded to me that he didn't want to do anything that would severely adversely affect the impact on acquiring needed energy resources. But I asked him in return if there was any way we, the American Government, could assure that in return for maintaining the present basis for taxation, would get any kind of a priority or any kind of a preference on the energy supplies developed by American companies. He was unable to give me encouragement along those lines.

Is there any way that you could see or assure me that in return for the present tax basis, which is favorable to a degree to energy exploration and development, we could be assured that those new energy resources developed or discovered would come first to the American market? Is there any way we can do this?

Mr. COLLADO. I perhaps indirectly alluded to this earlier today when we talked about what the consuming nations might be thinking about doing, in view of the common problem that they all have of energy supply.

It is not a new problem for the United States, but it is an old problem for Europe and Japan.

I think my answer to your question is that what we require here is a very evenhanded treatment, and in emergency situations perhaps an intergovernmental emergency supply program. But I think that the very thing that we are trying to avoid—an intercountry competition for scarce supplies, would be aggravated if we tried to get priority or preference on energy supplies developed by American companies.

You may recall the discussion some time ago as to whether we should make bilateral governmental arrangements with a particular producing country, and the great deal of unhappiness in Western Europe about this. To some extent, certain other countries have done a little bit in this direction, and they have aroused quite a lot of resentment in other countries, including the United States.

So I think if you are going to have any kind of international committee among these nations, we probably ought to soft-pedal trying to get a special advantage for us. I think we need an evenhanded policy, rather than a special priority.

Mr. CAREY. I would like to see a policy that would produce an evenhanded result. My concern, frankly, was caused by a tendency I noted for supplies to go in the direction of the more valuable currencies and to the more promising markets.

I was informed that crude arrangements and product arrangements were being made more and more to covcer European commitments in preference to the American market because the currency was more attractive, and there was more promise of future business development there. Is that a real development?

Mr. COLLADO. I don't think that it is, sir. I don't think that I could demonstrate that happened.

Certainly the trade into the United States from foreign countries from crude and products has increased very greatly in the last few years, partly because it started from a low level.

But I can't see any basis for saying that American companies are pushing product into some other parts of the world at the expense of the United States. I don't think this is true at all.

Mr. CAREY. Your assurance is very comforting to me. I would hate to see that happen.

My final question is that I have always had a reservation about removing or adversely affecting the depletion allowance, because my yardstick tells me that if, as Mr. Swearingen said, you have a certain return on investment at certain levels, and you decrease the depletion allowance, the only way you can maintain that return on investment is to increase the cost at the pump. So the consumer would end up paying for whatever we do to change the depletion allowance. That has been my contention all the way.

Would it also be true that a change in the foreign tax system would cause you to change your price to the American consumer because of the preferential tax investments? Would we see an escalation in prices if we changed the foreign incentives at this time?

Mr. COLLADO. This is again a question of how a market responds to changing circumstances. Clearly, over long periods of time, the investments needed to furnish supplies to market will only be forthcoming if there is an adequate return on the investment to attract capital.

On the other hand, as we pointed out in discussions this morning, the American market is an extremely competitive one. There are many competitors in it. Even the so-called major companies have very small fractions of the U.S. market, individually.

What would happen under some change in the total pattern of forces bearing on the industry, what would happen in terms of price is a little hard to determine.

Clearly, directionally, if you make the tax burdens higher, and if over time there is pressure to make the investments to supply the market, then over time the market price must go up, if it is not controlled. Of course, at the moment, it is controlled. To some degree it has been controlled for many years.

Mr. CAREY. Thank you, Mr. Collado and Mr. Swearingen. My time has expired.

I believe the gentleman from Tennessee was in the midst of his questioning during one of those sessions when the bells rang.

Mr. DUNCAN. Thank you.

If we reduce our domestic industry, then our ability to produce is impaired to some extent. Then would we not be at the mercy, perhaps, of foreign producers to exact whatever they thought was in their best interests under the circumstances?

Mr. SWEARINGEN. I think we would be at the mercy of foreign producers unless we undertook some of the steps which I described to you in my testimony this morning, to provide ourselves with an alternative which may ultimately mean manufacturing oil and gas out of coal and shale.

Mr. DUNCAN. We have seen some of the Arab countries in the past, who have used their oil reserves for political purposes. If our domestic industry certainly is weakened, it would put us more, I think, at their mercy.

Do both you gentlemen agree to that?

Mr. SWEARINGEN. I certainly do.

Mr. COLLADO. I would, also.

I think one must make very clear the statement which I tried to make this morning, that when a supply-demand situation moves in the direction that this one has slowly but very inevitably moved in, then it is not surprising if the people who happen to control the supply take advantage of it and push prices up.

I can only say that regardless of the so-called political situations, probably what has happened in volumes and prices would have happened if one of us had been economic adviser to the particular rule.

Mr. DUNCAN. We hear that Alaska has a great deal of oil. Are the discoveries there in a confined area, or is it widespread throughout Alaska?

Mr. SWEARINGEN. There are only two areas of importance in Alaska where oil has been discovered in really commercial quantities.

The largest is the recent discovery at Prudhoe Bay about 4 years ago. It is the largest single oil field ever found in the United States. The other area is around the Cooke Inlet, south of Anchorage, where oil has been discovered in commercial quantities both on land and in the water. Production there has been in existence for some 8 or 10 years.

Mr. DUNCAN. What is the probability of finding another Prudhoe Bay in the remaining undiscovered areas of Alaska?

Mr. SWEARINGEN. We think it is very good indeed.

Here again I will have to say that this is all supposition and expectation. As you know, the Federal Government and the State government and the Indians control most of the land in Alaska. There is no way to do any exploration drilling until a lease or permit is given. These have been withheld because of the Indian claims and other matters which have not been resolved.

Mr. DUNCAN. What percent of all oil supplies are coming in from Canada now?

Mr. SWEARINGEN. From Canada today I believe we are getting about 1½ million barrels a day out of a total of 16 million, so around 10 percent.

Mr. DUNCAN. Does Canada depend to some extent on imports for a portion of their crude oil supply?

Mr. SWEARINGEN. They import an amount of crude oil in eastern Canada roughly equivalent to their export to the United States.

Mr. DUNCAN. So we couldn't depend on them to supply us?

Mr. SWEARINGEN. They have made that perfectly plain and restricted the amount of oil being exported to the United States. This applies to gas, as well.

Mr. DUNCAN. Outside of the United States and Canada, where are most of the free world's reserves?

Mr. SWEARINGEN. In the Middle East, Saudi Arabia, Kuwait, Iraq, and Iran.

Mr. DUNCAN. Thank you very much, gentlemen.

Thank you, Mr. Chairman.

Mr. CAREY. Gentlemen, again the procedures are such that the members are running in tandem to answer the vote calls and then coming back to resume questioning.

Since we do have the time, I wanted to explore one or two more aspects of this problem.

My personal observation is that even though we do have the renowned, and I use that word advisedly, shortage of motor fuels in the major metropolitan areas as a matter of fact now, evidently, my cursory examination on the highways and commuting, both in New York and the Washington area, indicates to me that traditional levels of pricing seem to be maintained, that the so-called cut price, "forest of pumps" I call them, stations and the major stations are maintaining the historical discount and posted price patterns.

In other words, thus far, would it be your conclusion that the price structure in the independents or those who sell at off the market levels and the majors are still in proportion despite the rationing or voluntary allocation program in effect? Is that true throughout the country?

Mr. SWEARINGEN. I would say generally that is true. I think there has been some narrowing of the differential between the prices at which the so-called independents sell and the prices at which the major sells. You are quite correct that most of the independents are still selling at prices lower than the majors.

Mr. CAREY. Another examination I made indicates that overall distillates are not in short supply. I am talking about light oils and diesel fuel and so forth, and there is really no reason for allocation or limitation of supply in that field, that we are within a percentage point or so of traditional stock levels, and in some cases on the high side.

Yet I have had information from time to time that diesel fuel has been limited to some of the transportation companies. Is that accurate?

Mr. SWEARINGEN. Yes, sir; it is correct.

First of all, let me say that diesel fuel and No. 2 fuel oil, which is a common fuel for household furnaces, are almost the same product.

Mr. CAREY. That is exactly the way it was when I used to know the traditional relationship.

Mr. SWEARINGEN. I think it would be obvious on a day like this in Washington that the consumption of fuel oil for heating purposes is probably not very high. As a consequence, the refineries are turning out more fuel oil today than is being consumed currently. This is going into storage. This is the pattern of the industry I tried to describe this morning. We are making fuel oil now for use next winter.

What we found last winter was that it was touch and go as to whether we had sufficient supplies of fuel oil to meet all the needs. I touched on the requirement of the utility industry which came about by shortages of natural gas and the displacement of coal.

Our main concern now is that if the demand increases by another 6 or 7 percent in the winter of 1973–74, over the levels that existed in the winter of 1972–73, just passed, we will, if we have a cold winter, we could have a very severe shortage next winter. If we have normal weather, I think the industry can probably make enough to supply an increase to 6 or 7 percent.

But here you are at the mercy of the weather. I don't think it is fair to say that there is a surplus of fuel oil today, because I think you have to ask yourself what is the situation going to be in March 1974.

Mr. CAREY. That is about the critical point?

Mr. SWEARINGEN. That is the low point.

Mr. CAREY. I was told there is a very limited period of time when really there is no crush on, a period of time when gasoline demand hasn't picked up and distillate requirements have dropped down, only a few weeks of the year when refineries are in balance and no inordinate demand is made on them. Is that correct?

Mr. SWEARINGEN. That is the period, generally in April and May, and the time when we try to schedule to the extent we can, shutdowns of major units for turn around and maintenance.

Mr. CAREY. And because you have been operating at full capacity in almost every refinery in the country, I suppose the maintenance schedules are hard to keep now.

Mr. SWEARINGEN. That is correct.

Mr. CAREY. That leads me to the inevitability of increased storage. Hearings have been held on that extensively in the other body, the Senate.

I am of the opinion that increased storage is imperative at every level of the industry, marketing or distributing and transportation or at the refinery.

Of course, the least desirable place is at the refinery, I suppose, because refineries have limited land capacity now, as well.

Where do you think we could and should increase storage?

Mr. SWEARINGEN. I think you are quite right, Mr. Carey, that storage should be added at all levels of distribution.

The safest place to put the storage is closest to the point of consumption, because you then have your transportation behind you, and you are not subject to the vagaries of weather or sudden demands.

But here, again, the storage has to be paid for. It is costly. Just to build a steel tank will cost $3 a barrel for the capacity you put in. Then you have to fill it up with product, and somebody has to provide the capital to buy the product which is stored there, and pay the interest while the product is stored.

The point here I am making is that this is a costly undertaking. At present levels of storage, why, the industry has found by experience this is enough to cope with normal requirements.

But if the imports of oil into this country increase very much beyond where they are today, I certainly feel strongly that part of the domestic program should be to provide strategic storage against an interruption of foreign supply.

Mr. CAREY. This is a complex problem, but to me it is imperative that we must deal with it, because in my part of the world, in Metropolitan New York, I think we are extremely uneasy, and even in a critical situation, vis-a-vis our utility needs, public facilities needs in hospitals, schools, et cetera, when we are operating on the present reserve we have now, particularly in residual fuel, where our reserve is less than 2 weeks. Any kind of a major disruption in supply can use up the 2 weeks' supply in a matter of 10 days, in severe weather.

I think in consideration of the usage, we have to move in that direction.

This may be too simplistic a judgment to make, but what would be your preference: Government subsidy to put the Government in the storage business in some way, either through municipalities or States, or incentive to industry? What would be the best way we could get assurances of increased storage commitments?

Mr. SWEARINGEN. I will express a personal opinion, and not for the American Petroleum Institute. I have no way of knowing what the consensus would be.

My own preference would be for an investment credit or accelerated depreciation.

Mr. CAREY. Maybe I am incorrect, but you would get the accelerated depreciation right now, if commitments could be made to increase storage. You could get it on the steel tanks if you choose to build steel tanks. Of course, you would not get it on the expense value of the product involved, would you? That is the problem?

Mr. SWEARINGEN. No. In addition to that, the price of the product would have to go up to cover the additional costs.

Mr. CAREY. The additional costs of the product in storage.

Someone indicated to me that we could use some of the vacated or empty salt-dome storage capacities in the gulf area. Is that a feasible alternative?

Mr. SWEARINGEN. No, sir, that is not. I don't know who told you that, but I doubt if it was a petroleum man.

Mr. CAREY. An eastern economist told me that.

Mr. SWEARINGEN. There are salt domes in many places in the United States. We do have caverns in which oil products are stored from time to time.

Mr. CAREY. There will be a cavern in my voting record if I don't run over there.

Mr. Gibbons will resume.

We apologize for the type of footrace we have to put on here today.

Mr. SWEARINGEN. That is quite all right.

Mr. GIBBONS [presiding]. Do the companies represented by any of you gentlemen use the Overseas Private Investment Corporation?

Mr. SWEARINGEN. Yes; we use that.

Mr. GIBBONS. You use the Overseas Private Investment Corporation?

Mr. SWEARINGEN. Yes; we do, but the insurance you buy from that organization will not apply to drilling and production activities.

Mr. GIBBONS. In other words, OPIC insurance does not cover the extraction of the oil, is that right?

Mr. SWEARINGEN. It does not.

Mr. GIBBONS. It covers just any other investment?

Mr. SWEARINGEN. It could be a refinery. It could be a tanker, a chemical plant, or something of that kind.

Mr. GIBBONS. I read somewhere this morning, I was trying to find the quote, that one of the national writers was predicting that there may be gas rationing within a month. Do either of you gentlemen foresee that?

Mr. SWEARINGEN. We have something akin to that right now.

You are speaking of gasoline right now?

Mr. GIBBONS. Yes.

Mr. SWEARINGEN. We have something akin to that right now.

Mr. GIBBONS. You are talking about the voluntary allocation program?

Mr. SWEARINGEN. Yes.

Mr. GIBBONS. This writer was apparently speculating that it was going to go further than that—that there would be mandatory allocations.

Mr. SWEARINGEN. There are hearings going on this morning, starting this morning, continuing through this week on just this very subject. I would not be surprised if the Government would not come forth with some further program which would formalize and perhaps impose a mandatory program rather than the voluntary program which now exists.

Mr. GIBBONS. Do you foresee the current situation as that serious at the present time?

Mr. SWEARINGEN. I do.

Mr. GIBBONS. How about you, sir?

Mr. COLLADO. The position of our company will be brought forward in a couple of days. I have been abroad for 2 weeks, and I am not too anxious to guess what they are going to say.

Mr. GIBBONS. I can understand how you feel.

Mr. COLLADO. Our position has been that we probably, as a company, can take care of our own customers, but that is a different thing than saying the entire problem will disappear.

Mr. GIBBONS. A couple of years ago, at the behest of the environmentalists and some of the auto manufacturers, we were urged to increase the taxes on the lead that goes into gasoline. What impact would this have upon your product cost?

Mr. SWEARINGEN. The cost would go up in direct proportion to the taxes applied.

I am not sure I understand the nature of your question.

Mr. GIBBONS. I am wondering if lead were not used in gasoline, what the additional cost per gallon would be to the motorist?

Mr. SWEARINGEN. In the order of 1 to 3 cents a gallon to make the same quality product.

Mr. GIBBONS. Mr. Collado, when I was at one of your friendly stations this morning, the attendant there said that they were going to change their symbol. They were going to take the tiger out of my tank and put a tinkle in my tank. I hope that doesn't really foretell the future.

Mr. Clancy, do you have a question?

Mr. CLANCY. Do any of the companies you gentlemen represent conduct research programs at the present time on shale?

Mr. SWEARINGEN. Yes, we do.

Mr. CLANCY. How extensive is this?

Mr. SWEARINGEN. We have been very much interested in the economics and the prospects of making oil or gas from shale for many years. We have done works in our laboratories on a bench-scale basis.

We have participated with a group which operated the Bureau of Mines facilities at Rifle, Colo., for approximately 2 years. We are continuing to do work on a rather small scale on both extraction mining of shale, of extraction of oil from shale and processing and refining of the shale oil, itself.

We are giving consideration to joining another group which is going to perform some further tests on shale oil retorting on a new retort. I think we probably will join this group.

But I think you have to remember that the cost of producing oil from shale is going to be of the order of $6 to $7 a barrel, as we see it now; and the price of domestic oil today is in the range of $4 to $4.25.

Mr. CLANCY. Since you have been conducting these programs, have you any progress to report as far as your findings are concerned?

Mr. SWEARINGEN. Mr. Clancy, I would say it is feasible, it is technically feasible, to build plants to produce oil from coal and shale. It is economically unattractive at present-day prices.

Mr. CLANCY. Now, the potential for oil shale is very great, as I understand it, is that right?

Mr. SWEARINGEN. That is correct.

Mr. CLANCY. What, if anything, could the Government, or in particular, Congress, do to assist in further development of these programs?

Mr. SWEARINGEN. Well, there are several things I think could be done, Mr. Clancy. Many of the problems that remain to be solved have to do with the economics of commercial-scale operation.

Now, if an entrepreneur is to build a shale oil plant today that costs his $7 a barrel to make oil and he can't sell it for more than $4.50, somebody has to pick up the difference in order to induce him to build such a plant. You could conceive of all kinds of ways to make the entrepreneur move now, one of which would be a direct grant from the Government to an entrepreneur to pay part of the cost of the plant which would reduce the cost of the product.

The Government could contract to buy the output and absorb the differential between the cost and the current market. The Government could make available loans on easy terms. It could grant accelerated depreciation.

There are all kinds of variations of this, but the net effect would be for the Government to subsidize the operation until it became economically feasible on its own, which I think will occur certainly within the next 10 years and probably before the end of this decade.

Mr. CLANCY. If it were possible to develop these programs to where it would be economically feasible, then we could be independent from any foreign source for fuel, is that correct?

Mr. SWEARINGEN. That is certainly correct.

Mr. CLANCY. Isn't this an objective we should strive for?

Mr. SWEARINGEN. It is indeed. I tried to make that point in my prepared testimony this morning.

I would think there is one feature of this that would be of some interest. Just to pull a round figure out, it would cost today something of the order of $700 million and $750 million in facilities to produce 100,000 barrels a day of oil from shale. Now, you can't begin such an operation until you get a lease from the Federal Government that says you can mine shale on this tract.

Assuming you got that, it would cost you $750 million to produce 100,000 barrels a day. Multiply that by 10, that is $7½ billion to get 1 million barrels a day.

Now, we expect consumption of oil in this country by 1985 to grow from about 16 million barrels a day to 26 million barrels a day.

So, I am saying to you in today's dollars, we could be completely independent of the Arabs if we were ready to spend $75 billion to manufacture oil out of shale. The resource base is there to do it. This would put a cap on the price that the Arabs could sell oil to us for.

Mr. CLANCY. Just one final question. Is Alert a subsidiary or a company owned by Exxon?

Mr. COLLADO. Yes, it is a brand name we have used in a small way.

Mr. CLANCY. Is there any difference in the quality of the gasoline from an Alert station compared to an Exxon?

Mr. COLLADO. I am not very familiar with it. I think that on the whole, it is just sort of a regular grade.

Mr. CLANCY. Could you tell me, then, whether or not it is policy to have this type of an operation close to or in the proximity of another station?

Mr. COLLADO. This is the subject that I am not very familiar with, personally.

As I understand it, it is an effort to meet some of the types of situations which Mr. Swearingen was talking about this morning on how independents can attract large volumes into a station up to a certain point. Any number of the major companies, including our own, have done some experiments with this sort of thing. In our own case, it has been on an extremely small scale.

Mr. GIBBONS. Mr. Brotzman.

Mr. BROTZMAN. At this point of the day, it is a little difficult for me to know precisely what questions have not been asked. If I repeat something that has been asked heretofore, please excuse me.

First, just an observation. I find your joint presentation to be very helpful. I think that in a scholarly way you have portrayed to the committee the basic problem confronting our country, whether you call it a "crisis," a "difficult situation," or whatever is not so important. We know we have a problem.

I happen to lean more toward the "crisis" semantics, but this is because out my way in Colorado we have had a situation develop where we could not get our schools opened, in spite of the fact that, as you stated, we have this tremendous reserve that we hope will be intelligently and correctly developed forthwith in the national interest.

One of the things that you brought out in your joint statements is something that I certainly share as an opinion, that in the interests of our country we have to be moving away from excessive dependence upon oil imports. I hope that every American can understand that this is not in our national interest, and I think you also pointed out one other factor to me that I hadn't really thought of before.

I realize the political instability that exists in some of these countries, but I hadn't really thought about the internal economic situations that exist there with their large production and large revenue derivation, that could cause them to limit production.

You gave us some good options to talk about as to what we might do to contribute proper Government initiatives, to help resolve the problem.

You pointed out some sort of voluntary cooperation on the part of the citizens of this country in using energy reserves or using oil and gas primarily, could be a large contributor to helping us at the current time, certainly in the short-range area of the problem.

I wonder if you have thought of a program or something that we generically, the Government, could be doing to try to encourage the voluntary reduction on use on the part of our citizenry. I am not talking about just now each of us going out and making a speech in our various districts or getting a little free television time to recommend this, but I wonder if you and those of you with your tremendous interest in this problem have any recommendations you would like to make for the record at this time?

Mr. SWEARINGEN. The one specific thing which our company has been advocating and which actually is under debate in the Congress right now is whether to establish a national speed limit on the highways.

If driving speeds were reduced to 50 miles an hour from present limits which run as high as 70, I suppose, I think we could cure the gasoline shortage right away, certainly for this time.

Mr. BROTZMAN. Would that really have that effect, do you believe?

Mr. SWEARINGEN. I believe it would.

Mr. BROTZMAN. I hear statements that if everybody uses one gallon less of gasoline per week this, too, would bring about at least a relaxing of the problem.

Mr. SWEARINGEN. That is correct.

Mr. BROTZMAN. Would it really do that?

Mr. SWEARINGEN. You see what that amounts to. One gallon a week would be 50 gallons a year. The average automobile uses about 700 gallons a year that is 1 out of 14. So, that is a substantial percentage.

Mr. BROTZMAN. You have figured this out.

How many gallons could we save if every user cut down one gallon per week?

Mr. SWEARINGEN. Well, there are approximately 100 million vehicles on the road. So, one gallon per week per vehicle is 100 million gallons per week.

Mr. BROTZMAN. What do you think we should be doing to promote this voluntary program? Do you have some concrete thoughts you would like to tell us?

Mr. SWEARINGEN. The industry is advertising this as widely as we can, not only my own company but a number of others have joined in this effort.

As I say, I believe there is a bill that is under debate in the Congress right now to impose a national speed limit. This question is one which historically has been left to the States to decide for themselves.

For the Federal Government to move in and preempt this is a matter I feel sure deserves some debate.

This would be one way of seeing this is done, on a national basis and on an even-handed basis.

Mr. BROTZMAN. Is any part of the Government advocating the voluntary reduction of use; is anybody formally doing this?

Mr. SWEARINGEN. As a matter of fact, I see where Secretary Morton is going to leave his limousine in the garage and drive back and forth in a Chevrolet.

Mr. BROTZMAN. I saw that.

I wonder if we are really bearing down on it enough and if we couldn't be doing more in this regard.

Mr. SWEARINGEN. Well, Mr. Brotzman, personally, I think we should be working on both sides of the supply-demand equation. We should be doing whatever we can to increase the supply and doing whatever we can to make the most efficient use of what we have.

Now, you can have a whole series of measures, some of which can take effect immediately, and some which take effect over a period of time. But I think what our immediate problem is is to bring these things into balance and we should tackle both sides of the supply-demand equation.

Mr. BROTZMAN. I think one of you testified that we could rid ourselves of excessive foreign dependence within 5 to 15 years; is that correct?

Mr. SWEARINGEN. I would say more like 15; certainly, 10 to 15 would be more like it, unless we were very lucky.

Mr. BROTZMAN. Once again, to refresh my recollection, what is the percentage of imports relative to total utilization?

Mr. SWEARINGEN. About 30 percent in this country.

Mr. BROTZMAN. Is this the highest it has ever been?

Mr. SWEARINGEN. I believe so. I don't know. Back in the early 1920's, it could have been higher. That is 50 years ago, and I am not familiar with those figures. But, certainly this is the highest figure which we have had in recent years.

Mr. BROTZMAN. I will just ask one more question.

How do the prices of gasoline in this country compare to the prices in Europe?

Mr. SWEARINGEN. Are you speaking of retail price?

Mr. BROTZMAN. Yes.

Mr. SWEARINGEN. Including tax?

Mr. BROTZMAN. The whole load.

Mr. SWEARINGEN. As far as the motorist is concerned, in Italy, Germany, France, England, a typical price is 80 cents to $1 per gallon.

Mr. BROTZMAN. That is about a mean average. It runs over a dollar in Italy, I think.

Mr. SWEARINGEN. Italy is high on the list. Britain is in the 80-cent range.

Mr. COLLADO. They vary from country to country quite considerably, but they are all much higher than in this country.

Mr. BROTZMAN. Are any of those countries using rationing techniques or do they use the law of supply and demand with the price deterrent to try to equalize things?

Mr. COLLADO. Of course, one reason why the price is so high is that the excise taxes in most of those countries are so high. That is a technique, itself.

The other thing that many of these countries do, most of them, they have a very heavy taxation based on horsepower and this has led to the smaller car.

Mr. BROTZMAN. I see.

I think my time is up.

I want to thank you for a very well-rounded and thoughtful presentation to the committee.

Mr. GIBBONS. With that parting shot, then, we thank you gentlemen for coming today. We appreciate the time you have taken and the patience you have exhibited.

The next witness is Mr. Howard P. Chester, executive secretary, Stone, Glass & Clay Coordinating Committee. Mr. Chester, you may come up and get poised for takeoff. We are going to be ready to start with you in 5 minutes.

[A recess was taken.]

Mr. GIBBONS. Without objection, we will proceed with the next witness. You are recognized. Would you identify yourself for the record?

STATEMENT OF HOWARD P. CHESTER, EXECUTIVE SECRETARY, STONE, GLASS & CLAY COORDINATING COMMITTEE

SUMMARY

Over 1 million workers can be put back to work by passage of the Burke-Hartke bill (The Foreign Trade and Investment Act of 1973), H.R. 62 and S. 151.

Our Country's foreign trade and investment policies are and have been hemorrhaging our economic vitality:

1. *Balance of trade.*—The U.S. trade deficit in 1971—$2.7 billion—1972 over $6 billion. Beneath the official figures, by excluding Government subsidy programs (AID loans and grants, P.L. 480, Military grant aid) from our competitive exports and valuing imports on a c.i.f. basis. The documented figures show that since 1967 through 1972, we have sustained a *trade deficit of over 27 billion dollars.* (See Table 1)

2. *Balance of payments.*—Our U.S. balance of payments deficit exceeds 88 billion dollars. This overhang of dollars in foreign countries, together with U.S. multinationals huge liquid short term assets (est. by U.S. Tariff Commission $268 billion), has caused recent monetary speculation and crisis.

3. *U.S. share of world exports—Manufacturers.*—The U.S. share of world exports of manufacturers has long been slipping badly, with total manufactures decreasing by 19%, comparing 1962 with 1971, and many of the separate manufactures included in the total have decreased their share more than the overall total—example, chemicals down 29%; electric machinery down 23%; other manufactures down 27%.

4. *U.S. multinationals create employment—overseas.*—Contrary to multinational corporation claims that their domestic employment has increased faster than their foreign employment—the facts as evidenced by the Department of Commerce study of U.S. Multinational Companies, show that for 298 U.S. multi-

nationals in manufacturing, their domestic employment increased 7.6 percent between 1966 and 1970—and during that same period, their foreign employment *increased by 26 percent.* ECAT's study of 74 U.S. multinationals on the subject of domestic vs. foreign employment also points out that between 1960 and 1970, domestic employment rose at the rate of 3.3 percent per year; however, foreign employment *rose at the rate of 7.7 percent per year.* Business International Corporation's study of the "Effects of U.S. Corporate Foreign Investment," covering 125 companies, including many of the more intensive foreign investors, shows that between 1966 and 1970, employment in the U.S. grew by 14.4% but foreign employment *grew by 57.9%.*

These astounding increases in foreign employment by U.S. multinationals certainly negate the distorted statements by U.S. multinationals, that they are not exporting jobs from the U.S.

5. *U.S. technology exports.*—Accelerating the loss of U.S. employment is the domination by the U.S. in exports of technology.

Documenting this export of technology from 1960 through 1969 is a table attached from the Report to the President by the Tariff Commission titled, "Competitiveness of U.S. Industries," released in April, 1972. The table on page 203 of the report estimates U.S. receipts and payments of royalties and licensing fees with Canada, Japan and the World, 1960–69. (See Table 2)

The dollar figures bear out the astounding outflow of U.S. technology to all Countries. U.S. receipts were almost $12 billion and payments only $1¼ billion. This certainly verifies and documents the massive outflow of U.S. technology over a ten year period and further shows how very recent outflows of technology have been documented by the AFL–CIO in testimony regarding aero-space—the Thor Delta—missile parts, fighter aircraft, etc.

It is clear that this massive outflow of technology over the years, which continues to occur, is accompanied by a massive loss of U.S. jobs and potential jobs that could have flowed from this exported technology.

Regulation is needed and provisions for this regulation are contained in the Burke-Hartke bill.

6. *U.S. private foreign investment.*—U.S. private direct investment has risen from $11.8 billion in 1950, to $86 billion at the end of 1971 and no doubt has reached $100 billion by this date.

U.S. Manufacturing leads all other industry investment abroad with over 40% of the total, and this increased foreign capacity has served to decrease our exports and increase our imports, and since capital is mobile and labor is not, the result has been loss of American jobs.

This point was made with great clarity by former Deputy Under-Secretary of Labor, George Hildebrand in a speech to the National Foreign Trade Council's Labor Affairs Committee in September, 1969:

"It has often been assumed that high U.S. wages and better working conditions were largely offset by high U.S. productivity and a strong internal market. Increasingly, however, the spread of skills and technology, licensing arrangements and heavy investment in new and efficient facilities in foreign lands have all served to increase foreign productivity without comparable increase in wages. The problem we have is to assure that the social and economic gains of the American worker and the purchasing power that goes with it are not undermined by competitive goods produced and exported on the basis of much lower standards which some may view as an exploitation of human resources."

To further emphasize this point made by Mr. Hildebrand, one of our affiliates, the American Flint Glass Workers Union, had representatives in attendance at a G.E./Westinghouse coordinated bargaining meeting held in New York in March this year. In this meeting of labor leaders from the United States, South Africa, Argentina, Germany, Colombia, Venezuela and Mexico, reports of the representatives from these nations verified the stories of discrimination and exploitation in their countries. One large U.S. based multinational that employs workers in all of these countries pays wages as low as fifteen cents per hour, and if the employees object, they are threatened with all sorts of reprisal. It was also brought out at this meeting that the employees cannot afford to buy the product they are producing, such as a *refrigerator—it would take all of an employee's yearly salary* to buy a refrigerator.

7. *Escape clause.*—It is pretty generally agreed that petitioners for import relief face an almost impossible task to meet the present criteria of the Trade Expansion Act of 1962 for escape clause relief. To satisfy the Tariff Commission that increased imports are "in major part" the result of concessions granted under

trade agreements has been almost impossible and has resulted in very few cases of relief under the law. The Commissioners have agonized over their interpretations—but in the main, it is generally agreed that the present language is too restrictive.

Under the President's proposal, the word "primary" is substituted, and the requirement that injury must result from a previous tariff concession would be dropped.

On the face of this proposal, it does seem like an improvement, but the word "primary" would create serious problems in interpretations. The requirement of "primary" to be the largest single cause would create problems, as illustrated by a case in point from the Tariff Commission Report to the President on Eyeglass Frames, released in October, 1967, from an additional statement by former Commissioners Thunberg and Clubb. An excerpt from this additional statement is certainly relevant to the proposed "primary" in the President's proposed bill:

"If the Commission were to attempt to rank each cause of increased imports in every case, it is doubtful that it could ever find that any one of them was the most important. Relief thus would have to be denied in virtually every case if this approach were adopted."

The best language is proposed in the Burke-Hartke bill to properly provide relief under the escape clause. Using the word "substantially (whether or not such increased imports are the major factor or the primary factor)," the Burke-Hartke language would truly provide the "effective instruments" the President called for in his trade message in referring to "Providing for Import Relief."

Mr. CHESTER. My name is Howard Chester. I am executive secretary of the Stone, Glass, & Clay Coordinating Committee. Our committee is composed of six international unions, all affiliated with the AFL–CIO. We have all joined together to cooperate on mutual problems that affect any one or all of our six affiliates.

We have a combined membership of 230,000 workers, with active locals in almost all of the 50 States. The six unions and the principal officer of each are listed on the cover page.

[The list referred to follows:]

MEMBERS, STONE, GLASS, & CLAY COORDINATING COMMITTEE

Mr. George M. Parker, President, The American Flint Glass Workers Union of North America.

Mr. Newton W. Black, President, The Glass Bottle Blowers Association of the United States and Canada.

Mr. Lester Null, President, The International Brotherhood of Pottery and Allied Workers.

Mr. Thomas Miechur, President, The United Cement, Lime & Gypsum Workers International Union.

Mr. Ralph Reiser, President, The United Glass and Ceramic Workers of North America.

Mr. Arthur L. Markham, President, The Window Glass Cutters League of America.

Stone, Glass and Clay Coordinating Committee: Lee W. Minton, Chairman, Howard P. Chester, Executive Secretary, Reuben Roe, Secretary-Treasurer.

Mr. CHESTER. We fully support the testimony given in these hearings by the AFL–CIO, and we reaffirm our support for the Burke-Hartke bill, a bill that meets the realities of the 1970's.

The impact of imports on the industries in which many of the members of our six unions work has been devastating. The penetration of imports has been excessive and has caused considerable job loss. Over 25 percent of the work force has been lost in pottery, sheet glass, ceramic tile, TV tubes, and glassware. In addition to these losses, dumping of cement has eroded employment in the cement industry.

The job losses of these industries, as well as many other adversely affected industries, must be stopped. With unemployment high and less purchasing power available, the entire economy is threatened. Our nation must have a trade policy geared to maximum employment and healthy industries instead of the present policy geared to "freer" trade and the foreign policy illusion that we can remake continents.

We would like to bring to your attention several of the long-standing U.S. policies in trade and investment that have led our country into very serious straits.

BALANCE OF TRADE

The official figures of U.S. trade deficits for 1971 and 1972 at $2.7 billion and $6.4 billion are serious enough to call for immediate action, but if we go further and look at the documented competitive trade figures, we find even more cause for alarm. These figures show that from 1967 through 1972, we have sustained a trade deficit of over $27 billion.

To document this point, we excerpted a table placed in the record of the hearings before the Ways and Means Committee by then Secretary of Commerce, Maurice H. Stans, May 12, 1970—and we have updated this table with statistics from the Department of Commerce.

The competitive trade table is based on two considerations that must be accounted for: (1) our imports figured on a c.i.f. basis instead of f.o.b., and (2) our exports must exclude U.S. Government subsidies on exports such as Public Law 480, Food for Peace, AID loans and grants, and mlitary grant aid. These exports are not competitive exports. This enlightening table emphasizes that our trade statistics should truly show our position in trade, so that trade policy decisions can be based on accurate figures and not figures that undervalue imports and ouervalue exports. See table 1.

BALANCE OF PAYMENTS

Our U.S. balance-of-payments deficit exceeds $88 billion. This overhang of dollars in foreign countries, together with U.S. multinationals huge liquid short-term assets estimated by U.S. Tariff Commission $268 billion, has caused monetary speculation, crisis, and two dollar devaluations in a 14-month period. The United States is entitled to bring about equilibrium by involving article XII of the GATT.

U.S. SHARE OF WORLD EXPORTS OF MANUFACTURES

I have put in this document a table comparing 1962 with 1971. It points out how much the U.S. share of world exports of manufactures has long been slipping badly, with total manufactures in this 10-year period decreasing by 19 percent, and many of the separate manufactures included in the total have decreased their share more than the overall total—example, chemicals down 29 percent; electric machinery down 23 percent; other manufactures down 27 percent.

[The table referred to follows:]

[In percent]

Commodity	U.S. share of world exports 1962	1971	Change in share
Manufactures, total	24.6	19.9	−19
Chemicals	27.9	19.9	−29
Nonelectric machinery	30.9	25.5	−17
Electric machinery	27.3	21.0	−23
Transport equipment	31.9	29.5	−8
Other manufactures	16.8	12.2	−27

Mr. CHESTER. This table serves to point out that we are losing out in world markets in high-technology industries as well as low-technology industries. This serious situation has been brought about by U.S. domination in exports of technology—high, low, intermediate—exports eagerly solicited by foreign governments and corporations. Result—the American worker loses a job, the United States loses an export product and becomes an importer of that product.

This hemorrhage of U.S. technology was documented in a report to the President by the Tariff Commission titled "Competitiveness of U.S. Industries," released in April 1972, page 203. The table referred to estimates U.S. receipts and payments of royalties and licensing fees with Canada, Japan, and the world, 1960–69.

The figures in this chart bear out the astounding outflow of U.S. technology to all countries. U.S. receipts were $11,947,400,000 versus payments of $1,243 million with net receipts to the United States of almost $11 billion ($10,704,400,000). This verifies and documents the massive outflow of U.S. technology over a 10-year period and further shows how very little technology is being imported into the United States. See table 2.

U.S. MULTINATIONALS CREATE EMPLOYMENT—OVERSEAS

Along with the massive outflow of job-creating U.S. technology, the actual operations of U.S. subsidiaries abroad have also created large increases in employment overseas.

Let us look at three studies that analyzed the question of the effect of U.S. multinationals on domestic versus foreign employment. The first study was the Department of Commerce, "Special Survey of U.S. Multinational Companies, 1970."

This study, though incomplete and with serious omissions, did reveal that of the 298 firms reporting, in manufacturing, more manufacturing jobs were created in the foreign operations of the reporting firms than in their U.S. facilities—both in percentage and absolute terms—between 1966 and 1970.

In their U.S. facilities, manufacturing jobs were up 7.6 percent; in their foreign affiliates, manufacturing jobs were up 26.5 percent. This was a rise of 450,000 jobs at home, 452,000 abroad.

Business International Corp., in their study, "Effects of U.S. Corporate Foreign Investment," covering 125 companies, including many of the more intensive foreign investors, reveals that in all industries between 1966 and 1970 more jobs were created in the foreign operations of the reporting firms than in their U.S. facilities, again both in percentage and absolute terms.

In their U.S. facilities, jobs were up 14.4 percent; in their foreign affiliates, jobs were up 57.9 percent. This was a rise of 357,952 jobs at home, 496,007 abroad.

The next study was the Emergency Committee for American Trade study, "The Role of the Multinational Corporation in the United States and World Economies."

This study covering 74 U.S. corporations, again many of the more intensive foreign investors, reveals that in all industries between 1960 and 1970, more jobs were created in the foreign operations of the reporting firms than in their U.S. facilities, both in percentage and absolute terms.

In their U.S. facilities, jobs were up 3.3 percent; in their foreign affiliates, jobs were up by 7.7 percent. This was a rise of nearly 900,000 jobs at home, 906,000 abroad.

Covering a small percentage of U.S. multinationals, these three studies, by the Commerce Department and two separate corporate groups, point out that in both percentage and absolute terms, the U.S. multinationals studied increased foreign employment, 146,000 more than domestic, and this has been happening at a time when U.S. employment needs are greater than before—from defense cutbacks, displacement by imports, and a growing labor force plagued with a 5 percent unemployment rate.

U.S. PRIVATE FOREIGN INVESTMENT

Another important consideration affecting the export of U.S. jobs is the astounding growth of U.S. private foreign investment. U.S. private direct investment has risen from $11.8 billion in 1950, to $86 billion at the end of 1971, and no doubt has reached $100 billion by this date.

Manufacturing leads all other industry investment abroad with over 40 percent of the total, and this increased foreign capacity has served to decrease our exports and increase our imports, and since capital is mobile and labor is not, the result has been loss of American jobs.

Very recently, an announcement in the Wall Street Journal indicated that ITT and General Telephone & Electronics have slated facilities in Taiwan which will cost $31.9 million. So this indicates that this direct investment is continuing overseas, especially in low-wage areas such as Taiwan.

This point was made with great clarity by former Deputy Under Secretary of Labor, George Hildebrand in a speech to the National Foreign Trade Council's Labor Affairs Committee in September 1969:

> It has often been assumed that high U.S. wages and better working conditions were largely offset by high U.S. productivity and a strong internal market. Increasingly, however, the spread of skills and technology in new and efficient facilities in foreign lands have all served to increase foreign productivity without comparable increases in wages. The problem we have is to assure that the social and economic gains of the American worker and the purchasing power that goes with it are not undermined by competitive goods produced and exported on the basis of much lower standards which some may view as an exploitation of human resources.

Many of these global corporations are engaged in undermining the standards of the American worker and are exploiting human resources in foreign countries. In a recent meeting of labor leaders from the United States, South Africa, Argentina, Germany, Colombia, Venezuela and Mexico, reports of the representatives from these nations verified the stories of discrimination and exploitation in their countries. One large U.S.-based multinational that employs workers in all of these countries pays wages as low as 15 cents per hour, and if the employees object, they are threatened with all sorts of reprisal. It was also brought out at this meeting that the employees cannot afford to buy the product they are producing, such as a refrigerator—it would take all of an employee's yearly salary to buy a refrigerator. One of our affiliates, the American Flint Glass Workers, was represented at this meeting which took place in New York in March 1973—a General Electric/Westinghouse coordinated bargaining meeting—so the reports are quite current and do show exploitation.

The time has come for a reevaluation of this expanded investment program in terms of the U.S. economy, employment, outflow of capital, loss of revenue to the United States and effect of imports on U.S. industry and labor.

ESCAPE CLAUSE

It is pretty generally agreed that petitioners for import relief face an almost impossible task to meet the present criteria of the Trade Expansion Act of 1962 for escape clause relief. To satify the Tariff Commission that increased imports are "in major part: the result of concessions granted under trade agreements has been almost impossible and has resulted in very few cases of relief under the law. The Commissioners have agonized over their interpretations—but in the main, it is generally agreed that the present language is too restrictive.

Under the President's proposal, the word "primary" is substituted and the requirement that injury must result from a previous tariff concession would be dropped.

One the face of this proposal, it does seem like an improvement, but the word "primary" would create serious problems in interpretations. The requirement of "primary" to be the largest single cause would create problems, as illustrated by a case in point from the Tariff Commission, report to the President on eyeglass frames, released in October 1967, from an additional statement by former Commissioners Thunberg and Clubb. Their statement documented the history of the escape clause, including the Trade Expansion Act of 1962. Within this fine statement was a paragraph that is relevant to the proposed word "primary" and being the largest single cause. The paragraph follows:

> The interpretation of the phrase must also be practical. In this connection we note that any increase in imports is caused by a multitude of factors. The relative importance of each is almost impossible to ascertain, and can become especially blurred when long periods of time are involved—and Congress clearly recognized they would be—during which dramatic changes in technology, tastes, and income distribution have occurred. If the Commission were to attempt to rank each cause of increased imports in very case, it is doubtful that it could ever find that any one of them was the most important. Belief thus would have to be denied in virtually every case if this approach were adopted. But Congress clearly did not intend such a result and, accordingly, an interpretation must be adopted which is more in accord with the purpose of the statute.

The point of quoting from the statement is to emphasize how two able, conscientious, former Tariff Commissioners feel about ranking each cause of increased imports, which under the President's proposed "primary" would be necessary.

By far, the best language is proposed in the Burke-Hartke bill to properly provide relief under the escape clause:

> Whether, an article is being imported into the United States in such increased quantities, either actual or relative as to contribute substantially (whether or not such increased imports are the major factor or the primary factor) toward causing or threatening to cause serious injury to the domestic industry producing an article which is like or directly competitive with the imported article.

The above language using the word "substantially" would provide some hope to petitioners for relief from damaging imports. The present language does not, nor would the proposed "primary" in the President's proposed bill. The above language quoted from the Burke-Hartke bill would truly provide the effective instruments the President called for in his trade message in referring to "providing for import relief."

Our recommendations are:

1. That the Burke-Hartke bill be passed without delay, so that over 1 million Americans can be put back to work.

2. That article XII of the GATT be invoked immediately to bring U.S. balance of payments into equilibrium. This is a legal remedy presently available to the United States and other GATT signators to correct serious balance-of-payments problems.

3. That Congress retain control over foreign commerce as provided by the Constitution, and regain or expand authority previously relinquished.

In line with this recommendation, Congressman Vanik's remarks on May 8, 1973, are certainly relevant:

> Congress can write a trade bill which meets the requirements of the Nation without providing wide-ranging and arbitrary authority to bypass the Congress.

Also in the process of retaining control over trade, we agree with the excellent proposal for a Joint Congressional Committee on Foreign Trade, offered by the chairmen of the House Ways and Means and Senate Finance Committees.

4. Regulations be adopted to control U.S. multinationals from interfering in the affairs and sovereignty of other nations.

5. Accurate and realistic trade statistics on our imports and exports would make possible more responsible and responsive decisions on our nation's foreign trade policy.

6. The U.S. demand compensatory relief from the EEC for preferential trade agreements, including their most recent agreements with EFTA countries.

7. Why have trade negotiations, when we need equity and our trading partners are demanding reciprocity.

In conclusion, we know there are many factors to consider in putting together a trade bill and we think they were considered in the Burke-Hartke bill. Some of the serious problems now facing our country must be solved to ensure stability in the world.

We are faced with massive trade deficits: balance of payments deficits; overall private, corporate and government debt exceeding $2 trillion; unemployment continuing at a high level; rapid and continuing growth of U.S.-owned multinational companies in foreign countries, resulting in unemployment in the United States; export of U.S. technology, underutilization of domestic capacity; decreasing share of world exports; EEC signing preference agreements—all point to the serious need for a remedy that is provided by the Burke-Hartke bill, "The Foreign Trade and Investment Act of 1973," reintroduced in the 93d Congress by Congressman Burke (H.R. 62) and Senator Hartke (S. 151).

We believe the United States is faced with a serious crisis in foreign trade and investment policies, that are hemorrhaging our economic vitality. The people of this country are looking to, and depending on, Congress alone to produce solutions to restore this country to a position of soundness and equilibrium. We believe, as does the AFL–CIO that passage of the Burke-Hartke bill would be a giant step toward restoring America's economic health, and its passage is urgent.

[Tables referred to follow:]

TABLE 1.—ESTIMATED U.S. TRADE BALANCE, 1967–72

[In millions of dollars]

Year	U.S. exports					U.S. imports		U.S. trade balance based on estimated cif-valued imports and exports excluding military grant-aid, AID, Public Law 480 shipments
	Total including reexports	Military grant-aid	AID loans and grants	Public Law 480 shipments	Excluding military grant-aid and Public Law 480	F.o.b. value	Estimated cif value	
1967	31,622	592	1,300	1,237	28,493	26,889	28,745	−252
1968	34,636	573	1,056	1,178	31,929	33,226	35,419	−3,690
1969	37,988	674	994	1,018	35,302	36,052	38,539	−3,237
1970	43,224	565	957	957	40,745	39,952	42,389	−1,644
1971	44,137	581	914	971	41,671	45,602	48,384	−6,713
1972 [1]	49,676	560	760	1,073	47,283	55,555	58,944	−11,661
Total								−27,197

[1] Preliminary data.

Source: Former Secretary of Commerce Stans, testimony before Ways and Means—May 12, 1970—1967–69, Department of Commerce—1970–72.

TABLE 2.—ESTIMATED U.S. RECEIPTS AND PAYMENTS OF ROYALTIES AND LICENSING FEES WITH CANADA JAPAN AND THE WORLD, 1960–69

[In millions of dollars]

Year	Canada			Japan			Total with all countries		
	Receipts	Payments	Balance	Receipts	Payments	Balance	Receipts	Payments	Balance
1960	117.6	10.8	106.8	54.4		55.0	650.4	66.5	583.9
1961	132.8	17.9	114.9	61.9		61.5	707.1	80.0	627.1
1962	152.4	34.0	118.4	66.6	2.9	63.7	835.6	100.6	735.0
1963	158.2	42.4	115.8	73.0	2.0	71.0	932.7	111.5	821.2
1964	183.3	37.8	145.5	82.8	1.7	81.1	1,056.7	127.4	929.3
1965	211.5	41.0	170.5	86.0	2.2	83.8	1,259.0	135.4	1,236.0
1966	244.9	22.3	222.6	96.2	3.8	92.4	1,383.1	119.4	1,263.7
1967	277.2	22.2	255.0	130.7	5.6	125.1	1,541.7	145.0	1,396.7
1968	294.7	27.0	267.7	174.1	8.0	166.1	1,702.1	165.0	1,537.1
1969	299.2	31.8	267.4	209.0	10.0	199.0	1,879.0	192.2	1,686.8

Source: Unpublished material from Office of Business Economics, Department of Commerce.

Mr. GIBBONS The committee thanks you for your statement. All the charts connected with the statement will be included as if they had been recited in full.

Mr. PETTIS. I am sorry that I was not here for all of the testimony. But I would just like to inquire of Mr. Chester, has the position of your organization, historically, been protectionist?

Mr. CHESTER. No; I wouldn't say that, it has been protectionist.

Mr. PETTIS. Or along the line of the Burke-Hartke legislation, which some have called protectionist.

Mr. CHESTER. We don't call it protectionist. We think it is a needed remedy. However, many of our unions have been heavily impacted by imports over a long period of time.

Mr. PETTIS. Maybe to put the question another way: I have belonged to the AFL-CIO. In fact, I still am a member. I can remember very well when the AFL-CIO was bitterly opposed to this kind of legislation. You probably can, too.

Mr. CHESTER. Yes, very well.

Mr. PETTIS. I was just wondering what led you to a change in position on this matter of trade?

Mr. CHESTER. Basically, as you know, the AFL-CIO supported the Trade Expansion Act in 1962 with the premise that adjustment assistance and a workable adjustment assistance program would be forthcoming.

As a matter of fact, as you well know, adjustment assistance has not worked. It has been a negative way to handle the situation. In all the cases, it was 1962 until 1969 before a case was finally found in the affirmative in some relief under adjustment assistance.

That was one of the previous situations. But since 1962, this situation with respect to trade has turned around, and where formerly the United States had substantial surpluses in trade, this started in the other direction in the 1960's and many workers, whether they had been in steel or whether they had been in electronics or in glass or pottery, ceramic tile, shoes, textiles, have lost their employment due to the intense penetration if imports.

So that has been the reason for the turnaround, not only by the AFL-CIO, but by many unions.

Mr. PETTIS. In other words, you do not believe that through the mechanisms of the administration's bill, we might be able to achieve the goal of limiting these rather than by the tariff or quota method.

Mr. CHESTER. To be perfectly frank, I do not think, and I don't believe the AFL-CIO feels, that adjustment assistance is the answer, that any inclusion of adjustment assistance in the present bill is the answer to the trade problem. I know many people lean on it heavily and thinking that that will be the answer.

But it has been our experience that the American worker would much rather have a job and have a productive place in our society as opposed to receiving adjustment assistance.

Mr. PETTIS. I think we all have the same goal. I think all the members of the panel have the same goal. Our difference is in how to achieve that goal. That is going to be the dilemma of this committee, in trying to write legislation that will do that.

Mr. CHESTER. I appreciate that, Mr. Pettis.

Mr. GIBBONS. Thank you.

The next group of witnesses is from the National Foreign Trade Council. Will you gentlemen come forward and identify yourselves?

STATEMENT OF ROBERT J. DIXSON, CHAIRMAN, NATIONAL FOREIGN TRADE COUNCIL, ACCOMPANIED BY ROBERT M. NORRIS, PRESIDENT; E. ROGERS PLEASANTS, CHAIRMAN, TAX COMMITTEE; AND MELVILLE H. WALKER, EXECUTIVE VICE PRESIDENT AND TREASURER

SUMMARY

The Trade Reform Act of 1973 (H.R. 6767).—The National Foreign Trade Council endorses in general the provisions of H.R. 6767. Comments or specific suggestions are made for modification of certain provisions under Title I, Sections 101, 103, 112, 113; under Title II, Sections 201, 202, 203, 221, 222, 223; under Title III, Section 301; under Title IV, Section 401; and regarding Titles V and VI.

Treasury recommendations on changes in the taxation of foreign source income.—The Council is opposed to the Treasury recommendations and recommends that there be no change in the present system for taxing foreign source income.

Mr. GIBBONS. Let me assure each of you that, without objection, we will include all of your statements, as if they had been read, into the record. You may proceed.

Mr. DIXSON. Mr. Chairman, my name is Robert J. Dixson, and I am chairman of the National Foreign Trade Council, Inc. I am accompanied by Mr. Robert N. Norris, president, and Mr. M. H. Walker, executive vice president of the council; and by E. Rogers Pleasants, Esquire, chairman of the council's Tax Committee. Mr. Chairman, I am sure that most members of your committee know that the membership of the National Foreign Trade Council, which was founded in 1914, comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment, including manufacturers, exporters, importers, bankers, insurance underwriters, and companies engaged in rail, sea, and air transportation.

We appreciate the opportunity to present views on behalf of the National Foreign Trade Council at these very important hearings. With reference to the proposed Trade Reform Act of 1973 (H.R. 6767), the National Foreign Trade Council has long called for a concerted approach to the development of legislation which will firmly and consistently direct U.S. trade policy to the expansion of world trade and investment on a basis that is realistic, fair, and reciprocal.

Our recommendations concerning this approach are founded on the basic factual premise that the U.S. economy overall is strengthened by the expansion of international trade and investment. To maintain and gain access to markets abroad—to maintain the ability of the United States to compete in international trade—has increasingly required international investment by U.S. firms. It is our view, therefore, that the legislative basis for U.S. foreign economic policy must fully take into account the interdependence of our own and other economies of the world. It must equally take into account the mutually supporting relationship between international investment and international trade. Demestic and foreign economic policy interrelationships are also of foremost concern, involving such matters as controlling inflationary pressures and increasing productivity and employment, assuring domestic availability of essential materials and commodities, approaches to multilateral negotiations to reduce tariffs and nontariff barriers, essential safeguards to trade dislocations, and adjustment assistance and coordinated manpower policies and programs.

Two of the greatest challenges facing world governments today are the restructuring of the international monetary system and the need to reach new accords and new institutional arrangements for expanding international trade and investment on more open and equitable terms.

We recognize that the political and economic issues involved are complex and interrelated. It is important that negotiations in the monetary and trade fields proceed as much as possible in parallel, for official agreement on the monetary system cannot precede an agreement, at least in principle, on the rules of the trading system. The tasks ahead are not easy and call for bold leadership and action in international negotiations. On this score, let me quote from the declaration of the 59th National Foreign Trade Convention, adopted last November:

> Such leadership first requires the Executive Branch to promptly submit to the Congress, and the Congress to enact, trade legislation which would provide the necessary legislative mandate to undertake the negotiations. Such leadership calls for developing effective mechanisms to assure continuing liaison with the Congress both in preparing for and conducting the negotiations. Such liaison is particularly required in the consideration and determination of possible areas for any requests for or granting of concessions by U.S. representatives. U.S. leadership further calls for the firm fixing of responsibilities and effective coordination within the Executive Branch, and also for close two-way communications between the U.S. Government, and all affected sectors of industry, labor, and agriculture in developing the necessary legislation and in the conduct of the negotiations.

We endorse in general the proposed Trade Reform Act of 1973, believing this bill reflects a genuine effort to develop U.S. trade legislation on a coordinated basis. It would provide the necessary authority and flexibility to our negotiators in seeking international agreements to reduce tariffs and nontariff barriers. It would expand our trade relationships both with countries not presently enjoying most-favored-nation tariff treatment and with less developed countries by authorizing participation in a generalized system of preferences. And it would provide the necessary safeguards in each of these areas for the protection of U.S. industries and employment. Our observations or specific suggestions concerning modification of certain provisions under various titles of the bill are consistent with the view that the central thrust of U.S. foreign economic policy should be directed toward the continuing freer flow of gold, services, capital, and technology, upon which the further progress of the United States and world economies depend.

I should like to first address myself to specific sections of the proposed Trade Reform Act of 1973, and then to present the council's position regarding the recommendations of the Treasury Department on revisions in the taxation of foreign source income.

TITLE I—AUTHORITY FOR NEW NEGOTIATIONS; CHAPTER 1—GENERAL AUTHORITIES; SECTION 101—BASIC AUTHORITY FOR TRADE AGREEMENTS

While strongly endorsing the authorization to the President of necessary authority to engage in international negotiations for reduction of tariff barriers, the council recognizes the question of whether such authority should be without limit.

With regard to the authority to raise duties, we note that this authority is requested to deal with two specific siuations which may arise in international negotiations aimed at lowering tariff and nontariff barriers to trade. The first relates to a possible method for reducing a nontariff barrier by converting it to its ad valorem duty equivalent, and then phasing reductions in that ad valorem duty over an agreed period of time. This procedure could well involve the increase of an existing tariff rate. Secondly, instances may arise in which there would be international agreement to harmonize or make equal the rates of duty imposed by several countries on the same product. If the existing U.S. rate of duty were less than the agreed "harmonized" rate, there would need to be authority to raise the U.S. rate.

The council believes that the authority of the President, under this section, to raise duties should be limited to that which is necessary to carry out the above purposes; namely, reducing nontariff barriers or harmonizing tariffs. We recommend that such limitation be defined by the Congress, after consultation with the executive branch, so as to provide the necessary flexibility and authority in international negotiations.

With regard to the authority to reduce tariffs, the proposed bill would authorize the reduction to zero of any tariff duty provided such reduction is pursuant to an international trade agreement. Such reductions (if over 10 percent of existing duties) would be phased over 5 years or possibly a longer period. The need for sufficient flexibility, and advance authority for U.S. representatives to negotiate effectively, is clearly recognized. The overall average rate of duties on U.S. imports for consumption is less than 9 percent. And 59 percent of U.S. imports in 1970 of industrial commodities entered at rates of duty below 5 percent, and nearly 94 percent of such imports entered at rates of duty below 20 percent.

Even with such a low overall average rate of tariffs, and even with the preponderance of imports of industrial commodities entering at low rates, there are a number of individual tariff items with much higher rates. There are peaks as well as valleys in the tariff rate structure. Accordingly, we find difficulty either in accepting no limitation on the authority to reduce tariffs, or in accepting a flat percentage limitation of, say, up to 50 percent to apply both to low and to high duty rates.

We suggest a possible approach might be to provide for a limitation on reduction of ad valorem duties in terms of so many "percentage points" rather than as a flat percentage limitation. For example, if authority were provided to reduce duties (ad valorem or ad valorem equivalent) by, say, 15 percentage points, existing duties of 15 percent or less could be reduced to zero. Existing duties higher than 15 percent could be reduced by up to 15 percentage points. We suggest that some variation of such a formula to be developed by the Congress and the executive branch would provide the necessary flexibility and authority both to move toward the elimination of tariff duties, in those cases in which existing duties are low enough to make that a reasonable objective in international negotiations, and toward reduction of existing higher rates of duty in such negotiations.

SECTION 103—NONTARIFF BARRIERS TO TRADE

Paragraph (*a*). The Council attaches great importance to the statement in this section that it is "the will of the Congress" that the President take all appropriate and feasible steps within his power to reduce, eliminate, or harmonize barriers and other distortions to international trade in order to further the objective of providing better access for products of the United States to foreign markets. We believe that consideration should be given to broadening the application of paragraph (a) of section 103 to include selected service industries such as, for example, insurance.

Paragraph (c) of section 103 would give advance authority to the President to implement any trade agreement limited "to a reduction in the burden on trade resulting from methods of customs valuation, from establishing the quantities on which assessments are made, and from requirements for marking of country of origin." Agreements relating to "American selling price," the "final list," simplification of methods of valuation and the wine gallon/proof gallon basis for assessment, for example, could be implemented under this authority, as the section-by-section analysis of the bill states.

The Council recognizes that this provision, particularly as it relates to the elimination of the American selling price basis for custom valuation, would be regarded as an important indication of earnest and serious U.S. intention in undertaking negotiations to reduce nontariff barriers, especially in view of related American selling price developments after the Kennedy round. The Council notes, however, the new provision in the bill which could significantly enhance effective collaboration between the legislative and executive branches in the exercise of their respective authorities to deal with measures to reduce or eliminate nontariff barriers. We endorse this optional additional procedures set forth in subsection (e), and urge its authorization by the Congress.

Such authorization would additionally manifest the will of the Congress to support negotiations for reduction, harmonization, or elimination of nontariff barriers, and would, in our view, provide sufficient and strong assurance of our Nation's seriousness of purpose in entering such negotiations.

We accordingly recommend that negotiations for reduction or elimination of the American selling price or the other nontariff barriers referred to in paragraph (c) of section 103 should be conducted under the same procedures as authorized for other nontariff barriers. In respect to any concession to be offered by the United States in any nontariff barrier negotiation, we emphasize the need for realistic appraisal of the cost of such concessions to the United States in relation to the gains to be realized from the concessions of other countries.

CHAPTER 2—HEARINGS AND ADVICE CONCERNING NEGOTIATIONS PURSUANT TO TITLE I; SUBCHAPTER A—TITLE I PRENEGOTIATION REQUIREMENTS; SECTION 112—ADVICE FROM DEPARTMENTS

We reaffirm the essential need for effective two-way communications between the U.S. Government and industry, labor, and agriculture in developing the necessary legislation to authorize U.S. participation in international trade agreement negotiations, both in preparing for and during the actual conduct of such negotiations.

In our view, the language of chapter 2 of paragraph (b), section 112, should be positive in directing the President or any agency concerned to seek advice from industry, labor, and agricultural groups concerning U.S. negotiating objectives and bargaining positions in specific product sectors prior to entering into a trade agreement, and agree that the meetings of such groups be exempt from the requirements relating to open meetings, and public participation contained in sections 10(a) (1) and (3) of the Federal Advisory Committee Act.

SECTION 113(A)—PUBLIC HEARINGS

The provisions of this section, by technical reference, relate to any trade agreement under section 103 with respect to nontariff barriers, as well as under section 101 relating to tariff duties. The language, however, listing subjects on which interested persons shall have the opportunity to present their views in public hearings refers particularly to matters relating to modifications of existing duties, and does not specifically include matters relating to nontariff barriers. While nontariff barriers may be included under "any other matters relevant to such proposed trade agreement," we believe clarification on this point is necessary to assure public hearings relating to nontariff barriers, as well as to tariff matters, in advance of international negotiations.

TITLE II—RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION; CHAPTER 1—IMPORT RELIEF; SECTION 201—INVESTIGATION BY TARIFF COMMISSION

The Council favors relaxation of the criteria for import relief in respect to: (*a*) that it should be necessary to find only that increased imports are a primary cause of serious injury as opposed to a major cause; and (*b*) that such increased imports need not be related to a tariff concession previously granted.

We have important reservations, however, regarding the "market disruption" test as provided in subparagraph (b) (5) and as defined in (f)(2). Subparagraph (b)(5) provides that where the Tariff Commission finds serious injury, a further finding of market disruption shall constitute prima facie evidence that increased quantities of imports are the primary cause of such injury. We believe and recommend that the Tariff Commission, in its investigation and findings should be required to determine whether there was a causal connection between the increase in imports and the serious injury. The need for the Tariff Commission to make such a determination is supported by the vague and indefinite language of subsection (f)(2) under section 201 in attempting to define a condition of market disruption.

SECS. 202 AND 203 REGARDING PRESIDENTIAL ACTION AFTER INVESTIGATIONS AND IMPORT RELIEF

Unlike existing law, H.R. 6767, does not require a Tariff Commission recommendation as to the tariff increase or other remedy to be taken in order to provide import relief.

In determining whether to provide such relief, the President is required to take into account the considerations set forth in section

202(c), but the determination of the action, or combination of actions, to be taken, as authorized under section 203(a), is entirely at the President's discretion.

Insofar as import relief might involve the temporary modification of a tariff duty, it is the Council's view that the President should have the benefit of a recommendation from the Tariff Commission, as the body having made the detailed investigation, concerning what temporary tariff change would be appropriate or required to provide the needed relief. Under section 203(a), we would oppose authorizing the President to suspend the application of items 806.30 and 807 of the Tariff Schedules of the United States in whole or in part for any article, unless items 806.30 and 807 were demonstrate in the Tariff Commission investigation to have contributed significantly to the increase of imports which were a primary cause of serious injury, and that such suspension was recommended by the Tariff Commission.

CHAPTER 2—ADJUSTMENT ASSISTANCE FOR WORKERS; SUBCHAPTER A—PETITIONS AND DETERMINATIONS

The Council stresses that there is a long overdue need to replace the provisions of the Trade Expansion Act of 1962 so as to provide a more readily available and effective system of adjustment assistance to workers displaced by import competition.

We endorse the easing of the eligibility requirements in the three respects set forth in H.R. 6767, namely, (1) that increased imports need not be linked to trade agreement concessions, as in the 1962 law; (2) that increased imports need only have "contributed substantially" to, rather than to have been the "major" cause of loss of work; and (3) that both group petitions and applications for individual assistance go to the Secretary of Labor for prompt disposition and that he be authorized to request assistance from the Tariff Commission in conducting the necessary investigation of facts relevant to his determinations.

We support more liberal and readily available adjustment assistance to workers displaced by import competition. The council, however, emphasizes the need for such assistance to be effectively integrated under overall manpower and employment policies and programs which can provide earlier warning of possible trade dislocations, which would permit greater transferability of employment; and which would provide training for jobs in fields where there are reasonable prospects for expanding employment.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES; CHAPTER 1—FOREIGN IMPORT RESTRICTIONS; SEC. 301—RESPONSES TO UNFAIR FOREIGN IMPORT RESTRICTIONS AND EXPORT SUBSIDIES

We endorse the provisions of section 301 extending the authority of the President to react to unreasonable or unjustifiable foreign trade restrictions or discriminatory or other acts which burden or restrict United States commerce.

We emphasize, however, that such authorities should be exercised with due regard to the international obligations of the United States. The authorities should also be exercised consistently with the objective of achieving international agreement, through such agencies as the

GATT, in respect of defining unfair trade practices and providing safeguarding measures necessary to deal with them.

TITLE IV—INTERNATIONAL TRADE POLICY MANAGEMENT; SEC. 401—BALANCE-OF-PAYMENTS AUTHORITY

We endorse this section since it would provide explicit and more flexible authority than is available under existing legislation to the President to impose or liberalize restrictions on imports to deal with serious balance-of-payments problems.

Such authority, in our view, is a necessary concomitant both for the management of trade policy and for support of U.S. efforts to achieve international monetary reform. We particularly note that paragraph (d) of this section provides that neither the authorization for import-restricting actions nor the determination of exceptions with respect to product coverage shall be made for the purpose of protecting individual domestic industries from import competition.

TITLE V—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TARIFF TREATMENT AND TITLE VI—GENERALIZED SYSTEM OF PREFERENCES

We endorse the provisions of title V and title VI, as proposed.

TREASURY RECOMMENDATIONS ON TAXATION OF FOREIGN SOURCE INCOME

Now let me turn to the April 10 Treasury recommendations on changes in the taxation of foreign source income, as amplified by Secretary Shultz on April 30. In order to consider these recommendations in their proper perspective, we believe it is important to briefly refer to our earlier testimony before this committee on April 4 regarding that part of its tax reform hearings having to do with foreign source income.

At that appearance we addressed ourselves to somewhat broader tax proposals which would penalize foreign direct investment by U.S. companies through changes in the U.S. taxation of foreign source income. Such proposals are based upon the charge that foreign direct investment is to blame for our trade deficit, our adverse balance of payments and increased unemployment. We strongly rebutted these charges. Far from causing these domestic economic problems, foreign direct investment by U.S. companies has exerted a positive beneficial effect on the U.S. economy. This has been thoroughly demonstrated by the testimony of witnesses before this committee.

It has been supported by numerous studies, including our own, which have been incorporated in the record of your proceedings. Foreign direct investment has stimulated the expansion of U.S. exports and increased employment here at home. The fact is that it has been the only major positive contributor to our balance of payments, and it continues to be so at a progressively increasing rate. We reiterate that penalizing foreign direct investment—through changes in taxation or otherwise—is not the answer to these domestic economic problems. Rather, we submit that any action which would penalize foreign direct investment would aggravate these problems and cause others.

Let us then examine the more recent Treasury recommendations. They are predicated upon the false notion that U.S. companies go abroad to take advantage of foreign tax benefits. In point of fact, U.S. companies have invested abroad for many sound business reasons, the most important of which is to be able to compete in the international marketplace.

The fundamental difficulty that we find with the three Treasury proposals is the same difficulty that we found with the earlier proposals. The Treasury proposals, too, would in fact penalize U.S. foreign direct investment and significantly impair the competitive capability of U.S. companies in the international marketplace.

TAX HOLIDAYS

The so-called tax holiday proposal fails to take into account that the tax incentives offered by foreign countries are just as available to foreign-owned investors as they are to U.S. investors. These foreign-owned investors are our competitors. Effective denial of such incentives to U.S. investors through current taxation of foreign affiliate earnings would render U.S. companies unable to keep pace with foreign-owned competition in business expansion. This is particularly the case if foreign affiliates are required to distribute earnings currently in order to pay the accelerated U.S. tax. But if the U.S. parent should elect to pay the tax without repatriating the foreign affiliate earnings, its ability to expand or modernize domestic facilities would be impaired or it would be necessary to reduce dividends to stockholders.

RUNAWAY PLANTS

The fundamental difficulty that we have with the so-called runaway plant proposal is that it penalizes companies that have no clear choice between manufacturing abroad for export to the United States and manufacturing at home. For them, the choice is to manufacture abroad, or abandon the domestic market to foreign-owned competitors.

The Treasury proposal would in effect force them to choose to abandon the domestic market to foreign-owned competitors, because at the same time that the U.S. investment overseas is being penalized, our foreign-owned competitors would in no way be denied access to the U.S. market.

In considering both the so-called tax holiday and runaway plant proposals, it is important not to overlook the well-established fact that operations abroad actually broaden export opportunities from the United States. Foreign manufacture and assembly results in significant export support from the United States, and marketing of foreign manufacturers also broadens U.S. exports of allied products both to the country of foreign manufacture and to third market countries.

RECAPTURE OF FOREIGN LOSSES

The Treasury proposal to require recapture of foreign losses also will reduce the competitive capability of U.S. foreign investors. We know of only one instance where a country requires its investors to recapture previously deducted foreign losses. And even in that case, foreign profits after recapture are no longer subject to home country tax. The proposal would be most competitively disadvantageous to U.S.

investors who are competing with foreign-owned investors for natural resources in developing nations at high risk.

CONCLUSION

Each of the three Treasury proposals would result in further limiting the amount of foreign tax credit allowable to U.S. investors. We submit that such additional limitation would, in and of itself, adversely affect our competitiveness in world trade and would have a significant negative impact on the contributions of U.S. foreign direct investment to our economy.

For the reasons we advanced more fully in our testimony before the committee on April 4, and for the reasons we have advanced today, we strongly recommend that there be no change in the present system for taxing foreign source income.

Mr. GIBBONS. Thank you for your presentation.

Our next witness is Mr. Seghers. Mr. Seghers, we have to go to the floor and vote, but will return as soon as we have done so.

Mr. SEGHERS. Do you wish to wait until you have voted?

Mr. GIBBONS. Yes, Mr. Seghers.

[A recess was taken.]

STATEMENT OF PAUL SEGHERS, PRESIDENT, INTERNATIONAL TAX INSTITUTE, INC.

Mr. VANIK [presiding]. We will resume.

Mr. SEGHERS. My name is Paul D. Seghers; I am president of the International Tax Institute, Inc.

That institute is a nonprofit professional and business organization with approximately 500 members (tax lawyers, accountants, and executives) located throughout the United States, from the west coast to the east.

In the written statement filed with your committee, we have summarized the unfounded charges being made against U.S. multinationals, and the facts in rebuttal of those charges. Those facts have been presented to your committee by many witnesses.

I also submitted the substance of my oral statement. I have revised it and would like to say a few additional words on what I heard in defense of the AFL-CIO bills.

We agree fully with the dire need to correct the present situation, to increase our exports, and to do everything possible to furnish work for those who are willing to work, to furnish jobs in the United States, but we disagree violently with the AFL-CIO recommendations embodied in the Burke-Hartke bill.

We think what they propose would be disastrous, and many others expressed the same opinion who are qualified as experts to express an opinion. An opinion is classed as a fact if it is expressed by a qualified expert, and those were expert businessmen who have told you what will happen.

The statistics that were given to you a while ago by the cement, glass, and stone, and so on, regarding U.S. manufacturers, show that the multinationals have increased their employment at a greater rate than the national rate with one exception. At least they have increased their employment at a time when U.S. employment in general has increased.

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They were increasing their employment while unemployment was increasing, so that does not look as if they had harmed our exports or taken jobs away from American workers.

There was a lot of sympathy and tears, but no statistics about exploiting human labor. I admit 15 cents an hour is a low wage, but if those foreign plants were closed, would those laborers make any more? Presumably they went to work for 15 cents an hour because they couldn't get that much from local employers. Would they lose their jobs?

If we are talking of sympathy for the foreign laborer, which isn't our business, let's consider whether it would help them to cut off the American manufacturers. Would they get other jobs? Would they get paid more or paid less?

If they got jobs, who would employ them, the Japanese factories? Do you think the Japanese factories would pay the laborer any more in that country? So forget about the sympathy.

How much has been imported from U.S. plants abroad, aside from the specialized industries? True, there have been some imports but only of a few things, principally, as you know, of electronic components. If the American manufacturer didn't get components, they couldn't manufacture goods at all, and people would either do without transistor radios or buy Japanese transistor radios.

The mere threat of this Burke-Hartke bill, that the Congress is considering, has had a terrible effect on the market and, if it went through, it would simply ruin our foreign trade.

A famous manipulator of men's minds and emotions is reputed to have said: "Make false charges against your opponents—throw mud at him—some of it will always stick."

Those who are attacking all U.S. multinational businesses are using that method. A survey by McGraw-Hill (June 9, Business Week) shows that the majority of the public has been misled by those false charges.

Fortunately, U.S. business has been more successful in obtaining a fair hearing of its side before your committee than it has been in reaching the general public.

Once again, we urge your committee to repeal IRC section 954(d) and thereby remove one of the handicaps imposed on U.S. manufacturers seeking to market their U.S. products to buyers abroad.

That provision places a penalty on a U.S. manufacturer if it has a foreign sales subsidiary that sells its products to buyers outside of the one country in which it was incorporated. That U.S. income tax penalty on U.S. exports does not apply if the products are purchased from an unrelated foreign manufacturer, or if there is a separate sales subsidiary in each country where U.S. products are marketed.

I am astonished that I am not called down by you gentlemen when I tell you there is a U.S. tax penalty on the export of U.S. products. I have been saying that at hearing after hearing, and never hear anything in answer.

The Congress should concern itself with the effect that penalty provision has on U.S. exports and repeal it without delay. Speaking from personal knowledge and experience, I can testify that before its enactment, many relatively small U.S. manufacturers were beginning actively to enter the export field.

They then could use a single foreign sales subsidiary to distribute their products to buyers in any number of foreign countries, without paying U.S. income tax on the sales income earned abroad by that subsidiary, until brought home as dividends.

The statistics submitted to your committee show that, in recent years, U.S. business has brought home much more money than it has sent abroad for business investment.

The tremendous increase you see in U.S. investment abroad is largely accounted for by profits earned abroad and reinvested abroad to create more income. And the statistics show it has created more income.

The smaller U.S. manufacturers that had been eager to enter the export field lost interest after section 954(d) caused undistributed income of a foreign sales subsidiary to be taxable to them as an imaginary dividend.

That 1962 legislation was urged by the Treasury on the ground that it was then needed to help our international balance of trade and balance of payments.

The institute predicted that, within a few years, that legislation would harm our then excellent balance of trade, and thus worsen our balance-of-payments position. It is unnecessary to point out which prediction was right.

Now there are proposals to add to the burden of U.S. tax on foreign trade and even to repeal the DISC provisions. Can repeal of DISC be on behalf of American labor? DISC affords no benefit except for the deferral of U.S. income taxes on a portion of the income derived from the export of U.S. products. The proposal to repeal DISC shows greater desire to harm U.S. business than to help labor.

The unfounded charges against U.S. multinational businesses and the facts in rebuttal submitted by many witnesses to your committee will be briefly stated. I can do no more than summarize them in the brief time period permitted.

The charge: U.S. multinationals export U.S. jobs. The facts: They do not. Those U.S. manufacturers have increased their U.S. employment at a higher rate than the average of all U.S. manufacturers.

The charge: U.S.-controlled plants abroad produce for sale in the United States. The facts: This is true only of a tiny percentage of total U.S. imports. It is confined to only a few products, notably electronic components (which enable U.S. manufacturers to compete in sale of finished products) and certain shoes, textiles, and garments. There may be some other of which I am not fully aware. (Foreign-owned factories produce most of the U.S. imports of the latter category.)

The charge: U.S. production abroad replaces U.S. exports. The facts: U.S. exports of U.S. multinational businesses have substantially increased during the past 10 years. You gentlemen have heard it in testimony, with the figures. However, in many instances, goods produced in the United States would have to be sold at a loss to compete in foreign markets with goods produced locally, not burdened by heavy freight and tariff costs.

To force the sale of U.S. plants producing such goods abroad would not increase U.S. exports, but would give more business to foreign producers.

These facts and other details regarding those U.S. manufacturers that produce the greater portion of U.S. exports, have been submitted to your committee.

We hope that your committee will have prepared for its consideration a condensed summary of all the facts presented to it by both sides, including the opinions expressed by U.S. manufacturing executives who are qualified experts in the field of international business.

This would enable your committee and the Congress to weigh the evidence and to reach a decision to help, rather than further penalize, U.S. multinational business that contributes so much to employment in this country and to the welfare of our entire population.

[The prepared statement of Paul D. Seghers follows:]

STATEMENT OF PAUL D. SEGHERS, PRESIDENT, INTERNATIONAL TAX INSTITUTE, INC.

My name is Paul D. Seghers and I appear before this Committee as President of the International Tax Institute, Inc.

The International Tax Institute, Inc., is a non-profit professional and business organization with almost 500 members (tax lawyers, accountants and executives) located throughout the United States, from the West Coast to the East.

A written statement has been duly filed with your Committee expressing our support of the many statements that have been made to your Committee in opposition to the proposals for added burdens of U.S. income taxes on U.S. exports, U.S. foreign trade, and U.S. manufacturers.

In that statement we have summarized the unfounded charges being made against U.S. multinationals, and the facts in rebuttal of those charges. Those facts have been presented by many witnesses who have appeared before your Committee.

Once again we urge your Committee to act boldly against one of the handicaps imposed on U.S. manufacturers seeking to export and market a portion of their U.S. products to buyers abroad.

You may ask what foreign country imposes that burden on U.S. exports, and what can this Congress do to remove it?

The answer to that question is shocking—the United States Government imposes that burden. Internal Revenue Code section 954(d) places a penalty on a U.S. manufacturer if it has a foreign sales subsidiary that sells its products to buyers outside of the country of its incorporation. That U.S. income tax penalty was not imposed prior to 1962, and still does not apply if the products sold are purchased from an unrelated foreign manufacturer, or if there is a separate sales subsidiary in each country where U.S. products are marketed. Congress should repeal IRC Sec. 954(d).

The Congress should concern itself with the effect that penalty provision has on U.S. exports. Speaking from personal knowledge and experience, I can testify that before its enactment many relatively small U.S. manufacturers were beginning actively to enter the export field. They then could use a single foreign sales subsidiary to distribute their products to buyers in any number of foreign countries, without paying U.S. income tax on the sales income earned abroad by that subsidiary, until brought home as dividends.

The smaller U.S. manufacturers that had been eager to enter the export field lost interest after Sec. 954(d) caused undistributed income of a foreign sales subsidiary to be taxable to them as an imaginary dividend.

That 1962 legislation was urged by the Treasury on the ground that it was then needed to help our international balance of trade and balance of payments.

This Institute predicted that, within a few years, that legislation would harm our then excellent balance of trade, and thus worsen our balance of payments position.

Which of the two was proved to be right?

Now there are proposals to add to the burden of U.S. taxes on foreign trade and even to repeal the DISC provisions! Can repeal of DISC be on behalf of American labor, when DISC affords no benefit except for the deferral of a portion of U.S. income taxes on income derived from the export of U.S. products? That proposal shows greater desire to harm U.S. business than to help labor.

The unfounded charges against U.S. multinational businesses and the facts in rebuttal may be summarized as follows:

The charge: U.S. multinationals export U.S. jobs.

The facts: They do not. They have increased their U.S. employment at a higher rate than all U.S. manufacturers.

The charge: U.S. manufacturers produce abroad for sale in the U.S.

The facts: This is true only of a tiny percentage of total U.S. imports. It is confined to only a few products, notably electronic components (which enable U.S. manufacturers to compete in sales of finished products) and certain shoes, textiles and garments. (Foreign owned factories produce most of the U.S. imports of the latter category.)

The charge: U.S. production abroad replaces U.S. exports.

The facts: U.S. exports of U.S. multinational businesses have substantially increased during the past ten years. However, in many instances goods produced in the U.S. would have to be sold below cost to compete in foreign markets with goods produced locally, not burdened by freight and tariff costs. To close U.S. plants producing such goods abroad would not increase U.S. exports, but give more business to foreign producers.

These facts, and details as to U.S. manufacturers producing the greater portion of U.S. exports, have been submitted to your Committee. We hope that your Committee will have prepared a condensed summary of the testimony it has received as to those facts.

What will your Committee do? What will Congress do to encourage U.S. exports? It is our hope that the decision will be based on a careful weighing of the facts and the opinions expressed to this Committee by qualified U.S. executives who are experts in the field of international business, rather than on generalized, largely unsubstantiated charges against all U.S. multinational businesses.

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The International Tax Institute, Inc., is a non-profit professional and business organization with almost 500 members (tax lawyers, accountants and executives) located throughout the United States, from the West Coast to the East.

Your Committee quite properly is deeply concerned by the need to increase U.S. exports and to reduce this country's dreadful annual deficit in its international balance of payments.

That situation likewise vitally concerns this Institute, its members, and all U.S. manufacturers engaged in foreign trade. That is why we are here.

In our numerous appearances before your Committee we have stated our conviction, based on our knowledge of the relevant facts, acquired through experience and research, that added U.S. tax burdens and penalties would not increase U.S. exports nor improve our balances of trade and export but, on the contrary, would worsen them.

We draw attention to the statement we presented in our April 3rd appearance before your Committee, as well as those we presented in 1961 and 1962 in connection with hearings on what became the Revenue Act of 1962.

Once again we urge your Committee to take a positive step to increase U.S. exports, by repealing I.R.C. 954(d), which is a U.S. income tax penalty on the export of U.S. products.

We hope that your Committee will give some indication that it has considered this recommendation.

Prior to 1962 a relatively small U.S. manufacturer could use a foreign subsidiary efficiently and economically to sell its products to buyers abroad, without being immediately subject to U.S. tax on the profits from such sales. The foreign profits not immediately taxed to such U.S. manufacturers were used to build up demand for their products abroad, at little foreign tax cost, but fully subject to U.S. tax when brought home. The purpose of business is to make profits that its owners can enjoy—not to secrete them or lock them up in some foreign country.

Statistics that have been submitted to your Committee show that the return of funds from U.S. business abroad have far exceeded the cash outflow for foreign investment.

Facts submitted to your Committee prove that a large portion of U.S. business investment abroad was derived from profits earned abroad, and is producing large annual flows of funds into the United States in the form of dividends, interest, fees and royalties from such businesses. Is that bad?

Since 1962, in order not to be penalized by Sec. 954(d), sales of a U.S. manufacturer made through a foreign sales subsidiary must be made to customers located only in the country where it is incorporated. The steps necessary to meet that unreasonable requirement are inefficient and expensive and put the U.S.

manufacturer at a disadvantage in selling its products to buyers abroad in competition with Japanese, German, French and other foreign manufacturers. It is a bar to active export sales efforts of smaller U.S. manufacturers.

What reason is there to retain Sec. 954(d)? Its repeal would not be a violation of our GATT commitments.

Now, let us consider the charges against U.S. multinational businesses. Facts in rebuttal of those largely unsupported charges have been presented to your Committee. Those facts in rebuttal are derived from the actual operations of those U.S. manufacturers that account for the greater part of all U.S. exports of U.S. manufactured products.

The charge: U.S. multinationals export U.S. jobs.

The facts: They do not. During the past ten years they have increased their U.S. employment in their U.S. factories at a higher rate than all U.S. manufacturers.

The charge: U.S. manufacturers produce abroad for sale in the U.S.

The facts: This is true only of a tiny percentage of total U.S. imports. It is confined to only a few products, notably electronic components (which enable U.S. manufacturers to compete in sales of finished products) and certain shoes, textiles and garments. (Foreign owned factories produce most of the U.S. imports of the latter category.)

The charge: U.S. production abroad replaces U.S. exports.

The facts: U.S. exports of U.S. multinational businesses have substantially increased during the past ten years. However, in many instances goods produced in the U.S. would have to be sold below cost to compete in foreign markets with goods produced locally, not burdened by overseas freight and tariff costs. The sale to foreign owners of such U.S. owned plants (which would result if those proposals were adopted) would not increase U.S. exports. On the contrary, it would give foreign producers a monopoly in such local markets and add to their competitive strength in world markets.

We hope that your Committee will take steps to have a condensed summary made of the facts that have been presented to it at its hearings this year regarding the interrelation of U.S. income taxes, U.S. exports, and the U.S. balances of trade and of international payments. Such a summary will show that a large volume of impressive evidence has been submitted in answer to the proposals to impose further U.S. tax burdens on U.S. exports and foreign trade, and that very few *facts* have been submitted in support of those harmful proposals.

We heartily agree with the numerous statements that have been made to your Committee regarding the disastrous results of enactment of those proposals. This is especially true of the propoal to abolish or restrict the foreign tax credit.

Those disastrous results would include the closing of many U.S. controlled plants abroad. Those plants would not stay closed—they would be snapped up and operated by foreign manufacturers, who would then have a monopoly of the foreign markets now being served by those U.S. owned plants in conjunction with their home (U.S.) plants.

Similarly, added U.S. tax burdens on foreign sales subsidiaries of U.S. manufacturers would give foreign competitors control of the markets they now serve. They also would lead to tariff retaliation against U.S. products.

End result—reduced exports, reduced U.S. employment, reduced inflow of earnings from abroad, worsened balance of trade and balance of payments deficits—with consequent injury to the entire U.S. economy and people.

The existing penalties on U.S. exports and foreign trade were proposed in 1962 on the ground that, whatever might be their long-range effect, they were needed immediately to help our international balance of payments. (Our balance of trade was then in excellent shape.)

After the Treasury projected the effect of that 1962 legislation, it was obliged to submit a new projection showing that the adverse effects it recognized would be experienced at an earlier date than at first predicted. We insisted at that time that those 1962 proposals would harm our balance of trade (and. hence, our balance of payments) at a much earlier date. Events have proved that we were right.

If, God forbid, the proposals to penalize all U.S. multinational businesses were adopted, all of us in this country would suffer—consumers and factory employees most of all.

We hope that your Committee and the Congress will carefully weigh the evidence on both sides and ACT to provide incentives to increase exports of U.S. products and not to penalize them.

Mr. VANIK. Any questions? Mr. Burke?

Mr. BURKE. I just want to thank you for bringing to the attention of the committee the Burke-Hartke bill. I am having difficulty getting publicity on it and appreciate your remarks.

Mr. SEGHERS. Thank you.

Mr. VANIK. Mr. Duncan?

Mr. DUNCAN. I have no questions, but do thank you for coming to the committee.

Mr. VANIK. Mr. Duncan has no questions and I have none either. We appreciate your time before the committee and will certainly take under consideration the very important recommendations which you have made.

Mr. SEGHERS. Thank you. I have spoken from my heart, because I feel this is something which is a great threat to the welfare of our country. We must overcome it.

Mr. VANIK. Tell me something about your institute. How is it supported? How is your tax institute supported?

Mr. SEGHERS. By membership dues. We have almost 500 individual members, and their dues are $50 a year, and we have a few sustaining members, relatively few, and we hold two or three meetings a year. We get people from as far as the west coast. We have had two 2-day meetings, one is our regular type of meeting in which we deal in great depth with technical problems.

Just last month we had a 2-day meeting which dealt with the basic principles, overall taxation of U.S. foreign source income and exports.

Mr. VANIK. Thank you, sir.

The next witness is Prof. Robert Stobaugh of Harvard Business School. The committee will be pleased to hear from you now.

I might point out, if you like, you may have your entire statement admitted into the record as though it has been read or you may proceed in summary or in any way you desire.

I would suppose, professor, since you came from Harvard, I better yield the chair to my distinguished colleague, Mr. Burke, who represents Harvard on the Ways and Means Committee. I might tell you at the outset that your prime responsibility, of course, is to please your own representative on this committee. He is the most vigorous questioner, so I will yield the chairmanship to Mr. Burke.

Mr. BURKE [presiding]. I am always happy to welcome someone from that esteemed university across the Charles. We are happy to have you here.

STATEMENT OF ROBERT B. STOBAUGH, PROFESSOR, HARVARD BUSINESS SCHOOL

Mr. STOBAUGH. Thank you, it is an honor to be here, and thank you for the privilege of appearing before you again to discuss the taxation of foreign income. Today, I focus solely on the issue of eliminating the deferral provisions of the current U.S. tax laws under which income earned abroad by foreign subsidiaries controlled by U.S. parents is not taxed until it is remitted to the United States.

This testimony is drawn from research directed by me for the Management Analysis Center, Inc., of Cambridge, Mass., and financed by a group of multinational enterprises. Almost surely, eliminating tax deferral would adversely affect the foreign operations of these enterprises as well as the foreign operations of Berol Corp., on whose board of directors I serve. However, I had complete freedom in the direction of this research, and the conclusions represent wholly my views and not necessarily those of any other person or organization.

With your permission, I would like to have a report covering these results placed in the record.

Mr. BURKE. Without objection, it is so ordered.

Mr. STOBAUGH. This report and today's testimony contain a number of new findings since my testimony before you in February.

THE EFFECTS OF U.S. FOREIGN DIRECT INVESTMENT ON THE U.S. ECONOMY

To enable you to judge how reliable is our estimate that 600,000 U.S. jobs depend on U.S. foreign direct investment, the attached report includes details as to how we selected the sample of investments that we studied. Also included are results of other studies that support the basic premise underlying our estimate. That is, most U.S. foreign direct investment is undertaken because the firm has no other long-run viable alternative to serve the market, either U.S. or foreign, which the foreign investment is intended to serve.

However, the number of jobs, although important, is not the most important issue, for the number of jobs can, to some extent, be controlled by fiscal and monetary policy. Rather, as shown in chart 1, the important factor is that U.S. investment abroad creates jobs at higher skill levels than now exist on the average in the import-competing industries in the United States; or, on the average in all manufacturing industries in the United States. Note especially the creation of a relatively large number of professional jobs, which, of course, have relatively high earnings and job satisfaction.

COMPETITION ENCOUNTERED BY U.S. COMPANIES OPERATING ABROAD

Chart 2, based on data from a variety of published sources and confidential interviews, shows the relative size of sales in markets outside the United States for the U.S. industries that account for most U.S. foreign direct investment in manufacturing.

Note that for seven out of the nine industries that account for most U.S. foreign direct investment, the sales of the largest foreign competitor are larger than those of the largest U.S. firm.

We were also able to obtain some data for six well-defined product lines in 15 countries in which the bulk of U.S. foreign direct investment exists. We found that in some 60 percent of the cases there was at least one foreign competitor with more sales than those of the largest U.S. subsidiary operating in a given product line in a country. On the average, the market share of the biggest U.S. subsidiary was only 80 percent of that of its largest foreign competitor.

As sales volumes is an important measure of competitive strength within an industry, U.S. firms are not so powerful abroad that their operations could afford to pay substantially higher taxes than their foreign competitors.

THE EFFECTIVE RATE OF FOREIGN TAXES ON U.S. OPERATIONS ABROAD

Chart 3 shows for our selected group of 15 countries, the effective tax rates in 1966 for those U.S. foreign manufacturing affiliates that would be affected by eliminating tax deferral. That is, those subsidiaries earning a profit but paying less than a 48-percent local income tax rate. Note that the tax varied from a low of 17 percent in Switzerland to a high of 40 percent in Mexico. The average worldwide rate for all countries was 33 percent; in addition, there was a 9-percent tax on dividends paid to the U.S. parent. Parenthetically, I add that these data have only recently become available as a result of a special computer run by the U.S. Department of Commerce for these particular subsidiaries that would be affected by a deferral.

Thus, with current U.S. tax laws, if 50 percent of foreign earnings after taxes were paid in dividends, than half the earnings would be taxed at 33 percent and half at 48 percent. Hence, the average of U.S. and foreign taxes would be about 40 percent. In contrast, of course, if the deferral provision of the current tax law were eliminated, the average tax rate would increase to 48 percent.

REACTIONS OF FOREIGN GOVERNMENTS

Although we interviewed a number of foreign governments, we are unable to say what their ultimate reaction to the elimination of tax deferral might be. Their initial reaction is that any attempt by the United States to tax the undistributed earnings of companies incorporated within their country would represent an infringement of their nation's sovereignty. Further, they thought it possible to increase their taxes in such a way as to selectively tax U.S. subsidiaries in order to obtain most of the increased tax revenue that would be paid by U.S. firms as a result of any elimination of the tax deferral provisions. However, since we were unable to determine what actions foreign governments might take, for our analysis we assumed that the foreign tax rates would not change.

AN ESTIMATE OF THE EFFECT OF ELIMINATION OF TAX DEFERRALS ON THE U.S. ECONOMY

In order to obtain a better idea of the effect of eliminating the tax deferral, we prepared a computer simulation model of a U.S. multinational enterprise and its major foreign competitor. We found that the elimination of tax deferral for manufacturing industries would increase U.S. tax revenues by $300 million, and improve the U.S. balance of payments by $900 million, during the first year. An additional $300 million in taxes would be paid by U.S. foreign affiliates to foreign governments.

However, these increased tax payments would reduce parent company dividends to its shareholders, and also leave relatively less funds for U.S. foreign affiliates to reinvest than their foreign rivals would have, thereby allowing their foreign rivals to expand more rapidly. The increased output of the foreign rivals would give them a cost advantage that would cause the U.S. foreign affiliates to lose market share and experience a slowdown in their rate of growth and an eventual decline in profits. The net result would be lower U.S. tax revenues and a worse balance-of-payments position than under the present tax laws, as shown in chart 4. The breakeven point for these two indicators is between 5 to 6 years for a wide range of assumed conditions on such matters as the effect of increases in output on overall efficiency.

Our model shows that the U.S. profits of U.S.-owned operations abroad would be zero by the 12th year.

DECLINE IN THE MARKET VALUE OF THE COMMON STOCK OF U.S. MULTINATIONAL ENTERPRISES

Estimating stock market values is a tricky business at best, but models made by others do confirm what is commonly believed by investment experts—stock prices over the long run are dependent mainly on dividends, earnings, and expected growth in earnings.

Applying the same results of these models indicates that the market value of the foreign earnings of U.S. foreign direct investors is perhaps $250 billion and is growing some 10 percent yearly, as shown in chart 5.

But, if deferral were eliminated, a loss of perhaps $100 billion would be experienced as soon as the investment community realized the slower rates of growth to be expected in foreign earnings. Two years after the elimination of deferral, the net reduction in market value compared with the current law would be perhaps $200 billion.

Our detailed report contains a copy of the computer model so that any interested party can determine the effects of various assumptions on selected U.S. economic indicators, including the balance of payments and tax revenues.

In sum, if deferral were eliminated the total increase in revenues to the U.S. Government would be relatively small and would last a relatively short time. In exchange for such doubtful benefits received by the U.S. Government, U.S. firms would be placed at a substantial competitive disadvantage in their foreign operations.

A BETTER APPROACH

Although I believe that U.S. foreign direct investment helps the U.S. economy, I do not believe that what is good for U.S. multinational enterprises is necessarily always good for the United States. I cite three examples:

First, take the job issue. Some multinational enterprises are laying off workers with many years of experience and nearing retirement age, thereby causing a loss of retirement benefits. As most of these layoffs are caused by technological change, rather than by U.S. operations abroad, a head-on program to force companies to cease such practices would be a better approach than forcing a reduction in foreign operations.

Second, take the matter of trade negotiations. Many U.S. chemical firms opposed the adoption of the Geneva supplementary trade agreement, though, as I testified before you in 1970, I believe that this agreement would have increased the overall net U.S. trade balance.

Third, should we return to a system of fixed exchange rates, then controls on speculative movements of funds by multinational enterprises most likely will be necessary. This is explained in a forthcoming book, "Money in the Multinational Enterprises: A Study of Financial Policy," coauthored by Sidney M. Robbins and me.

In conclusion, my estimates of economic consequences are by their very nature not very accurate. But the direction is clear, and the stakes are so large that we should be careful about upsetting the current competitive situation. If tax increases did force U.S. multinational enterprises to drop by the wayside in their race with foreign competitors, the end results could be disastrous. Our participation in foreign markets, that in the aggregate are larger than our own, would drop substantially for these markets cannot be served by exports alone.

The resulting import cutback needed to bring our trade balance into equilibrium would be inflationary. The final result would be a lower standard of living in the United States than if current tax laws remained as is. This is ample reason to avoid increasing taxes on foreign income of U.S.-based firms unless similar increases take place for their major foreign competitors, possibly through the adoption of multilateral tax agreements with other nations' headquartering multinational enterprises.

Thank you again for the privilege of testifying. I will be happy to attempt to answer any questions.

[The charts and report referred to earlier follow:]

Chart 1

Skill Compositions of Selected Workforces

Circa 1970

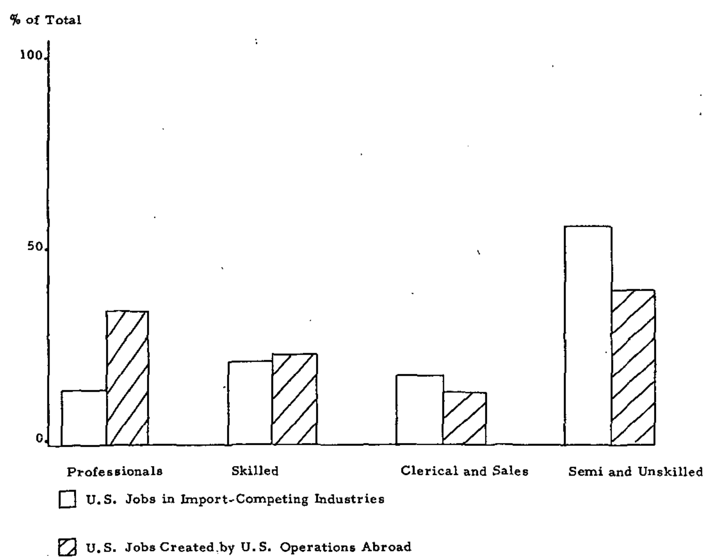
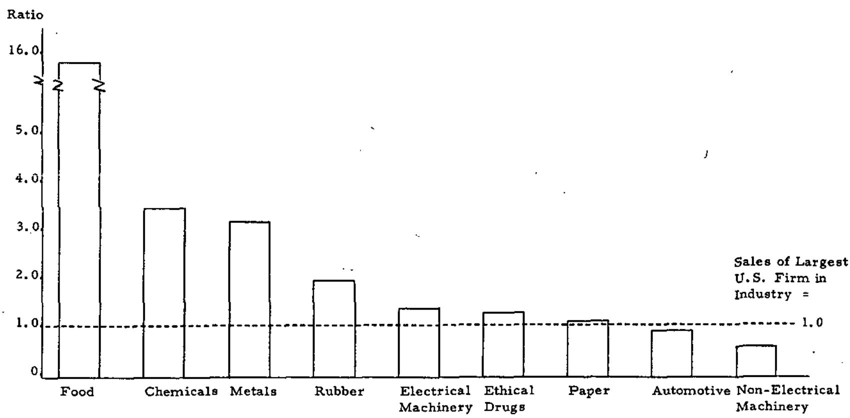


Chart 2

Ratio of Sales of Largest Non-U.S. Firm to

Largest U.S. Firm, Outside U.S., Selected Industries, 1971



Note: These industries account for about 90% of U.S. foreign direct investment in manufacturing (petroleum refining not included).

Chart 3

Income Taxes Paid To Foreign Governments

by U.S.-Owned Foreign Manufacturing Affiliates,

Selected Countries and Average for all Countries, 1966

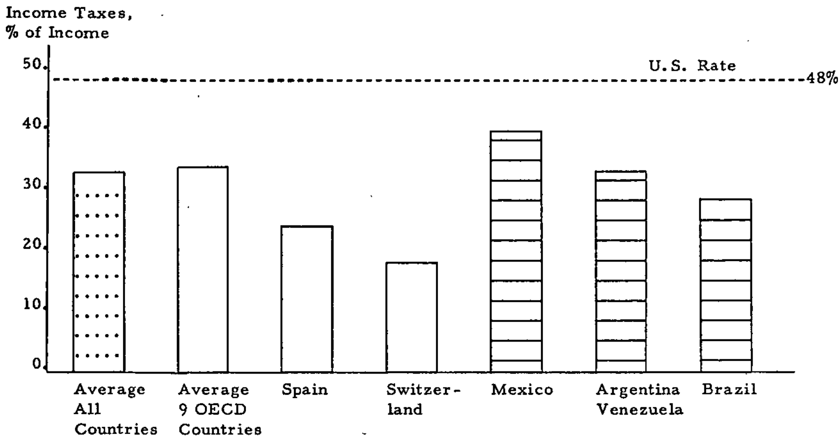


Chart 4

Estimated Effects of Eliminating Deferral on
U.S. Balance of Payments and U.S. Tax Revenues,

Manufacturing Industries

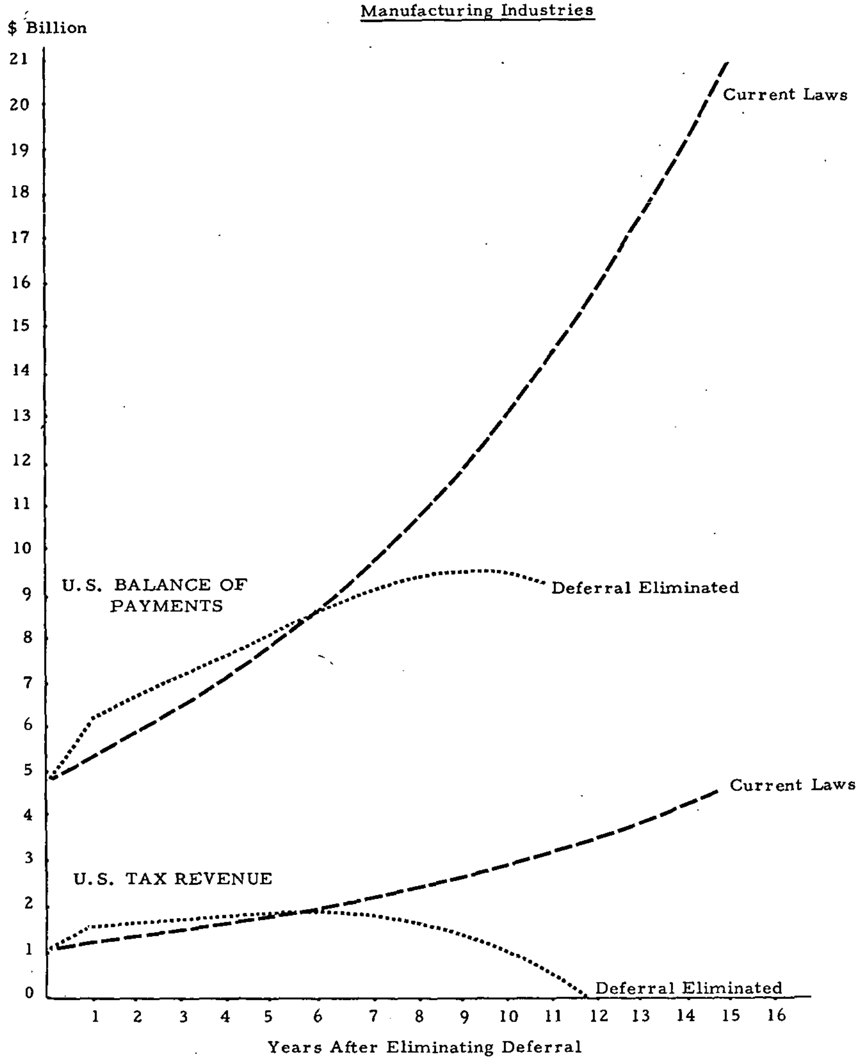
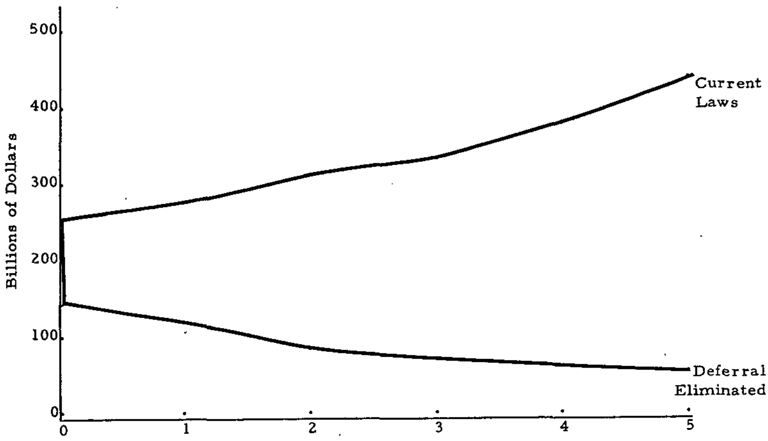


Chart 5

Estimated Stock Market Value of Foreign Earnings of U.S. Foreign Direct Investors



The Effect on the U.S. Economy of Eliminating the Deferral of U.S. Tax on Foreign Earnings

A Report Providing Data for Robert B. Stobaugh's Testimony of June 11, 1973 Before the Committee on Ways and Means, U.S. House of Representatives; by Robert B. Stobaugh, Professor, Harvard Business School, and Dario Iacuelli, John C. Kirby, William F. Samuelson, and Theodore R. Warren.

Management Analysis Center, Inc., Cambridge, Mass., June 1973.

NOTE

This research project was financed by a group of multinational enterprises: Abbott, American Home Products, John Deere, IBM, Johnson & Johnson, Merck, Pfizer, Schering Products, Searles, and Squibb. However, we had complete freedom in the direction of this research, and the conclusions represent wholly our views and not necessarily those of any other person or organization.

Chapter I

THE EFFECTS OF U.S. FOREIGN DIRECT INVESTMENT ON THE U.S. ECONOMY

Research conducted at the Harvard Business School indicates that U.S. foreign direct investment in manufacturing is beneficial to the U.S. economy—it has created some 600,000 U.S. jobs and makes a net positive contribution to the U.S. balance of payments of some $3.5 billion.[1] The trade effects are more important than the financial flows in making these contributions.

[1] Robert B. Stobaugh and Associates, "U.S. Multinational Enterprises and the U.S. Economy," in Bureau of International Commerce, U.S. Department of Commerce, *The Multinational Corporation* (Washington: Superintendent of Documents, 1972), Part II; and for a briefer version, see Robert B. Stobaugh, "How Investment Abroad Creates Jobs at Home," *Harvard Business Review*, September–October 1972. A fuller discussion of this methodology is in Piero Telesio, "Part I," of Robert B. Stobaugh, Piero Telesio, and Jose de la Torre, "The Effect of U.S. Foreign Direct Investment in Manufacturing on the U.S. Balance of Payments, U.S. Employment, and Changes in Skill Composition of Employment," Occasional Paper No. 4 for Center for Multinational Studies, Washington, D.C., February 1973.

The reason that the results are positive is that most U.S. foreign direct investment in manufacturing is undertaken because the firm has no other long-range viable alternative to serve the market that the foreign facility serves. For if U.S.-owned plants had not been built, foreign firms, many of which are European or Japanese multinational enterprises, would have built the facilities to serve the market. Thus, a U.S. plant built abroad to serve a market in place of U.S. exports usually is not responsible for any resulting loss in such exports, for these exports would be lost anyway. Rather, U.S. plants abroad increase U.S. exports because U.S. foreign affiliates have a greater propensity to obtain equipment, components, and finished products from the United States than do foreign firms. The latter are less familiar with U.S. sources of supply and more familiar with foreign sources than are U.S. firms, and, of course, foreign affiliates of European and Japanese enterprises are more likely to import components from their parents than from the United States.

The estimates of the effects of U.S. foreign direct investment were made by using analytical models of the overall economy.[2] However, the outcome of such models depends primarily upon a key estimate fed into the models: the extent to which the output of U.S.-owned plants abroad "displace" U.S. exports.

To obtain this estimate of export displacement, the researchers at Harvard studied nine individual investment decisions, one in each of the U.S. industries that account for most U.S. foreign direct investment in manufacturing. From a review of estimates made by individual researchers in each case, Mr. Piero Telesio, a citizen of Italy who was working as a research assistant, estimated an average for all U.S. foreign direct investment in manufacturing. He estimated that during the first year of operation of a U.S.-owned plant abroad, about 12.5 percent of the markets served by this plant could have been served instead by facilities in the United States. However, as the U.S.-owned foreign plants gets older, even less of the markets it serves could have been served by U.S. facilities. With each passing year the probability increases that a foreign firm would have built the foreign plant if a U.S. firm did not. After the fifth year, none of the foreign markets could have been served by facilities in the United States. Taking the aggregate of all U.S. foreign direct investment in manufacturing, including some of which is over 20 years old, Mr. Telesio estimated that about 2.3 percent of the markets served by U.S.-owned plants abroad would be served by plants in the United States if the U.S.-owned facilities abroad did not exist.[3]

Selection of sample of firms for Harvard study

Since the accuracy of Mr. Telesio's estimate depends on how representative the nine case studies are of all U.S.-owned manufacturing facilities abroad, the criteria used in selecting this sample of investments is described in some detail. It was the intent of the researchers to avoid biases and to include facilities of various sizes, serving various markets, and located in a number of geographical areas. In every case, the researchers, not the company, decided which investment would be studied. To give the reader some insights into the selection process, the following instruction is quoted from the procedures used for that project.[4]

"Three goals must be met in selecting the enterprise to study:

1. The selection process should not introduce systematic bias.

2. The time and expense required should be minimized, by the use of existing data and by the selection of firms with headquarters not further away than Chicago.

3. Variety is needed not only in industry selection but also in the following variables:

a. Geographic.

b. Primary purpose of investment; i.e., serve market of country in which plant is located, serve other foreign markets, or serve U.S. market.

Of course, if these jobs did not exist, the U.S. government could create other jobs through a combination of fiscal, monetary, and trade policies; but these other U.S. jobs likely would be at lower skill levels (and thus lower pay) than those created in the United States by U.S. foreign direct investment. On the other hand, if the U.S. government did not adopt policies to offset the loss of jobs and the fall in the national income attributable to U.S. operations abroad, there would be a loss of 1.2 million U.S. jobs.

[2] G. C. Hufbauer and F. M. Adler, *Overseas Manufacturing Investment and the Balance of Payments* (U.S. Treasury: 1968).

[3] Telesio, *op. cit.*, p. 16.

[4] Unpublished memorandum by Robert B. Stobaugh, August 1971.

c. Type of expansion; i.e., new subsidiary versus expanding existing subsidiary versus consolidating producion in existing subsidiary.
d. Ownership; i.e., wholly owned or joint venture.
e. Size of investment.

"All firms studied must be listed as one of the 187 U.S.-controlled multinational enterprises in Professor Raymond Vernon's Multinational Enterprise Study.[5] In meeting goals Nos. 1 and 2 above, the following priority will be used in selecting companies and cases about specific investment decisions.

1. Case already prepared under supervision of Professor Robert Stobaugh for use in International Industrial Development course at Harvard Business School.
2. Case already selected (but preparation not complete) for use in International Industrial Development course.
3. Company provided case material for International Industrial Development Course, but case not suitable for this study because it duplicates industries or geographic area of another case used in the study. However, company willing to provide information on another case.
4. Company interviewed on research project. 'Financial Management of Multinational Enterprises.'[6]
5. Consulting client of Professor Robert Stobaugh."

Because of this priority list, one case had already been used for teaching purposes at Harvard Business School and three other cases had been selected (but not completed) for teaching purposes. Thus, four of the nine cases had been selected for teaching purposes prior to the start of the research project; in no instance had the effects of the investment on U.S. employment or balance of payments been calculated. Researchers, and not the company, selected each of the remaining five cases. In only two instances were the reseachers turned down in their request to study a specific case. One refusal came because of a shortage of management time in headquarters and the other because new management had been installed in a subsidiary and did not, in the opinion of headquarters, have sufficient knowledge about the proposed case study. Neither of these multinational enterprises were included in the study.

Methodology used in Harvard study

A researcher, after having studied competitive conditions in each industry, determined in each case what happened (or was expected to happen) with the actual investment *compared* with his estimate of what would have happened if the investment had *not* been made. None of these analyses were approved by the company, and, except for the teaching case already approved, none of the case descriptions used for the analysis received company approval. The case descriptions contained solely the researchers' conclusions, which were based on an examination of company records and interviews with company executives. Several executives, usually in different functions, were interviewed in an attempt to avoid bias

As stated above, the key part of Mr. Telesio's estimate is that on the average about 2.3 percent of markets served by U.S. plants abroad would be served from facilities in the United States if the U.S-owned plants abroad did not exist. This percentage was varied over a wide range in order to gain an idea of how sensitive Mr. Telesio's results are to variations. In this analysis, it was found that Mr. Telesio's estimate of the share of markets that would be served from facilities in the United States would have to be increased seventeen-fold before a negative employment effect would have resulted in the United States and eleven-fold before a negative effect on the U.S. balance of payments would have resulted.[7] Thus, the likelihood of the effects being favorable seems high.

Other studies

In spite of the precautions taken in the Harvard study, one may well ask what conclusions can be drawn from a study of only nine cases, when some 10,000 or more new foreign subsidiaries of U.S. multinational enterprises have been

[5] James W. Vaupel and Joan P. Curhan. *The Making of Multinational Enterprise* (Boston: Division of Research, Harvard University Graduate School of Business Administration, 1969).
[6] Sidney M. Robbins and Robert B. Stobaugh, *Money in the Multinational Enterprise: A Study of Financial Policy,* (New York, Basic Books Inc. In process at publishers, to be released August 1973).
[7] Telesio, *op. cit.*, pp. 8, 12.

started and numerous expansions undertaken during the recent years in which the investment decisions in the Harvard study were made.[8] In this instance, however, numerous studies have already been done, exposing one aspect or another of the foreign investment decision. The relative depth and completeness of the Harvard studies distinguished them from all the others. If the Harvard results have been at a variance with the main drift of the other studies, however, the utility of the nine cases would have been indeterminate. As it turned out, the nine reaffirmed once more the general hypotheses toward which researchers had been gravitating on the basis of the shallower, albeit more extensive, evidence that had been gathering over the years.[9] For example, one study of a group of representative chemicals found that over a period of sixty years not one foreign direct investment took place before a foreign competitor had commenced production of the product.[10]

Some analysts have maintained that if U.S. foreign direct investment had not taken place, then the funds would have been invested in the United States.[11] However, the U.S. Tariff Commission, in its study of multinational enterprises, disagrees with such a conclusion because U.S. monetary policy is so much more dominant in affecting U.S. investment than the amount of funds involved in U.S. foreign direct investment.[12]

The Tariff Commission study is consistent with those econometric studies which conclude that demand for goods rather than supply of funds is the major determinant of investment in the United States.[13] Still, even if one assumes that a dollar invested abroad by a U.S. firm subtracts one dollar from investment in the United States, rather than assuming that a dollar invested abroad has no effect on investment in the United States, an econometric model shows that conclusions about the effect of U.S. foreign direct investment on the U.S. balance of payments are changed very little.[14] As yet such a model has not been constructed for U.S. employment effects.

Because the U.S. Treasury Department's 1973 proposals on taxation of foreign income place an extra tax burden on U.S.-owned operations abroad that ship more than 25 percent of their output to the United States,[15] it is important to emphasize that the general conclusions of the Harvard study apply to so-called "offshore" plants, which ship their products to the United States. Further, a study just completed by Professor Richard Moton of the University of Washington, using an econometric analysis of more than one hundred investments, concluded that competition from U.S. imports of foreign products was an important factor in causing U.S. electronic firms to produce abroad in offshore plants for the U.S. market.

Additional research now underway at Harvard, in which the international manufacturing policies of 24 U.S. multinational enterprises are being studied, is continuing to confirm the basic premise that U.S.-owned plants are built abroad because the U.S. firm has no other viable long-range alternative to serve the market intended to be served by the foreign plant.[16] Although there is substantial evidence that this premise generally holds, the Harvard researchers do not

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[8] Between 1959 and 1966, for example, the number of foreign subsidiaries and branches of U.S. foreign direct investors increased by 13,000. See U.S. Department of Commerce, Office of Business Economics, *U.S. Direct Investments Abroad, 1966, Part I: Balance of Payments Data* (Washington, D.C.: Superintendent of Documents, 1970), p. 177.

[9] For extensive literature references, see Chapter 3 of Raymond Vernon, *Sovereignty at Bay* (New York: Basic Books, Inc., 1971).

[10] Robert B. Stobaugh, "The Product Life Cycle, U.S. Exports, and International Investment," unpublished D.B.A. thesis, Harvard Business School, 1968.

[11] See Peggy Musgrave's February 28, 1973, testimony before the Ways and Means Committee, for example.

[12] U.S. Tariff Commission, *The Multinational Corporation and the World Economy* (Washington, U.S. Government Printing Office, 1973).

[13] See Dale W. Jorgenson and Calvin D. Siebert, "A Comparison of Alternate Theories of Corporate Investment Behavior," *The American Economic Review,* September 1968, pp. 681–712.

[14] Hufbauer and Adler, *op. cit.*

[15] Department of the Treasury, *Proposals for Tax Clause,* April 30, 1973.

[16] As part of the research project, "International Manufacturing Policy."

claim that their estimate of 600,000 jobs is accurate or that this many U.S. workers would be unemployed if there were no U.S. foreign direct investment, but only that:

"the number is important, because it is not trivial in magnitude, and there is little doubt about the direction of the change . . . Furthermore, any attempt to make an estimate of total effects of all U.S. foreign direct investment runs into the adjustment problem, for although U.S. foreign direct investment does create jobs in the United States, surely if all jobs now dependent on foreign direct investment were eliminated, the workers would not go idle. Alternate jobs would have to be found. Yet almost surely the resulting income of the U.S. would be lower, because the resources of the economy would be used less efficiently than at present as it is likely that some American workers instead of being employed in an industry that is exporting would be employed in an industry competing with imports. And, average wages are higher in U.S. export industries than in U.S. industries competing with imports." [17]

Effect on U.S. skill levels

In fact, because monetary and fiscal policy can be used to create employment in the United States, the more important aspect of the job issue is that of skill levels, for they primarily determine national income. As shown in columns (1) and (2) of Table 1–1, the jobs added in the United States as a result of U.S. foreign direct investment have a higher skill level than if the jobs had occurred in the import-competing industries in the United States (these two columns are the sources of data for Chart 1 of Testimony). The import-competing industries were used for the comparison on the assumption that if jobs had not been created by U.S. foreign direct investments, they would have been created in import-competing industries by the adoption of tariffs or quotas. In addition, jobs created in the United States by the U.S. foreign direct investment have higher skill levels than the average for all U.S. manufacturing.

Workers within the investing company, however, will see a picture different from that just described. They probably will not be aware of jobs created outside their own firm as a result of the firm's decision to invest abroad. Furthermore, they are likely to be affected only by those changes in the composition of skill levels occurring within their own firm. As shown in columns (3) and (4) of Table 1–1, the proportionate gain of professional jobs within the investing firm (57.1 percent) is considerably higher than their share of the total gain in jobs (30.7 percent) and their share of total jobs created within their own firm (18.0 percent, assuming the jobs in the investing firm are the same as in this firm's industry). This is not surprising, for the investments initiated by the investing firms require a lot of managerial and engineering input. (A definition of the skill levels is in Table 1–2.)

These findings have both attendant benefits and problems. Higher skill levels are associated with higher income and job satisfaction for the individual,[18] and a higher standard of living for a society as a whole. But an adjustment process to upgrade the skill level of displaced workers forced to leave import-competing industries is necessary. The higher skill levels characteristic of these new jobs requires innovative training programs and the cost of such programs has not been determined.

* * * * * * *

In sum, the central conclusion of this chapter is that U.S. foreign direct investment is beneficial to the U.S. economy, in terms of number of jobs, quality of jobs, and the balance of payments.

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[17] Robert B. Stobaugh and Associates, *op. cit.*
[18] "Dissatisfaction with Jobs Grows," *The Boston Globe,* June 1973.

TABLE 1-1.—SKILL COMPOSITIONS OF SELECTED WORKFORCES, CIRCA 1970

[Percent of labor force]

Skill category	Import-competing industries in United States (1)	Average of jobs created by 9 U.S. foreign direct investments studied by Harvard: Total for both investing firm and supplier firms (2)	Firm only (3)	U.S. average of investing firm's industry (4)
I. Professionals	11.7	30.7	57.1	18.0
II. Skilled	17.5	20.1	11.7	19.2
III. Clerical and sales	15.3	10.9	6.2	15.6
IV. Semiskilled and unskilled	55.4	38.3	25.0	47.3
Total	100.0	100.0	100.0	100.0

Sources: Col. (1) from Bureau of Labor Statistics, U.S. Department of Labor, "Tomorrow's Manpower Needs," vol. IV, revised 1971, Bulletin 1737 (Washington, D.C.: Government Printing Office, 1972). Col. (2), (3), and (4) from Robert B. Stobaugh, Piero Telesio, and Jose de la Torre, "The Effect of U.S. Foreign Direct Investment in Manufacturing on the U.S. Balance of Payments, U.S. Employment, and Changes in Skill Composition on Employment," Occasional Paper No. 4 for Center for Multinational Studies, Washington, D.C., February 1973, p. 40.

TABLE 1-2.—DEFINITIONS OF SKILL LEVELS, UNITED STATES

Skill level	Definition
I. Professionals	Professional, technical: Engineers; natural scientists; technicians, excluding medical, dental; medical, other health workers; teachers; social scientists; other professional, technical and kindred. Managers, officials, proprietors.
II. Skilled	Craftsmen, foremen and kindred: Construction craftsmen; foremen; metalworking craftsmen, excluding mechanical; printing trades craftsmen; transport and public utilities craftsmen; mechanics and repairmen; other craftsmen and kindred.
III. Clerical and sales	Clerical and kindred workers: Stenos, typists, secretaries; office machine operators; other clerical, kindred workers; sales workers.
IV. Semiskilled and unskilled	Operatives and kindred workers: Drivers and deliverymen; transportation and public utilities operatives; semiskilled metalworking occupations; semiskilled textile occupations; other operatives and kindred. Service workers: Private household workers; protective service workers; food service workers; other service workers. Laborers, except farm and mine.
V. Farmers and farmworkers (not relevant to this study).	

Note: Definitions are from source. Order of skill levels is from Donald B. Keesing, "Labor Skills and International Trade: Evaluating Many Trade Flows with a Single Measuring Device," Review of Economics and Statistics, vol. 47, August, 1965, pp. 287–94.

Source: Bureau of Labor Statistics, U.S. Department of Labor, Tomorrow's Manpower Needs, vol. IV, revised 1971, Bulletin 1737 (Washington, D.C.: Government Printing Office, 1972).

CHAPTER 2

COMPETITION ENCOUNTERED BY U.S. COMPANIES OPERATING ABROAD

It is commonly believed that U.S.-based multinational enterprises are so large that they dominate their foreign competitors. This belief is given support by a tabulation of the worldwide sales, including those in the United States, of the largest firms in the nine industries in which U.S. foreign direct investment in manufacturing is concentrated.[19] As shown in Table 2–1, U.S. firms are the world's largest in seven of these nine industries; furthermore, 43 of these top 90 firms, or 48 percent, are U.S.-owned and they are concentrated in the first four ranks. However, the elimination of the tax deferral provisions of the U.S. tax laws would affect the competitive position of U.S. multinational enterprises outside the United States. A tabulation of the sales outside the United States of the largest firms shows a different competitive picture than the one depicted in Table 2–1. As shown in Tables 2–2 and 2–3, a U.S. firm has the largest sales in only two of the nine industries. (Data in Table 2–3 were used to construct Chart 2 of the testimony.) Further, a review of Table 2–2 shows that although 44 percent of the large firms are still American-based, these American firms are concentrated in the lower four ranks. As sales volume is an important measure of competitive strength within an industry, the largest foreign firms seem to be generally in a stronger position than the largest U.S. firms in the markets outside the United States.

[19] For reasons given in Appendix A, this list differs very slightly from that in Stobaugh and Associates, *op. cit.*

TABLE 2-1.—RANK OF U.S. FIRMS AMONG 10 FIRMS WITH LARGEST SALES IN 9 INDUSTRIES, WORLDWIDE, INCLUDING UNITED STATES, 1971

Rank	Primary and fabricated metals (33 and 34)	Food products (20)	Nonelectrical machinery (35)	Paper (26)	Rubber (30)	Chemicals (28, excl. 283)	Drugs (283)	Automotive (371)	Electrical machinery (36)	Total number of U.S. firms
1	United States	Foreign	United States	United States	United States	United States	Foreign	United States	United States	7
2	Foreign	Foreign	United States	United States	United States	Foreign	United States	United States	United States	6
3	Foreign	United States	United States	United States	Foreign	Foreign	Foreign	United States	United States	5
4	United States	United States	United States	United States	United States	Foreign	United States	Foreign	Foreign	6
5	Foreign	Foreign	Foreign	United States	Foreign	United States	United States	Foreign	Foreign	3
6	Foreign	United States	Foreign	United States	United States	Foreign	United States	Foreign	United States	5
7	Foreign	United States	United States	Foreign	United States	Foreign	United States	Foreign	Foreign	4
8	Foreign	United States	United States	Foreign	Foreign	Foreign	Foreign	Foreign	Foreign	2
9	Foreign	United States	United States	Foreign	Foreign	United States	Foreign	Foreign	Foreign	3
10	Foreign	Foreign	Foreign	Foreign	Foreign	United States	United States	Foreign	Foreign	2
Number of U.S. firms in top 10.	2	6	7	6	5	4	6	3	4	43
Nationality of largest firm.	United States	United Kingdom, Netherlands.	United States	United States	United States	United States	Switzerland	United States	United States	7

Figures in parentheses denote standard industrial classification of U.S. industries.

Source: Table A-1, appendix A.

TABLE 2-2.—RANK OF U.S. FIRMS AMONG 10 FIRMS WITH LARGEST SALES IN 9 INDUSTRIES, WORLDWIDE EXCLUDING UNITED STATES, 1971

Rank	Primary and fabricated metals (33 and 34)	Food products (20)	Nonelectrical machinery (35)	Paper (26)	Rubber (30)	Chemicals (28, excl. 283)	Drugs (283)	Automotive (371)	Electrical machinery (36)	Total number of U.S. firms
1	Foreign	Foreign	United States	Foreign	Foreign	Foreign	Foreign	United States	Foreign	2
2	Foreign	Foreign	Foreign	United States	Foreign	Foreign	Foreign	United States	Foreign	2
3	Foreign	Foreign	United States	Foreign	United States	Foreign	Foreign	Foreign	United States	3
4	Foreign	Foreign	Foreign	Foreign	United States	Foreign	United States	Foreign	Foreign	2
5	Foreign	United States	Foreign	Foreign	United States	Foreign	Foreign	Foreign	Foreign	2
6	Foreign	United States	United States	United States	United States	Foreign	United States	Foreign	Foreign	5
7	Foreign	United States	United States	United States	United States	United States	Foreign	Foreign	Foreign	5
8	Foreign	United States	United States	United States	(1)	United States	United States	Foreign	United States	6
9	United States	United States	United States	United States	(1)	United States	Foreign	Foreign	United States	6
10	United States	United States	United States	United States	(1)	United States	Foreign	United States	United States	7
Number of U.S. firms in top 10.	2	6	7	6	5	4	3	3	4	40
Nationality of largest firm.	Japan	United Kingdom, Netherlands.	United States	Germany	United Kingdom, Italy.	United Kingdom.	Switzerland	United States	Netherlands	2

[1] No data available.
Figures in parentheses denote standard industrial classification of U.S. industries.

Source: Table A-2, appendix A.

TABLE 2-3.—RATIO OF SALES OF LARGEST NON-U.S. FIRM TO LARGEST U.S. FIRM, SALES OUTSIDE THE UNITED STATES, 9 INDUSTRIES 1971

Industry	Number of foreign firms with sales larger than those of largest U.S. firm	Sales outside of the United States ($ billions): Largest foreign firm	Largest U.S. firm	Ratio of sales of largest foreign firm to largest U.S. firm
Primary and fabricated metals	8	2.77	.89	3.10
Food products	4	6.42	.41	15.77
Nonelectrical machinery	0	.79	1.06	.75
Paper	1	.63	.59	1.06
Rubber	2	2.16	1.08	1.99
Chemicals	6	3.28	.96	3.41
Drugs	3	.29	.22	1.32
Automotive	0	3.92	4.11	.95
Electronic machinery	2	4.60	3.41	1.35

Source: Table A-2, appendix A.

To assess more precisely the competitive position of U.S. firms in their foreign markets, it would be desirable to know the total sales of each important seller within the boundaries of each market. But such data are hard to come by because they are seldom published and hence must be estimated by industry observers. Within the time and budget limitations of this study, we were able to obtain, through confidential interviews with U.S. firms, market-share data for six well-defined product lines in the 15 countries in which the bulk of U.S. foreign direct investment exists.[20] For most of these product lines we obtained the following data for each country: (1) the size of the market, (2), the sales of each of the major companies selling into the market, and (3) the nation in which each of these major companies is headquartered. We were able to accumulate sufficiently complete data to allow an analysis of 59 out of the 90 cells of data potentially available; i.e., six product lines in 15 countries.

As shown in Table 2-4, U.S.-owned subsidiaries have the largest market share in 39 percent of the situations. Thus, in 61 percent of the markets, at least one foreign firm is larger than the largest U.S.-owned affiliate. On the average, the market share of the largest U.S. subsidiary in each market is 80 percent of that of its largest foreign competitor (calculated from data in Appendix A).

TABLE 2-4.—RANK OF U.S. SUBSIDIARIES FOR 6 INDUSTRIAL SECTORS WITHIN 15 COUNTRIES—1971

Rank of U.S. subsidiary	Frequency of occurence of product line—country group[1]	U.S. firms as a percent of total
1	23	39
2	19	32
3	4	7
4	5	8
5	4	7
6	0	
7	1	
8	1	
9	1	7
10	0	
11	0	
12	1	
	59	100

[1] 1 product line—Country group consists of 1 product line in 1 country. With 6 products and 15 countries there is a total of 90 product line-country groups possible. However, data for some product-country combinations were not available to the researchers.

Source: Table A-3, appendix A.

[20] This list came from Peggy Musgrave, "Tax Preference to Foreign Investment," in Joint Economic Committee, 92nd Congress, 2nd Session, *The Economics of Federal Subsidiary Programs;* a compendium of papers, (Washington: U.S. Government Printing Office, 1972), Part 2—International Subsidies. Several countries on her list were excluded. These were the Middle East, Libya, "Assorted Western Hemisphere," South Africa, Panama, Chile, and Peru.

Further analysis of data in Appendix A shows that non-U.S. multinational enterprise headquartered in a country other than the host country account for 34 percent of the largest firms in a product line within each country, and the remaining 27 percent are home-country enterprises. Slightly over half of these home-country enterprises are also multinationals, so overall 49 percent of the largest firms in each market are non-U.S. multinationals, 39 percent are U.S. multinational enterprises, and 12 percent are strictly local firms. These results confirm prior research, which found that the main competitors to American firms abroad were other multinational enterprises rather than strictly local firms.[21] As might be expected, U.S. firms are weaker vis-a-vis their competitors in the European countries but strongest in the Latin American countries. As the 15 countries selected for this study are those in which U.S. foreign direct investment is the largest, there probably are other countries in which U.S. firms are small compared with their foreign competitors.

A regrouping of some of these data to show the European Economic Community as one market instead of nine and the collection and analysis of additional data for other product lines and other countries might show different results. However, the individual country data presented in this study are consistent with the previously mentioned data on worldwide sales outside the United States and with prior studies indicating the competitive pressure experienced by the foreign operations of U.S. firms.[22] Thus, unless additional research provides countervailing evidence, we believe that U.S. firms are not so powerful abroad that their foreign operations could afford to pay substantially higher taxes than their foreign competitors.

Chapter 3

THE EFFECTIVE RATE OF FOREIGN TAXES ON U.S. OPERATIONS ABROAD

In order to estimate the effect on U.S. operations abroad of eliminating the deferral provisions of the current U.S. tax laws, it is necessary to have an estimate of the effective rate of foreign taxation on the U.S. affiliates that would be affected. This effective rate of foreign taxation is needed in order to be able to estimate the total tax payments, foreign as well as U.S., that exist now compared with what would exist if deferral were eliminated.

There are several published sources that provide statistics on the foreign tax rates: for example, Table 3 of the Department of Commerce's "Special Survey of U.S. Multinational Companies, 1970." [23] However, such sources typically include data on all U.S. foreign affiliates, including two categories of firms that would not be affected by elimination of deferral: (1) those paying effective foreign tax rates greater than 48 percent and (2) those operating at a loss.

We know of only one source of data that eliminates these two categories of affiliates and thus reports effective foreign tax rates only for those U.S.-owned foreign affiliates that would be affected by the elimination of deferral. This source is a heretofore unpublished tabulation by the Department of Commerce [24] of selected data reported in the latest (1966) survey of all U.S.-owned foreign affiliates. These heretofore unpublished data are shown in Table 3–1. (Source of data for Chart 3 of Testimony.) This table includes separate data for the 15 countries mentioned in Chapter 2 in which most U.S. foreign direct investment takes place as well as aggregate data for the entire world.

Table 3–1 shows that worldwide those manufacturing affiliates that would be affected by the elimination of deferral were, on the avearge in 1966, paying an effective foreign tax rate of 33 percent, remitting to the United States an average of 25 percent of their net income after foreign income taxes, and paying a dividend withholding tax on these remittances of 9 percent. There was little difference between the average effective tax rates worldwide for manufacturing affiliates compared with those of all affiliates (33 percent for manufacturing versus 29.8 percent for all affiliates).

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[21] Stobaugh and Associates, *op. cit.*

[22] See Reference 9, Chapter 1; and Stobaugh and Associates, *op. cit.*

[23] U.S. Department of Commerce, Social and Economics Statistics Administration, Bureau of Economic Analysis, "Special Survey of U.S. Multinational Companies, 1970," November 1972.

[24] Memorandum of April 13, 1973 to Jack Kirby.

TABLE 3-1.—EFFECTIVE TAX RATES FOR U.S.-OWNED FOREIGN AFFILIATES WHOSE TAXES WOULD BE AFFECTED BY ELIMINATION OF THE DEFERRAL PROVISIONS OF CURRENT U.S. TAX LAW—SELECTED COUNTRIES AND WORLDWIDE TOTALS FOR AFFILIATES IN MANUFACTURING AND WORLDWIDE TOTALS FOR AFFILIATES IN ALL INDUSTRIES, 1966

Country	Net income (millions) (1)	Income taxes (millions) (2)	Income tax rate (percent) (3)	Total dividends (millions) (4)	Dividend taxes (millions) (5)	Dividend tax rate (percent) (6)	Total dividend payout rate (percent) (7)	Number of reporting affiliates (8)
Manufacturing industries:								
OECD countries:								
Canada	$487	$176	36.1	$58	$8	13.8	18.7	979
Belgium-Luxemburg	77	25	32.5	—	(1)	—	—	150
France	66	24	36.4	—	(1)	—	—	126
Germany	248	80	32.3	78	15	19.2	46.4	263
Italy	77	24	31.2	—	(1)	—	—	163
Netherlands	81	29	35.8	10	0	0	19.2	171
United Kingdom	674	245	36.4	162	0	0	37.8	825
Australia	184	67	36.4	37	5	13.5	31.6	349
Japan	59	20	33.9	—	(1)	—	—	111
Other European countries:								
Spain	62	15	24.2	3	0	0	6.4	106
Switzerland	69	12	17.4	6	0	0	10.5	92
Latin American countries:								
Argentina	148	51	34.5	19	0	0	19.6	133
Brazil	181	50	37.6	17	4	23.5	13.0	204
Mexico	178	72	40.4	18	2	11.1	17.0	454
Venezuela	57	18	31.6	11	0	0	28.2	157
Worldwide	3,025	997	33.0	515	46	8.9	25.4	5,472
All industries: Worldwide	7,692	2,293	29.8	1,301	89	6.8	24.1	14,206

[1] Data suppressed by Department of Commerce. Table excludes affiliates with negative income or negative taxes. Affiliates with an effective income tax rate greater than 48 percent (income taxes divided by net income before income taxes) are excluded.

Col. 1 is the net income of the affiliate after expenses but before taxes.
Col. 2 is the provision for foreign income taxes as carried on the affiliate's income statement.
Col. 3 is income taxes (2) divided by net income before income taxes (1).
Col. 4 is the total of common and preferred dividends remitted to the United States prior to withholding taxes.
Col. 5 is the amount of taxes withheld on dividends remitted to the United States.
Col. 6 is the dividend taxes (5) divided by the total dividends (4).
Col. 7 is the total dividends (4) divided by the remainder obtained by subtracting income taxes (2) from net income (1).

Source: Special computer run, U.S. Department of Commerce, Social and Economic Statistics Administration, Bureau of Economic Analysis, Washington, D.C. Apr. 11, 1973.

For our 15 countries the foreign income tax rates varied from a low of 17 percent in Switzerland to a high of 40 percent in Mexico. The dividend withholding tax rate varied from zero in a number of countries to 23.5 percent in Brazil. Tax rates in certain countries not shown in the list but which are making an attempt to attract foreign investment are substantially lower than these. For example, the effective income tax rate in Ireland for all U.S. foreign affiliates was 10 percent (net income was $20 million and income taxes were $2 million). Countries, such as Ireland, that are attempting to industrialize would be significantly affected by a slow down in investment by U.S. firms if deferral were eliminated.

Because of the exclusion in Table 3-1 of affiliates either paying more than a 48 percent income tax or not earning a profit, the results in this table differ substantially from results reported elsewhere. For example, including *all* manufacturing affiliates would result in an effective tax rate of 46 percent[25] rather than 33 percent. Furthermore, the effective tax rates shown in Table 3–1 differ substantially from nominal tax rates published elsewhere;[26] the United Kingdom, for example, has an effective tax rate of 36.4 percent compared with a reported nominal rate of 45.0 percent.

To conclude, if effective foreign tax rates stay as they were in 1966, and if the deferral provisions of U.S. tax laws were eliminated, the total taxes paid by those U.S. manufacturing affiliates affected by the elimination would increase from their present levels up to 48 percent. If one assumes that 25 percent of the earnings is paid out, then the current effective total tax rate is 37 percent (75 percent of earnings taxed at 33 percent and 25 percent taxed at 48 percent). On the other hand, if one assumes a dividend payout rate of 50 percent, then the current effective total tax rate is 40 percent (half of earnings would be taxed at 33 percent and the other half at 48 percent).[27] Thus, regardless of whether one assumes a 25 percent dividend payout rate or a 50 percent dividend payout rate, eliminating deferral would increase the total effective tax rate on those affiliates affected by a substantail amount—from 37 up to 48 percent in one case and from 40 percent up to 48 percent in the other.

Chapter 4

REACTIONS OF FOREIGN GOVERNMENTS

As part of this study, we interviewed the commercial representatives of eleven foreign nations, six developed and five less-developed, in order to obtain their views and reactions to the proposal to eliminate deferral. In many cases, there was a lack of awareness of the issues related to taxation of foreign income, and most particularly, the tax deferral issue. Foreign government representatives have been concerned, for the most part, primarily with the trade effects of proposed legislation and not the effects of proposed tax changes.

While the commercial attachés could not provide an official government position, they openly discussed their personal reactions to the proposal to eliminate deferral. The position of all the attachés interviewed was that attempts to tax the undistributed earnings of foreign subsidiaries would be viewed as an infringement on their country's sovereignty, for they believed that a company established and operating under the laws of a particular sovereign country is a corporate citizen of that country. The issue was viewed as being one of territoriality of the part of the U.S. government's extending its reach beyond its boundaries and into the jurisdiction of foreign governments. The tax aspects of the bill were viewed as a vehicle whereby foreign subsidiaries could be used to impose an American economic policy on a foreign country regardless of that country's needs or national objectives, for an American policy of taxing undistributed profits would defeat the purpose of tax incentives granted by host countries.[28]

A number of attachés suggested that a reaction of some sort by their governments to such a tax policy would be in order. This was particularly true among those from less-developed countries. They thought it possible to increase their taxes in a way that selectively taxes U.S. affiliates in order to obtain most of the increased tax revenues that would be paid by U.S. firms as a result of any elimination of the tax deferral provisions.

One method would be to raise the foreign income tax rate on U.S. affiliates, thereby decreasing the U.S. government proceeds to a level equivalent to or below that prior to tax deferral elimination. (This assumes, of course, that the foreign income taxes paid can continue to be credited against U.S. taxes due on foreign income). An increased foreign income tax rate would create an added tax burden for local companies and non-U.S. multinationals as well, unless the tax were structured in a discriminatory fashion against U.S. companies. At first sight, this might appear to be an unlikely alternative. However, the economic representative of a major European country felt that it would be relatively easy

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[25] See U.S. Department of Commerce. "Special Survey," *op. cit.*, p. 22.

[26] National Foreign Trade Council, Inc., "Economic Implications of Proposed Changes in the Taxation of U.S. Investments Abroad," New York 1972, page 9.

[27] The dividend payout rate for all U.S. direct investment was 56% in 1970. See U.S. Department of Commerce. *The Multinational Corporation;* (Washington: Superintendent of Documents, 1972). Vol. 1, Table 1B, page 34.

[28] For a protest from Ireland, see "For Stay-at-Homes," *The Economist,* June 9, 1973.

to structure and pass legislation to that effect in his country by aiming it at "companies controlled by foreign concerns whose government attempts to tax the income of our corporate citizens."

A second alternative available to the foreign government is to increase its dividend withholding tax. By restricting the increase to dividends paid abroad, this method would not have to be discriminatory toward specific companies nor subject local companies to increased taxes. Of course, affiliates of non-U.S. multinational enterprises would be subject to the increased taxes on their dividends, but this would be a substantially lower tax load than paid by U.S. affiliates, which would be subject to U.S. tax rates on all income regardless of the amount paid out in dividends.

In fact, given certain assumptions about the remittance behavior of U.S. firms, a foreign government could increase dividend taxes in order to obtain all of the taxes paid by U.S. affiliates, thereby reducing U.S. revenues below the level that they are under current laws. This alternative was viewed as feasible and possibly quite desirable by several foreign government representatives. A simple example of the concept follows: If under current law, a U.S.-owned foreign affiliate is paying no foreign income tax and no foreign dividend withholding tax and is remitting half of its earnings to the United States, the United States receives 48 percent of half of the earnings, which is equivalent to 24 percent of the total earnings. If tax deferral were eliminated and no other changes took place, then the U.S. would tax all undistributed earnings at 48 percent. But if the foreign government raised its dividend tax to 48 percent and the U.S.-owned affiliate paid out all its earnings, then U.S. taxes would drop to zero. Hence, the effective U.S. tax rate on all earnings would have dropped from 24 percent to zero. (In the next chapter a rationale will be offered to explan why U.S. firms might choose to remit all of their foreign earnings in the year earned).

However, since it was not possible to determine what actions foreign governments might take, our study of the effects of deferral elimination was based on the assumption that the foreign tax rates would not change.

Chapter 5

AN ESTIMATE OF THE EFFECT ON THE U.S. ECONOMY OF ELIMINATING U.S. TAX DEFERRALS ON FOREIGN INCOME

In order to obtain a quantitative estimate of the effects of eliminating U.S. tax deferrals on foreign income, we prepared a computer simulation model of a U.S. multinational enterprise and its principle foreign competitor. This model was used to simulate the competitive position of a foreign affiliate of a U.S. multinational enterprise over time for two different "states of the world:" (1) the current tax law remains unchanged and (2) the deferral of U.S. income taxes on foreign income is eliminated.

In the model, each time interval is one year. The U.S.-owned foreign subsidiary [29] starts at time to, the present, in a competitive equilibrium with respect to its principal foreign competitor. In this competitive equilibrium the foreign subsidiary of a U.S. firm and its principal foreign competitor have the same net worth, sales, costs, and profits, are taxed at the same rate in both the host country of the subsidiary and in the home country of the parent, and pay the same percent of earnings as dividends.

The assumption that the sales of the U.S. affiliates are equal to those of the foreign-owned competitor differs from the data presented in Chapter 2, which indicates that on the average the sales of a U.S. affiliate are only 80 percent as large as those of its principal foreign-owned competitor.

Thus, on this score, the model results are more favorable to the U.S.-owned subsidiary than real-world data indicate. On the other hand, some data exist to indicate that U.S. subsidiaries are more profitable than their competitors headquartered in the host country,[30] but this is to some extent offset by the fact that U.S. subsidiaries perhaps pay more taxes than do local firms.[31] Data on the profit-

[29] Both subsidiaries and branches are affiliates. Subsidiaries are incorporated in a foreign country; branches are not. Most manufacturing affiliates are subsidiaries.

[30] For example, see John H. Dunning, "U.S. Subsidiaries in Britain and Their U.K. Competitors," *Business Ratios* (Autumn, 1966), p. 15.

[31] Unpublished research results from "International Marketing Policy" project at Harvard Business School.

ability and taxes of U.S. subsidiaries compared with those of foreign competitors *not* headquartered in the host country are not available. However, data on nominal taxation by home countries of multinational enterprises indicate that the U.S. parent pays about as much taxes as multinational enterprises headquartered outside the United States.[32]

As no other data are available concerning the other assumptions in this competitive equilibrium, our available data suggest that the model results seem more likely to be favorable rather than unfavorable to the U.S. subsidiary compared with real-world conditions.

As long as current U.S. tax laws remain unchanged, this competitive equilibrium is assumed to remain unchanged over time. Thus, the growth of the U.S. subsidiary and its principal foreign competitor is the same, and the corresponding variables for both firms grow equally over time. Hence, the simulation of the U.S. subsidiary is identical to that of the foreign competitor.

This competitive equilibrium is disturbed if U.S. tax deferral on foreign income is eliminated, as the U.S. subsidiary would begin to pay more taxes than its foreign competitor. This obviously would affect the profits after taxes, and as a result, also the amount of reinvested earnings, sales, and costs of the U.S. subsidiary. It also would affect the operating results of the foreign competitor, which would expand faster to take up the share of the market unable to be served by the U.S. subsidiary because of the latter's lack of funds for expansion. The faster expansion of the foreign competitor would enable it to build bigger facilities and gain more production experience than the American subsidiary, thereby lowering its costs more than those of the U.S. subsidiary. If the principal foreign competitor keeps the same profit margin per dollar of sales, either because of competition from other foreign competitors or because of its desire to capture market share from the American subsidiary, then the profit margin on the American subsidiary would begin to shrink. Its prices would be the same as its principal foreign competitor but its costs would be higher.

In the first year or two after tax deferral is eliminated, the differences between the American subsidiary and its principal foreign competitor would not be substantial. However, the dynamic process described above would lead to a widening of unit production and unit costs between the two firms. This, in turn, would mean a lower corporate income stream, lower U.S. tax revenues, and a decline in the U.S. net balance of payments.

The model enables us to simulate operations for a number of years in order to determine their long-run effects. The base case for the model simulation was selected by us to represent a reasonable set of conditions, but key variables are varied in other simulations in order to determine the effects of variations in company practices or different tax rates.

Description of base case

It is assumed that for each $1.00 of net worth the U.S. subsidiary has $1.00 of sales and earns $0.18 of profit before any taxes. The host government has an income tax rate of 33 percent and a dividend withholding rate of 10 percent (these approximate the real-world data in Chapter 3). The American subsidiary reinvests 44 percent of its profits after foreign income taxes and remits the remaining 56 percent to the U.S. parent. This reinvestment rate was chosen

[32] National Foreign Trade Council, *op. cit.*

from other data sources [33] before the Department of Commerce data in Chapter 3 became available (a computer simulation reported below indicates that the basic conclusions of the study remain unchanged if the rate is 75 percent as in Chapter 3 rather than the 44 percent used in the base case, although the time needed for the balance of payments position of the current tax laws to become as favorable as those with the elimination of deferral is extended from six to eleven years). This reinvestment rate of 44 percent along with new capital outflows [34] enables the subsidiary to expand sales at an annual growth rate of 10 percent, which approximates the historical average of U.S. foreign direct investment for each of the last two decades.[35] The growth in the size of U.S. operations abroad creates a growth in the U.S. balance of payments surplus caused by U.S. foreign direct investment.[36]

To say that U.S. laws on taxation of foreign income are complex is an understatement. Many volumes have been published describing and interpreting them.[37] So for this study, simplifying assumptions had to be made. For the current tax laws, it is assumed that the U.S. tax rate of 48 percent applies on all foreign income, with a U.S. tax credit allowed for foreign taxes on income and dividends. Provisions are not made for other subsidiaries in the system that are either paying more than 48 percent income tax, or are not earning a profit. Neither are provisions made for holding companies or Western Hemisphere Trade Corporations.

It is assumed that the funds received by the U.S. parent are passed directly to its U.S. shareholders, who pay a 30 percent income tax on them.[38] For those readers interested in the details, the funds flow of the first year of the model under the current law is shown in Figure 5–1 and the calculation of U.S. corporate income taxes is shown in Table 5–1. A more detailed description of the model and results is in Appendix B.

Under current tax laws, the operations and growth of the foreign competitor are assumed to be the same as those of the U.S. subsidiary. If the U.S. tax laws were changed to eliminate deferral, in theory, the only difference between the "current law" conditions and the "eliminate deferral" conditions is that the funds reinvested by the subsidiary would be subject to an imputed U.S. income tax of 15 percent, which the parent would have to pay. The 15 percent, of course, is the difference between the local tax of 33 percent and the U.S. tax of 48 percent. In this case, all of the additional tax paid by the U.S. enterprise would go to the U.S. government.

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33 See Reference 5, Chapter 3.
34 Telesio, *op. cit.*, p. 6.
35 See Reference 5, Chapter 3.
36 Telesio, *op. cit.*, p. 6.
37 See Chapter 2 of Reference 6 in Chapter 1 of this study.
38 Authors' estimate.

FIGURE 5-1

Funds Flow, Computer Model of U.S. Multinational Enterprise, Current Tax Law

(percent of subsidiary net worth)

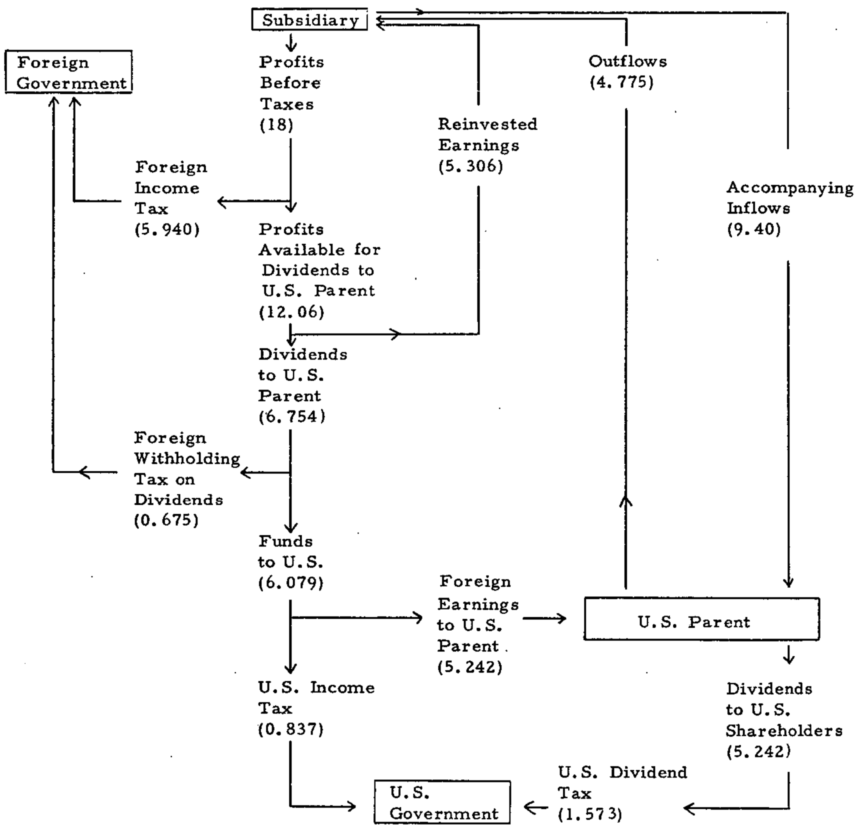

TABLE 5-1. *Sample Tax Calculations*

U.S.-owned foreign subsidiary, current tax laws

[Percent of subsidiary's net worth]

Profit before tax (PBT)	18.000
56 percent PBT return to United States	10.080
Foreign income tax (33 percent)	−3.326
Profit after foreign income tax returned to United States	6.754
Foreign dividend withholding tax (10 percent)	−.675
Profit after all foreign taxes returned to United States	6.079
United States income tax liability (48 percent of 10.08)	4.838
Total foreign tax credits (3.326+0.675)	−4.001
Net tax due U.S. Government	0.837
Net profits available to U.S. parent and paid to shareholders	5.242
United States dividend tax (.30×5.242)	1.573
44 percent PBT reinvested in subsidiary	7.920
Foreign income tax	−2.614
Net reinvested without return to United States	5.306

However, we conclude that the U.S. enterprise is unlikely to follow this alternative. Instead, it is likely to pay out all of the subsidiary's earnings and then reinvest the appropriate portion of these earnings from headquarters, either in the form of equity or debt. The rationale for this course of action follows. In the first year, whether or not the subsidiary pays out all earnings, the total amount of taxes paid by the enterprise would be the same—48 percent of profits before taxes (.48×18, or 8.64 in our model). However, if during a subsequent year the subsidiary made no profit but the parent still wanted to withdraw funds, then if having operated with a policy of reinvesting earnings directly in the subsidiary, the dividend would come out of net worth. The subsidiary, of course, would pay a withholding tax on this dividend. Under the policy of paying out all earnings each year and reinvesting in the form of new equity or a loan, the parent merely buys back part of the new equity or alternatively collects payment on the new loan. Regardless of whether the equity route or loan route is taken, no local or U.S. tax is paid, but the total amount of equity remaining in the subsidiary would be the same as under the case in which the earnings had been reinvested directly without being paid out as dividends.

Thus, we conclude that if deferral is eliminated, multinational firms will return 100 percent of the earnings of their subsidiaries to the parent each year. Hence, part of the extra taxes paid by U.S. multinational enterprises will be collected by the foreign government, and our model is programed accordingly.

The U.S. parent still must decide how to distribute its reduced earnings after taxes between the subsidiary and the parent's shareholders.[39] For our base case we assume that the firm reinvests in the subsidiary the same proportion of the earnings received by the U.S. parent as the proportion of profits after foreign income taxes that it reinvests under current tax laws; i.e., 44 percent.

The result is that during the first year with deferral eliminated, the parent's shareholders receive the same dividends, but the subsidiary receives fewer funds to invest. In subsequent years both the shareholders of the parent and the subsidiary reinvestment program have less funds with deferral eliminated than under current tax laws. Other reinvestment policies are discussed later in this chapter.

For those readers interested in more details, the funds flow for the first year of the model with deferral eliminated is shown in Figure 5-2 and the calculation of corporate income tax is shown in Table 5-2.

[39] If the parent allowed the subsidiary to reinvest the same amount of earnings as before, thereby taking all of the loss of earnings (due to taxes) from shareholders, there would be a decline in the U.S.-GNP, of course. But also there likely would be a flow of money from the U.S. capital markets to those abroad with a resulting decline in the value of U.S. firms; see Tamir Agmon, "The Relations Among Equity Markets: A Study of Share Price Co-Movements in the United States, United Kingdom, Germany and Japan," *The Journal of Finance*, September 1972, p. 839.

FIGURE 5-2

Funds Flow, Computer Model of U.S. Multinational Enterprise, First Year of Base Case with Deferral Eliminated

(percent of subsidiary net worth)

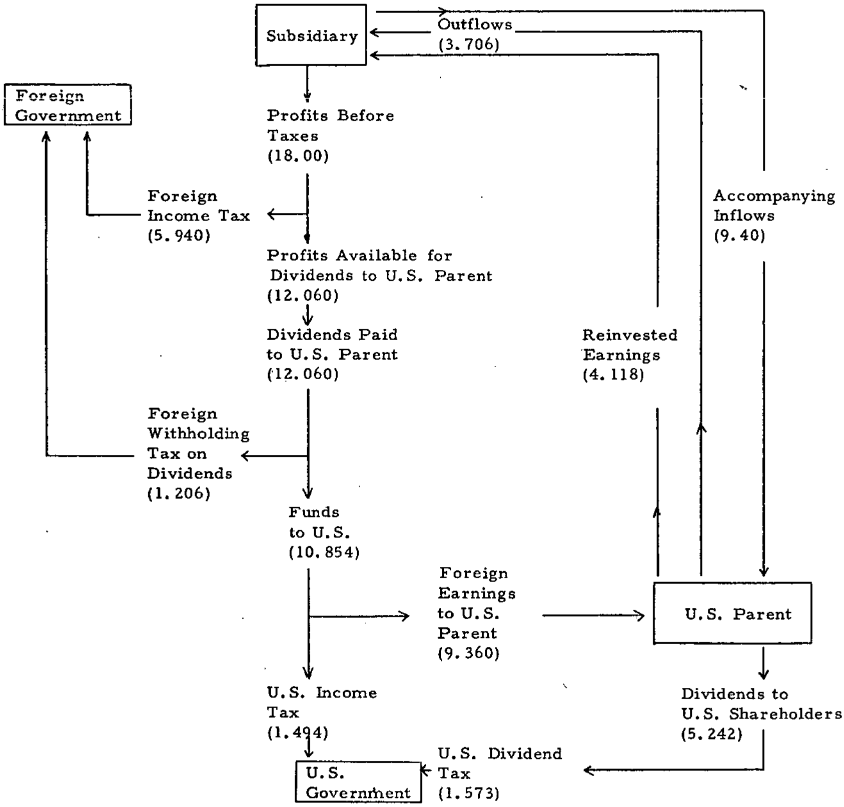

TABLE 5–2. *Sample Tax Calculations*

U.S.-owned foreign subsidiary, deferral eliminated

[Percent of subsidiary's net worth]

Profit before tax (PBT)	18.000
Foreign income tax (33 percent×PBT)	–5.940
Profit after foreign income tax returned to United States	12,060
Foreign dividend withholding tax (10 percent)	–1,206
Profit after all foreign taxes returned to United States	10,854
U.S. income tax liability (48 percent of 18.0)	8.640
Total foreign tax credits (5.940+1.206)	–7,146
Net tax due U.S. Government	1,494
Net profits returned to U.S. parent	9.360
U.S. parent retains (.56×9.360)	5.242
U.S. dividend tax (.30×5.242)	1.573

TABLE 5–3.—A COMPARISON OF VALUES OF SEVERAL KEY VARIABLES UNDER THE CURRENT TAX LAWS WITH THOSE IF DEFERRAL IS ELIMINATED

[Percent of subsidiary net worth]

Variable	Current law (from fig. 1)	Deferral eliminated (from fig. 2)
U.S. income tax	0.837	1.494
U.S. dividend tax	1.573	1.573
Total U.S. taxes	2.410	3.067
Difference, fig. 2 minus fig. 1	0.657	
Funds to United States	6.079	10.854
Current earnings reinvested from U.S. parent		–4.118
Outflows	–4.775	–3.706
Accompanying inflows	9.400	9.400
Net U.S. balance of payments	10.704	12.430
Difference, fig. 2 minus fig. 1	1.726	
Foreign income tax	5.940	5.940
Foreign dividend tax	.675	1.206
Total foreign taxes	6.615	7.146
Difference, fig. 2 minus fig. 1	.531	
Foreign earnings reinvested in subsidiary without returning to parent	5.306	0
Foreign earnings to U.S. parent	5.242	9.360
Total	10.548	9.360
Difference, fig. 2 minus fig. 1	–1.188	

Table 5–3 presents a comparison of values of several key variables under the current tax laws with those if deferral is eliminated. These data are expressed as a percentage of the subsidiary's net worth. Eliminating deferral would, during the first year, increase U.S. tax revenues by $328.5 million (0.657 percent of $50 billion), increase the net U.S. balance of payments by $863 million, increase foreign taxes by $265.5 million, and decrease the profits of U.S. multinational enterprises by $594 million.[40] Note that the results presented in the testimony were rounded to the nearest significant digit; i.e., $300 million increase in both U.S. and foreign taxes and a $900 million increase in the net position of the U.S. balance of payments.

If one stopped the analysis here, one might conclude that eliminating deferral would be a good policy for the United States. But such a conclusion does not reckon with the loss of competitive position of the U.S. subsidiary over time due

[40] Projected by authors from Reference 5, Chapter 3, with some correction for revaluation of foreign currencies since 1970.

to a lower investment rate. Under current tax laws, the net worth of the subsidiary expands at a rate of about 10 percent annually. As shown in Figure 5–1, investment equals 5.306 (reinvested earnings) plus 4.775 (new capital outflows), or 10.081 percent of net worth. In contrast, with the elimination of tax deferral, the net worth of the subsidiary expands at about 7.8 percent in the first year and at a lower rate later, As shown in Figure 5–2, reinvestment equals 4.118 (reinvested earnings) plus 3.706 (new capital outflows), or 7.824 percent of net worth. As the growth of sales is restricted by available funds for reinvestment, eliminating deferral has the effect of slowing the growth in sales of the American subsidiary from 10 percent to 7.8 percent.

But this is only half of the story, for the share of the market lost by the American subsidiary is gained by the foreign competitor, whose annual growth accelerates to over 12 percent. This difference in growth rate between the American subsidiary and its foreign competitor affects costs in two ways. First, the foreign competitor's plant becomes larger than that of the U.S. subsidiary, thereby reaping greater economies of scale (these are so-called "static scale economies," for they depend on plant size at a given time). Second, the cumulative production experience of the foreign competitor enables it to reduce costs faster than the U.S. subsidiary (this "learning curve" effect is sometimes called "dynamic scale economies," for they depend on cumulative production over time). The relative importance of these two scale economies—static and dynamic—varies from industry to industry. However, a body of evidence exists to suggest that a reasonable assumption for a wide variety of industries is that unit costs decline 20 percent in constant dollars for each doubling of cumulative production.[41]

When the foreign firm gets a slight edge over the U.S. firm in the rate of increase of cumulative production, the foreign firm's unit costs will decrease by a greater amount, consequently it makes a greater profit. Assuming that it reinvests part of its increased earnings to increase production capacity, its output in the next year will increase by a greater amount than that of the U.S.-owned competitor, whose reinvestment is limited by smaller profits. Again, the production edge of the foreign firm is translated into larger cost declines, which means a greater profit margin. If nothing happens to disturb this process, the difference in unit production and unit costs between the two firms continues to widen. Depending on the degree of competition that exists among foreign competitors, prices will decline as costs decline. Eventually the foreign competitor is earning a profit while the U.S. subsidiary is operating at a loss.

The extent to which unit costs in forign operations depend on production experience in the United States as well as abroad is not known. Based on relatively meager data, our best estimate is that 80 percent of the combined static and dynamic scale economies depend on the output of the subsidiary and 20 percent on the output of the parent.[42] Thus, the loss of competitive position of the U.S.-owned subsidiary is moderated somewhat by the undiminished expansion of its parent. In a subsequent section of this chapter, the effect of variations in this assumption are shown.

To recap briefly, the key assumptions in the base case that will be changed later to test sensitivity are: (1) the operating cost improvements in the U.S.-owned subsidiary depend 20 percent on the parent's cumulative production and 80 percent on the subsidiary's cumulative production; (2) foreign tax rate is 33 percent on income and 10 percent on dividends; and (3) U.S. subsidiary reinvests 44 percent of its earnings.

Results of simulation of base case

The dynamic effects of loss of market share and resulting increased costs of the U.S.-owned foreign subsidiary initially cause a reduction in the rate of growth of its profits. Eventually, profits begin to decline and ultimately become negative. The adverse profit position is translated into adverse positions for U.S. tax revenues and the U.S. net balance of payments.

To give some indication of the extent of these forces over time, we simulated 15 years of operation of the U.S. multinational enterprise and its principal foreign competitor under both the current tax law and with deferral eliminated. The

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[41] For further discussion of an empirical test of these concepts, see Robert B. Stobaugh and Phillip L. Townsend, "The Impact of Price Forecasting on Strategic Planning: The Case of Petrochemicals," Marketing Science Institute Working Paper, Cambridge, Massachusetts, 1973.

[42] Estimated by Robert B. Stobaugh from reference 13, this chapter, and unpublished data collected for research project or "International Manufacturing Policy" at Harvard Business School.

output from the model was converted to an assumed book value of net worth of $50 billion, which very roughly approximates the book value of U.S. manufacturing facilities in 1973.[43] To the extent that this estimate of book value overstates the real world because only part of the foreign affiliates would be affected by eliminating deferral, or understates the book value of the real world because of growth in book value between 1973 and the time the elimination of deferral is adopted, then our results are inaccurate. However, given the number of assumptions that were made in constructing the model we believe that this estimate of $50 billion in book value of net worth is within the limits of accuracy of the model.

TABLE 5-4.—SUMMARY OF ECONOMIC INDICES FOR CURRENT TAX LAW COMPARED WITH DEFERRAL ELIMINATED U.S. MANUFACTURING ABROAD, BASE CASE

[In millions of dollars, assuming book value at beginning of year 1=$50,000,000,000]

Year	U.S. multinational enterprise's foreign profits after all taxes		Total U.S. tax		U.S. balance of payments	
	Current tax laws	Deferral eliminated	Current tax laws	Deferral eliminated	Current tax laws	Deferral eliminated
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	5,274	4,680	1,205	1,533	5,352	6,215
2	5,806	5,005	1,326	1,640	5,891	6,687
3	6,391	5,295	1,460	1,735	6,485	7,174
4	7,036	5,530	1,607	1,812	7,139	7,667
5	7,745	5,682	1,769	1,862	7,859	8,152
6	8,526	5,714	1,947	1,872	8,650	8,608
7	9,385	5,576	2,144	1,827	9,523	9,012
8	10,332	5,209	2,360	1,707	10,483	9,332
9	11,373	4,539	2,553	1,487	11,540	9,524
10	12,520	3,480	2,860	1,140	12,703	9,538
11	13,782	1,941	3,148	636	13,948	9,313
12	15,172	−317	3,465	−5	15,394	
13	16,751		3,815		16,946	
14	18,385		4,199		18,654	
15	20,239		4,623		20,535	

Source: Results of computer simulations discussed in appendix B.

Note: Col. (1) is years after the initiation of deferral eliminated. Col. (4), (5) is the total of U.S. income tax (48 percent) and personal dividend tax on dividends paid to shareholders (30 percent). Col. (6), (7) is the total of funds to the United States and accompanying inflows less outflows. Col. (2), (3) is profit after all foreign taxes and U.S. income tax.

In fact, although we believe that the direction of the outcome of the model results is correct, our numerical results should be considered only as very crude approximations. With this caveat, we present results of the simulation model in Table 5-4 (Chart 4 of Testimony was based on this table). As expected, this simulation shows that although the foreign profits of the U.S. multinational enterprise are lower the first year with deferral eliminated than under current laws, U.S. tax revenues and the net U.S. balance of payments position are greater. However, by the end of the sixth year, both U.S. tax revenues and the net U.S. balance of payments position are lower with deferral eliminated than with the current laws in effect. Note that although the Gross National Product of the United States is not included in this table, its pattern roughly follows that of the U.S. balance of payments.

With deferral eliminated, the absolute amount of foreign profits of the U.S. enterpise reaches a peak during the sixth year and then starts to decline, becoming negative during the twelfth year. Hence, during the twelfth year, the book value of the net worth of the foreign operations begins to decline. U.S. tax revenues, following that same general pattern of company profits, also peaks in the sixth year and becomes negative in the twelfth year.

Although the numbers are not summed on Table 5-4, the cumulative tax revenues under the current tax laws pass those with deferral eliminated during the ninth year.

This model is based on the assumption that all U.S.-owned foreign operations have the same tax rate. In fact, some have a tax rate sufficiently close to that of

[43] See footnote 42 on p. 4636.

the United States that they would be affected little by the elimination of deferral. These operations, of course, would still be in existence for an indefinite period of time; for even after other U.S. operations were liquidated these would continue to show a profit. Thus, U.S. revenues from foreign operations probably would never drop to zero.

The model shows that the U.S. balance of payments position with deferral eliminated continues to increase until the tenth year, and then begins to decline. This perhaps overstates the length of time before the net U.S. balance of payments position begins to decline, for our model is based on the assumption that the inflows are proportional to the book value of U.S. foreign direct investment. In fact, though, certain of these inflows depend on U.S. exports of capital equipment and thus are at least partially dependent on the amount of expansion rather than absolute levels of book value.

Table 5–4 shows that the net changes between the current law compared with deferral eliminated are striking by the tenth year. With deferral eliminated, corporate profits after taxes are lower by some $9 billion ($12,520 million minus $3,480 million), U.S. tax revenues are lower by $1.7 billion, and the net U.S. balance of payments position is lower by $3.2 billion.

Effects of variations in assumptions

As discussed above, the effects of the parent's production experience on the subsidiary's cost structure is not known very precisely. Our base case assumes that the unit costs of the foreign operations are derived from a cumulative experience obtained by adding in 20 percent of the parent's cumulative production with 100 percent of the cumulative production of the foreign operations. To determine the sensitivity of our conclusions to this assumption, the parent's cumulative production was given zero weight in Case 2, and then 100 percent weight in Case 3.

It would be expected that the more weight given to the parent's production experience, the less adverse would be the effect of deferral elimination on the unit costs of the foreign operations. To illustrate: if the parent's production experience is given equal weight then the production of the parent must be pooled with that of foreign operations in order to determine cumulative production and price declines. Although with deferral eliminated the foreign competitors hold a competitive advantage over the U.S.-owned operations abroad, the parents remain on equal terms and the production experience edge of the foreign competitors is diminished since subsidiaries of both the U.S. enterprise and the non-U.S. enterprise draw upon the experience of their respective parents. (It was assumed that the principal foreign competitor is a foreign subsidiary of a non-U.S. multi-national enterprise and the respective parents begin with the same cumulative production and the same rate of growth in units produced per year, that is, 5 percent.)

TABLE 5–5.—SUMMARY OF RESULTS, COMPUTER SIMULATION MODEL OF A U.S. MULTINATIONAL ENTERPRISE

Case	Foreign income tax rate	Foreign dividend tax rate	Reinvestment rate of subsidiary earnings[1]	Portion of parent's cumulated production that reduces subsidiary unit costs	Years before annual values under current law exceed annual values with deferral eliminated: U.S. tax revenues	Years before annual values under current law exceed annual values with deferral eliminated: U.S. balance of payments
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Base	0.33	0.10	0.44	0.20	6	6
2	0.33	0.10	0.44	0	6	6
3	0.33	0.10	0.44	1.0	8	8
4	0	0.10	0.44	0.20	5	5
5	0.28	0.30	0.44	0.20	0	1
6	0.33	0.10	0.75	0.20	6	15

[1] Defined as proportion of subsidiary earnings after foreign income taxes under current law and as proportion of current earnings reinvested by parent with deferral eliminated.

Note: See appendix B for description of model.

As shown in Table 5–5, the amount of weight given the parent's production experience does not seem to have a substantial impact. Lowering the weight given the parent's production experience from 0.2 to zero does not noticeably shorten the length of time needed before annual values of U.S. tax revenues and net U.S. balance of payments position are higher under the current laws than with deferral eliminated, that is, six years (case 2 in Table 5–5). When full weight is given the parent's production experience, the "breakeven" period increases to eight years for both variables.

Another factor that might be expected to affect the results is the rates of the income tax and dividend tax of the foreign country in which the U.S.-owned subsidiary operates. The base case was simulated on the basis of the average of all foreign taxes, but tax rates in different countries vary substantially. Thus, we simulated two other sets of tax rates in order to determine what might be the effect of tax rates in different countries encountered in the real world.

In case 4, we simulated a "tax holiday" country, with zero income tax and a 10 percent tax on dividends. The simulation results indicate that the "breakeven" period for both U.S. tax revenues and the U.S. balance of payments is reduced from the base case by one year (i.e., five years instead of six). The reason for this shortening of the breakeven period is that the foreign competitor has considerably more funds for reinvestment than does the U.S. subsidiary and thus lowers his costs faster than under the base case.

In case 5, we simulated a country with a somewhat lower income tax than average but with a somewhat higher dividend tax than average; such a policy might be adopted by a country wishing to encourage the reinvestment of earnings by foreign investors. The U.S. balance of payments situation changes little from the base case (dropping from six years down to five). However, the combination of a 28 percent income tax and a 33 percent dividend tax (on the remaining 72 percent assumed to be paid out to the corporate parent, or .33 times 72, equals 23.8) results in a total foreign tax rate of 51.8. Thus, the U.S. tax rate is exceeded so U.S. taxes are never greater with deferral eliminated than under the current laws. Brazil is listed in Table 3–1 as having a 37.6 percent income tax rate and a 23.5 percent dividend tax, and so with full dividend payout would have an effective tax rate higher than 48 percent (37.6 plus .235 [1—.376] or 52 percent).

The last case shown on Table 5–5 shows the effect of a higher reinvestment rate into the subsidiary, 75 percent versus 44 percent for the base case. The change has little or no effect on the breakeven period for U.S. tax revenues but increases the breakeven period for the U.S. balance of payments to eleven years.

A pursual of Table 5–5 shows that most of the observations on breakeven times for the case of weighting parent accumulated production by 20 percent are either five or six years; and in eight of the twelve observations our breakeven times fall between five and six years, with ten of twelve between five and eight years.

CHAPTER 6

DECLINE IN THE MARKET VALUE OF THE COMMON STOCK OF U.S. MULTINATIONAL ENTERPRISES

Experts commonly believe that three factors are quite important in determining the long-run values of common stocks: dividends, earnings, and growth in earnings. Econometric models and expert opinion that are available to indicate what effect these variables have on stock values are used as the basis for the estimates in this chapter. However, no one can predict stock prices with much accuracy, so the most the reader should attribute to the estimates below is that perhaps they are the right order of magnitude. Our basic approach is to estimate the market value of the *foreign earnings* of U.S. multinational enterprises, under current tax law and with deferral eliminated.

We estimated the earnings of all foreign affiliates, not just manufacturing, that would be affected by the elimination of deferral. Projecting the published data for affiliates in manufacturing from the Department of Commerce (reported in Table 3–1) to the present gives an estimated earnings in 1973 of about $7.3 billion, whereas projecting the earnings of all foreign affiliates to 1973 gives $12.5 billion.[43] There is some justification for thinking that projecting the Department of Commerce data would result in too low an estimate, because some of the affiliates reporting a loss during 1966 (the year of the Department of Commerce data) would most likely have some market value and might be expected to earn profits at some future year.

[43] See Reference 5, Chapter 3, p. 33.

In addition, the changes taking place in the world oil industry suggest that less profits will be reported in the producing stages, where the rates of the host governments are usually higher than those in the United States. On the other hand, greater profits are expected in refining and marketing, and these activities often are located in countries with tax rates lower than those of the United States. Thus, the net effect might be the shifting of a good bit of foreign income from a tax rate of over 48 percent to one less than 48 percent and thereby be affected by the elimination of deferral. For this study an estimate of foreign earnings of $12.5 billion was used, so the initial valuation of the stock from the effect of this factory probably is overstated.

We had to reach a judgment about price-earnings ratios under current laws and with deferral eliminated. Two different data sources were used to obtain an estimate of these ratios, given current growth rates of foreign earnings. One source indicated that earnings under the current law should be valued at a price-earnings ratios of 30 and the other indicated 25 or 27, depending on the dividends expected to be paid.[44] These sources of data are averages for the New York Stock Exchange and are not explicitly for foreign earnings. It is not known whether foreign earnings would have a higher price-earnings ratio than domestic earnings because of the lesser variations in earnings when both foreign and domestic earnings are totaled within a company, or whether the price-earnings ratio would be lower because of the political risk encountered abroad. Another factor affecting the price-earnings ratio would be the state of the market at the time the legislation eliminating deferral was passed. For this study, we use a price-earnings ratio of 20, which perhaps is on the low side, in order to obtain the current value of the stock. Thus, we estimate the current value of the foreign earnings as $12.5 times 20, or $250 billion.

The market value of the earnings with deferral eliminated would depend on how accurately the investment community could estimate the decline in the growth rate of future earnings. We assumed that the investment community would not expect the growth rate to decline as much as the model of the base case shows, so we used the model which assumes that the parent's production is given full weight (rather than 0.2 weight as in the base case) in affecting the affiliates' costs. Hence, the growth rates used in the estimate of stock value with deferral eliminated are perhaps on the high side, thus resulting in price-earnings ratios that perhaps are on the high side. Therefore, the amount of the loss in market value due to eliminating deferral is perhaps understated. An econometric model that has a factor that enables one to predict the effect of different growth rates on price-earnings ratios indicates that the estimate of growth rate that we estimated for the case of eliminating deferral would cause the price-earnings ratio to drop by 42 percent from the ratio that is appropriate for the current law, another source indicates a drop of 47 percent.[45] We used the lesser drop, or 42 percent, which gave a price-earnings ratio of 11.6 (20 times .58). Thus, if a law eliminating deferral were to be passed, this analysis suggests that the market value of the foreign earnings of U.S. foreign direct investors would drop from $250 billion (12.5 times 20) down to $145 billion (12.5 times 11.6). Each year the price-earnings ratio with deferral eliminated would drop a little lower as the expected growth in earnings slowed to a lower rate and eventually declined; in years two and three, the resulting value of the common stock attributable to foreign earnings is estimated as $113 billion and $94 billion, respectively (these data are the basis for Chart 5). We again stress that these calculations are rough estimates at best. But they do provide an indication of the direction and relative magnitude of the effect that deferral elimination would have on the market value of U.S. multinational enterprises.

Chapter 7

A Better Approach

We believe that U.S. foreign direct investment helps the U.S. economy. The Director of this study has indicated elsewhere that there is a good case for considering investment abroad as primarily an export of services rather than as investment. Hence, such exports should be protected just as exports in goods

[44] See B. J. Malkiel and J. G. Cragg, "Expectations and the Structure of Share Prices," *The American Economic Review*, September 1970, p. 601; and Charles D. Ellis, "Repurchase Stock to Revitalize Equity," *Harvard Business Review*, July–August 1965, p. 119.
[45] See previous reference.

are.[46] However, we do not favor blanket support of all the actions of U.S. multinational enterprises. Instead, we favor adopting legislation to solve certain problems rather than adopting legislation that, on the one hand, would give complete fredom to multinational enterprises or, on the other hand, would seriously hinder or stop their growth.

Following are some problem areas that need legislation.

Jobs

To be sure, some multinational enterprises are laying off workers with many years of experience and nearing retirement age, thereby causing a loss in retirement benefits. However, a study by the Bureau of Labor Statistics indicates that about ten times as many jobs are lost to the U.S. economy because of increased productivity compared with imports,[47] and six times as many jobs as the AFL–CIO claims have been lost by foreign direct investment. There is considerable overlap in these two counts because increased imports represent part of the adjustment in our economy to the increased exports caused by U.S. foreign direct investment.

Thus, a solution to the unemployment problem must consider technological change and have a far broader focus than just that unemployment associated with international investment and trade.

Although U.S. unions have focused some of their bargaining on a guaranteed annual wage or a portable pension, both of which are worthy objectives, most people probably would agree that far broader goals are justified. In fact, the results of the Japanese system, in which most industrial workers are virtually guaranteed a job for all of their working life, would be desirable. Unfortunately, so little research has been done in this area, that we barely know the definition of the problems, much less the answers. This is an area that should receive considerable research support by the Department of Labor.

In the much narrower field of jobs lost by imports, most observers agree that the criteria in the Trade Expansion Act of 1962 for adjustment assistance to workers or firms is entirely too restrictive and the benefits inadequate. The unions are justified in calling the assistance under this act "burial insurance." A new trade act should eliminate the requirement that increased imports be casually linked to past tariff concessions. The criteria for adjustment assistance to workers or firms should instead be based solely upon the relationship between increased imports and the economic injury in question. It is difficult to establish that increased exports are *the major cause* of economic injury (as now required), as it is very difficult to isolate one cause from all other causes. Instead, it should be sufficient to require that increased imports are *an important cause* of economic injury. Therefore, the investigating body need not find that increased imports are greater than all other causes of the injury combined, nor even greater than any other single significant cause.

Criteria determining whether an industry (or sub-industry) has been injured also should be relaxed. However, such findings should result only in adjustment assistance and not escape clauses. An industry required for national defense should receive direct subsidies rather than protection.

Improvements in administration should shorten the investigating time, and make the benefits available at an earlier date. Consideration should be given to establishing an interagency board within the Executive Branch and making this board, rather than the Tariff Commission, responsible for applying the new test for adjustment assistance to workers. The successful administration of the special adjustment assistance program under the Automotive Products Trade Act of 1965 suggests that this would be an effective mechanism.

The current benefits to workers should be increased substantially and training should be emphasized. When a worker chooses to enter a training program, perhaps the payments should be increased to 100% of the worker's average weekly wage—rather than 65% as at present—and the period of the benefits extended to, say, two years as long as the training program is satisfactory. Workers should be given an allowance to interview for a new job elsewhere as well as be aided in moving their families.

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[46] See Robert B. Stobaugh, "A Proposal to Facilitate International Trade in Management and Technology," *Working Paper 73–29*, New York University, June 1973.

[47] William Shelton, "The Relationship Employment Between Changes in Imports and Employment In Manufacturing in the United States, 1960–65." (Mimeograph), Paper Presented to Annual Meeting of American Statistical Association, 1970. For examples of layoffs, see Irwin Ross, "Labor's Big Push for Protectionism," *Fortune*, March 1973, p. 92.

Exhibit 7-1 summarizes the successful adjustment assistance program used by the European Coal and Steel Community.

Trade negotiations

Although U.S. trade negotiators should be encouraged to consult with industry representatives, it is desirable for the government to have their own experts on an industry rather than rely too heavily on advice from within the industry itself.

An example of misleading advice was that given by industry representatives to this Committee in 1968 concerning the possible elimination of the American Selling Price (ASP) method of valuing tariffs on certain chemicals. A number of major U.S. multinational enterprises in the chemical industry testified against the elimination of ASP. This committee was told by responsible persons from within the industry that:

1. U.S. benzenoid production was adversely affected by the Kennedy Round tariff cuts, with existing facilities placed in jeopardy.[48]
2. U.S. dye production would be level until 1973 and then decline.[49]
3. The trade surplus of the U.S. chemical industry would decrease and reach zero by 1975,[50] because of loss of export markets.[51]

EXHIBIT 7-1

AIDS TO DISPLACED WORKERS BY EUROPEAN COAL AND STEEL COMMUNITY

Aids designed to facilitate acceptance of resettlement at a lower rate of pay

(1) Guarantee for a limited period of a specific percentage of the wages received by those concerned before being discharged. The length of this period is as a rule 12 months in Germany,[52] Belgium,[53] France [54] and Luxembourg, 15 months in Italy, and between 12 and 30 months according to age and length of service in the Netherlands.

(2) Establishment of the wage guarantee at between 90% and 100% of the previous net wage, in general, except in the Netherlands, where it is 60% of the difference between the previous wage and the new one. In Germany, France and Luxembourg there is a ceiling to the reference wage.

Aid to facilitate re-employment in a different occupation

(1) Contributions to the cost of vocational retaining (operating costs of training centres, payment of part of the wage for the new job during the period of adaptation).

(2) Guarantee of a specific percentage of the previous wage during retraining courses (between 85% and 100% of the previous wage, according to country).

(3) Bonuses when the retraining course is successful.

(4) Contributions to wages and social security payments in the new occupation for elderly and physically handicapped workers (Belgium).

Aids designed to facilitate re-employment in a different region

(1) A lump-sum resettlement grant and refund of travel and removal expenses for workers and their families.

(2) Refund, in certain cases, of additional daily travel expenses and payment of a severance allowance when the worker cannot bring his family to the new region (Germany, Lorraine, Netherlands).

Aid for workers awaiting new employment

(1) Guarantee for a limited period of a specific percentage of the wage received prior to redundancy. This percentage is generally around 70% to 80%, with a ceiling to the reference wage in all countries except the Netherlands. The duration of aid is as a rule the same as those mentioned above for re-employment.

(2) A standard allowance for workers aged 40 and over and for physically handicapped workers.

[48] *Foreign Trade and Tariff Proposals,* Hearings before the Committee on Ways and Means, House of Representatives, Ninetieth Congress, Second Session on Tariff and Trade Proposals Washington : U.S. Government Printing Office (1968), pp. 4485, 4788.
[49] *Ibid.* pp. 4752–53.
[50] *Ibid.* pp. 4536, 4559.
[51] *Ibid.* pp. 4507–4658.
[52] 18 months for workers aged 45 and over.
[53] 18 months for certain categories of elderly or handicapped workers.
[54] 24 months for colliery workers in the Centre and Midi.

Source : Annual Report, European Coal and Steel Community.

(3) Payment of wages and corresponding social security contributions when a mining or steel enterprise lays its workers off temporarily during a period of internal conversion.

In contrast, the testimony from government officials and academics indicated that U.S. benzenoid production, U.S. dye production, and U.S. chemical exports would continue to expand substantially;[55] and the record shows that this testimony, and not industry opinion, was correct.[56]

International monetary system

Should we return to a system of fixed exchange rates, then controls on speculative movements of funds by multinational enterprises most likely will be necessary. This subject is too vast for discussion in this study but is explained in a forthcoming book.[57]

Taxation of income earned by multinational enterprises

The income reported by mutination enterprises in each of the various countries in which they operate contains an inherent arbitrariness because of the impossibility of placing a true "arm's-length" price on transactions among members of a multinational enterprise. Therefore, there is a case to be made for totaling the worldwide income of such an enterprise and distributing it appropriately among nations in which the enterprise operates. Such an approach would take time to institute and would necessitate an international tax agreement, but would have the advantage of ensuring that U.S. multination enterprises do no labor under more difficult tax loads than their principal foreign competitors—multinational enterprises of other countries.

* * * * * * *

This study has focused on the effects of elminating deferral. Of course, some intermediate steps such as eliminating deferral on certain types of income have been discussed, and indeed have been proposed.[58] We have not made estimates of the effects of any of this multitude of possible intermediate steps, but the directions of the effects would be similar to those in this study—an initial small gain to the U.S. economy followed by substantial losses over the long run. Hopefully, the simulation model in Appendix B will be useful for any future studies of such intermediate steps.

In the meantime, the stakes are so large that we should be careful about upsetting the current competitive situation. Foreign markets, that in the aggregate are larger than our own, cannot be served by exports alone. Taxation that slows down or cuts off U.S. foreign direct investment would reduce our participation in foreign markets and would decrease our exports. The resulting import cutback needed to bring our trade balance into equilibrium would be inflationary. The final result almost surely would be a lower standard of living in the United States than if current tax laws remained as is.

APPENDIX A

INFORMATION ON COMPETITION FACED BY U.S. MULTINATIONAL ENTERPRISES

Table A–1 presents data for nine industries on worldwide sales, *including* those in United States. Table A–2, on the other hand, contains the same industries but *excludes* sales in the United States. The industries included in these tables are the nine U.S. manufacturing industries that account for most U.S. foreign direct investment in manufacturing. This differs from the list of nine industries in the Harvard study in that petroleum refining was eliminated because of the different situations encountered in taxation of the petroleum industry compared with manufacturing, and pharmaceuticals were considered to be a separate industry from chemicals. This was done because of the importance of the U.S. pharmaceutical industry and its foreign direct investments.

Table A–3 presents data on market share of individual product categories or product lines in different countries. This information was obtained in a few cases from published data, but mostly from confidential interviews with executives of various multination enterprises. The companies have been coded with letters in order not to reveal confidential information.

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[55] For example, see Ibid, 4677–91.

[56] For illustrations, see Robert B. Stobaugh Statement, *In the Matter of a Study of United States Foreign Trade and Tariff Policy*, June 10, 1970 Before the Committee on Ways and Means, U.S. House of Representatives.

[57] Robbins and Stobaugh, *op. cit.*

[58] See reference 15, Chapter 1.

TABLE A-1.—NAME, NATIONALITY, AND SALES OF 10 FIRMS WITH LARGEST SALES IN 9 INDUSTRIES, WORLDWIDE INCLUDING UNITED STATES, 1971

[Sales in billions of U.S. dollars]

PRIMARY AND FABRICATED METALS

Rank	Firm	Headquarters nation	Sales
1	U.S. Steel	United States	4.93
2	Nippon Steel	Japan	4.09
3	British Steel	United Kingdom	3.22
4	Bethlehem Steel	United States	2.96
5	August Thyssen Hutte.	Germany	2.90
6	Pechiney	France	2.46
7	Nippon-Kokan	Japan	2.12
8	BHP	Australia	2.10
9	Gutehoffnung-Shutte.	Germany	1.96
10	Krupp-Konzern	do	1.84

FOOD PRODUCTS

Rank	Firm	Headquarters nation	Sales
1	Unilever	United Kingdom, Netherlands.	7.48
2	Nestle	Switzerland	3.54
3	Swift	United States	3.00
4	Kraftco	do	2.96
5	British-American Tobbacco.	United Kingdom	2.26
6	General Foods	United States	2.28
7	Armour	do	2.26
8	Borden	do	2.07
9	Beatrice	do	1.83
10	Associated British Foods.	United Kingdom	1.52

NONELECTRIC MACHINERY

Rank	Firm	Headquarters nation	Sales
1	International Harvester.	United States	3.02
2	Caterpillar	do	2.17
3	American Standard.	do	1.41
4	John Deere	do	1.19
5	Massey-Fergusson	Canada	1.03
6	SKF	Sweden	.95
7	Allis Chalmers	United States	.85
8	Ingersoll-Rand	do	.80
9	Otis Elevator	do	.79
10	Komatsu	Japan	.69

PAPER

Rank	Firm	Headquarters nation	Sales
1	International Paper.	United States	1.97
2	Mead Corp	do	1.06
3	Crown Zellerbach	do	.99
4	Kimberly Clark	do	.94
5	St. Regis	do	.91
6	Scott Paper	do	.75
7	MacMillan Bloedel	Canada	.74
8	FDN	Germany	.66
9	Bowater	United Kingdom	.62
10	Domtar	Canada	.51

RUBBER

Rank	Firm	Headquarters nation	Sales
1	Goodyear	United States	3.60
2	Firestone	do	2.48
3	Dunlop/Pirelli	United Kingdom, Italy.	2.36
4	Uni-Royal	United States	1.68
5	Michelin	France	1.50
6	Goodrich	United States	1.30
7	General	do	.99
8	Bridgestone	Japan	.51
9	Continental	Germany	.43
10	Dunlop Australia	Australia	.38

DRUGS

Rank	Firm	Headquarters nation	Sales
1	Ciba-Geigy	Switzerland	1.84
2	American Home products.	United States	1.43
3	Hoffman-La-Poche	Switzerland	1.40
4	Warner Lambert	United States	1.35
5	Pfizer	do	.95
6	Squibb	do	.83
7	Merck	do	.83
8	Kanebo	Japan	.78
9	Sandoz	Switzerland	.73
10	Eli Lilly	United States	.72

CHEMICALS

Rank	Firm	Headquarters nation	Sales
1	Dupont	United States	3.85
2	ICI	United Kingdom	3.72
3	Montedison	Italy	3.27
4	BASF	Germany	3.21
5	Union Carbide	United States	3.03
6	Bayer	Germany	2.65
7	Akzos	Netherlands	2.31
8	Rhone Pouleuc	France	2.18
9	Monsanto	United States	2.09
10	DOW	do	2.05

AUTOMOTIVE

Rank	Firm	Headquarters nation	Sales
1	GM	United States	28.26
2	Ford	do	16.43
3	Chrysler	do	8.00
4	VW	Germany	4.97
5	Daimler-Benz	do	3 46
6	Toyota	Japan	3.31
7	Mitsubishi	do	3.13
8	Nissan	do	3.13
9	Fiat	Italy	2.94
10	British-Leyland	United Kingdom	2.84

ELECTRONIC MACHINERY

Rank	Firm	Headquarters nation	Sales
1	GE	United States	9.42
2	IBM	do	8.27
3	Western Electric	do	6.04
4	Philips	Neitherlands	5.19
5	Siemens	Germany	3.81
6	RCA	United States	3.71
7	Hitachi	Japan	3.63
8	AEG–Telefunken	Germany	2.69
9	Matsushita	Japan	2.69
10	Tokyo-Shibavrs	do	2.55

Source: "Fortune, the Fortune Directory of the 500 Largest Industrial Corporations, May 1972; the Fortune Directory of the 300 Largest Industrials Outside the United States, August 1972.

TABLE A-2.—NAME, NATIONALITY, AND SALES OF 10 FIRMS WITH LARGEST SALES IN 9 INDUSTRIES, WORLDWIDE EXCLUDING UNITED STATES, 1971

[Sales in billions of U.S. dollars]

Rank	Firm	Headquarters nation	Sales
PRIMARY AND FABRICATED METALS			
1	Nippon Steel	Japan	[1] 2.77
2	British Steel	United Kingdom	[1] 2.58
3	August-Thyssen-Hutte.	Germany	[1] 2.15
4	BHP	Australia	2.10
5	Guttenhoffnung-Shutte.	Germany	[1] 1.71
6	Nippon-Kokan	Japan	[1] 1.62
7	Krupp-Konzern	Germany	1.49
8	Pechiney	France	[1] 1.34
9	U.S. Steel	United States	.89
10	Bethlehem Steel	do	([2])
FOOD PRODUCTS			
1	Unilever	United Kingdom, Netherlands.	6.42
2	Nestle	Switzerland	[3] 2.36
3	British-American Tobacco.	United Kingdom	[4] 1.71
4	Association British Foods.	do	[5] 1.50
5	Swift	United States	[6] .41
6	Kraftco	do	[4] .40
7	General Foods	do	.31
8	Beatrice	do	.30
9	Armour	do	.28
10	Borden	do	.25
NONELECTRICAL MACHINERY			
1	Caterpillar	United States	1.06
2	SKF	Sweden	[7] .79
3	International Harvester.	United States	.73
4	Komatsu	Japan	[8] .69
5	Massey-Ferguson	Canada	.67
6	American Standard.	United States	[9] .61
7	Otis Elevator	do	.43
8	Ingersoll-Rand	do	.29
9	John Deere	do	.22
10	Allis Chalmers	do	.11
PAPER			
1	FDN	Germany	[10] .63
2	International Paper.	United States	[11] .59
3	Bowater	United Kingdom	[12] .47
4	MacMillan-Bloedel.	Canada	.42
5	Domtar	do	.42
6	Crown-Zellerbach	United States	[13] .25
7	Kimberly-Clark	do	.23
8	St. Regis	do	.10
9	Mead Corp	do	.01
10	Scott Paper	do	([2] [14])
RUBBER			
1	Dunlop/Pirelli	U. Kingdom, Italy	[15] 2.15
2	Michelin	France	[16] 1.40
3	Goodyear	U.S.	1.08
4	Firestone	U.S.	.74
5	Uni-Royal	U.S.	.45
6	Goodrich	U.S.	.27
7	General	U.S.	.01
8	([17])		
9	([17])		
10	([17])		
DRUGS			
1	Roche	Switzerland	.29
2	Hoechst	Germany	.24
3	Sandoz	Switzerland	.23
4	Merck	U.S.	.22
5	Glaxo	U.K.	.21
6	Pfizer	U.S.	.20
7	Ciba	Switzerland	.18
8	Lilly	U.S.	[21] .16
9	Schering A. G.	Germany	[21] .16
10	Geigy	Switzerland	.15
CHEMICALS			
1	ICI	U. Kingdom	3.28
2	BASF	Germany	[18] 2.82
3	Montedison	Italy	[19] 2.30
4	Bayer	Germany	[18] 2.22
5	Rhone Pouleuc	France	[20] 1.98
6	Akzos	Netherlands	[20] 1.64
7	Dupont	U. States	.96
8	Dow	do	.86
9	Union Carbide	do	.68
10	Monsanto	do	.37

See footnotes at end of table, p. 4646.

TABLE A-2.—NAME, NATIONALITY, AND SALES OF 10 FIRMS WITH LARGEST SALES IN 9 INDUSTRIES, WORLDWIDE EXCLUDING UNITED STATES, 1971—Continued

[Sales in billions of U.S. dollars]

Rank	Firm	Headquarters nation	Sales	Rank	Firm	Headquarters nation	Sales
	AUTOMOTIVE				ELECTRONIC MACHINERY		
1	Ford	U. States	4.11	1	Phillips, N. V	Netherlands	4.60
2	GM	do	4.10	2	Siemens	Germany	3.55
3	VW	Germany	3.92	3	IBM	United States	3.41
4	Daimler-Benz	do	3.21	4	Hitachi	Japan	[23] 2.53
5	Mitsubishi	Japan	3.13	5	Matsushita	do	[23] 2.47
6	Fiat	Italy	2.85	6	AEG-Telefunken	Germany	[23] 2.31
7	Toyota	Japan	2.71	7	Tokyo-Shibavrs	Japan	[23] 2.24
8	Nissan	do	2.63	8	General Electric	United States	1.58
9	British-Leyland	U. Kingdom	2.57	9	RCA	do	.36
10	Chrysler	U. States	1.90	10	Western Electric	do	[24] .14

[1] Sales excludes total export sales, to the extent that export sales are to countries other than the United States, the estimate of sales outside the United States is understated.
[2] Negligible.
[3] Excludes total sales North American Continent.
[4] Excluding Canada.
[5] Excludes total export sales less Australia, New Zealand, and South Africa.
[6] Based on 1972 data.
[7] Excludes total sales North American Continent.
[8] Excludes total sales outside Japan and Asia.
[9] Based on 1972 data.
[10] Nil paper exported to United States; total chemicals excluding Germany 26 percent.
[11] Includes 20 percent in Canadian operations.
[12] Includes Canadian sales.
[13] Includes 22 percent in Canadian operations.
[14] Excludes unconsolidated Bowater-Scott operations.
[15] Pro rata estimate based on number of factories and 50 percent of exports.
[16] Estimated on assumption that $100,000,000 of sales are in the United States.
[17] No data available.
[18] Excludes total sales North American Continent.
[19] Excludes all export sales.
[20] Excludes total sales North and Latin America.
[21] Tie.
[22] Based on fiscal year 1969–70.
[23] Excludes all export sales.
[24] North American sales.

Note: As the above footnotes point out, due to differences among companies in reporting sales to the United States and North America, some of the sales figures exclude sales to Canada while others include them. To the extent that sales to Canada are excluded from the total non-U.S. sales, the sales figure will be understated.

Source: Confidential information collected by Dr. Dario Iacuelli, Management Analysis Center, Inc., Cambridge, Mass.

TABLE A-3.—MARKET SHARE BY COUNTRY—AUTOMOTIVE, 1971

[In percent; dollar amounts in millions]

Comp.	Nationality	France	United Kingdom	Germany	Canada	Italy	Spain	Netherlands	Belgium	Brazil	Argentina	Venezuela	Mexico	Worldwide total sales
A	United States					3.9							6.7	$1,233
B	do				37.0				10.4	16.2	12.6	27.0	15.2	28,264
C	do	4.4	19.8	14.6	39.2	5.0		11.7	13.9	18.6	17.5	32.0	19.6	16,433
D	do	8.8	11.6	3.5	18.2	4.1	5.4	8.6	8.2	3.4	6.8	19.9	16.5	7,999
E	France	30.5	2.7	7.0	1.0	2.8	21.2	7.8	10.7		15.3			2,747
F	do	22.0		1.5		3.1	8.2	8.3	8.2		6.2			1,792
G	do	18.9		1.8		.9		5.0	6.3					1,685
H	do	.3												
I	Italy	4.8	2.4	6.1		57.3		10.9	8.6		24.1			2,942
J	Germany	2.3	3.7	24.3		1.4		7.2	9.3	57.3		9.5	22.9	4,967
K	United Kingdom	2.1		19.2		3.3		13.4						
L	Germany	1.1		6.9		.7			2.5	3.8	3.2			3,459
M	do			4.9										
N	do			4.1		.7			2.5					550
O	do			2.7		3.2								
P	do						1.5							448
Q	Sweden		1.0	.4					2.6					1,196
R	United Kingdom		39.4						2.9					2,836
S	United States		12.7					1.9						
T	United Kingdom						4.3							
U	Spain						46.7							425
V	do				3.1		2.0							
W	Italy			.4		5.1								
X	do					4.4								
Y	do													
Z	do					2.8								
AA	Netherlands							6.1						
BB	Japan							2.9	4.6					3,307
CC	do							2.7	1.5					
DD	Not available										2.8			
EE	France										11.3			
FF	Not available											4.1		
GG	United Kingdom											5.6		
HH	Japan												8.5	3,129
II	Mexico/Italy												9.5	
	Other	4.8	6.7	2.6	1.5	1.3	10.7	13.5	7.8	.7	.2	1.9	1.1	
	Number of units (thousands)	1,468	1,543	2,107	1,370		505	403	266	516	254	607	211	

TABLE A-3.—MARKET SHARE BY COUNTRY—ETHICAL DRUGS, 1972

[In percent]

Comp.	Nationality	France	United Kingdom	Germany	Canada	Switzerland	Mexico	Venezuela	Brazil	Argentina	Iran	Turkey
A	United States	1.6	9.3		3.1	1.6					2.0	
B	do		3.8		1.6		1.9	3.1	2.0		1.4	
C	do				5.7		1.7		1.4			
D	do				3.3							
E	do		2.1		3.0	.8	2.1	1.8			3.1	
F	do		2.2		2.4	1.4	3.6	2.6	2.4	1.5	2.4	2.9
G	do	1.4	2.1			2.3	3.0	2.1	2.0	2.1	2.9	4.8
H	do				3.0	.7	2.8	2.7	2.2	1.5	1.7	
I	do						2.8	2.3			1.5	1.6
J	do				2.8		1.8	3.1	1.6	2.2		1.6
K	do								3.3			
L	do				1.6				3.0			
M	do								2.2	3.0	1.5	
N	do					1.1	1.8	1.1			3.9	
O	do				2.4			3.3	2.6		1.8	
P	Switzerland	4.0		2.7	1.7	6.5		2.1	1.5		2.2	4.6
Q	do	2.4	6.8		4.7		2.9	3,8	3.8	4.1	3.4	5.1
R	do			3.5		8.1						
S	do		3.0	2.3	1.9	5.2	2.0	2.4	2.3	1.4	1.7	1.3
T	do	1.2	2.8	1.6	1.5	4.2	1.7		1.5	1.5		
U	do					3.2						
V	do						1.6				3.2	
W	France	2.9	1.6	1.4			1.8					
X	do	2.5				.7						
Y	do								3.1			
Z	do	2.3										
AA	United Kingdom		4.7			.9					2.6	
BB	do		4.0									
CC	Germany			3.5								
DD	do		2.5	3.5	1.6	1.6			2.9	1.7	4.5	2.3
EE	do		1.9	3.0		1.3	1.8	2.1		1.9	2.5	2.9
FF	do			3.0								
GG	Argentina									4.3		
HH	do									2.8		
II	do									2.7		
JJ	Turkey											5.5
KK	do											3.0
	Total market (millions)	$1,306	$442	$1,342	$384	$125	$276	$71	$352	$223	$74	$85

Note: List includes at least top 5 firms in each country.

TABLE A-3.—MARKET SHARE BY COUNTRY, NONELECTRICAL MACHINERY, DIESEL ENGINES, 1971

[In percent]

Comp.	Nationality	France	United Kingdom	Germany	Netherlands	Belgium Luxembourg	Spain	Brazil	Argentina	Mexico	Venezuela
A	France	40									
B	do	15									
C	France/Germany	15									
D	Germany	10		72	14	16		19	34		16
E	do	5		11							
F	Sweden	10			8	12					
G	do				10	11		26			
H	United States	5	11	5	5					95	
I	do							2	22		
J	do							14	23		
K	do						28	2	10		
L	United Kingdom		51								
M	do		5								
N	do		3								
O	Netherlands				48	16					
P	Spain						68				
Q	Italy								10		36
R	Germany			12					1		
S	Brazil							37			
T	United States										14
U	do										34
	Other		30		15	45	4			5	
	Number of units	28,500	44,500	44,100	8,500	6,000	8,400	2,500	7,700	11,800	4,000

TABLE A-3.—MARKET SHARE BY COUNTRY, NONELECTRICAL MACHINERY, WHEELED TRACTORS, 1971

[In percent; dollar amounts in millions]

Comp.	Nationality	France	United Kingdom	Germany	Canada	Netherlands	Italy	Venezuela	Brazil	Argentina	Spain	Mexico	Turkey	Worldwide total sales
A	United States	16	8	22		15	1	12				18	5	$3,016
B	do	5	2	7	74	8	1	20				18		1,188
C	do	10	32			13	4	18		24	23	27	33	16,433
D	do		6											431
E	France	13									6			2,747
F	United Kingdom												7	2,836
G	do		18											
H	Germany	6		19		9								
I	do			13				20		22	2			
J	do			5										3,460
K	Czechoslovakia	4	1											
L	Canada	21	28	12	21	12		17	53	17	39	37	53	1,029
M	Italy												2	2,942
N	do						37							
O	do						13			36	2			
P	do	11												
Q	Finland								30					
R	Brazil								17					
S	Others	14	5	22	5	43	44	13		1	28			
	Number of units	70,000	40,000	60,000	21,200	7,500	50,000	1,650	30,000	15,000	25,600	7,000	18,000	

TABLE A-3.—MARKET SHARE BY COUNTRY, PRIMARY AND FABRICATED METALS, STEAM GENERATORS, 1971

[In percent; dollar amounts in millions]

Comp.	Nationality	Mexico	United Kingdom	Germany	Canada	Worldwide total sales
A	United States				20	$506
B	do	60	30		40	1,066
C	do	15	40		40	959
D	United Kingdom	}	30 {			
E	do	}	{			
F	Germany			[1] 15		
G	do			[1] 15		
H	do			10		
I	do			10		
J	do			5		
K	do			10		
L	Japan	} 25 {				
M	do	} {				
	Other			35		

[1] Licensee of a U.S. firm.

TABLE A-3.—MARKET SHARE RANKING BY COUNTRY, RUBBER—TIRES[1], 1971

[In percent; dollar amounts in millions]

Comp.	Nationality	France	United Kingdom	Germany	Spain	Switzerland	Netherlands	Belgium-Luxembourg	Canada	Argentina	Mexico	Venezuela	Brazil	Turkey	Total sales worldwide
A	United States	4	2	10		4		1	1	1	1	1	1	2	$3,601
B	do	6	4		2	1	7	8	2	3	5	2	2		2,484
C	do	5	7	8		7	6	3	3		4	4		3	1,677
D	do				4		8				3	3			994
E	do			12			3	9	4		2		4		1,300
F	do								6						87
G	Germany	7		1		3	5	6							432
H	do			4											
I	do			6				2							
J	do			11											
K	do			9											
L	France	1	3	3	1	2	2		7						1,500
M	do	2		5		5		5							
N	United Kingdom	3	1	2					5						
O	do		5												
P	Italy		6	7	3										
Q	United Kingdom/Italy					6	4	4		4			3	1	2,365
R	Netherlands			13			1	7							
S	Canada								8						
T	Switzerland					8									
U	Brazil												5		
V	Argentina									2					
W	do									5					
X	do									6					
	Number of units	33,992	29,956	41,133	8,178	2,673	4,070	6,932	21,320	4,152	4,164	2,097	10,249	1,487	

[1] List is by rank only.

Appendix B

COMPUTER SIMULATION MODEL OF A U.S. MULTINATIONAL ENTERPRISE AND ITS PRINCIPAL COMPETITOR

An example of a complete printout of computer results is shown in Table B–1 for two years (data for 15 years are available). An example of a summary printout of computer results is shown in Table B–2.

In order to obtain results for our base case in which the 20 percent of the parent's cumulated production has an effect on subsidiary costs, we made two simulations, one at zero percent and one at 100 percent, and calculated a weighted average for the results.

Table B-1

Example of Complete Printout Of Results From Computer For Years 1 and 2, For Case 3,[a] Current Tax Laws

Year 1

NET WORTH	PFT B TAX	FOR Y TAX	DIV US PAR	FOR WTH TAX	PFT A FOR TXS
100.000	17.000	5.940	6.754	0.675	11.305
TOT US FOR TXS	**US Y TAX**	**PFT A TXS**	**REINVESTED**	**RETAINED US**	**US DIV TAX**
[illegible]	0.737	10.5[illegible]	5.206	5.242	1.572
RETAIN A TAX	**TOT US TXS**	**FUNDS TO US**	**GNP INC**	**INVEST INC**	**BAL OF PAY**
[illegible]	[illegible]	6.875	12.156	2.183	10.703
UNITS/YR	**CUM UNITS**	**COST/UNIT**	**PRICE/UNIT**		
100.000	775.000	0.920	1.000		

Year 2

NET WORTH	PFT B TAX	FOR Y TAX	DIV US PAR	FOR WTH TAX	PFT A FOR TXS
110.[illegible]	19.015	6.539	7.435	0.743	12.932
TOT US FOR TXS	**US Y TAX**	**PFT A TXS**	**REINVESTED**	**RETAINED US**	**US DIV TAX**
[illegible]	0.921	11.611	5.841	5.770	1.731
RETAIN A TAX	**TOT US TXS**	**FUNDS TO US**	**GNP INC**	**INVEST INC**	**BAL OF PAY**
[illegible].039	2.652	6.491	13.392	2.409	11.782
UNITS/YR	**CUM UNITS**	**COST/UNIT**	**PRICE/UNIT**		
113.124	888.124	0.798	0.979		

[a]Foreign Income Tax Rate = 33%

Foreign Dividend Tax Rate = 10%

Reinvestment Rate of Subsidiary Earnings = 44%

Portion of Parent's Cumulated Production That Reduces Unit Costs of Subsidiary = 1.0

TABLE B-2.—EXAMPLE OF SUMMARY PRINTOUT OF RESULTS FROM COMPUTER FOR YEARS 1 THROUGH 15, CASE 3,[1] CURRENT TAX LAWS AND WITH DEFERRAL ELIMINATED

Year	Net worth	Profits before tax	Profits after taxes	Funds to United States	U.S. balance of payments	Total U.S. taxes
A. Current tax law:						
1	100.000	18.000	10.548	6.078	10.703	2.409
2	110.082	19.815	11.611	6.691	11.782	2.652
3	121.181	21.813	12.782	7.366	12.970	2.919
4	133.398	24.012	14.071	8.108	14.277	3.214
5	146.848	26.433	15.490	8.926	15.717	3.538
6	161.653	29.098	17.051	9.826	17.300	3.894
7	177.952	32.031	18.770	10.816	19.045	4.287
8	195.893	35.261	20.663	11.907	20.965	4.719
9	215.643	38.816	22.746	13.107	23.079	5.195
10	237.385	42.729	25.039	14.429	25.406	5.719
11	261.318	47.037	27.564	15.884	27.967	6.295
12	287.665	51.780	30.343	17.485	30.788	6.930
13	316.667	57.000	33.402	19.248	33.891	7.629
14	348.594	62.747	36.770	21.188	37.308	8.398
15	383.740	69.073	40.477	23.325	41.070	9.245
B. Deferral eliminated:						
1	100.000	18.000	9.360	6.736	12.429	3.066
2	107.825	19.413	10.095	7.264	13.402	3.307
3	116.264	20.856	10.845	7.804	14.438	3.553
4	125.331	22.307	11.599	8.347	15.534	3.800
5	135.028	23.731	12.340	8.880	16.686	4.043
6	145.344	25.086	13.045	9.387	17.884	4.274
7	156.250	26.311	13.682	9.846	19.115	4.482
8	167.688	27.331	14.212	10.227	20.361	4.656
9	179.569	28.049	14.585	10.496	21.599	4.778
10	191.762	28.342	14.738	10.606	22.795	4.828
11	204.083	28.060	14.591	10.500	23.906	4.780
12	216.282	27.023	14.052	10.112	24.878	4.604
13	228.029	25.016	13.008	9.361	25.644	4.262
14	238.904	21.800	11.336	8.157	26.125	3.714
15	248.381	17.113	8.899	6.404	26.227	2.915

[1] See table B-1.

Terminology and definitions

At the present time the representative U.S. subsidiary begins with a net worth (book value) equal to 100. One hundred units are produced and sold at a .82 unit cost and a 1.00 price. Total sales revenue is, therefore 100, total cost 82, and profit before tax 18. We assume, henceforth, that this 18 percent profit on the price of a unit is retained as long as the competitive equilibrium exists.

PROFITS BEFORE TAXES is self-explanatory. In year to profit before taxes is 18, as calculated above.

FOREIGN INCOME TAX (FOR Y TAX) is leved by the foreign government on the profit of the subsidiary. If the foreign tax rate were 33 percent, the foreign income tax would be 5.94.

DIVIDENDS TO U.S. PARENT (DIV US PAR) is profit less foreign income tax. Under the base case for the current tax law, 56 percent of the dividends are returned as dividends to the U.S. parent, the remaining 44 percent is reinvested. Under the deferral elimination proposal, all of the dividends are returned to the U.S. parent. Table B-1 shows that dividends to U.S. parent are 6,754, or .56 times 12.06 (18 minus 5.94), for case 3 under the current tax law.

FOREIGN WITHHOLDING TAX ON DIVIDENDS (FOR WTH TAX) is assessed on the portion of dividends to U.S. parent actually returned to the U.S. At a tax rate of 10 percent, the foreign withholding tax is 0.675 in Table B-1.

PROFIT AFTER FOREIGN TAXES (PET A FOR TXS) is profit before tax less foreign income tax and foreign withholding tax on dividends.

TOTAL U.S. AND FOREIGN TAXES (TOT US FOR TAX) is the sum of the foreign income and withholding taxes and the U.S. income tax.

PROFIT AFTER TAXES (PFT A TXS) is profit before taxes minus total U.S. and foreign taxes.

REINVESTED EARNINGS (REINVESTED) and RETAINED EARNINGS TO THE U.S. PARENT (RETAINED US) are determined according to which tax law is in effect. Under the current tax law, Table B-1, reinvested is 44 percent of profits before tax less foreign income tax. Retained U.S. is determined by subtracting the foreign withholding tax and U.S. income tax from dividends available to U.S. parent times the percent returned to the U.S. Under deferral eliminated, all profits after the foreign income tax are returned as dividends to the U.S. parent. Out of the profits after all taxes, the parent decides how much to retain and the rest is reinvested.

U.S. DIVIDEND TAX (US DIV TAX) is 30% of retained U.S., which is assumed to be totally paid out as dividends to shareholders.

RETAINED AFTER TAX (RETAIN A TAX) is the dividend income of shareholders after they have paid a 30% dividend tax.

TOTAL U.S. TAXES (TOT US TXS) is the sum of the U.S. income tax and U.S. dividend tax.

FUNDS TO THE U.S. is the total inflow due to the overseas subsidiary. It is the sume of total U.S. taxes and retained after tax. Under the current tax law, it is also the dividends to U.S. parent times the percentage actually returned, less foreign withholding tax. Under the deferral elimination, it is the dividends to U.S. parent less foreign withholding tax and reinvested.

The GNP INCREASE is the increase in the gross national product of the U.S. due to the exogenous inflow of funds to the U.S. This, of course, assumes that the increased tax revenue is spent by the federal government and dividends by the shareholders. A reasonable estimate of the GNP multiplier is 2.0.

INVESTMENT INCREASE (INVEST INC) is the expected net increase in U.S. domestic investment given the growth in GNP due to the foreign subsidiaries of multinational enterprises. Since investment is 18% of GNP investment increase is 18% of GNP increase.

BALANCE OF PAYMENTS (BAL OF PAY) is the net flow due to the subsidiary of U.S. multinational enterprises. The analysis of the balance of payments effect of the multinational subsidiaries is based upon the research already undertaken by Piero Telesio.[1] The author estimates the net addition to the balance of payment inflows attributable to multinational firms. The net inflow is the difference between the actual flow and the estimated flow assuming that no overseas investment was made by U.S. firms. The author examines the components of this net flow in some detail. For the purposes of our simple model, we divide the net flow into only three components—funds to U.S., accompanying inflows, and outflows.

FUNDS TO U.S. has been explained earlier. Accompanying inflows include capital equipment, part and component exports to the foreign subsidiary, royalties and fees, and various other import and export effects. The magnitude of net accompanying inflows is roughly 9.44% of the net worth of foreign subsidiaries. Net outflows were also calculated by the author and were estimated for the purposes of this simulation to be 90% of reinvested earnings. Therefore, the balance of payments net flow is the sum of funds to U.S. and 9.44% of networth, minus 90% of reinvested earnings.

Finally, NETWORTH of the subsidiary in the next year t_1, is the sum of networth in t_0, reinvested earnings, and outflows. Book value of the subsidiary is augmented by the reinvested earnings and other outflows from the parent to the subsidiary. Once the networth of the subsidiary one year hence is calculated, all other economic variables can be calculated for the next year and so into the future. We have only to incorporate this with the production efficiencies over time structure by which costs, prices, and quantity produced are determined in order to complete the structure of our model.

Sample Fortran IV program used to generate simulations

The elements of the vector $_gL$ (GL(1]), . . . GL (18)) are networth, profit before taxes, foreign income tax, dividends to U.S. parent, foreign withholding tax on dividends, profit after foreign taxes, total U.S. and foreign taxes, U.S. income tax, profit after taxes, reinvested earnings, retained earnings to U.S. parent, U.S. dividend tax, retained earnings after tax, total U.S. taxes, funds to U.S., GNT increase, investment increase, and (net) balance of payments due to foreign direct investment, respectively.

DIMENSION GL(18) :

Z is a binary variable, equal to zero if simulation is under the current tax laws, and one if under deferral eliminated.

Y is a binary variable, equal to zero, if no transfer of technology is assumed, one if there is transfer of technology between parent and subsidiary.

FIT and FWTD are the foreign income tax rate and the foreign withholding tax rate, respectively.

```
      READ(5, 40) Z, Y, FIT, FWTD
40    FORMAT(4F7.3)
```

[1] Telesio, *op. cit.*

```
      MM=Y
      J=Z
      DATA PC, PCF, CN, CNF/ 1.00, 1.00, .82, .82/
      DATA VT1, V1, UT1/U1/1500, 105, 1500, 105/
      DATA VT, V, UT, U/ 775, 100, 775, 100/
      DATA PR, USTD, GNP, INV/ .18, .30, 2.0, .18/
      DDD=100.0
      DD1=1.124
      DDD=DDD*DD1
      R=.44
      FFF=.23
      GL(1)=100.0
      GL(2)=PR*GL(1)
      DO 30 K=1, 15
      GL(3)=FIT*GL(2)
      B=GL(2)-GL(3)
      GL(4)=(1-R)*B+Z*R*B
      GL(5)=FWTD*B
      C=FWDT*(1-R)*GL(4)
      GL(6)=GL(2)-GL(3)-GL(5)
      A=(1-R)*(.48*GL(2)-GL(3))-C
      IF (J) 22, 22, 23
22    GL(8)=A
      GL(7)=GL(8)+GL(3)+GL(5)
      GO TO 24
23    GL(7)=.48*(GL)(2)
      GL(8)=GL(7)-GL(5)-GL(3)
24    GL(9)=GL(2)-GL(7)
      GL(10)=R*GL(4)-Z*(GL(7)-(A+GL(3)+C))
      GL(11)=GL(9)-GL(10)
      GL(12)=USTD*GL(11)
      GL(13)=GL(11)-GL(12)
      GL(14)=GL(12)+GL(8)
      GL(15)=GL(14)+GL(13)
      GL(16)=GNP*GL(15)
      GL(17)=INV*GL(16)
      GL(18)=GL(11)-.9*GL(10)+.094*GL(1)+GL(8)
      WRITE(5, 33)
33    FORMAT(' NET WORTH PFT B TAX FOR Y TAX DIV US PAR
      4FOR WTH TAX PFT A FOR TXS')
      WRITE(5, 42) GL(1), GL(2), GL(3), GL(4), GL(5), GL(6)
42    FORMAT(F8. 3, 5F12. 3, //)
      WRITE(5, 29)
29    FORMAT(' TOT US FOR TXS US Y TAX PFT A TXS REINVESTED
      4RETAINED US US DIV TAX ')
      WRITE(5, 51) GL(7), GL(8), GL(9), GL(10), GL(11), GL(12)
      51  FORMAT(59. 3, 5F12. 3, //)
      WRITE(5, 31)
31    FORMAT(' RETAIN A TAX TOT US TXS FUNDS TO US GNP INC
      4 INVEST INC BAL OF PAY')
      WRITE(5, 41) GL(13), GL(14), GI(15), GL(16), GL(17), GL(18)
      41  FORMAT(F9. 3, 5F12. 3, //)
      WRITE(5, 93)
93    FORMAT(' UNITS/YR  CUM  UNITS  COST/UNIT  PRICE/UNIT')
      WRITE (5, 89) U, UT, CN, GG
89    FORMAT(F8. 3, 3F12. 3, ////)
56    GL(1)=GL(1)+1. 9*GL(10)
      IF (J) 16, 16, 17
17    E=DDD*(1-PR)*FFF/(VT+MM*VT1)
      BB=CNG-MM*FFF*VI/(VT+MM*VT1)
      CNF=. 5*(BB+((BB**2. 0)-4. 0*E)**. 5)
      PCF=CNF/(1-PR)
      V=DDD/PCF
      VT=VT+V
      VT1=VT1+V1
      V1=V1*1. 05
      DDD=DD1*DDD
```

```
16  E=GL(1)*(1-PR)*FFF/(UT+MM*UT1)
    BB=CN-MM*FFF*U1/(UT+MM*UT1)
    CN=.5*(BB+((BB**2.0)-4.0*E)**.5)
    PC=CN/(1-PR)
    U=GL(1)/PC
    GG=PC
    IF (J) 77, 77, 78
78  GG=PCF
77  GL(2)=(GG-CN)*U
    UT=U+UT
    UT1=UT1+U1
    U1=U1*1.05
30  CONTINUE
    END
```

Notes:

PC—Price/unit for U.S. firm
PCF—Price/unit for competitor
CN—Cost/unit for U.S. firm
CNF—Cost/unit for foreign competitor
VT1—Cumulative production of foreign parent
V1—Current annual unit production of foreign parent
UT1—Cumulative annual unit production of U.S. parent
U1—Current annual unit production of U.S. parent
VT—Cumulative production for foreign competitor subsidiary
V—Current annual unit production of foreign competitor's subsidiary
UT—Cumulative production of U.S. subsidiary
U—Annual unit production of U.S. subsidiary
GG—Price/unit U.S. firm
PR—Profit ratio to sales
USTD—U.S. dividend tax rate
GNP—GNP multiplier
INV—Investment as fraction of GNP
R—Percent reinvestment in the subsidiary
FFF—Constant to unsure price declines by 20% when cumulative production doubles
DD1—One plus annual growth rate of unit production for foreign competitor
DDD—Original annual unit production for foreign competitor

Sample program is run under assumptions described in Chapter 5. Assumes tax credits (when total foreign tax is greater than U.S. tax liability) carried as a negative.

Mr. BURKE. Are there any questions?

Mr. SCHNEEBELI. You say we should avoid any increase in taxes unless a similar increase takes place with their foreign competitors. You do not have much hope in that regard, do you?

Mr. STOBAUGH. I think we will come to a multinational tax agreement because it is impossible for a multinational enterprise to allocate its income on a true "arms-length" basis, for there is no market price for such transactions as say, Ford's sales of transmissions that it might ship from Germany to the United States, but such sales affect U.S. tax revenues and German tax revenues.

I believe that in the long run we are going to a multinational agreement with other nations. I don't know how long that long run will be, but I think that is the direction we ought to go.

Mr. BURKE. Mr. Ducan?

Mr. DUNCAN. No questions.

Mr. BURKE. Mr. Vanik?

Mr. VANIK. Mr. Chairman, I think we had some discussions before and one of the problems I have is that you don't contend that capital invested in the United States doesn't have the same kind of incentives this capital has that you keep abroad. If we are going to create jobs, do you contend capital invested abroad creates more jobs than American capital invested in America?

Mr. STOBAUGH. No, I did not contend that at all.

Mr. VANIK. Of course, when you go to the large multinational companies that have a record of doing extensive multinational business, yet have an increase in domestic employment, doesn't that relate to their tremendous increase in size rather than the fact they are multinationals.

There are a lot of other factors that would cause them to provide a greater job creating base than the fact they are multinationals. Isn't it also because they are big and other companies are little?

Mr. STOBAUGH. I don't know of any study that shows that big companies——

Mr. VANIK. You wouldn't have that kind of information in your study because you just deal with the multinational research. We are interested in a broader base, something that comprehends the whole American society and I am a little bit puzzled. You make me feel that we just ought to go gung ho on multinational development, that this is the greatest thing in the world since oxygen was developed.

I just can't become that fully enamored that it is that good for us.

Mr. STOBAUGH. There are three questions you have asked. I am forgetting them. Could I make notes so I may answer them one at a time?

Mr. VANIK. Just go ahead if you believe you can respond.

Mr. STOBAUGH. I attempt to follow economic literature on relative growth rates and I know of no study that suggests big firms are growing faster than little firms.

Mr. VANIK. I would argue with you about that. The history of American business seems to be the other way. The big seem to be getting bigger and the small seem to be going out of business.

Mr. STOBAUGH. A lot of the big firms now were small firms at one time.

Mr. VANIK. I might say some of the big firms won't stay big very long. I am concerned about the automobile industry. If they can't give me an automobile that will give 20 miles to the gallon, I will have to buy a foreign car, perhaps from a foreign multinational.

Mr. STOBAUGH. If you noticed in my statement, I said I do not necessarily agree that what is good for multinationals is always necessarily good for the United States. So I stand on that statement as far as your questioning whether or not I thought they were great and let them go without any controls.

Mr. VANIK. Here is something that concerns all of us, that is, this tremendous pile up of multinational accrual that seems to get beyond the control of all governments. It seems to float around the world and operate in a way in which we seem to lose touch with it.

It has a tremendous dynamic effect on our economy. There was a story about the multinationals participating in the devaluation by profiteering. What do you have to say to that? There apparently was a tremendous flow of capital into foreign currencies just before the recent devaluations. It said that several billion dollars were made.

The average American citizen can't take a hedge, he is stuck with American investments. The multinational fellow can go out and buy marks and yen. What about that? Is this a wholesome thing for the country?

Mr. STOBAUGH. I have colleagues at Harvard that are attempting to study this more closely. To the best of my knowledge, most of the currency runs have not been started by multinationals.

Mr. VANIK. They were in it.

Mr. STOBAUGH. May I finish?

Mr. VANIK. Yes.

Mr. STOBAUGH. Thank you. Once the runs started and it becomes obvious a change in currency value is going to take place, then they take action to preserve their assets.

Mr. VANIK. A hedge.

Mr. STOBAUGH. Well, hedge has a technical definition. They may move money out of one currency or another by foreign exchange.

Mr. VANIK. Insofar as they are able to do that and other Americans may not, they have a preferential position over other citizens. It has this extra privilege. An American citizen would have a greater difficulty moving into another currency and this movement of currency, certainly by most reports I have seen, has had a tendency to accentuate and aggravate the effect of the devaluation over and beyond what it normally would have been.

As a matter of fact, there are some of us on this committee that believe the American multinationals with their tremendous movements packed on a few points to the devaluation by converting to the foreign currency.

Mr. STOBAUGH. You are saying the devaluation went further than it might have.

Mr. VANIK. It was a lot more serious because of the movement of resources by multinationals.

Mr. STOBAUGH. You mean a greater one took place than would have otherwise?

Mr. VANIK. Yes, we feel it was greater than it would have been.

Mr. STOBAUGH. I think most people would agree that the dollar is not overvalued and, if anything, it may be undervalued. That will help our exports if it is.

Mr. VANIK. I have yet to be convinced it was helpful. As Mr. Burke said many times before our committee, if it was such a good thing, why don't we keep doing it every week. The answer is, it is bad for us.

Mr. STOBAUGH. The devaluation is bad for us?

Mr. VANIK. Yes. We just had to vote more money to stabilize or increase our participation in the funds, our funding obligations. We had to pay more for troops abroad, pay more all over the world because of the effect of devaluation. I can't become convinced that it is that helpful. As a matter of fact, what it may be doing is increasing the capacity of people that hold other currencies to buy up our beef and run us out of beef and perhaps run us out of soybeans and pretty soon we will be run out of essential foods because the devaluation has given them that tremendous power to buy food which may be essential to the diet of the American people.

I think we are reaching a peril point in our food in this country. I would like Harvard to make a study of how the devaluation and inflation has affected people on welfare. It has taken meat out of their diet.

I get worried about the size of the multinationals when they get to have $18 billion or $22 billion in assets. How do they compare with countries? Aren't some of the multinationals bigger than the sixth largest country in the world? Aren't some of these multinationals bigger than Austria?

Mr. STOBAUGH. I don't think Austria is the sixth largest country.

Mr. VANIK. I am talking of capital accumulation in the country. How many countries—isn't it IBM that comes to about $22 billion?

Mr. STOBAUGH. No.

Mr. VANIK. What is it, what is the capital?

Mr. STOBAUGH. I have a list back here comparing all the multinationals with all the nations.

Mr. VANIK. What is the largest?

Mr. STOBAUGH. General Motors, but it is not the biggest in terms of market value.

Mr. VANIK. General Motors, they will probably be bought out by Volkswagen.

Mr. STOBAUGH. General Motors has about $22 billion worth of sales and is substantially bigger than Volkswagen.

Mr. VANIK. What are the assets of IBM?

Mr. STOBAUGH. I think sales are around $8 or $9 billion.

Mr. VANIK. The assets, I think, total around $18 billion.

Mr. STOBAUGH. I think the market value is $40 billion, but I don't think the assets are $18 billion.

Mr. VANIK. How many countries come above $40 billion?

Mr. STOBAUGH. Countries don't have market values on them. If they did, they would be over $40 billion.

Mr. VANIK. Which have a gross national product greater than $40 billion or $22 billion?

Mr. STOBAUGH. I don't know the number, offhand.

Mr. VANIK. Look at the list and tell me how many are over $22 billion. How many countries are there over $22 billion?

Mr. STOBAUGH. According to this list, which is in a publication put out by the Committee on Finance of the United States Senate, there are 22 nations that have bigger GNP's than the largest multinational enterprise has sales. That would be General Motors, so the answer would be 22 in this kind of comparison.

This, in a way, is not an accurate comparison, because the nations are based on value-added, rather than on overall sales. If you count value-added to the firms, you would have to divide their number by about 2, so you would get to maybe 31 nations; it is still something in that range.

Mr. VANIK. It looks as though two-thirds of the nations are smaller.

Mr. STOBAUGH. Than General Motors?

Mr. VANIK. Yes. They are smaller than the big multinationals involved in developing plants all over the world. You ought to have your own ambassadors and have your own army and navy and tax yourselves to defend yourselves.

Mr. STOBAUGH. Excuse me, I would rather you not refer to me as "you." You are talking about multinationals. I am not a multinational.

Mr. VANIK. You are here and I am quoting from your testimony. "This testimony is drawn from research directed by me for the Management Analysis Center, Inc., of Cambridge, Mass., and financed by a group of multinational enterprises."

Mr. STOBAUGH. Right.

Mr. Vanik. Why don't you put the list in the record?

Mr. Stobaugh. I have it right here.

Mr. Vanik. All right. When I refer to you, I am talking about this group of multinational enterprises. I get rather disturbed about the lack of contribution to the defense of the country. So many people are not paying taxes. So many corporations are not paying taxes. So many steelworkers that come home at night, throw their lunch bucket on the table and say, "Mother, we pay more taxes than I work for." This gets rather disturbing.

Mr. Stobaugh. To me, too.

Mr. Vanik. I feel when a multinational company, an American citizen, has sales value of $22 billion, I like to see how much are they contributing to the cost of our citizens programs, to the environmental problems, to the cost of the security that we provide them all over the world.

You see, I can't help but feel that part of our overhead expense as a country that supports multinational corporations in their activities in the world, is the maintenance of 330,000 troops in Western Europe and 150,000 in Japan and other hundreds of thousands all around the world, that is part of what it costs. They are protecting me but they are protecting me a lot less than they are your investments and I feel it is unfair that somehow or other, through taxation, through contribution or some other way that this tremendous volume of activity becomes a freeloader or a substantial freeloader on the American system.

Mr. Stobaugh. That group of foreign operations are not a freeloader on the American system in the respect that they are paying dividends to their parent corporations who are then paying taxes on them.

Mr. Vanik. Every man has his own measure and test of what is patriotism and I have my own test. My test of patriotism is the degree of responsibility that a man has to his obligation to pay taxes and support the country. I would say the first test of patriotism is the willingness of a citizen to contribute his fair share to the cost of operating the country.

I am ashamed that so many people, even in high places and in Government fail in their responsibility to pay a fair share. I think this is what it is all about. The rest of the people, they want you to prosper, they want you to be successful—I am meaning multinationals—they want you to be successful, but your test of the loyalty is what the Treasury collects every once in a while to help pay for this whole structure of Government that provides the services that benefit your group a lot more than it does the average citizen.

I was hoping in your testimony, in your testimony particularly on the tax panel, that we would have some suggestion as to how we could get a little better contribution without destroying all the incentives. In all of those thousands and thousands of words of testimony, we find no suggestions, so you leave us little alternative but to create our own, and that may be far worse.

Mr. Stobaugh. The only way we are going to have increased revenues from foreign operations without damaging the goose that lays the golden egg, is to have their competitors taxed on the same basis; otherwise, if you tax U.S. firms substantially more than their competitors, then U.S. firms are not gong to be able to keep up overseas, and you will end up with less tax revenue, rather than more.

Mr. VANIK. I think people of other countries will be watching their multinationals, too. They are as much concerned as we are. There is a day of reckoning coming, and I think it will be soon. None of us may be here, it will be a new crowd, maybe a crowd disposed to do things a little more quickly than some of us.

If we commit any error here on this committee, it is our failure to act promptly, and what I would like to relate to you is that I am simply relating to you the feeling of people who feel very disturbed about it and they are getting rather impatient with my failure as a representative to provide a solution. The time is running out for us as it is running out for you. I think it would be far more constructive and helpful if we could get some suggestions as to how to meet this protest before it takes on a more forceful form.

Mr. STOBAUGH. My explicit recommendation last time and this time was to join with the other nations that have multinational enterprises and reach agreement with them. You say they are getting concerned so now is a good time to start negotiations with them.

Mr. CAREY. Will my colleague yield?

Mr. VANIK. I am through.

Mr. CAREY. If the rules permit, a distinguished constituent of mine has a comment to make. Mr. Seghers has a comment to make, I believe. He was a witness.

Mr. BURKE. I see the gentleman raising his hand. If he will wait until this gentleman completes his statement, we will allow him to make a statement.

Mr. CAREY. Mr. Stobaugh, one short question, on the job issue, I detect now you have determined for your ownself quite accurately the job issue is a paramount one before the committee. You state some multinational enterprises are laying off workers of many years, so on and so forth. You say this program should be met head on, a head-on program to force companies to cease such practices.

How do you suggest that we are going to find out about these practices, and what kind of head-on program could Congress generate aside from our pension reform legislation that seems to be stalled right now. What kind of head-on program could we generate to catch up with this and put a stop to it?

Mr. STOBAUGH. There probably are many alternatives, and I do not know which one might be best. One is the portable pension approach where if a person moves from one job to a second, he takes the pension with him. But if they get fired and have no other job, that still would be bad.

One thing you could do would be to pass legislation that would in-increase the number of months or years that people have to receive notice before they can be laid off. What we need is (*a*) a guaranteed annual income, and (*b*) guaranteed work. That has been one of the great advantages that the Japanese have had.

The Japanese companies have given their workers a guarantee that, "You are not going to lose your job and, if you work harder, we will all be more prosperous." And they work harder.

In this country, if a man works hard, he may work himself out of a job. Where from changing technology or changing trade patterns, if he loses his job, he doesn't have quite the same incentive that the Japanese worker has.

I don't know how to do it, but we need to go that way.

Mr. CAREY. Your computer model shows the tax deferral is a net gain of tax payments and would relieve our deficit situation. Suppose it were a temporary adjustment to require a return of undistributed profits over, say, a 2-year period and then it would go out of existence. Do you think that would be enough to stall the growth of those companies, just a 1- or 2-year suspension so we get the good part of the curve and not the bad part?

Mr. STOBAUGH. Let me think just a minute. I think what you would do is slow down their growth for that couple of years and then, if you changed your legislation back, growth would return.

Mr. CAREY. If the choice is slowing down the growth of foreign nationals and having the rate of foreign government having the payments continually out of balance by voluminous amounts and having the economy of this country under stress for another 2 years, wouldn't a short-term measure of this kind be understood by our foreign competitors and the long-time multinationals be better off because they would be multinationals that would be allied with stronger firms here at home.

It would be the end of a tax hideaway for a short period of time, the end of a tax holiday for a short period of time.

Mr. STOBAUGH. The multinationals are paying taxes now, and then during that time we forced more repatriation, they would be paying higher taxes on the amount they are repatriating compared to what they are now.

The effects would be felt in later years when the plants not started up would not be creating more dividends.

Mr. CAREY. You lose 2 years of growth.

Mr. STOBAUGH. That is right.

Mr. CAREY. Sometimes I wish you would give me some advice on an opinion I heard from some of the multinational executives, they said they were still trying to get money home as fast as they could, it was the company policy that money at home was safer than anywhere abroad.

Mr. STOBAUGH. All the companies I have done research on generally prefer to have their money here and build plants here when they can.

May I add one comment about your comment that they prefer to bring their money home when they can? I think one of the dangers in a minimum distribution situation is it especially hurts companies that are new, young, small companies trying to go overseas because they don't have a record of earnings, and a traditional pattern of overseas investment is to put in a little money, let the foreign subsidiary grow through retained earnings, and then start paying out dividends.

Most of the moneys paid back from overseas investments come from companies over 9 years old.

Mr. CAREY. Thank you, Mr. Chairman.

Mr. BURKE. I have a few questions, Professor Stobaugh, and then we will conclude the hearing. How much did it cost for the research the Management Analysis Center requested?

Mr. STOBAUGH. I don't know the cost. I can give you a statement when I get home and ask the bookkeeper.

Mr. BURKE. How many people were involved in the research?

Mr. STOBAUGH. In round numbers, something like half a dozen people.

Mr. BURKE. How many multinationals contributed?

Mr. STOBAUGH. Ten. I just got the list here, if you would like it.

Mr. BURKE. If you would submit that information in writing to the committee, we will hold the record open at this point to clarify your statement.

[The information referred to follows:]

Abbott, American Home Products, John Deere, IBM, Johnson & Johnson, Merck, Pfizer, Schering Products, Searles, and Squibb.

Mr. BURKE. We thank you for your appearance, and this concludes the hearing today. The committee stands adjourned, to meet at 10 tomorrow morning.

Mr. STOBAUGH. Thank you.

Mr. BURKE. Mr. Seghers, if you wish to submit a statement in writing, we will hold the record open at this point for you to submit a statement to clarify any statement that was made since you left the stand.

[The supplemental statement follows:]

SUPPLEMENTAL STATEMENT OF PAUL D. SEGHERS, PRESIDENT, INTERNATIONAL TAX INSTITUTE, INC.

TAX PROPOSALS IN CONNECTION WITH THE FOREIGN TRADE BILL

We thank the Committee for the opportunity to comment in writing on some of the statements that were made subsequently to our leaving the stand.

We are concerned by some of the statements made in the questions addressed to Professor Stobaugh, especially the charge that many U.S. corporations pay no U.S. taxes on their income. These and other charges will be discussed in the order in which they were made. First, however, we take this occasion to compliment Professor Stobaugh, and express our agreement with the principal points in his prepared statement, oral testimony, and answers to questions, in which he gave the Committee *facts* which can be of help to it in appraising the value of U.S. multinational business in providing jobs here at home and contributing to the welfare of the people of this country.

Facts must be the basis of your Committee's decision between the generalized charges being made against U.S. foreign trade and the defense of that business.

We urge that your Committee have the *facts* that have been presented to it by both sides impartially summarized for your use in reaching a decision as to whether or not to impose tax penalties on U.S. manufacturers engaged in foreign trade. If you will then carefully consider the evidence, there will be no need to fear the result.

Aside from our testimony regarding the harm done to our then-growing foreign trade by the 1962 Subpart F tax provisions, this Institute has not submitted any facts in support of its position. Other larger, stronger and better financed business organizations have submitted evidence to which we could not have contributed any material addition. However, we believe that this Institute was indirectly helpful to some of the larger business organizations in obtaining some of the evidence they submitted to your Committee regarding U.S. employment and U.S. exports of U.S. multinational manufacturers.

We concur in the arguments made by Professor Stobaugh against imposing further tax penalties on U.S. multinational business, and are convinced that those arguments are fully supported by the evidence he and others have presented to your Committee.

Now we will comment on some of the questions directed to Professor Stobaugh.

Rather generalized criticism is expressed regarding the ability of U.S. multinational corporations to engage in foreign exchange transactions. It is true that such corporations have available funds and facilities for foreign exchange transactions that are beyond the means by all but a very few individuals. It is obvious that large corporations have more funds at their disposal than the average U.S. citizen. This does not prove any point.

Devaluation follows when we issue more paper money than we can back up. The value of the U.S. dollar—its purchasing power right here at home—has been going down for a number of years before devaluation of the U.S. dollar. U.S. multinational business didn't cause that loss in value—on the contrary, the contributions of U.S. multinational business to the U.S. balance of *trade* helped to lessen the U.S. deficit in its balance of *payments*. Without that help, the value of the U.S. dollar abroad would have dropped much sooner.

U.S. multinational corporations are charged with having realized huge profits in their foreign exchange transactions, thereby contributing to the loss of value of the U.S. dollar. That could only be true if they "dumped" U.S. dollars in exchange for foreign currencies. Half of any such profits will go to the U.S. Treasury as taxes. Any such profits would not ordinarily be realized by foreign subsidiaries, as the latter would be holding foreign currencies and not have U.S. dollars available for purchasing more foreign currencies.

We agree with Professor Stobaugh that U.S. multinationals (U.S. business corporations) were forced to take steps in the foreign exchange markets to counteract threatened losses. They thereby profited the U.S. Treasury and the U.S. economy, which likewise would have suffered if those threatened losses had not been minimized.

There was some discussion of the effect of U.S. exports of beef and other products on our economy. This subject is outside the scope of our interest. We will only comment that it is not possible to increase exports of U.S. products wtihout goods leaving the U.S.

U.S. multinatinals were attacked at considerable length because of their mere size. That political attitude is not new. What was pleasingly strange is that those attacks were not coupled with any assertion that that power was being used in any way harmful to the economy of our country.

I can hardly agree with that Committee member who states his view that the first test of patriotism is the willingness of a citizen to contribute his fair share to the cost of operating the country. However, we do agree that all should obey the law, and that includes the U.S. Internal Revenue Code. We agree with the United States Supreme Court that it is a right of all taxpayers to minimize their tax liabilities by all lawful means. We confidently assert that U.S. multinational businesses do pay more than their fair share of the expenses of the U.S. Government. We maintain that income should be taxed only by the country where it is earned, and that the U.S. Government should not tax income not earned in the United States. However, we recognize that the Congress is not ready to accept that principle of territoriality, which is a part of the tax systems of most other governments. We accept the U.S. practice of taxing such income when received by any taxpayer subject to U.S. jurisdiction. We do, however, insist that the U.S. Government should not tax income earned and retained by any foreign corporation not subject to its jurisdiction.

The charge that many corporations do not pay taxes is so vague that it can not be answered.

The charge that U.S. multinationals are not paying enough taxes is a mere statement of opinion, with no details and no known factual basis. There is mention of a U.S. corporation that makes sales of $22 billion, but no mention of the amount of taxes it pays, the amount of its costs and expenses, and its net income, which is again subject to U.S. taxes when what is left of it is distributed to its shareholders. Yet those *facts* are readily obtainable from the same source as the sales figure.

We fully agree with Professor Stobaugh when he points out that the proposed U.S. income tax penalties on U.S. multinational businesses would make it impossible for them to compete abroad and the U.S. Treasury would wind up with less tax revenue rather than more. The loss of jobs here at home would be the more harmful result.

The need for job protection was discussed. Certain countries, such as Mexico and Brazil, compel very substantial severance payments, increasing with the length of service.

We concur in Professor Stobaugh's statement regarding the need to allow the small U.S. manufacturer to use funds earned abroad (by a foreign subsidiary) to build up its business abroad, without being subject to U.S. tax on those profits until brought home. Business is run for the benefit of its stockholders, and the foreign profits will be brought home quickly enough. Experience has shown that when U.S. multinationals become well estabilshed in their business operations abroad, they bring home annually at least half of the income of their foreign subsidiaries.

Mr. SEGHERS. May I have a few minutes to speak?

Mr. BURKE. I am sorry, this room is supposed to be taken over at 4 p.m., it is now 10 after. I am sorry, I can't accommodate you. If you will submit it in writing, we will hold the record open for you.

Mr. SEGHERS. The last thing I heard was about the employees laid off. As you know, in Mexico and Brazil and in most of the Latin countries there is an enforced retirement pay which becomes quite large.

But the thing that I held up my hand for is that I heard a great deal of talk as though the multinationals didn't pay much U.S. taxes. They pay a great deal. The record will show it. Just saying they didn't pay doesn't prove the point.

Mr. BURKE. Thank you very much.

Mr. SEGHERS. Thank you.

[The following material was submitted for inclusion in the record:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., June 12, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: There is some vagueness concerning the application of the investment credit provision of the Revenue Act of 1971 to the motion picture industry. The legislative intent was to provide an incentive, through the investment credit, to produce films domestically in order to offset governmental and non-governmental incentives to produce films abroad.

Two areas of uncertainty have developed. One: should the source of income from exhibition affect the application of the investment credit? Clearly, it should not. Our objective is first to retain *production* in this country; and then to encourage exhibition and its attendant favorable trade impact abroad.

The second deals with those films, at least with those parts of them, which the industry believes must of necessity be made abroad. The most equitable solution to this problem is to apply the investment credit only to that portion of the production costs which are incurred in this country. This will continue encouragement to produce domestically as much of a film as possible; yet, it will not unduly interfere with the need to go to a foreign locale for that portion of the production which it is deemed absolutely necessary to insure authenticity.

I will appreciate it if this letter is made part of the hearings record of the Trade Reform Act of 1973.

Respectfully,

JAMES C. CORMAN,
Member of Congress.

HEDRICK AND LANE,
Washington, D.C., May 25, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR CHAIRMAN MILLS: We are submitting herewith a written statement by Donald S. MacNaughton, Chairman of the Board of The Prudential Insurance Company of America and Gilbert W. Fitzhugh, Chairman of the Board of Metropolitan Life Insurance Company, dated April 5, 1973, which was submitted for inclusion in the record of the Committee's hearings on tax reform. The statement by Messrs. MacNaughton and Fitzhugh proposes an amendment intended to exclude from the computation of U.S. life insurance company taxable income all of the items that relate to insurance contracts issued to Canadian residents.

While this proposal was initially made on behalf of Metropolitan and Prudential, it has since been considered and endorsed by the Legislative Committee of the American Life Insurance Association, the major Association of life insurance companies in the United States.

We understand that the Committee on Ways and Means may give consideration to U.S. foreign income tax proposals in connection with its review of foreign trade and tariff matters. Accordingly, we wish to request that the Committee give consideration to the proposal outlined in the enclosed statement by Messrs. MacNaughton and Fitzhugh in connection with its consideration of trade matters and that this letter and the enclosed statement be made a part of the record of the Committee's hearings on that subject.

Very truly yours,

EUGENE M. THORÉ,
Attorney for The Prudential Insurance Company of America.

THEODORE R. GROOM,
Attorney for The Prudential Insurance Company of America.

APRIL 5, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR CHAIRMAN MILLS: The purpose of this letter is to call your attention to a problem involving the U.S. taxation of Canadian branches of U.S. life insurance companies, to ask that the Ways and Means Committee give consideration to this problem during its current review of the federal income tax laws, and to suggest a propos :d amendment designed to eliminate this problem.

This statement is submitted on behalf of Metropolitan Life Insurance Company and The Prudential Insurance Company of America. Metropolitan and Prudential are U.S. mutual life insurance companies that have conducted Canadian operations since 1872 and 1909 respectively.

The bulk of U.S. life insurance company operations in countries other than the United States is in Canada. However, the U.S. share of the Canadian market has steadily declined over a period of time. At the beginning of this century, U.S. companies had approximately 40% of the Canadian market; as recently as 1957, U.S. companies had over 30% of this market; while at the end of 1970, our share of the market had declined to approximately 25%. At the end of 1971, the shares of the Canadian life insurance market enjoyed by Canadian, U.S., and British companies were, respectively, 71.6%, 23.0% and 4.8%. U.S. mutual companies have approximately 80% of the U.S. share of the Canadian market, and Metropolitan and Prudential are the major U.S. mutual life insurance companies operating in Canada.

In most significant respects, Prudential and Metropolitan operate their Canadian branches as if they were separate Canadian companies. The capital for these Canadian branches is furnished by Canadians, the assets arising from insurance operations in Canada are invested and held in Canada, and, in general, Canadian business assets cannot be removed from Canada without the consent of the Canadian Government. Most significantly, the income of these Canadian branches is generated by Canadian insurance and investment activities, and the Canadian branch income inures to the benefit of Canadian policyholders. This is because the pricing systems and policyholder dividend scales for Canadian policies are based upon Canadian investment, mortality, morbidity and expense experience.

Under current law, U.S. income tax is imposed on these Canadian branch life insurance operations. While a foreign tax credit is allowed for Canadian taxes, U.S. taxes on these operations currently exceed allowable credits.

The present system of taxation is basically unfair because the burden of the higher U.S. tax inevitably falls on the Canadian policy-owners of these Canadian branches and because the income that is taxed is produced entirely by Canadian capital, investments and other activities and take place in Canada. Under these circumstances, imposition of the U.S. tax runs counter to the generally accepted tax principle that a country does not tax the foreign source income of non-residents.

Moreover, because of the added cost produced by the U.S. tax, U.S. companies are subject to competitive disadvantages, and, in some cases, are effectively precluded from competing in Canada with non-U.S. companies. For example, U.S. tax law has substantially deterred sales of Canadian qualified pension and profit-sharing contracts by U.S. companies. Under U.S. law, the earnings on qualified pension plan funds are for the most part not subject to tax and Canadian qualified plans enjoy similar tax treatment under Canadian law. However, because of uncertainty under U.S. law as to whether the Canadian retirement and profit-sharing plans qualify under the U.S. definition, U.S. companies have been faced with a difficult choice. On one hand, they may choose to participate in the Canadian qualified market on a basis that guarantees contract-holders that their benefits will not be reduced by U.S. income tax charges, with the resultant risk that the companies might have to absorb the tax. On the other hand, if they do not choose to participate on this basis, the companies may not sell these contracts at all since they cannot sell contracts that reflect an income tax cost when they are competing with other companies that can sell on a tax free basis.

Because of the long term duration of life insurance obligations, the character of life insurance as a permanent conduit for saving, the importance of life insurance to the welfare of financially dependent persons, the difficulty of determining the true income of life insurance companies, and for other reasons, it has generally been recognized that the problems of life insurance taxation are unique ones requiring unique solutions. Canada and the United Kingdom, the countries where our chief competitors in Canada are incorporated, have dealt with foreign life insurance company branch operations in a unique way. Neither Canada nor the U.K. impose a tax on the foreign branch life insurance operations of their companies even though both of these countries do tax the worldwide income of other domestic companies, including insurance companies other than life. Thus, there are precedents in international law for excluding Canadian branch life insurance company income of U.S. life insurance companies.

Mutual life insurance companies are faced with a number of impediments to the incorporation of foreign branch operations. These include federal income tax problems, problems of insurance regulation, and the difficulties of obtaining policyholder consent for major changes within the framework of existing mutual company laws. Thus, incorporation of a subsidiary does not appear to be a satisfactory solution to the problems outlined above. Moreover, the life insurance company branch operations described above are fundamentally different from the operations of controlled foreign corporations which have been the subject of such proposals as the Burke-Hartke Bill. This is because Canadian branch operations do not involve the exportation of U.S. capital and jobs and because in the case of our Canadian branch operations, ultimate beneficiaries of the Canadian branch opertions are Canadians.

While we believe that the need for corrective legislation is most compelling in the case of mutual company operations such as ours, many of the same considerations are present in the case of stock companies, and for this reason and to preserve the existing delicate competitive balance between stock and mutual companies, any remedial legislation adopted should apply to both stock and mutual life insurance company operations.

A proposal amendment is attached which, if adopted, would eliminate the problems described by applying sound concepts to the special circumstances applicable to Canadian branches of U.S. life insurance companies. The general design of the proposal is intended (1) to exclude from the computation of U.S. life insurance company taxable income all of the items that relate to contracts issued to Canadian residents, (2) to require the inclusion in U.S. income of any amounts repatriated from the Canadian branch to the United States, and (3) to make the foreign tax credit inapplicable to the extent that the Canadian branch income is excluded.

It is requested that this letter be made a part of the record of the Committee's hearings on tax reform.

Respectfully submitted,

DONALD S. MACNAUGHTON,
Chairman of the Board and Chief Executive Officer, the Prudential Insurance Company of America.

GILBERT W. FITZHUGH,
Chairman of the Board, Metropolitan Life Insurance Company.

DRAFT OF PROPOSED LEGISLATION

SEC. ____—EXCLUSION OF CANADIAN BRANCH ITEMS OF DOMESTIC LIFE INSURANCE COMPANIES

(a) *General Rule.*—If the taxpayer makes an election under this section, in the manner prescribed by the Secretary or his delegate, within 180 days after the date of the enactment of this section, or thereafter with the consent of the Secretary or his delegate, there shall be excluded from each and every item involved in the determination of life insurance company taxable income the items separately accounted for in accordance with subsection (B).

(b) *Separate Canadian Branch Account.*—A domestic life insurance company that issues life insurance, annuity, or health and accident insurance contracts to persons residing in Canada (and provides services ancillary thereto) shall separately account for the various income, exclusion, deducation, asset, reserve, liability and surplus items properly attributable to such Canadian contracts (and to such ancillary services). For such items as are not accounted for directly, separate accounting shall be made—

(1) In accordance with the method regularly employed by such company, if such method clearly reflects income derived from issuing Canadian contracts.

(2) In all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

(c) Payments from Separate Canadian Branch Account to Domestic Life Insurance Company.—(1) Reimbursements for Home Office Services, etc.—Any payment, transfer, reimbursement, credit or allowance made from the Separate Canadian Branch Account to one or more other accounts of the domestic life insurance company for a full and adequate consideration shall be taken into account by such Company in the same manner as if such payment, transfer, reimbursement, credit or allowance had been received from a separate person.

(2) Repatriation of Income.—Except as provided in paragraph (1), any amount directly or indirectly transferred or credited from the Separate Canadian Branch Account to one or more other accounts of such Company shall, subject to the limitation of paragraph (3), be added to life insurance company taxable income as otherwise computed.

(3) Limitation.—The addition prescribed by paragraph (2) for the taxable year shall not exceed the amount by which the amounts excluded from life insurance company taxable income pursuant to subsection (a) for the taxable year and for all prior taxable years exceeds the amount of additions pursuant to paragraph (2) for all prior taxable years.

(d) *Foreign Tax Credit Inapplicable.*—Subpart A of part III of subchapter N (relating to foreign tax credit) shall not apply to a domestic life insurance company for any taxable year for which subsection (a) applies to such company is excluded under this section. To the extent that subsection (c) (2) is applicable, then for purposes of section 902, the Separate Canadian Branch Account shall be treated as a foreign corporation, the addition prescribed by subsection (c) (2) shall be treated as a dividend paid by it, and the taxes paid to any foreign country with respect to such Account shall be deemed to have been paid by such Account.

ADAMS & PECK,
New York, N.Y., May 11, 1973.

MR. JOHN M. MARTIN, JR.,
Chief Counsel, Committee on Ways & Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. MARTIN: At the suggestion of the Hon. Mr. Herman Schneebeli and Mr. Richard C. Wilber, I am enclosing to you a discussion on the advisability of the removal of the 30% withholding tax on interest payments applicable to foreign nationals, for inclusion in the current recommendations on changes in the taxation of foreign source income, included in the Trade Reform Act of 1973.

Yours sincerely,

GOTTFRIED VON MEYERN-HOHENBERG.

Enclosure.

SUBJECT: 30 PERCENT WITHHOLDING TAX ON INTEREST PAYMENTS LEVIED ON FOREIGN NATIONALS

The international payments and trade problems besetting the U.S. expressed in corporate terms could be stated in saying that the country is experiencing deficit earnings as well as a deficit cash flow. No corporation can long survive under such conditions without the injection of additional capital. The U.S. currently faces such a dilemma. Over the near term a state of profitability is improbable. Imports, including oil and gas, will continue at a higher rate than exports until U.S. agricultural production reaches higher levels in the latter part of the current decade and until new domestic oil and gas reserves can be brought to flow. Nevertheless a positive balance of payments (cash flow) can be attained for the U.S. despite the foreseeable negative trade balance (earnings). The redression of this problem falls within the domain of the Committee on Ways and Means of the U.S. House of Representatives.

The various nations' payments problems, surpluses and deficits, which have led to a general floating of currencies cannot be resolved purely by monetary means. There exists large and growing pools of capital of diverse origin which will not or cannot be spent into the normal channels. It is estimated that the pool of Eurodollars currently amounts to between 70 billion and 90 billion dollars and that is growing at some 10 billion annually. The pool of Asia dollars is estimated at some 10 billion currently and growing at a rate of several billion annually. The Eurodollar pools are being fed by a number of Middle Eastern oil producers such as Saudi Arabia, Kuwait, Abu Dabi, Quatar and other trucial states who cannot spend these funds into their economies at the rate they are being earned. The Eurodollar pools are being increased further by flights of capital from the private sectors of France, Germany and Italy principally through Switzerland. United Kingdom and Sterling area funds are flowing into the Channel Isles, the Bahamas, etc. Dutch funds are flowing through the Netherlands Antilles. South American and African nations' capital are dispersed throughout the Eurodollar areas. Japanese, Chinese, Indonesian and Pacific Sterling area countries funds are channelled through Singapore, Hong Kong, The Seychelles and New Hebrides. These funds are largely non-contribtuing to any form of national or international development. They are not within the normal circulation of capital but act rather as arid inhibitors to international trade and appear as costly and disruptive elements to the stability of the international money markets. Furthermore there exists very important sums running into many billions which are not normally included in the Eurodollar pool. They are normal bank, pension, insurance and private sector funds in the United Kingdom, Germany, France, Italy, Switzerland, the Benelux countries and Japan which do fall into the area of normal circulation of capital which, however, are subject to the same investment pressures and investment needs as the more sterile Europe and Asia dollar pools.

These growing pools of capital require prime quality, lowest risk, long term, liquid investment. Premier quality liquid investment opportunities are largely confined to the U.S. ranging from U.S. Government securities to AAA–A rated utility and industrial bonds to bank guaranteed Certificates of Deposit, mortgages and Equipment Trust Notes. These various pools of capital are for practical purposes currently precluded from purchase of such U.S. domiciled obligations because of the 30% withholding tax levied on interest payments. This applies to all foreign areas unless specific reciprocal tax agreements have been filed. Many important pools of capital originate from areas, such as Mid-East oil producers, which are subject to the fullest tax.

The elimination of the withholding tax on interest payments should produce several benefits to the U.S. without causing the IRS any meaningful loss of revenues. (Principal revenues now collected by the IRS from foreign sources stem from the 30% withholding tax on dividends on common shares and interest payments on convertible bonds which should be considered separate from this discussion.) The principal benefits to be derived from the elimination of the withholding tax on interest payments should be:

A. A large inflow of foreign capital would redress the balance of payments. This in turn should lead to a firming of the U.S. dollar on foreign exchange markets. Any improvement in the rate of the dollar vis a vis other hard currencies would lower proportionally the cost of oil and natural gas imports which in its turn should bring about an improvement in both payments and trade balances. An additional effect should be felt on the U.S. commodity markets where the recent foreign buyers of relatively short supply items such as corn meal that have pushed up domestic prices and have contributed to the current inflationary trends may find it uneconomical to further bid up prices.

B. An inflow of important sums from abroad invested in U.S. Treasuries, Government Agency premier quality utility and industrial bonds and bank Certificates of Deposit would tend to hold down interest rates in the long term lending sector thus stabilizing long term money rates which would hold down current inflationary trends in that sector.

C. The availability of large foreign funds would permit for additional exploration and development of new domestic oil and gas reserves and attendant pipelines. They would be available for the completion of new atomic power plants and would flow into the various Federal, Municipal and private sector demands for capital.

The argument is to repatriate U.S. dollars from abroad and attract other hard currency funds so that they can be used for development purposes in the U.S. It is suspected that the inflow of funds may be sufficient to redress the balance of payments and produce a positive cash flow for the U.S. The populist argument that foreign funds should be taxed equally as those of the U.S. citizens appear chimeric. Foreigners are not now taxed on long term capital gains and substantially no taxes are now derived from the collection of withholding taxes on interest payments of fixed income securities. A positive U.S. balance of Payments should lead to greater stability on the international money market, permit expansion of international trade and make the U.S. dollar a more viable reserve currency.

AMF INCORPORATED,
White Plains, N.Y., June 1, 1973.

Hon. WILBUR D. MILLS,
Longworth House Office Building,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. MILLS: I am anxious to convey a brief statement of my views on the proposed trade legislation before your committee on which hearings are currently being held. I do so both as Chairman of a multi-national company and because you are the distinguished Congressman from a district in which we have a large plant. AMF's Junior Toy Division located in Little Rock employs 1,138 people and is managed by Mr. Carl Lindell.

I wish to state my strong support for the board objectives of the President's Trade Proposals and to express my gratitude to you for what I understand to be your own indicated agreement in principle with those objectives. At the same time I would like to convey to you my most serious objections to the proposals which can be lumped under the heading of Burke-Hartke legislation. In my opinion, most of those so-called reforms would have a serious adverse effect on AMF and ultimately this country. I have so advised Senator Hartke in response to a letter from him asking my views, a copy of which is enclosed. Incidentally, we have two plants in Indiana with nearly 1,100 employees.

The current trade legislation hearings also include proposals to amend the tax laws relating to the granting of tax credits and tax deferrals to earnings from foreign manufacturing plants controlled by U.S. corporations. We feel strongly that the present laws are adequate and that the recommended changes as explained by the Treasury Proposals of April 30 are neither in the best interest of AMF or of this country's long range economic health.

In closing, I thought you would like to know that Mr. Lindell agrees with the above views and that we are communicating them to our Little Rock employees.

Sincerely yours,

RODNEY C. GOTT,
Chairman.

AMF INCORPORATED,
White Plains, N.Y., July 14, 1972.

Hon. VANCE HARTKE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HARTKE: In an initial response to your letter concerning the proposed trade legislation (S. 2592), we said that it was our conclusion that the bill would "have a very serious adverse impact on AMF." We pointed out that many of our U.S. employees produce for export from the United States and that "import controls would invite retaliation, thus jeopardizing the jobs of many of our U.S. employed personnel."

Further consideration of the bill has served to increase my misgivings about the ultimate results not only for AMF, but for the country as a whole.

Insofar as jobs are concerned, we have now calculated that the 2,000 to 2,500 AMF people engaged in work in our export facilities would have their jobs ultimately imperiled.

Let me turn to some specifics on our overseas operations.

The tobacco machinery that we produce overseas puts us in direct competition with other foreign producers who already have a sizable part of the market. If we were to cease our manufacturing of this equipment in Italy and the United Kingdom, we would accomplish only one thing: we would turn over the entire market to non-American competition.

The lightweight motorcycles we produce in Italy are competitive with the Japanese products, and I am sure you are aware of the important size of the market held by the Japanese. Moreover, because we know there is such a thing as "product loyalty," it is essential to get motorcyclists onto our lightweight motorcycles so that they will trade up to the larger Harley-Davidson models. If we fail to do that, we will considerably lessen the prospects for sale of our Harley-Davidsons which are produced exclusively in the U.S.

The production of electrical relays in Princeton, Indiana produces employment for about 750 people with an annual payroll of nearly $4½ million. To assemble those relays we also operate a plant in Juarez, Mexico, that employs only 85 people with a payroll of about $156,000. We have calculated that if the work at the Juarez plant were transferred to the U.S., our labor costs would be an astonishing six times greater. Any attempt to pass that kind of price increase along to the consumer would simply put AMF out of competition. Thus, far from adding 85 jobs to the States, we would be jeopardizing the jobs of 750 people in Indiana.

The growth of exports and jobs in a single company should not be isolated. Beyond the immediate impact on AMF, other industries would be effected. To take just one example, freight costs related to AMF exports in 1971 were close to $10 million. Since 60 percent of freight expense is paid to domestic carriers, substantial impact would be felt in this industry if exports were curtailed or eliminated as a result of trade barriers produced by the Hartke-Burke legislation.

As for the effect of the legislation on AMF's earnings, we have calculated that the tax provisions *alone* in this legislation (by denying treatment of foreign income as tax credits) would have cost 38 cents per share, based on 1971 earnings. That and other fiscal aspects of the bill would substantially undercut our ability to earn reasonable profits for our shareholders, and thus lessen the attractiveness of AMF to shareholders.

As you know, the multi-national corporations provide the country with the fastest growing segment of America's economy. We will need that growth all the more as the manufacturing and marketing abilities of other nations develop and challenge American leadership.

Sincerely,

RODNEY C. GOTT,
Chairman.

STATEMENT OF RICHARD T. MCDERMOTT, PRESIDENT, A. W. CHESTERTON CO., EVERETT, MASS.

INTRODUCTION

On April 10, 1973 the Committee on Ways and Means of the U.S. House of Representatives published a press release indicating that the Committee would begin public hearings on May 7, 1973 on Administration proposals relating to foreign trade and tariffs and on all other proposals pending before the Committee relating to these subjects. According to this press release, the hearings are not restricted to The Trade Reform Act of 1973, but will also include the "Treasury Recommendations on Changes in the Taxation of Foreign Service [*sic*] Income", which, if enacted, would have great adverse impact on the operations of A. W. Chesterton Company and its foreign affiliates. We therefore request, in accordance with the press release, that this statement be included in the printed record of these hearings.

1. CHESTERTON'S IRISH INVESTMENT

A. W. Chesterton Company ("Chesterton") is a closely held Massachusetts corporation which has engaged in the manufacture and sale of mechanical seals and packings and related products since 1907.

Throughout the early years of its existence, the vast majority of Chesterton's sales were made in the domestic market, and the company's growth was channelled in that direction. Since 1962, however, a consistently increasingly proportion of its revenues have been produced by sales in the overseas market, especially in the European Economic Community. By 1967, overseas sales accounted for more than 40% of Chesterton's total sales.

Late in 1971, when it became evident that Great Britain and the Republic of Ireland would be joining the Common Market, it was decided that Chesterton would be forced to locate manufacturing facilities within the boundaries of the European Economic Community. It was the opinion of the Chesterton management, as well as other similarly situated firms, that, in order for its products to compete with the goods of European manufacturers, manufacturing facilities would have to be secured within the tariff wall of the European Economic Community.

For various reasons, including the availability of labor and government-sponsored economic incentives, it was decided by August 1972 to form an affiliated corporation (Chesterton International) to acquire plant facilities and machinery to commence production in the Republic of Ireland. Included among the incentives for locating within Ireland were provisions of the Irish tax laws extending a fifteen-year tax exemption on profits arising from exports by the Irish operation and the agreement of an Irish governmental agency to supply grant moneys to defray a portion of the operation's initial capital cost. Preparations of the Irish operations for production have continued during the past year.

Chesterton International was formed in November, 1972, and all necessary financing arrangements and governmental clearances and agreements were finalized by the end of 1972. Chesterton International took possession of its plant facility in Bantry, Ireland on March 14, 1973 and immediately commenced renovation and equipping work on the facility. By April 9, 1973, much of the renovation work had been completed and much of the needed manufacturing equipment, most of which had been ordered in 1972, was in fact in place in the plant facility and ready for operations. However, there was still a great deal to be done before the facility (which is expected to commence shipments to customers in August 1973) could be fully operational and capable of producing on the scale envisioned in the prior planning.

It was with great shock, therefore, that we learned of the "Treasury Recommendations on Changes in the Taxation of Foreign-Source Income", particularly the "tax holiday" provisions thereof. Nearly two years of planning and over $1,500,000 of commitments are endangered if the "tax holiday" provisions are enacted in the form presently proposed. We, therefore, would urge the Committee on Ways and Means to give serious consideration to the unalterable harm that could be done to small and medium-sized manufacturers, and particularly to the Chesterton interests, if those proposals are adopted in their present form.

2. ADEQUACY OF EXISTING TAX PROVISIONS

While we at Chesterton are not international economists or experts on balance of payments or balance of trade questions, we are of the opinion that the laws presently in force are sufficiently broad to deter most "gimmickry" by U.S. corporations in their international operations. With respect to the implications of the "tax holiday" proposals in the areas of balance of payments and balance of trade, we defer to the expert testimony presented to the Committee in its public hearings on February 28, 1973, and to the excellent study by the United States Tariff Commission entitled "*Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor*".

As businessmen, we feel the present Subpart F provisions of the Internal Revenue Code[1] are sufficiently stringent to deter any legitimate manufacturing operation from altering its operations to engage in tax gimmickry. In addition, the Regulations promulgated and administered by the Office of Foreign Direct Investments of the Commerce Department should effectively keep a check on the amount of U.S. investments abroad.[2]

Much testimony has been given concerning the desirability of achieving "tax neutrality" in the international sphere. We at Chesterton are convinced that the concepts of "tax neutrality" and "tax equality" are the creation of economists, with no real relation to the business world. As long as countries of the world impose taxes on doing business in differing manners and at differing rates, the question of tax exposure is necessarily a significant factor in any business decision. The intelligent businessman certainly views taxes as a business factor, to be weighted, however, along with numerous other business factors affecting any potential business decision, and it is difficult to conceive of his making a move based on the tax outcome alone.

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[1] Sections 951–964 of the Internal Revenue Code of 1954, as amended.
[2] 15 C.F.R. §§ 1000–1050.

3. CHESTERTON'S DECISION TO MANUFACTURE IN IRELAND

As noted above, our principal reason for establishing manufacturing facilities overseas was to enable us to compete effectively with other manufacturers in the expanded European Economic Community, where over 50% of Chesterton's foreign sales have historically been concentrated.

We were, and are, convinced that we could not hope to maintain our sales growth in the Common Market in the long run unless we manufactured inside the Common Market tariff wall, as our principal competitors there do.

We emphasize that the decision to establish manufacturing operations in the Common Market was reached well in advance of our decision to locate such facilities in Ireland.

We then began a study to determine where in the Common Market we could most advantageously locate our facilities. In choosing to locate our facilities in the Republic of Ireland, as opposed to other potential locations in the European Economic Community, the fifteen-year tax exemption on export profits and the government capital grants were undeniably significant factors, but the following non-tax factors played a significant role in our decision to locate in Ireland:

1. Long-term exchange control protection.
2. Readily available labor supply.
3. Wage differentials favoring Ireland.
4. Language.
5. Accessibility of raw materials.
6. The proximity of Ireland to the markets to be served.
7. The availability of major port and airport facilities.

If it is the purpose of Congress to neutralize local foreign tax incentives and grants as business considerations in planning the international operations of U.S. companies, we are convinced that it is doomed to fail. To tax all undistributed earnings of controlled foreign corporations engaged in manufacturing operations, merely because they are recipients of tax incentives or grants from their host countries, will not neutralize tax planning as a significant business factor, but will only assist in making U.S.-engineered products manufactured abroad by U.S.-controlled companies less competitive in world markets. We at Chesterton do not feel that Congress desires this result.

The Committee on Ways and Means reviewed similar far-reaching proposals in its consideration of the Revenue Act of 1962 and turned down such a broad-brush approach because "the location of investments in [the economically developed countries of the world] is an important factor in stimulating foreign exports to the same areas".[3]

In our opinion the same rationale remains valid today.

SPECIFIC OBJECTIONS TO "TAX HOLIDAY" PROVISIONS OF THE TREASURY PROPOSALS

4. SCOPE BROADER THAN PURPOSE

Our initial objection to the "tax holiday" proposals is that the recommended changes are far broader than the expressed purpose given for the requested legislation. It is difficult, of course, to comment constructively on these proposals, since to the best of our knowledge no draft of the Treasury Bill has yet been made public. However, it appears from the statements contained in the April 10, 1973 and April 30, 1973 Treausry explanations that the purpose of the "tax holiday" provisions is to remove the income tax factor from influencing foreign investment.[4] We do not believe this is an attainable goal, at least by unilateral action. Cooperative action among the industrialized nations of the world might lead to this result; however, this is not presently a realistic alternative.

In explaining the reasons for the proposals, the Treasury has stated:

"The Subpart F provisions generally exclude the earnings of controlled foreign manufacturing subsidiaries from current taxation on income realized from the manufacture and sale of products. This distinction was based on the accu-

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[3] Report of the Committee on Ways and Means on HR 10650, C.B. 1962-3, 405 at p. 461.

[4] Summary of Treasury Recommendations on Changes in the Taxation of Foreign Source Income, Aprili 10, 1973 (Explanation of Tax Holiday Proposal, at pp. 113–115). Committee on Ways and Means, U.S. House of Representatives, Committee Print, U.S. Govt. Printing Off. Stock No. 5270–01771; Department of the Treasury, Proposals for Tax Change, April 30, 1973 (Foreign Tax Haven Manufacturing Corporations, at pp. 159–168), U.S. Govt. Printing Off. 1973 0–501–639.

rate analysis that the great bulk of United States investment abroad in manufacturing and processing facilities is located in countries which impose substantial corporate income taxes. Investment in which tax burdens are a neutral factor." [5]

The Treasury explanation goes on to assert that the offering of tax holidays has led in some significant cases to U.S. companies making investments in manufacturing facilities abroad in order to obtain special tax benefits.

As stated above, we do not believe that any responsible corporation would make a substantial economic commitment solely to obtain special tax benefits, nor do we believe that "tax neutralization" is a realistic concept. In addition, we feel that the proposed "tax holiday" provisions go far beyond their expressed goals.

The "tax holiday" proposals, as announced, would subject U.S. stockholders of "controlled foreign manufacturing corporations" to current taxation, not only in situations where investments are made in manufacturing facilities abroad in order to obtain special tax benefits, but also (i) where investments have been made abroad for legitimate business reasons, and (ii) where increases in investment of 20 percent or more in an existing plant occur in the future if the plant then is benefitting from a "foreign tax investment incentive". These effects encompass far more U.S.-controlled corporations than the purposes statement would indicate, and more than is equitable under the circumstances.

We are sure that ours is only one of many U.S. businesses which has made substantial economic commitments to the acquisition of manufacturing facilities within the newly expanded European Economic Community. The thrust of the "tax holiday" proposals is to penalize only those which have chosen, for a variety of valid business reasons, to locate their plants in countries, such as Ireland, which offer tax and other significant incentives for locating there.

5. CONTINUATION OF PENALTY

Our second objection to the "tax holiday" provisions of the proposals is that the "foreign tax haven manufacturing corporation" designation, once it becomes applicable to a particular controlled foreign corporation, continues to apply to that corporation even after the foreign tax investment incentive which caused the corporation to be subjected to the "tax holiday" provisions has expired or otherwise terminated.

This goes much further than the present Subpart F tax haven provisions and seems to penalize manufacturing operations unjustly. It seems odd to us that the Treasury would tax non-manufacturing tax haven corporations only in years when their Subpart F-type income reached a certain level, while taxing the stockholders of manufacturing corporations forever, once the corporation has been unlucky enough to fall within the "foreign tax haven manufacturing corporation" category.

If it is felt that legislation in this area is a necessity, it seems to us that, at the very least, a "foreign tax haven manufacturing corporation" should be subject to a year-by-year review of its operations, based on a test similar to the 70–30 test of Section 954 of the Code for Subpart F income, so as not to be penalized to a greater extent than present tax haven corporations which do not engage in manufacturing. In addition, it is urged that the exemptions from Subpart F provided under Section 954(b)(4), for transactions not undertaken for tax avoidance purposes, and the minimum distribution provisions of Section 963 should be extended to apply to tax haven manufacturing operations.

6. DISCRETION OF SECRETARY OF TREASURY

The third item of the "tax holiday" proposals which causes us great concern is the proposal to delegate to the Secretary of the Treasury the right to determine what constitutes a "foreign tax investment incentive" for purposes of the proposal. We feel this is an unwarranted delegation of Congress' authority to make tax laws and will ultimately result in the Treasury Department making decisions in this area on the basis of factors unrelated to the present purposes of the proposed legislation. We will again see the tax laws used as bargaining tools in the hands of the Treasury Department to be used as they see fit and for the particular purpose they support at any given time. This is unfair to businessmen, who require a modicum of certainty in order to make intelligent business plans. Such delegation of authority will make such planning virtually impossible.

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[5] Id. (April 30, 1973 Explanation), at 161.

7. INCREASED INVESTMENT

Our fourth objection to the "tax holiday" proposals concerns their "increased investment" provisions. As we understand these provisions, the "foreign tax haven manufacturing corporation" designation will apply, not only to new ventures which are the recipients of tax holidays or other incentives from foreign governments, but also to existing manufacturing entities which enjoy a "foreign tax investment incentive" where new or additional investments are made after April 9, 1973. While current taxation would apply only if additional investment after that date in tangible property and real property exceeds 20% of that on April 9, 1973, once the 20% threshold is exceeded, the corporation is taxed as a foreign tax haven manufacturing corporation, forever. The concept of additional investment under these provisions would encompass not only increases in investment due to expansion of the manufacturing business, but also increases caused by replacement of existing machinery.

We feel these provisions would unduly penalize existing foreign manufacturing operations and would deter them from modernizing equipment, to the ultimate detriment of their competitive position, and of the U.S. balance of payments.

In addition, the source of capital used to finance an increase in investment is irrelevant under the proposal. We would feel that, at the very least, no penalty should attach to investments financed from foreign-generated earnings.

8. GRANDFATHER CLAUSE

Our *principal* concern, in the light of Chesterton International's substantial commitment to its Irish operation, is with the inequity and vagueness of the exemption for existing manufacturing facilities. The manufacturing facility which serves as a basis for asset comparison in the 20% test must have been in existence and identifiable as such on April 9, 1973. The test is to be made by comparing assets of the corporation's entire manufacturing or processing operations, or a single plant or production unit which lends itself to separate treatment. According to the Treasury explanations, the Bill, when it is made public, will provide that a controlled foreign corporation will be deemed to have acquired property when it takes possession thereof in any transaction, including a lease, purchase or capital contribution.

We feel the April 9, 1973 cut-off date, coupled with the "assets" test, is wholly unjustifiable in light of the complete lack of prior warning of the pendency of the proposal. The April 9 date has no independent legal or business significance and serves no purpose other than to freeze future investment. While there is some precedent for adopting the date of a public announcement as the effective date of legislative changes,[6] in such cases it affected only transactions entered into subsequent to the effective date.

However, the effect of the April 9, 1973 date in this context is to penalize corporations, such as Chesterton International, who have committed substantial funds to the establishment of foreign manufacturing operations which are in various stages of completion. For this reason, we would urge the Committee to exempt from the provisions of any legislation corporations which have entered into substantial commitments for the acquisition of manufacturing facilities in countries offering tax incentives. We feel that many corporations, like Chesterton International, have become too far committed to an operation to terminate it at this juncture, and will only be at a competitive disadvantage in the European market if the cut-off date and "assets" formula are adopted as announced.

Substantial precedent exists in the Code for adoption of a "commitments" test for the cut-off date,[7] and we feel it is fully justified under these circumstances.

As an alternative, we would urge the Committee to adopt a January 1, 1974 date for measuring any increase in investment. We feel that this extension of eight months would be justifiable in light of the time necessary to complete the equipping of a foreign plant which, like ours, has already been acquired, but

[6] July 19, 1963, the date of President Kennedy's public announcement of the legislative proposal, was adopted as the effective date of the Interest Equalization Tax.

[7] The suspension and restoration of the investment credit under Sections 49 and 50 of the Code is keyed to orders placed before or after certain dates, not to possession; also Sec. 411 of the Tax Reform Act of 1969 relating to interest on acquisition indebtedness applied to interest paid after Oct. 9, 1969 except for binding contracts in effect on that date.

would not give sufficient time to corporations not already committed to foreign manufacturing to undertake such a venture. As our own experience shows, nearly two years is needed to bring a plan of this nature to fruition. Therefore, we do not feel there would be a great rush of U.S. companies to establish foreign manufacturing operations to beat a January 1, 1974 cut-off date.

If the "assets" test is retained, we urge the Committee to adopt provisions which would define specifically such concepts as "taking possession" and "assets in existence and identifiable" so that businessmen can determine how they stand in relation to the law and need not face the prospect of unfortunate administrative interpretations of those terms in the future.

CONCLUSION

We urge the Committee to consider carefully our view that no substantial tax abuse exists in the area of manufacturing operations enjoying "foreign tax investment incentives" significant enough to warrant legislation of this nature. However, if it is concluded that legislation is necessary, we implore the Committee to adopt legislation keyed to existing *commitments*, rather than to investments presently possessed and in operation, or (if the "assets" test is retained) one keyed to a cut-off date for investments far enough in the future to allow completion of projects which were underway when the "tax holiday" proposals were announced.

STATEMENT OF JUSTIN DART, PRESIDENT AND CHIEF EXECUTIVE OFFICER, DART INDUSTRIES INC., LOS ANGELES, CALIF.

SUMMARY

Multinational companies as a group enhance the U.S. balance of trade and their trade surplus is growing. Thus, multinationals offer the primary hope of providing a significant offset to energy imports.

Many multinationals, such as Dart Industries, import almost nothing of what they produce overseas. Similarly, goods that they produce in the United States cannot be economically exported because of freight and duty costs. For these reasons, multinational companies like Dart Industries establish plants overseas to serve those markets.

Although income taxes on Dart Industries' foreign earnings go to foreign governments, these earnings eventually come back as dividends paid to the parent company and taxes to the United States. These repatriated earnings then are used to pay for new plants, equipment and working capital in the United States, thus providing more jobs at home.

Under some proposed legislation, Dart Industries would be taxed at an overall rate of 78 percent on foreign earnings. This would amount to confiscatory taxation, would subsidize foreign companies in competition with U.S. firms, and reduce profitability to the point that we could no longer afford to operate overseas.

CONCLUSION

Any policy that would penalize American-owned plants operating overseas would hurt our balance of payments and trade, would reduce taxes paid to the United States, would result in the confiscation of American capital, and would give foreign competitors a competitive advantage.

INTRODUCTION

I am Justin Dart, Chairman, President and Chief Executive Officer of Dart Industries. Dart is a consumer-products company whose sales in 1972 were $888 million. As shown in Chart 1, 18% of our sales and 25% of our after-tax earnings were derived from overseas operations.

We have 37 production centers outside of the U.S. The only items we import from these plants are specialized molds and machine parts which come from two plants in Australia. These items are not sold, but are used in U.S. plants to produce plastic housewares. In 1972, the total value of these shipments was about $1 million.

We know that U.S. multinational manufacturing companies as a group enhance our balance of trade, and that their trade surplus is growing. The study of multinationals done for the Senate Finance Committee showed that these companies increased manufacturing exports from $13.7 billion to $21.7 billion over the period 1966–70. Their net surplus of exports over imports from their affiliates overseas increased from $7.6 billion to $11.0 billion, a gain of $3.4 billion. If this rate continued, by 1980 their surplus would be nearly $20 billion, which could offset the deficit of $18 billion projected for energy imports.

Aside from agriculture exports, the multinationals offer the primary hope of providing a significant offset to the energy imports.

WHY DART HAS PLANTS OVERSEAS

Most of Dart Industries' activities overseas involve the manufacture, distribution, and sale of plastic housewares and cosmetics, and disposable plastic cups and bottles. None of these goods can be produced in the United States and economically shipped overseas for sale in foreign markets because their freight cost is too high. For the same reason, we cannot economically import goods we produce overseas into United States.

Let me illustrate. Let's say a standard plastic item in our product line cost $1.00 to manufacture in the United States, as shown in Chart 2. The cost to make it in the Common Market averages about the same. However, the freight to ship that item from the U.S. to the Common Market averages about 80¢, so that by the time it reaches the foreign country it costs 80% more than if produced there. Thus, freight costs alone make export of such products impractical.

But if that weren't enough to make exports impossible, the duties imposed by foreign governments would. The import duty on our $1.00 item averages about 59¢ in the countries of Belgium, France, and the United Kingdom. Adding that amount to the production and freight costs brings the total "landed" cost to $2.39, or more than twice the cost if produced overseas.

DART'S BALANCE OF TRADE AND PAYMENTS

Over the period 1968–72, Dart had a favorable trade surplus of over $33 million and a favorable payments surplus of over $48 million. Most of Dart's income taxes on foreign earnings go to foreign governments, it is true. But eventually the remaining earnings come back as dividends paid to the parent company, and a tax is paid to the United States, based on the differential between foreign rates and U.S. rates. The repatriated earnings are then used to pay for new plants, equipment and working capital in the U.S., thus providing new jobs here at home. Funds not reinvested in the business are paid in dividends to our stockholders, who in turn pay income taxes on those dividends.

PROPOSED LEGISLATION

Under current policies, the aggregate tax-rate level Dart Industies pays on foreign earnings is about 48%. Under some proposals pending in the Congress, Dart would be taxed at an overall rate of 78% on foreign earnings because foreign taxes would be treated as a deductible business expense rather than as a tax credit. This would amount to confiscatory taxation.

A tax rate of 78% would reduce our profitability to the point where we could no longer afford to operate overseas. The 'bonanza' of new tax revenues that some people contemplate would never materialize. And since freight costs prevent us from exporting from U.S. plants, foreign competition would step in to take our place. In effect, the new tax policy would amount to a subsidy of foreign companies in their competition with U.S. companies.

Under no conditions should the U.S. enact legislation that puts domestic industry at a competitive disadvantage. There is no way to justify such action. And in no way does it make sense to penalize companies like Dart Industries that import nothing of what they produce overseas for sale in the United States.

CONCLUSION

Nothing but prejudice or ignorance of the facts could motivate any policy that would penalize an American-owned plant operating overseas which sends nothing back to be sold on the American market, and where the economics of the products involved make exporting from the U.S. economically impossible.

Any such policy would be tragically contrary to our national interest because it:

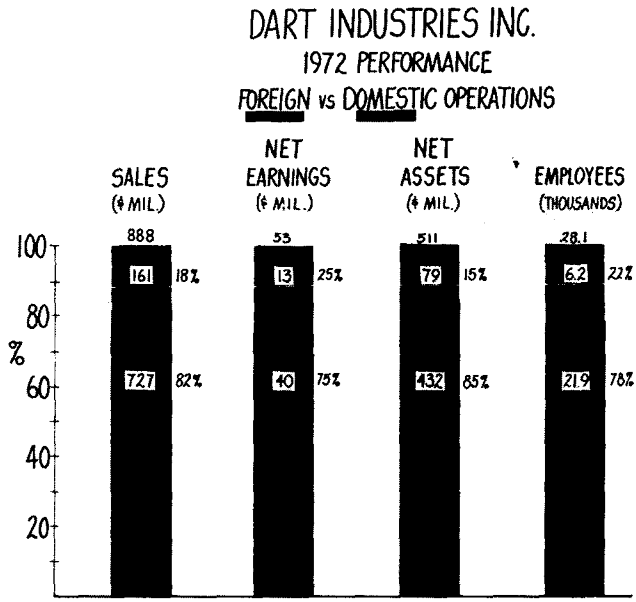
(1) Would hurt our balance of payments and trade;

(2) Reduce taxes paid to the U.S.;

(3) Result in confiscation of at least a portion of the capital values of American stockholders; and

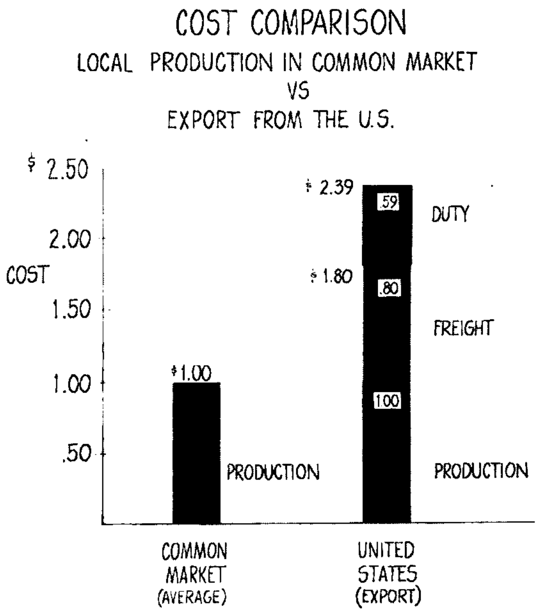
(4) Give foreign companies an enormous competitive advantage over American companies in world economics.

CHART 1



DART INDUSTRIES INC.
1972 PERFORMANCE
FOREIGN vs DOMESTIC OPERATIONS
SALES ($ MIL.)
NET EARNINGS ($ MIL.)
NET ASSETS ($ MIL.)
EMPLOYEES (THOUSANDS)
888
53
511
28.1
161 18%
13 25%
79 15%
6.2 22%
727 82%
40 75%
432 85%
21.9 78%
%
100
80
60
40
20

CHART 2


COST COMPARISON
LOCAL PRODUCTION IN COMMON MARKET
VS
EXPORT FROM THE U.S.
$ 2.50
2.00
COST
1.50
1.00
.50
$1.00
PRODUCTION
$ 2.39
.59
DUTY
$ 1.80
.80
FREIGHT
1.00
PRODUCTION
COMMON
MARKET
(AVERAGE)
UNITED
STATES
(EXPORT)

Statement of PPG Industries, Inc.

SUMMARY

PPG Industries, Inc. recommends the following with respect to the Treasury's proposals on the taxation of foreign source income:

1. *With respect to foreign losses to be taken into account:*

(a) This provision should be made inapplicable to Puerto Rico and other possessions of the United States in view of the special interest of the United States in the economic development of its possessions and the need for special Governmental measures to encourage such development.

(b) The provision for the recapture of foreign losses should be made inapplicable to losses incurred on investments made prior to April 10, 1973. Alternatively, the provision should be made inapplicable to losses incurred on investments made prior to April 10, 1973, to the extent the losses are incurred in any year prior to 1976. This would afford companies with existing loss investments a reasonable period to attempt to correct the loss situation or to dispose of the loss investment prior to being subject to the new loss recapture provision.

(c) Further recommendations:

(i) On disposition outside of the corporate group of the property which gave rise to the losses, the amount of recapture should (beyond the limitations proposed by the Treasury) be limited to the 75 percent of foreign source income not offset for foreign tax credit purposes (in the taxable year of the disposition or in any prior year) under the proposal for the reduction in the foreign tax credit limitation, to the extent limiting the reduction to 25 percent made a difference in the foreign tax credit. Except in special circumstances, domestic losses are not subject to recapture and foreign losses should not be treated any differently except to the extent necessary to mesh with the provision for the carryover of losses for foreign tax credit limitation purposes.

(ii) When disposition is not outside of the corporate group, but is a technical disposition because of the change in form of doing business, such as the incorporation of a branch (or qualification as a possessions corporation), then the amount of recapture should be limited to a percentage of the income earned by the new corporate entity after the change in form of doing business. The percentage might by 25 percent of the income, as in the case of the related proposal with respect to the foreign tax credit.

(iii) The recapture of losses should not apply to the extent that under the tax law of the foreign country, or possession, the losses may be carried over so that they reduce income tax in future years and thereby reduce the foreign tax credit which may be claimed in the United States. Such a provision is set forth in the related foreign tax credit proposal, but it is not clear that it applies here.

(iv) In the legislative history, it should be made clear that the Administration is free to make the loss recapture provision inapplicable pursuant to a treaty provision. This would permit the continued deduction of losses, without recapture when income is earned, as an incentive to investments in less developed countries. Related to this, it is suggested that the possessions of the United States be given most-favored-nation treatment so that any tax benefit extended to foreign countries by treaty would automatically apply in the possessions.

2. *With respect to the definition of "manufacturing or processing":*

The Treasury's proposal with respect to foreign tax haven manufacturing corporations is applicable to controlled foreign corporations engaged in "manufacturing or processing" abroad. Recognizing that mines must be located where ore is found, the Treasury has indicated that it intends to exclude mining operations from this definition. However, many mining operations require processing at the mine site because it would be uneconomical to ship the ore elsewhere or because local law requires local processing. If Congress adopts the proposal of the Treasury, it should provide that "manufacturing or processing" does not include any operation that gives rise to foreign mineral income within the definition of section 901(e) of the Internal Revenue Code. Alternatively, the legislation could refer to economic or legal necessity to process near the site of the mine and exclude any such process from "manufacturing or processing." A presumption should be included to the effect that, where impurities exceed 50 percent of weight, such economic necessity is deemed to exist.

3. *With respect to the definition of increased investment:*

The Treasury's proposal with respect to foreign tax haven manufacturing corporations is designed to be limited to cases in which there is an increased investment in foreign manufacturing or processing facilities. However, the Treasury's proposal is drafted in such a way that ordinary maintenance and renewal, without an increase in capacity, would be considered as resulting in "increased investment." If Congress adopts the Treasury's proposal, a definition of "increased investment" should be found which is in accordance with the intent. On June 11, 1973, the Treasury recognized this problem and asked for suggestions.

Statement to the House Ways and Means Committee by PPG Industries, Inc., on Treasury Proposals With Respect to Recovery of Foreign Losses and Foreign Tax Haven Manufacturing Corporations

PPG Industries, Inc. (formerly Pittsburgh Plate Glass, referred to below as "PPG") is a diversified corporation, organized under the laws of Pennsylvania, with headquarters in Pittsburgh. PPG is composed of four divisions, Glass, Chemicals, Coatings & Resins, and Fiber Glass. It employs approximately 38,000 persons and has 75 manufacturing locations worldwide, 44 of them in the United States.

PPG's initial manufacturing operations was a plate glass plant at Creighton, Pennsylvania, in 1883. Its first foreign venture was a glass and chemical plant in Courcelles, Belgium, in 1902. Thus, PPG has longstanding roots both at home and abroad. Its foreign investment began a decade before the Federal income tax and long before the notion of "multinational corporation" became popular.

On April 10, 1973, the President issued his trade message and included therein a number of proposals with respect to the taxation of foreign source income. On April 30, 1973, George P. Schultz, Secretary of the Treasury, presented the Administration's tax program to the House Ways and Means Committee and included the same general proposals for the taxation of foreign source income. The April 30 presentation incorporated a general and technical explanation of each proposal. This Statement is directed to Items X and XI of the April 30 presentation, "Foreign Tax Haven Manufacturing Corporations" and "Recovery of Foreign Losses." It also takes into account the Treasury statement of June 11, 1973, which provides more details on Treasury thinking on foreign tax haven manufacturing corporations. It is understood that these proposals may be considered by the Committee as part of the foreign trade legislation.

This Statement will be limited to (1) whether the proposal for foreign losses to be taken into account should apply to Puerto Rico and other possessions of the United States, an appropriate effective date for the provision, and certain problems with the proposal; (2) the definition of "manufacturing or processing" contained in the proposal with respect to foreign tax haven manufacturing corporations; and (3) the definition of increased investment contained in the proposal with respect to foreign tax haven manufacturing corporations.

1. FOREIGN LOSSES TO BE TAKEN INTO ACCOUNT

a. Applicability to Puerto Rico and Other U.S. Possessions

During the period 1968 to 1971, PPG made two related investments in Puerto Rico. These investments were made after careful consideration, not only by PPG staff but also through use of competent outside consultants.

While the investments were made for business purposes, one of the important elements favoring location in Puerto Rico was the complex of tax advantages, in Puerto Rican and United States law, available at that time. These advantages are part of Puerto Rico's attempt to attract industry as a means of reducing unemployment (referred to as operation "bootstrap") and the Federal Government's support through, among other things, meshing tax provisions.

A sound economy in Puerto Rico is of importance to the United States for many reasons, and the concept of tax assistance for Puerto Rico has been in U.S. law since the Organic Act of 1900. It is clear that over the years Congress intended special tax treatment for the benefit of Puerto Rico and industries doing business there. The basic purpose was to assist in the economic development of the island, thereby reducing welfare and other monetary drains on the U.S. Treasury.

At the time PPG made its investments in Puerto Rico, tax incentives included:

1. A tax holiday of 10, 12, or 17 years under Puerto Rican law.

2. Availability of exemption from United States tax for corporations qualifying as "possessions corporations" under section 931 of the United States Internal Revenue Code.

3. Flexibility in the formation and liquidation of possessions corporations, including the availability of section 351 to form such a corporation without the requirement of a ruling under section 367. This flexibility makes it possible to make the investments in branch form so that any losses would be deductible in the United States prior to incorporation and qualification as a possessions corporation. Losses may also be deducted under the consolidated return provisions.

Losses are regarded as a legitimate deduction in the United States Internal Revenue Code, and the availability of this deduction for start-up losses incurred in Puerto Rico is an important part of the "incentive package" for attracting business to Puerto Rico. Certainly, no company intentionally sets up in business to suffer losses. However, losses are a possibility in every venture. From an investment standpoint, locating a plant or other facility in Puerto Rico means that a company must physically span 1,500 miles of ocean and enter an unfamiliar environment; and losses, at least initially, are a real possibility. The deductibility of Puerto Rican start-up losses ameliorates this risk.

As stated above, starting in 1968, PPG made two related investments in Puerto Rico. One of the two investments is a joint venture (recognized by the United States Internal Revenue Service as a partnership) with Commonwealth Oil Refining Company, a publicly traded Puerto Rican corporation. The partners are Commonwealth Oil Refining Company and PPG. This partnership is engaged in the business of further refining feedstocks (such as naphtha and gasoline) in order to produce various petrochemicals.

The other investment is a branch of PPG. The branch, which purchases some of its raw materials from the partnership, produces petrochemicals for use in making antifreeze and various fibers and plastics.

Essential to both operations is that the partnership have adequate supplies of feedstocks available to it at reasonable cost. In addition, both the partnership and the branch require enormous amounts of electricity, especially the branch.

Largely as a result of unanticipated electricity and feedstock problems, significant losses have been incurred in both the partnership and the branch, amounting to $24,000,000 in PPG's pre-tax consolidated earnings in 1972. Unfortunately, the problems have continued, and it has not yet been possible to reach a break-even or profit-making point.

PPG is still attempting to turn the Puerto Rican operations into profit-making ventures. If and when it does, it would, as always contemplated, incorporate both operations as separate possessions corporations, one to operate its separate plant and the other to be a partner in the partnership. If PPG is successful, it would be subject to a penalty if the Treasury's proposal is made applicable to investments made on or before April 9, 1973 (the date the proposal was announced). Under the Treasury's proposal, PPG's taxable income would be increased, by an amount equal to the losses previously deducted, at the moment it changes its form of doing business to the possessions corporation form provided by section 931 of the United States Internal Revenue Code. It is noted that the amount of "recapture" is not limited to the amount of income excluded under section 931, but is equal to the entire amount of losses, effective at the moment the taxpayer chooses to use a possessions corporation. In comparison, it should be noted that the companion foreign tax credit proposal limits the carryover of losses to 25 percent of the taxable income of the year to which carried.

Applying the Treasury's loss recovery proposal to existing investment, such as that of PPG, would create a substantial hardship on those companies which are now faced with a loss situation with respect to an existing investment. PPG and others who already have invested large sums in Puerto Rico, relying on the tax laws in effect for many years, accepted certain risks not present on the mainland U.S. It would be extremely inequitable to change the rules for these companies by removing a portion of the tax incentive available when they decided to locate in Puerto Rico. Therefore, any such amendment to the Code must give consideration to this fact and at least provide that elimination of one or more tax incentives will apply prospectively only, that is, to future investments. This is discussed further below.

But the question still remains as to the need for eliminating the loss deduction on possessions income. From the Treasury's own estimate, loss recapture worldwide would only increase annual revenues $100,000,000, and that not until after five years. Recapture of losses from operations in possessions would presumably have an insignificant effect on revenues. On the other hand, if domestic corporations doing business in possessions are sustaining heavy start-up losses, then all the more reason to continue the deduction for losses. To cancel the deduction, by requiring the inclusion of the amount of losses in income as a condition of claiming the tax exemption available for possessions income, makes investment in Puerto Rico that much riskier and could have an adverse effect on investment in Puerto Rico and on its economic development.

b. Applicability of loss proposal to existing investment—effective date

PPG urges that the provision on the recapture of foreign losses be made inapplicable to losses incurred on investments made prior to April 10, 1973 (the proposal was first announced as part of the President's trade message on April 9, 1973), regardless of when the losses are incurred. Alternatively, the provision could be made inapplicable to any losses incurred on investments made prior to April 10, 1973, where the losses are incurred in any year prior to 1976. This would afford PPG and other companies with existing loss investments a reasonable period (the remainder of 1973 and all of 1974 and 1975) to attempt to correct the loss situation or to dispose of the loss investment prior to being subject to the new loss recapture provision. In other words, this would give taxpayers time to rearrange their affairs so as to adjust to the new provision. Unanticipated and large losses are difficult at best, and it would appear that simple equity justifies a reasonable time to deal with such losses before the tax rules are changed. Under these recommendations, the new rules providing for the recapture of foreign losses would apply to any losses incurred from January 1, 1974, on, on any investments made on or after April 10, 1973.

c. Further recommendations with respect to loss proposal

In addition to the foregoing, the following is suggested:

(1) On disposition, outside of the corporate group, of the property which gave rise to the losses, the amount of recapture should (beyond the limitations proposed by the Treasury) be limited to the 75 percent of foreign source income not offset for foreign tax credit limitation purposes (in the taxable year of disposition or in any prior year) under the proposal for the reduction in the foreign tax credit limitation, to the extent limiting the reduction to 25 percent made a difference in the foreign tax credit. On such dispositions, domestic losses are not recaptured except in special situations (see sections 341, 617, 1245, and 1250 of the Code), and there is generally no reason to recapture foreign losses on disposition where there would be no domestic recapture. The only basis for special recapture of foreign losses when the disposition is outside of the corporate group is that the foreign tax credit limitation would be reduced by only 25 percent of the applicable foreign source income under the Treasury's proposal for the reduction in the foreign tax credit limitation. Therefore, on dispositions outside of the group, the recapture should be limited to 75 percent of the income not subject to reduction under the foreign tax credit limitation proposal, to the extent limiting the reduction to 25 percent made a difference in the foreign tax credit. It is noted that under a ruling issued to PPG by the Internal Revenue Service (see Rev. Rul. 71-569), it is already provided that after incorporation of PPG's Puerto Rican operations as possessions corporations, the possessions corporations would recognize ordinary income under section 1245 of the Code on the disposition of the section 1245 property transferred from PPG to the possessions corporations, even though possessions corporations are generally exempt from the Federal income tax.

(2) When disposition is not outside of the corporate group, but is a technical disposition because of the change in form of doing business, such as the incorporation of a branch (or qualification as a possessions corporation), then the amount of recapture should be limited to a percentage of the income earned by the new corporate entity after the change in form of doing business. The percentage might be 25 percent of the income, as in the case of the related proposal with respect to the foreign tax credit.

(3) The recapture of losses should not apply to the extent that, under the tax law of the foreign country or possession, the losses may be carried over so that they reduce income tax in future years and thereby reduce the foreign tax credit

which may be claimed in the United States. Such a provision is set forth in the related foreign tax credit proposal, but it is not clear that it applies here.

(4) In the legislative history, it should be made clear that the Administration is free to make the loss recapture provisions inapplicable pursuant to a treaty provision. This would permit the continued deduction of losses, without recapture when income is earned, as an incentive to investments in less developed countries. Related to this, it is suggested that the possessions of the United States be given most-favored-nation treatment so that any tax benefit extended to foreign countries by treaty would automatically apply in the possessions.

2. DEFINITION OF MANUFACTURED OR PROCESSING

The second issue in this Statement deals with a definition of "manufacturing or processing" for purposes of the Treasury's proposal with respect to "foreign tax haven manufacturing corporations." Item X of the Treasury's April 30, 1973, proposals provides, in general, that U.S. shareholders of a controlled foreign corporation engaged in "manufacturing or processing" will be taxed currently if new investments are made in a manufacturing or processing facility and the foreign corporation enjoys either a "foreign tax investment incentive" or exports to the United States and is subject to a foreign effective tax rate significantly lower than the U.S. statutory rate. Nowhere can one find a definition of "manufacturing or processing." This is an extremely critical point for mining operations, which are intended by the Tresaury to be excluded from this proposal. See the statement of Assistant Secretary of Treasury Frederic W. Hickman before the Ways and Means Committee on May 10, 1973. A U.S. stockholder, such as PPG, invests abroad in mining operations not for a tax holiday or low foreign tax rate or other special incentives but because that is where minerals are located. However, many mining operations require processing at the minesite because it would be uneconomical to ship the ore elsewhere, or local law requires local processing. Under the Treasury's proposal, U.S. stockholders would be penalized for further investment in minesite processing facilities as to which there is no alternative, unless this provision is clarified and the definition of manufacturing or processing specifically excludes legitimate facilities devoted to processing at the minesite, at least where it is not economically or legally possible to locate the mineral processing facilities in the United States.

Commencing in the early 1960's, a Canadian affiliate of PPG made a substantial investment in the development and processing of sylvanite ore in Regina, Saskatchewan. While the sylvanite ore is rich in content of potash (sylvite) and the subsidiary uses extremely efficient proprietary solution mining techniques, several reasons necessitate processing of the ore at the mine site.

First, if the Canadian affiliate were to establish a potash processing station at the nearest point on the U.S. side of the border, it would become necessary to transport annually 4,500,000 tons of sylvanite ore to such point before elimination of 3,000,000 tons of impurities and waste product could take place. The cost of shipment is estimated at approximately $7 per ton, so that on an annual basis processing in the U.S. would add approximately $21,000,000 per year of costs for transporting impurities and waste products. This kind of transportation expenditure would convert the affiliate's profit to a loss and standing alone is the economic reason for processing at the mine site—just as U.S. potash miners do. Indeed, PPG knows of no case where potash ore is processed away from the immediate vicinity of the mine.

Second, developers are given to understand that the Saskatchewan government will not grant mineral permits if processing and/or refining is to take place outside of the province. While there are no expressed restrictions or penalties, it would be a simple matter for the Provincial parliament to enact such strictures if that became necessary. In fact, the existing policy of the Saskatchewan authorities is to require commitment to substantial expenditures (totalling $3,000,000) at the mine site before they will issue exploration and development permits.

Accordingly, it is most important that any legislation define manufacturing or processing operations in such a manner as to exclude those processes which as an economic or legal necessity must take place in the vicinity of the mine.

One way to achieve this is to exclude from the definition of "manufacturing or processing" any operation that gives rise to foreign mineral income under section 901(e) of the Code, which was added by the Tax Reform Act of 1969. That section generally defines foreign mineral income as "income derived from the extraction of minerals from mines, wells, or other natural deposits, the processing of such minerals into their primary products, and the transportation, distribution, or sale of such minerals or primary products."

Alternatively, the legislation could refer to economic or legal necessity to process near the site of the mine and exclude any such process from "manufacturing or processing." A presumption should be included that where impurities exceed 50 percent of weight such economic necessity is deemed to exist.

The foregoing has been discussed with the Treasury Department and is recognized to a certain extent in its statement of June 11, 1973. In that statement, the Treasury suggests an exemption for a period of five years for operations where (i) facilities must be located abroad because processing must be done before raw materials can be economically transported; (ii) local law presently requires the foreign production or processing; or (iii) excessive transportation costs would make it impracticable to conduct the operations in the United States.

However, after five years, this exemption would continue only if covered by treaty or an executive order. While we are grateful for the Treasury's recognition of these problems, we cannot conceive of any circumstance under which processing which as an economic necessity must be located near the site of the mine can properly be subject to the provisions for foreign tax haven manufacturing corporations. Therefore, we urge that the exemption be made permanent and by legislation.

3. DEFINITION OF INCREASED INVESTMENT

The Treasury's proposals with respect to foreign tax haven manufacturing corporations is designed to apply only where there is increased investment. Yet the proposal is drafted in such a way that by merely maintaining an existing foreign investment a U.S. person would become subject to the proposed provisions.

PPC has glass and paint manufacturing operations headquartered in Toronto which principally supply the Canadian market. These operations require various types of maintenance, including the periodic replacement of heat resistant refractories which line its glass manufacturing tanks. None of this increases its foreign production capacity. Depending on how the Treasury defines "foreign tax investment incentive," PPG might have a concern as to whether it has an increased investment in its Canadian facilities. Yet, under the Treasury proposal, a mere 20 percent increase in the unadjusted basis of the property of the Canadian corporation could make this provision applicable.

If the Treasury's proposal is adopted by the Committee, it would be appropriate to find a realistic definition of increased investment. The Treasury has just recognized this problem in its statement of June 11, 1973, and has invited suggestions for alternative tests for defining increased investment. PPG appreciates this more realistic attitude on the part of the Treasury.

G. D. SEARLE & Co.,
June 4, 1973.

Hon. WILBUR MILLS,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN MILLS: First, a word about Searle, which is a world wide supplier of ethical pharmaceuticals and other health care products and services. Our corporate headquarters are at Skokie, Illinois and we conduct domestic operations from eleven locations in seven states and one in Puerto Rico. Our foreign country affiliates do business in some 80 countries, with production and/or marketing facilities in 26 countries. The accompanying annual report for 1972 will provide more information about us.

We view with concern proposed legislation affecting multi-national corporations, especially legislation dealing with the taxation of foreign income. If enacted, such tax legislation could have a highly detrimental effect on our operations, on our industry's operations, and, in turn, on the U.S. economy.

The proposals before Congress would eliminate from the tax law (1) the foreign tax credit and (2) provisions under which undistributed earnings of a foreign subsidiary are not taxed until remitted to the U.S. The proponents are motivated primarily by concern over jobs for our people and secondarily by alarm over our balance of payments and exportation of our technology.

Such proponents contend that these provisions, almost universally provided to prevent double taxation, are in fact "tax subsidies" which have encouraged

U.S. corporations to establish foreign country subsidiaries whose products are shipped to the U.S. in direct competition with goods produced at home, or are sold in foreign markets in competition with exports from U.S., or both.

This letter summaries Searle's activities as a multi-national corporation and our position on proposed tax legislation.

Our performance domestically and overseas has been a plus to the economy of the United States. Most foreign activities are in "high tax" countries. Decisions to go multi national have never involved consideration of lower labor costs in foreign countries. We always have had a favorable balance of payments into the U.S. We have never speculated against the U.S. dollar.

The changes in world wide currency values since Bretton Woods have had a major net adverse effect on sales and profits.

BALANCE OF PAYMENTS

For 1968 through 1972, our net receipts from foreign trade and operations of our foreign country affiliates amounted to $51 million of which $26 million came from a favorable trade balance and $25 million from cash flow into the United States.

Profits of foreign affiliates after taxes paid to foreign governments were $31 million. Over 60 percent of that sum was remitted to the U.S. as dividends. Total receipts from dividends, royalties and other income transfers totaled $36 million. We had to pay foreign outside interests $11 million in royalties. This results in the net cash flow into the U.S. of $25 million.

Exports to foreign countries of $57 million exceeded imports of $31 million by $26 million. On an annual basis, our favorable trade balance averaged $5.2 million. Of the imports, 94 percent consisted of materials such as steroid chemicals from Mexico and psyllium seed from India for which there are no domestic sources. None of the imported materials was in the form of finished products to be sold in the United States.

Net assets of our affiliates in foreign countries increased by $30 million from $17 million at December 31, 1967, to $47 million at December 31, 1972. Of the $30 million none was from U.S. sources. At the same time, domestic net assets grew from $76 million to $123 million.

EMPLOYMENT

During the past five years, employment by Searle and its domestic affiliates increased from 2,500 at January 1, 1968, to 4,100 at December 31, 1972. Much of the increase would be attributable to domestic sales, which grew from $114 million in 1968 to $168 million in 1972. Some of the increase n jobs relates to research and development activities, the results of which are used by our foreign country affiliates whose own sales grew from $34 million to $104 million, respectively.

The number of jobs in Searle and our domestic affiliates which are attributable to foreign operations, although significant, cannot be counted with precision. However, a survey by the Pharmaceutical Manufacturers Association produced an estimate that 11 percent of domestic employment is directly dependent on foreign operations, and we believe this percent is reasonably applicable to Searle. Additional jobs of suppliers would be related indirectly to our exports.

EFFECT OF PATENT LAWS ON U.S. JOBS AND EXPORTS

It has been suggested that the exportation of technology has impeded growth of exports and of the jobs that would have resulted from such growth. This is not so in the case of Searle and our foreign country affiliates.

Most of the foreign countries where plants of our affiliates are located require that patents of other countries, including the United States, be "worked" locally. The alternatives are forced licensing at negligible royalty rates or outright forfeiture to enable their own national corporations to work our patents. Exports from the United States cannot meet this problem because:

1. Foreign country trade barriers, both tariff and non-tariff, discriminate against imports from the U.S.
2. The preference of foreign customers is for access to local supply.
3. Foreign governments want to develop a strong local pharmaceutical industry.
4. The additional cost of transportation squeeze our ability to compete on price.
5. U.S. laws which prevent our producing in the U.S. and exporting certain products widely used overseas but not approved for U.S. markets.

OUR POSITION ON TAX REFORMS

By repealing the foreign tax credit and taking earnings of foreign country affiliates currently, such legislation would result in double taxation and would increase the effective tax rate on total foreign earnings of Searle and its foreign affiliates from 44 percent to 70 percent. Such a loss of earnings would produce these results:

1. Loss of much of our overseas operations to local competitors or competitors from other countries not subject to double taxation and taxation of corporate earnings before their distribution. (No other country taxes earnings of its foreign subsidiaries before distribution.)
2. A decrease in our research and development in the United States for lack of support from foreign earnings, with a loss of research and development jobs, an increase in costs of United States production, and a loss in new health care products for U.S. citizens.
3. Increase research and development by our foreign competitors in other countries.
4. Decline in value of our Company's common stock, which would cause substantial financial loss to nearly 20,000 shareholders and to our many employees who own stock and/or have a vested interest in the Company's profit sharing trust, which owns Company stock.
5. The sharp decline in value of all stocks of multi-national companies that would accompany reduced earnings.
6. Fewer jobs of our suppliers.
7. Retaliation from foreign countries.

The foreign tax credit has been a part of the U.S. Tax Code since 1918. Most advanced countries either provide a tax credit or do not even tax income of their citizens and corporations from foreign business operations at all. And almost all of our states provide a tax credit for taxes paid another state on the same income.

Instead of taxing all profits of all foreign country affiliates when earned rather than when distributed back to the U.S., why not use a surgical knife and do something about any abuse of non-distributed earnings?

And Congress has done so—moving against the so-called "tax haven" abuse. Undistributed earnings of foreign country affiliates are currently taxable in certain situations under Section 951 of the Tax Code which was proposed and implemented for those situations whereby controlled foreign corporations were avoiding federal income taxes through tax haven operations.

We would be the last to suggest that our system of taxation is perfect, although it is recognized as the fairest and best enforced of any of the developed nations of the world. Where there are abuses, these should be curbed. Where so called "tax preferences" do not get the job done for which they were intended by Congress, they should be changed or eliminated.

When it comes to foreign trade, we must keep our tax laws competitive with those of other nations. Fairness in taxation will not be achieved if multi-national companies, like Searle, which are good for our economy, are penalized by indiscriminate changes in our tax laws.

Very truly yours,

K. D. BOWES,
Vice President, Finance, G. D. Searle and Co.

WASHINGTON, D.C., *June 15, 1973.*

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of H. H. Robertson Company and in accordance with the invitation contained in your revised press release of April 10, 1973, announcing hearings on the Administration's proposals relating to foreign trade and tariff matters and the taxation of foreign source income, there is attached hereto a statement submitted for the Committee's consideration, suggesting certain changes which should be made in the taxation of foreign source income.

The suggested changes may be summarized as follows:

1. It is proposed that section 301(b)(1)(C) of the Internal Revenue Code be made inapplicable to distributions of stock by foreign corporations, at least where subsequent sales or exchanges of that stock would be subject to section 1248.

2. It is proposed that section 312(a)(3) of the Internal Revenue Code be amended so that where a dividend in kind, paid by a foreign corporation to a domestic corporation, is valued at fair market value (rather than at the lower of basis of fair market value), the earnings and profits of the distributing corporation would be reduced by the fair market value of the property distributed.

3. Since these proposals are designed to correct an apparent unintended result of the Revenue Act of 1962, it would appear that it would be appropriate to make the suggested amendments retroactive to 1962. In any event, the amendments should apply to any open year in which the rules being changed were made applicable only because of a condition formally or informally imposed by the Internal Revenue Service in connection with a ruling under section 367 of the Internal Revenue Code.

Respectfully submitted,

ROBERT T. COLE.

Attachment.

STATEMENT ON BEHALF OF H. H. ROBERTSON CO.

In connection with the Committee's review of the taxation of foreign source income as part of proposed legislation on tariffs and trade, H. H. Robertson Company of Pittsburgh, Pennsylvania, hereby requests the Committee to make a number of amendments to the Internal Revenue Code. These amendments would correct what would appear to be unintended results caused by certain changes made by the Revenue Act of 1962.

In 1961, the Administration proposed to Congress that the earnings of controlled foreign corporations be taxed currently to their U.S. shareholders even though the earnings were not distributed. The response of Congress was to continue, in most cases, deferral of U.S. tax on foreign earnings until distribution, and to provide certain exceptions, incorporated in the Revenue Act of 1962, for "tax haven" or "subpart F" income.

In the development of the Revenue Act of 1962, the treatment of distributions in kind was also reviewed. Under the Internal Revenue Code of 1954, a corporation receiving a distribution in kind from another corporation is generally considered as receiving the lesser of (i) the fair market value of the property, or (ii) the adjusted basis of the property in the hands of distributing corporation. This rule was changed by the Revenue Act of 1962 in cases where the distributing corporation is foreign. Under the 1962 Act, if the distributing corporation is a foreign corporation, the amount of the distribution is the fair market value of the property. This provision is now found in section 301(b)(1)(C) of the Internal Revenue Code. The reason for the change was that it was felt that if appreciated property is repatriated to the United States, deferral should end and the stockholders should be taxed to the extent of the full value of the property. However, if the distributing corporation is domestic, the old rule for distributions to corporations continues, and the amount of the distribution is the lower of basis or fair market value. The change for distributions by foreign corporations would appear to be related to the enactment of section 956, also as part of the 1962 Act. Section 956 provides that, to the extent a controlled foreign corporation increases its investment in United States property, it is deemed to have made a distribution to its U.S. shareholders.

While the change incorporated in section 301(b)(1)(C) can be justified generally, there are two aspects of the provision which would appear to lead to unintended results and should be modified.

1. *Application of section 301(b)(1)(C) to distributions of stock subject to section 1248.*—By its terms, section 301(b)(1)(C) applies to all property (other than money), including stock in other corporations. Thus, if a first tier foreign subsidiary distributes to its U.S. parent corporation the stock of a second tier foreign subsidiary and the value of the stock of the second tier subsidiary exceeds the basis of the stock in the hands of the first tier subsidiary, the amount of the distribution to the parent is value and not basis. While such a result might be appropriate for other types of property, it is not appropriate when the property distributed is the stock of a second tier foreign subsidiary. There are a number of reasons for this:

a. *Double taxation.*—The value of the stock of the second tier subsidiary would invariably reflect the retained earnings of the second tier subsidiary.

Indeed, it is reasonable to assume that all of the retained earnings of the second tier subsidiary will be reflected in appreciation in the value of its stock. Of course, the appreciation will often exceed the retained earnings, but it can be assumed that it will be at least that amount. Thus, if the U.S. parent is considered as receiving and is taxed on the appreciation in the value of the stock of the second tier subsidiary, it is in effect being taxed on the earnings of the second tier subsidiary. When the second tier subsidiary [1] subsequently distributes its retained earnings to the U.S. parent, the parent again includes the earnings in its income and is subject to tax thereon. In other words, by applying section 301(b)(1)(C) to distributions of stock, double taxation results—once on the distribution of the stock and a second time upon distribution of the underlying earnings. There would be two ways to avoid double taxation. One way would be to permit section 301(b)(1)(C) to continue to apply to distributions in kind of stock but then to provide that to the extent earnings of the issuer, which were undistributed on the date of the distribution in kind, are actually distributed, such subsequent distribution will be considered as a tax free return of capital rather than a dividend. Such a provision would be analagous to section 959 of the Code, which provides that amounts taxed to U.S. shareholders of controlled foreign corporations prior to distribution are not again taxed at the time of actual distribution. However, it would appear that this approach is unnecessarily complicated in the case of a distribution of stock, and that the better way to avoid double taxation would be to make section 301(b)(1)(C) inapplicable to distributions of stock by foreign corporations.

b. *Premature ending of deferral—section 1248 assurance of ordinary income treatment.*—As long as the Internal Revenue Code provides that the earnings of controlled foreign corporations are not generally subject to tax until distributed to the U.S. shareholders, it is inappropriate to a tax U.S. shareholder on the earnings of a second tier subsidiary, (by taxing it on the appreciation in the value of the stock of the second tier subsidiary) when it receives the stock of the second tier subsidiary from a first tier subsidiary as a dividend in kind. The earnings of the second tier subsidiary are not yet in the hands of the U.S. shareholders, but remain in the hands of the second tier subsidiary, subject to U.S. tax on distribution. Of course, if the earnings of the second tier subsidiary constitute subpart F income or foreign personal holding company income or are invested in U.S. property, they would be deemed distributed to the U.S. shareholders, but in any other event there is no reason to tax the earnings until they are actually distributed.

There need not be concern that making section 301(b)(1)(C) inapplicable to distributions of stock would make it possible to convert ordinary income into capital gains. Section 1248 of the Code preserves the ordinary income treatment. Under section 1248, upon sale or exchange of stock of a controlled foreign corporation, U.S. shareholders are generally treated as having received a dividend to the extent of the accumulated earnings and profits of the controlled foreign corporation. Thus, it may be considered necessary to make section 301(b)(1)(C) inapplicable to stock only where a sale or exchange of the stock would be subject to section 1248.

c. *Taxing appreciation in stock received as distribution in kind causes foreign tax credit problems.*—As shown above, if the amount of a distribution of stock is treated as including the appreciation in the stock, in effect the earnings of the issuer of the stock are being taxed. Under our system, for avoiding double taxation of foreign source income derived by 10 percent owned foreign affiliates,[2] when earnings of such a foreign corporation are taxed in the United States, the income tax paid by that foreign corporation may be credited,[3] with appropriate limitations. However, when the earnings of a foreign corporation are subject to tax in the hands of a domestic corporation as appreciation in the value of the stock of the foreign corporation, there is no provision in the Internal Revenue Code for the foreign tax credit to apply. While it would be possible to make the foreign tax credit applicable in such a situation, as

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[1] Actually, after the distribution, it is a first tier subsidiary; but for convenience it will continue to be referred to as the second tier subsidiary.

[2] The credit also extends to income taxes paid by second and third tier corporations as long as direct ownership is at least 10 percent and the indirect ownership by the U.S. corporation is at least 5 percent.

[3] See sections 901, 902, 960, and 963 of the Internal Revenue Code.

it is applicable under section 960 of the Code in the case of investments in U.S. property or other deemed distributions under subpart F, it would seem that the simpler approach would be to provide that such appreciation is not subject to tax and that the domestic corporation is taxed only upon the receipt of actual distributions from the foreign corporation. Indeed, unless the foreign tax credit problem is dealt with by amendment to the Code, the result will be that corporations will be encouraged to pay out earnings of the second tier foreign corporation before a distribution in kind of its stock and thereby unnecessarily incur foreign income tax at the first tier corporation level. Such tax would be generally creditable under the U.S. foreign tax credit.

The foreign tax credit problem is further compounded by the fact that most income tax treaties to which the United States is a party provide for a foreign tax credit and in general the operative language is less precise than that in the Internal Revenue Code. Therefore, there is a substantial possibility that a taxpayer could argue that under a particular tax treaty there is a foreign tax credit available when the earnings of a foreign corporation are taxed as appreciation as a result of the domestic corporation receiving a distribution of the stock of the foreign corporation.

d. *Proposal.*—In view of the foregoing, it is proposed that section 301(b)(1)(C) be made inapplicable to distributions of stock by foreign corporations, at least where subsequent sales or exchanges of that stock would be subject to section 1248.

It is noted that the fair market value rule also applies in the case of a distribution in kind by a domestic corporation to a foreign corporation where the distribution is not effectively connected with a trade or business of the foreign corporation in the United States. This rule was extended to this situation in 1971, and it would appear inappropriate to make it inapplicable. After the distribution to the foreign corporation, any gain on further disposition of the property would typically be outside of the tax jurisdiction of the United States.

The third case in which the fair market value rule applies is where the distributee is an individual or other non-corporate distributee, regardless of whether the distributing corporation is foreign or domestic. No recommendation is made to distributions of stock to noncorporate distributees. It would seem that, if there is a concern as to possible conversion of ordinary income into capital gain, then it would be concluded that the fair market value rule should be continued in the case of non-corporate distributees.

2. *Reduction in earnings and profits as a result of a distribution in kind which is valued at fair market value.*—As indicated above, the amount of a distribution in kind by a foreign corporation to a domestic corporation is generally the fair market value of the property. In the previous section, it is proposed that this rule be made inapplicable where the property distributed is stock in another corporation. Assuming that the proposal is accepted, other types of property distributed by a foreign corporation to a domestic corporation would continue to be subject to the fair market value. This second proposal is directed to cases in which the fair market value rule would continue to apply.

Under section 316 of the Code, a distribution by a corporation constitutes a dividend only if it is out of earnings and profits and earnings and profits are generally not increased by a distribution of appreciated property. However, by reason of the interaction of sections 301(b)(1)(C) and 312(a)(3) of the Code, there are some situations in which dividends paid by a foreign corporation can exceed earnings and profits.

This could occur when a distribution in kind takes place in one year and there are further distributions in subsequent years. The reason for this is that, while a distribution in kind is valued at fair market value, there is no special provision which reduces earnings and profits by fair market value. Under section 312(a)(3), the earnings and profits of the distributing corporation are reduced by the adjusted basis in its hands of property (other than money and its own obligations) distributed.

The problem can be illustrated by assuming a foreign corporation with earnings and profits of $100 which owns a patent with a basis of $20 and a fair market value of $50. If it is assumed that the corporation distributed $90 in cash and the patent to its U.S. parent, the amount of distribution is $140 ($90 cash plus $50 fair market value of the patent) and the amount of the dividend is $100, as that is all the earnings and profits there are.

If, instead of a distribution in one year, the patent is distributed in year 1 and the cash in year 2, the total dividend is $130, or $30 more than the earnings and profits. The reason for this is that there is a $50 dividend in year 1 but earnings and profits are reduced only by $20. This leaves $80 of earnings and profits so that $80 of the $90 cash distribution in year 2 is a dividend.

It would appear that a total dividend of $130 in this case was not intended. Such a result was the effect of certain provisions of the Internal Revenue Code of 1954 with respect to a distribution in kind to an individual, and the 1962 legislation which made the fair market value rule applicable to distributions in kind by a foreign corporation to a domestic corporation merely adopted the pattern established for distributions to individuals.

Even in the case of individuals, Congress decided in 1954 that dividends would not exceed earnings and profits, except in the case of a distribution of appreciated inventory. Where the distribution is of appreciated inventory, section 312(b) of the Code explicitly increases earnings and profits by the amount of the appreciation. Moreover, it was made clear that where other property is distributed, the dividend in one year cannot exceed earnings and profits. Therefore, it is difficult to conclude that where non-inventory property is distributed to an individual, it was intended that total dividends would exceed total earnings and profits.

But in any event, where the distributee is a corporation, there can be no justification for dividends in excess of earnings and profits.

Therefore, it is proposed that section 312(a)(3) be amended so that in a case where a dividend in kind, paid by a foreign corporation to a domestic corporation, is valued at fair market value, the earnings and profits of the distributing corporation would be reduced by the fair market value of the property distributed. No recommendations are made with respect to distributions in kind to individuals, or to foreign corporations where the amount received is not effectively connected with a U.S. trade or business.

It is noted that this proposal would mean that the distribution by a foreign corporation of property (other than stock covered by the first proposal) which had depreciated in value would reduce the earnings and profits of the foreign corporation by the fair market value of the property, rather than by the higher basis of the property, as under current law. While in this situation the proposal would increase the amount of possible future dividends, the result would appear justified since on the distribution in kind the shareholder is treated as receiving only the lower fair market value, and unrealized appreciation of property distributed to a shareholder is generally not taken into account at the corporate level. Moreover, in many cases the corporation would be able to sell the depreciated property and thereby recognize the loss for tax purposes, and then distribute the proceeds.

3. *Effective date of the foregoing changes.*—Since these proposals are designed to correct an apparent unintended result of the Revenue Act of 1962, it would appear that it would be appropriate to make the suggested amendments retroactive to 1962. In any event, the amendments should apply to any open year in which the rules being changed were made applicable only because of a condition formally or informally imposed by the Internal Revenue Service in connection with a ruling under section 367 of the Internal Revenue Code.

WOODWARD GOVERNOR CO.,
Rockford, Ill., May 14, 1973.

Hon. WILBUR D. MILLS,
Ways and Means Committee, House of Representatives, House Office Building, Washington, D.C.

DEAR MR. MILLS: We are writing on behalf of and to express the concern and attitude of the Woodward Governor Company Legislative Committee on House Bill 62.

For background purposes a brief description of Woodward Governor Company and its Legislative Committee follows:

The Woodward Governor Company has been in continuous operation for 103 years. All of these years have been spent in Rockford, Illinois. We presently employ 850 people at our Rockford facility.

The Legislative Committee is composed of eight members, six of which are elected from and by the total personnel. The Chairman and Assistant Chairman of the committee are appointed by management. The primary function of this committee is to study and report, from a non-partisan viewpoint, on all political matters and all tax supported enterprises or agencies affecting the Woodward Governor Company and its members.

Our position as a committee and a group is that of being opposed to House Bill 62, commonly known as the Foreign Trade and Investment Act of 1973.

As committee hearings convene, we ask the following statements be considered as substantiation for our opposition to this particular bill and all bills of similar nature.

Enactment of this bill will result in:

A. A serious restriction on international business, restricting not only the import capabilities, but also foreign investment.

B. A disadvantageous situation whereby our balance of payments deficit would become greater. The end result would be to drop a trade wall around the United States. The effect would be a depression in trade, hence a phase of the business cycle marked industrial and commercial stagnation.

Our opposition is further enhanced by the following:

1. All available data indicates that the effect of U.S. investment abroad on the trade account is favorable in the long run.

2. Even more significant than U.S. investment patterns abroad, is the rapid increase in foreign direct investment in the U.S. which is now totaling over a billion dollars a year. Certainly if cheap labor were the primary motivation for direct investment, the foreign countries would not be investing in the U.S.

3. Foreign trade results in inputs of technology as well as providing world markets for United States products.

We suggest the best alternative to House Bill 62 is embodied in House Bill 6767. We urge your support of House Bill 6767 and ask you to secure the support of your colleagues in this endeavor.

As our letterhead indicates, we have facilities located around the world and thereby have special interest in this type of legislation.

We request your opinions and rationale on the virtues as well as the faults of both above mentionel bills.

Thank you for considering the contents of this letter.

Yours very truly,

JIM HALL,
Legislative Committee.

STATEMENT OF HON. SHELDON S. COHEN

Mr. Chairman and Members of the Committee: H.R. 5400, introduced by Congressman Corman for himself and Mr. Pettis, is presently pending before your Committee. This bill deals with a problem which McDonnell Douglas Corporation, and similarly situated exporters, encounter in connection with the tax incentives intended to stimulate American exports under the DISC legislation. As you know, the DISC legislation, enacted by the Revenue Act of 1971, is designed to aid United States businesses in their efforts to compete effectively in world markets. The DISC legislation accomplishes this objective by providing tax deferral for a portion of the profits resulting from the sale of American products abroad. The DISC legislation also recognizes the vital role financing plays in making export sales. A United States business exporting through its DISC can also obtain DISC treatment for interest income on accounts receivable arising from the export sales it makes on credit. In order to obtain DISC benefits on such interest, however, the exporter's DISC which holds the portion of export profits must also hold the accounts receivable.

For certain exporters, such as McDonnell Douglas, this requirement actually operates to weaken the exporter's ability to finance its export sales. These exporters have found that the most efficient and effective way to finance export sales is through a wholly-owned financing subsidiary organized and operated to hold the accounts receivable resulting from credit sales (including export sales). Both the business benefits of a separate financing subsidiary and the tax incentives for financing income provided by the DISC legislation can be retained if the exporter is permitted to hold export accounts receivable in its financing subsidiary's DISC and export profits in its own DISC. The present interpretation of the DISC legislation, however, prevents the exporter from holding these accounts receivable in its financing subsidiary's DISC. The accounts receivable must be held in the DISC the exporter maintains to hold the export profits. The DISC legislation, so applied, would thus require an exporter to abandon the business benefits of a separate financing subsidiary in order to preserve the DISC treatment for financing income intended by the DISC legislation. As financing is often a crucial factor in making an export sale, this portion of the DISC legislation weakens our exporters ability to compete.

H.R. 5400 would remedy this defect in the DISC legislation. It would permit an exporter to hold accounts receivable in any related DISC (including its financing subsidiary's DISC) rather than requiring that the accounts receivable be held in the same DISC which holds the export profits.

H.R. 5400 would thus permit exporters with financing subsidiaries to obtain the full tax incentives intended by the DISC legislation without foregoing the aid to financing provided by maintaining separate financing subsidiaries. There does not appear to be any tax or other policy reason why exporters should be forced to abandon operations through financing subsidiaries in order to preserve DISC benefits. Moreover, since the DISC benefits are available under present law by abandoning the financing subsidiary arrangement, H.R. 5400 involves no loss of revenue. I understand that Congressman Corman has been informed that the Treasury has no objection to this change in the DISC legislation.

The DISC legislation is one of several programs designed to assist in correcting present trade imbalances by promoting United States exports. The President, in his message proposing the "Trade Reform Act of 1973," pointed to the role the DISC legislation plays in helping American companies organize their export activities more effectively.

It would thus appear appropriate to consider changes designed to perfect the DISC legislation as part of your overall consideration of the changes proposed by the President in our trade, tariff and tax laws.

WASHINGTON, D.C., *May 30, 1973.*

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to the invitation contained in your press release of April 10, 1973, announcing hearings by the Ways and Means Committee on the Administration's proposals relating to foreign trade and tariff matters and the taxation of foreign source income. The following comments are submitted for the Committee's consideration with respect to the Treasury Department's proposal regarding the recovery of foreign losses.

SUMMARY

The purpose of the Treasury Department's foreign loss recovery proposal is to insure a proper interrelationship of United States tax and foreign tax under our foreign tax credit povisions where a foreign loss is sustained. Under existing law, a foreign loss may offset United States source (domestic) income. Normally, however, the foreign government would allow such loss as a deduction against foreign profits in subsequent years, thereby reducing foreign tax on such profits. The United States would then collect U.S. tax on the foreign profits because the reduction in foreign tax would reduce or eliminate the offset of foreign tax against U.S. tax under our foreign tax credit provisions. The U.S. tax would not be reduced by carryover of such earlier losses because such losses would already have been taken into account for U.S. tax purposes.

If, however, the foreign government fails to allow a carryover or other deduction of such losses at any future time, the U.S. tax may be offset completely by foreign tax—a tax that then would not be imposed on a basis consistent with U.S. tax standards. Accordingly, the Treasury proposal would limit the allowance of the U.S. foreign tax credit in cases where the foreign law does not provide for an appropriate deduction for foreign losses. It would insure that an appropriate amount of U.S. tax ultimately is paid.

STATEMENT

The Treasury Department stated in its explanation of its recommendations for changes in the taxation of foreign source income that its basic proposal for the recovery of foreign losses was to modify "the limitations on the foreign tax credit provided by section 904 to provide a special limitation for taxes of a foreign country which are excessive because the foreign country has not permitted losses of the enterprise to be offset against subsequent profits. . . ." Under the Treasury's proposal, a taxpayer's losses from a foreign country which were previously offset against U.S. income would be recaptured through a reduction (up to 25%) in the taxpayer's foreign tax credit limitation on taxes paid to that country with respect to subsequent profits from that country. Thus, the limitation on the taxpayer's foreign tax credit in a subsequent profit year would be 75% of what it is under present law and U.S. tax would be payable with respect to at least the remaining 25% of the profits. The foreign tax credit limitation would continue to be reduced for each of the ten taxable years following the loss year until the total amount of the reductions equalled the amount of the previous loss.

Consistently with this purpose, the Treasury Department has stated that its proposal would not be applicable in cases where the foreign country did allow the prior losses to be taken into account for purposes of computing its tax on subsequent years' profits.

The Treasury Department has not, however, explained the manner in which this latter provision for non-application of the rule would be formulated. It is respectfully submitted that it should be formulated in such a manner as to make the loss recapture rule inapplicable in any case in which the foreign country in question allows the losses to be taken into account for purposes of its tax by any means, even though the manner in which they are so taken into account differs from the manner in which they would be taken into account under the United States tax system. For example, where the foreign country's law provides for the amortization of the losses over a 10-year period, rather than immediately under an operating loss carryover rule similar to that contained in U.S. law, the loss recapture rule should not apply. Similarly, where the foreign loss computed by U.S. standards is attributable to current deduction of a cost which the foreign government treats as a capital expenditure, but it permits to be deducted over a period of years as a depreciation or amortization deduction, the loss recapture rule should not apply.

The Treasury Department also stated that a taxpayer's foreign tax credit limitation would not be reduced under its proposal "to the extent that the loss has been allowed by the foreign country where the loss was incurred and has thereby reduced the amount of foreign tax paid". This is entirely appropriate since where the foreign country allows the loss to be taken into account for purposes of its tax, its tax on the taxpayer's profits in subsequent years is reduced and, accordingly, the profits are subjected to U.S. tax under the rules of existing law. This is because the taxpayer does not have a foreign tax credit to offset his U.S. tax on the profits. Thus, under the rules of existing law, the United States recovers the previously allowed loss.

The Treasury Department did not, however, explain the specific manner in which the above-noted principle of non-application of its loss recovery rule would be formulated. It is apparent that where a foreign country provides for a carryover of losses in a manner similar to the net operating loss carryover contained in the U.S. tax law, a loss which has previously offset U.S. income will be fully and properly taken into account for purposes of the foreign country's tax on subsequent profits and the United States will receive tax with respect to those profits under the rules of present law. It is therefore appropriate to make the loss recapture rule inapplicable in this type of situation.

It is respectfully submitted that it is equally appropriate to make the loss recapture rule inapplicable where the foreign country, although it does not provide a net operating loss carryover similar to that provided by U.S. law, does allow the loss to be taken into account for purposes of its tax in a reasonable manner. For example, a foreign country's law might provide that a taxpayer's loss is to be amortized against his profits from that country over a 10-year period, or that the taxpayer's loss may only offset a specified percentage of his profits from that country in each subsequent year. Similarly, the loss may arise for U.S. tax purposes from the current deduction of amounts which are essentially capital expenditures—such as research and experimental costs. While the U.S. may choose to allow current deduction of such costs to stimulate certain activity, the foreign government may allow their deduction only over some future period of time.

Although these are different methods of taking the loss into account than that employed by the United States, the loss nevertheless is taken into account for purposes of the foreign country's tax on the taxpayer's subsequent profits from the country. The loss does reduce the amount of tax paid to the foreign country with respect to those profits which results through the operation of the rules of present law in the United States receiving tax on an amount of those profits equal to the loss previously offset against U.S. income.

There is accordingly no need for an additional recapture rule in these situations. In fact, the application of an additional recapture rule in these types of situations would result in the United States recovering more than the amount of the loss and would subject the taxpayer's profits to burdensome double taxation which is neither sound nor equitable tax policy.

In addition, if it were provided that the loss recapture rule would be inapplicable only where the foreign country in question provided an operating loss carryover identical to that contained in U.S. law, this would in effect require foreign countries to adandon equally reasonable methods of allowing a loss to be taken into account for tax purposes and to conform this aspect of their tax systems to the U.S. tax system. Such a requirement is not necessary to effectuate the purpose of the Treasury's proposal. Moreover, it is neither proper—nor desirable—for the United States to require foreign countries to abandon different, but reasonable, provisions of their tax laws.

Accordingly, it is suggested that the Treasury's foreign loss recovery rule should be made inapplicable in any case in which the foreign country in question allows, in effect, the loss to be taken into account for purposes of its tax, unless the time at which the loss is to be taken into account is postponed for an unreasonably long period of time.

Respectfully submitted,

JOHN S. NOLAN.

[Whereupon, at 4:10 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, June 12, 1973.]

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