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 14 of 15

(June 12, 13, 14, 15, 1973)

Printed for the use of the Committee on Ways and Means

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TRADE REFORM

TUESDAY, JUNE 12, 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. Al Ullman presiding.

Mr. ULLMAN. The committee will please be in order.

Today on the subject of footwear and leather goods, our first witnesses will be Mr. Robert Lockridge and Mr. Richard Shomaker of the American Footwear Industries Association.

Mr. Lockridge and Mr. Shomaker, we welcome you before the committee. If you would further identify your colleagues for the record, we would be pleased to hear you.

STATEMENTS OF RICHARD W. SHOMAKER AND ROBERT S. LOCKRIDGE, AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION, ACCOMPANIED BY ELI G. WHITE, CHAIRMAN

Mr. SHOMAKER. Thank you.

My name is Richard W. Shomaker. I am president of Brown Shoe Co., Inc., of St. Louis, Mo. With me on my right is Robert S. Lockridge, president of Craddock-Terry Shoe Corp., Lynchburg, Va. We are both cochairmen of the Footwear Industry Emergency Committee on Trade Policy.

We are accompanied by Eli G. White, executive vice president of Genesco, Nashville, Tenn., and chairman of the American Footwear Industries Association.

That is our lineup.

Mr. ULLMAN. Thank you. We are glad to have you here, and you may proceed.

STATEMENT OF RICHARD W. SHOMAKER

Mr. SHOMAKER. We are here on behalf of the American Footwear Industries Association.

Our association represents the manufacturers of 95 percent of the leather and vinyl footwear produced in the United States, and through our associate members, about 90 percent of all the suppliers to the footwear industry. There are approximately 520 companies with about 900 plants located in 40 States producing leather and vinyl footwear. The industry now employs about 200,000 workers directly in its manufacturing operations, and there are about 100,000 workers in allied supporting industries, for a total labor force of some 300,000 workers.

A great many of our plants are located in the smaller communities of our country, where the shoe manufacturer may be the major or sole employer. As such, its payroll is of critical importance to the community's well-being.

This is the third appearance of our association before this committee over the last 5 years. We were here in June 1968, and again in June 1970.

The message that we are bringing to the committee today is that the American nonrubber footwear industry in going down the drain because of mounting disruptive imports which are causing reduced production and reduced employment and contributing substantially to a trade deficit for the United States. That industry needs relief from imports, and needs it very badly. This need has been demonstrated time and time again in forum after forum. For that reason we have established the Footwear Industry Emergency Committee on Trade Policy. It is the emergency that we are now facing about which we wish to direct our remarks and to consider with the members of this committee the only remedy that we can see for our industry. The remedy we seek lies in action by this Congress because, despite the serious injury caused the nonrubber footwear industry by growing imports, the executive branch has failed to be responsive to existing procedures for dealing with such problems and has not taken action to provide our industry with relief from the injury caused by these disruptive imports.

I. THE PROBLEM—IMPORT PENETRATION GROWING

When we appeared before this committee in 1968, imports of nonrubber footwear accounted for 22 percent of the domestic market. In 1970 the import penetration was 30 percent, and in 1972 it reached 36 per cent. See attachment A.

The background information before your committee, prepared by the staff of the U.S. Tariff Commission and included on pages 309–310 of briefing paper No. 2, shows the magnitude of the import penetration. These data—attachment B—show that in 1972 the estimated ratio of imports to consumption was: 47 percent for women's and misses' nonrubber footwear; 35 percent for children's and infants' footwear; 35 percent for men's, youths' and boys' footwear; and 40 percent for athletic footwear.

Only in the area of work shoes was the import penetration of a significantly smaller volume, estimated to be 5 percent in 1972.

TRADE BALANCE DETERIORATION

When we appeared before the committee in 1968, net imports of nonrubber footwear totaled 175 million pairs valued at $330 million. When we appeared last, in 1970, net imports totaled 240 million pairs valued at $560 million. In 1972, net imports reached almost 300 million pairs, valued at $835 million. See attachment C.

The impact on the trade balance of the United States is significant. Together with the textile and apparel, steel, consumer electronic, and automobile industries, our industry is one of the five most heavily import-impacted industries. Net imports of these five product lines totaled almost $10 billion in 1972, compared to less than $3 billion only 5 years earlier.

DOMESTIC PRODUCTION FALLING

The effect on domestic production of the substantial growth of imports of nonrubber footwear has been devastating. Our industry produced 642 million pairs of nonrubber footwear in 1968. By 1970, production had fallen to 562 million pairs. Last year, production fell off even further to 527 million pairs, the lowest level since 1954. See attachment D.

1973 SITUATION CONTINUES TO DETERIORATE

The situation in 1973 has continued to deteriorate. Imports have continued to rise and production has continued to fall. In the first 4 months of 1973, nonrubber footwear imports increased a further 9.4 percent over the same period a year ago. Production fell by 5.3 percent in the first 2 months of this year, the period for which latest data are available, compared to the same period of 1972. We think that this trend will continue for all of 1973, with an overall increase in imports of 10 percent, and a further reduction in production of 3 percent to 5 percent.

This, gentlemen, in the face of unprecedented retail demand and advances in soft goods.

JOBS DECLINING

When we appeared before the committee in 1968, our industry had 233,000 workers directly employed in this industry. By 1970, this had declined to 219,000 workers. Last year, only about 200,000 workers were directly employed in our industry, so that we have had about a 14-percent loss. See attachment E.

PLANTS CLOSING, CAPACITY FALLING

Over the last 5 years, the net number of plants producing nonrubber footwear which closed their doors totaled 181. In 1972 alone, the net number of nonrubber footwear plant closings came to 37. As a result, over the last 5 years, the industry has lost enough capacity to produce 100 million pairs of shoes annually. See attachment F.

DEVELOPING COUNTRIES ARE NEW SUPPLIERS

When our industry last appeared before this committee, the major sources of imports that were disrupting our industry were Italy and Spain. They are still among the major suppliers of nonrubber footwear in the United States. The Republic of China (Taiwan) is today the leading supplier of nonrubber footwear in our market, with virtually all of the nonrubber footwear imported from Taiwan being low-priced vinyl shoes. See attachment G.

Since we last appeared before the committee, however, there has been a noticeable increase in imports of shoes from several low-cost developing countries. Brazil is in the forefront among these new supplying countries. In the first quarter of 1973, the United States imported almost 6 million pairs of nonrubber footwear from Brazil, an increase of 118 percent above the level for the same period a year ago, in 1972. Mexico supplied the United States with 2.2 million pairs in the first quarter of 1973. This was 211 percent above the same period

last year. Argentina, Romania, and Greece are becoming important suppliers of nonrubber footwear in the U.S. market. Argentina, with its tremendous domestic supplies of hides and leather, increased its shipments of shoes to the United States by 1,280 percent between the first quarter of 1972 and the first quarter of 1973. Romania, despite the fact that it does not enjoy MFN status, increased its shipments to us by 112 percent in the same period. It is the same way for Greece, with imports increased by 126 percent.

By virtue of the encouragement and support given to nonrubber footwear producers abroad by their governments, and the substantial disparity in labor costs, the differential in the value of imported nonrubber footwear and domestically produced nonrubber footwear is substantial.

I would like at this point to ask Bob Lockridge, who is the cochairman of our group, to give you an example of how one exporting nation encourages their manufacturers, and I would like him to read into the record a letter.

STATEMENT OF ROBERT S. LOCKRIDGE

Mr. LOCKRIDGE. This letter is addressed to the National Footwear Manufacturers and is dated May 28, 1973. It is from the Association of Shoe Manufacturers of Argentina.

I am going to read it just like it is, because it is written in a little bit different English than what we are accustomed to.

GENTLEMEN: You know perfectly well that in a few years the leather shoes export countries will be those ones which produce such raw-material in a superior quantity as his own demand.

Argentina is one of those countries. Due to the quality of its tanneries and shoe factories and to the help given by the government—

and I want to touch on that a little bit later—

we are in a privileged position as shoe exporters.

Balances confirm it. In 1971 the exports were of 300,000 pairs and in 1972 they ascended to 1,200,000 pairs. We hope to reach in 1973 the amount of 5,000,000. A 400% annual increase!

A great number of USA and Canada importers have already established here their official business departments, proving the interest and trust they have in our industry.

If you have not visited our country yet, you must not delay in coming. We are waiting for you.

We are a group of manufacturers with large experience, associated to export, gathering efforts and industrial capacity. In our offices placed in town, you will be able to appreciate the 300 shoe-samples exhibited, including boots, high quality and sport shoes, moccasins, etc.

You MUST come soon, we assure you that you will be pleased in making business with us.

The bad part of this as far as we are concerned is that we know from pretty good authority that if you buy American shoes, we as Americans buy shoes or anybody that exports out of Argentina, that the first thing you get is a 19 percent excess exchange in duty.

In other words, if we send 100 down there, we can buy $119 worth of shoes.

In addition to that, they get tax rebates that add up to about a 29 percent increase for selling shoes made inArgentina out of Argentina rather than making them for the domestic markets in Argentina.

I would like to just take a minute and touch on something that Mr. Shomaker has already touched on.

Our industry is composed of a lot of small plants located in a lot of small communities. Somewhere around 239 congressional districts are represented with these plants. In most instances, these companies employ in towns of 2,500 and under, 300, 400, 500, 600 people. They provide taxes. They also hold down the relief situation in the country, and primarily these people are semiskilled and unskilled people that would not have jobs in that particular area if it wasn't for shoe manufacturers located in these small towns.

I think that the fact that so many of our foreign competitors are getting government rebates, government tax rebates as well as direct rebates, puts us in a pretty unfair disadvantage, considering the fact that we don't have anything of that type to help us along.

[The full letter referred to follows:]

ASOCIACIÓN DE FABRICANTES ARGENTINOS DE CALZADO,
May 28, 1973.

NATIONAL FOOTWEAR MANUFACTURERS,
342 Madison Ave.,
New York, N.Y.

Gentlemen. You know perfectly well that in a few years the leather shoes export countries will be those ones which produce such raw-material in a superior quantity as his own demand.

Argentina is one of those countries. Due to the quality of its tanneries and shoe factories and to the help given by the government, we are in a privileged position as shoe exporters.

Balances confirm it. In 1971 the exports were of 300.000 pairs and in 1972 they ascended to 1.200.000 pairs. We hope to reach in 1973 the amount of 5.000.000. A 400% annual increase!

A great number of USA and Canada importers have already established here their official business departments, proving the interest and trust they have in our industry.

If you have not visited our country yet, you must not delay in coming. We are waiting for you.

We are a group of manufacturers with large experience, associated to export, gathering efforts and industrial capacity. In our offices placed in town, you will be able to appreciate the 300 shoe-samples exhibited, including boots, high quality and sport shoes, moccasins, etc.

You MUST come soon, we assure you that you will be pleased in making business with us.

Yours faithfully,

A.F.A.C.
HORACIO GRINOLDI,
President.

Mr. SHOMAKER. Thank you, Bob.

In part, the growing volume of footwear imports into the United States is the result of actions taken by foreign governments to subsidize exports and otherwise assist their manufacturers.

FOREIGN GOVERNMENTS ASSIST SHOE EXPORTERS

In February of this year, our association filed a petition with the Treasury Department under the countervailing statutes in which we provided evidence that the government of a major footwear exporting country was subsidizing exports to the United States. Export bounties are paid by this government, not simply as a credit against taxes, but as cash remissions for export sales. In addition, this government guar-

antees loans to local manufacturers equaling 20 percent of the export dollar value of the preceding year.

Parenthetically, I should point out that we have had no action by the Treasury Department on our petition since it was filed 4 months ago today. Furthermore, if Congress should accept the administration's proposal in H.R. 6767 that the Secretary of the Treasury be given discretionary authority to bar the imposition of countervailing duties, we would expect that no action will ever be taken under our position.

SIGNIFICANT DIFFERENCES IN LABOR COSTS

The most recent survey available to us of comparative labor costs in the footwear industry between the United States and foreign countries shows that the hourly rate of large exporting countries is generally less than 50 percent of the U.S. wage level. The lower labor cost abroad more than offsets the higher productivity of the U.S. industry compared to that of our foreign competitors. And we have good shoe workers in this industry, and they work hard, but compared to the foreign competitors, our wage scales are a problem. In 1972, the estimated average hourly earnings, including fringe benefits, were as follows:

United States	$3.22
Italy	1.82
Argentina	.75
Japan	1.33
Brazil	.42
Spain	.52
Taiwan (1971, 21 cents an hour)	.21

SUBSTANTIAL DIFFERENTIALS BETWEEN IMPORTS AND DOMESTIC PRODUCTION

This translates into the fact that, with a relatively small duty today on imports of nonrubber footwear, the differential between landed costs and imports and domestic average factory value is significant. In the case of leather footwear from Italy, it would require an additional duty of 31 percent to equalize domestic and import values. In the case of Spain, the differential is 25 percent, also for leather footwear. For Brazil, it is 63 percent. For Argentina, it is 31 percent. For Romania, without MFN status, it is 112 percent. In the case of Taiwan, for vinyl footwear, which represents 95 percent of the total value of nonrubber footwear shipments from Taiwan to the United States, the differential is 240 percent. See attachment H.

These differentials point up the danger to our industry of extending generalized tariff preferences to footwear. We are pleased that the President said in his message to the Congress of April 10, 1973, transmitting the administration's trade proposals that it would be the "intention to exclude certain import-sensitive products such as * * * footwear * * *." We feel that if Congress should accept the idea of generalized tariff preferences (title VI of H.R. 6767), footwear should be excluded from its provisions in the statute itself.

In addition to these tremendous labor cost differentials, the problem faced by the footwear industry has been heightened by the tremen-

dous cost which the domestic footwear industry pays for its hide prices.

Here again we see a government protecting its industry. Argentina exported 7.5 million hides in 1970. The action taken by Argentina in 1971 to restrict exports of hides eliminated almost 4 million pieces from world markets. An additional 2 million pieces were eliminated in 1972, and exports in 1973 are continuing to decline.

At the same time, Brazil, which is developing into one of the major shoe manufacturing and exporting countries, has significantly reduced its exports of hides, dropping from 2.6 million hides in 1969 to virtually none last year. U.S. exports of hides during 1972 increased by 21 percent over 1971 and 22 percent over 1969 levels.

The decrease in hide supply resulted from actions taken by Argentina and Brazil to curtail their hide exports in order to protect the supply for their developing footwear industries. This has had a tremendous effect on the price paid by our domestic industry for hide and by our domestic consumers for shoes produced in this country. The composite hide price, which averaged 14 cents per pound during 1953–71, fluctuating little during that period, rose to 29.75 cents in July 1972. This represented an increase of 112 percent within a period of slightly more than 6 months.

At that point in time, the Department of Commerce instituted export controls on cattle hides. The action was short-lived, terminating on August 29, 1972, as a result of legislative action by Congress. Prices moved sharply upwards upon the termination of export controls. By the end of September 1972, the composite price reached 39.85 cents per pound, and a month later reached a high of 44.85 cents per pound, almost 45 cents a pound. They have since remained above the level at the time export controls were imposed, although below the peak level reached in October 1972. See attachment I.

Let's talk about the remedy.

II. THE REMEDY—LEGISLATIVE RELIEF PASSED HOUSE IN 1970

As you recall, the legislative relief passed the House in 1970. This committee and the House of Representatives attempted to provide effective relief for the nonrubber footwear industry by virtue of the passage by the House on November 19, 1970, of H.R. 18970 of the 91st Congress. That bill, if enacted into law, would have provided our industry for the first time with confidence in the future so essential to its future viability. Unfortunately, the Senate was not able to take action on the bill prior to the adjournment of the 91st Congress in early 1971.

NO RESULTS FROM ESCAPE CLAUSE INVESTIGATION

We have had no results from escape clause investigation. In July 1970, while your committee was considering trade legislation, including the bill on textiles and shoes which later was incorporated into H.R. 18970, President Nixon requested the Tariff Commission to launch an escape clause investigation under the Trade Expansion Act of 1962. Six months later, to the day, the maximum time provided by the statute, the Tariff Commission submitted to the President its re-

port, with an evenly divided decision. I might point out that even the two Commissioners who voted in the negative did so because they did not feel that injury resulted in major part from tariff concessions, not because they felt there was no injury to our industry from imports.

Since that date, January 15, 1971, more than 2 years ago, no action has been taken by the President in the case, affirmatively or negatively. Under split Tariff Commission decisions in escape clause cases, the President can join either with the Commissioners finding affirmatively or with those finding negatively. The present legislation does not specify a time limit for the President to act in split decision cases. The provision in H.R. 6767 that the President have a time limit of 120 days in which to decide in split decision cases is a good one, in the light of our industry's experience.

The promise which the escape clause invesigation held for this industry, particularly when one considers the fact that the Tariff Commission investigation was initiated by the President himself, the only President to have initiated such an investigaton, has been shattered by the failure of the administration to act in the more than 2 years that the case has been before him.

THE PRESIDENT HAS AUTHORITY TO ACT NOW

Not only does the President have the authority under existing legislation, through the pending escape clause case, to provide relief for this industry, but he has another instrument within his power in which to take action to provide the nonrubber footwear industry with relief from disruptive imports. This instrument exists in the action taken by the U.S. Government at the end of 1972 to reserve its rights under the General Agreement on Tariffs and Trade to modify its tariff schedules. The domestic legislative authority to do this presently exists in section 255 of the Trade Expansion Act of 1962, one of the authorities used by the President on August 15, 1971, to establish an import surcharge.

THE ADMINISTRATION'S TRADE PROPOSALS WILL NOT HELP

When the President submitted the administration's trade bill to Congress on April 10, 1973, he asked Congress for new legislation to "deal effectively with rapid increases in imports that disrupt domestic markets and displace American workers." He said that:

> Damaging import surges, whatever their cause, should be a matter of great concern to our people and our Government. I believe we should have effective instruments readily available to help avoid serious injury from imports and give American industries and workers time to adjust to increased imports in an orderly way.

It is the judgment of our industry that the new legislation being requested by the President will not provide import relief for our industry. If an industry facing the impact of imports such as we experience cannot receive import relief under the procedures prescribed by law, we seriously question whether any industry can secure relief from the executive branch. We say this against the background of the fact that the President can act today to provide relief for our industry under existing legislation, and yet he has failed to do so.

The question that all of this leads to is: how much import disruption, how much import penetration of the domestic market, how much loss of capacity and jobs, how much declining production, does an industry have to experience before action is taken under the escape clause procedure? Furthermore, the revisions in the escape clause procedure proposed by the administration in H.R. 6767 raise serious questions as to how effective the revised procedures would be in meeting problems of disruptive import competition such as that faced by our industry. The proposed bill requires petitioners to the Tariff Commission to include a statement describing the specific purposes for which import relief is sought, such as, "facilitating the orderly transfer of resources to alternative employment and other means of adjustment to new means of competition."

In our case, if we continue on this path, we won't be able to make our own shoes for our military services if we were required.

As a World War II draftee, I would have hated to have my combat boots made in Korea, then under Japanese control.

I don't think we can afford to let this industry disintegrate as it now is. Presumably the simple objective of restraining import competition, particularly low-wage competition which is injuring a domestic industry, is not envisaged under the proposed legislation.

Furthermore, when the President receives a report from the Tariff Commission, he is required, under the proposed legislation, to take into account, in addition to such considerations as he may find relevant, a list of seven factors such as the effectiveness of import relief as a means to promote adjustment, the impact of relief measures on domestic consumers, other industries, and workers, and upon U.S. foreign economic interests. These revisions can only serve to inhibit import relief.

We find it interesting that during the course of these hearings, witnesses who have commented on the escape clause have directed their attention to the question of eligibility for import relief. None of the testimony has been directed to the delivery of relief by the exceutive branch.

The experience of our industry certainly points up the fact that there is a far distance between the Tariff Commission finding eligibility and the executive branch delivering relief.

POSITION ON BURKE-HARTKE BILL

The frustration resulting from our industry's inability to secure import relief from the executive branch has led us to support the Burke-Hartke Foreign Trade and Investment Act of 1973 (H.R. 62). We subscribe to the views of I. W. Abel when he testified on May 17 in behalf of the AFL-CIO that, "H.R. 62 provides a rational, logical, reasonable framework for attacking the pressing problems we face as a result of our world trade position." We believe that the Burke-Hartke bill would be good for the American econmoy.

At the same time, we are realistic enough to know that tremendous opposition has been generated to this bill. For that reason, therefore, our industry supports legislation introduced by Representative Richard Fulton (H.R. 8518), the Footwear Articles Import Relief Act

of 1973. This bill is modeled closely after title II of H.R. 18970 of the 91st Congress, to which I have previously referred. It represents a realistic and reasonable approach to the import problem faced by our industry. The bill uses calendar years 1970 through 1972 as the base period for establishing import quotas. At the same time, the bill provides for the automatic suspension of such quotas if international agreements are entered into to provide for restraints on exports to the United States of nonrubber footwear, similar to the arrangements in effect on cotton textiles under the Long-Term Cotton Textile Arrangement and on wool and manmade fiber textiles under existing bilateral agreements.

The bill also makes it possible for the President to authorize increased imports where he finds that the supply of nonrubber footwear is inadequate to meet domestic demand at reasonable prices. It also provides for exemption by the President from quota restrictions when he determines that such exemptions will not disrupt the domestic market.

Our reading of this bill would indicate that it is fair to producers, workers, and consumers. Consumers are fully protected by the authority given to the President to exempt nondisruptive imports from quota controls, and by allowing him to increase quotas if he should find that the supply is inadequate to meet the domestic demand at reasonable prices. At the same time, this bill would halt the past significant erosion of the U.S. market from imports which has been so detrimental to the health of our industry. If this bill is enacted, our industry will be able to plan for its future with some confidence, permitting it to invest, and providing a growing livelihood for its workers.

CONGRESS IS OUR LAST HOPE

Gentlemen and gentlewoman, the Congress is our last hope. The Congress is the last hope of the nonrubber footwear industry. In your hands rests our future.

We are asking only for fair play so that we can compete on a basis which makes it economically justifiable to remain in business. An emergency is upon us. It has been a growing one, and the decision is soon going to have to be made.

Thank you.

Mr. ULLMAN. Does that conclude your direct testimony. Mr. Shomaker?

Mr. SHOMAKER. Yes.

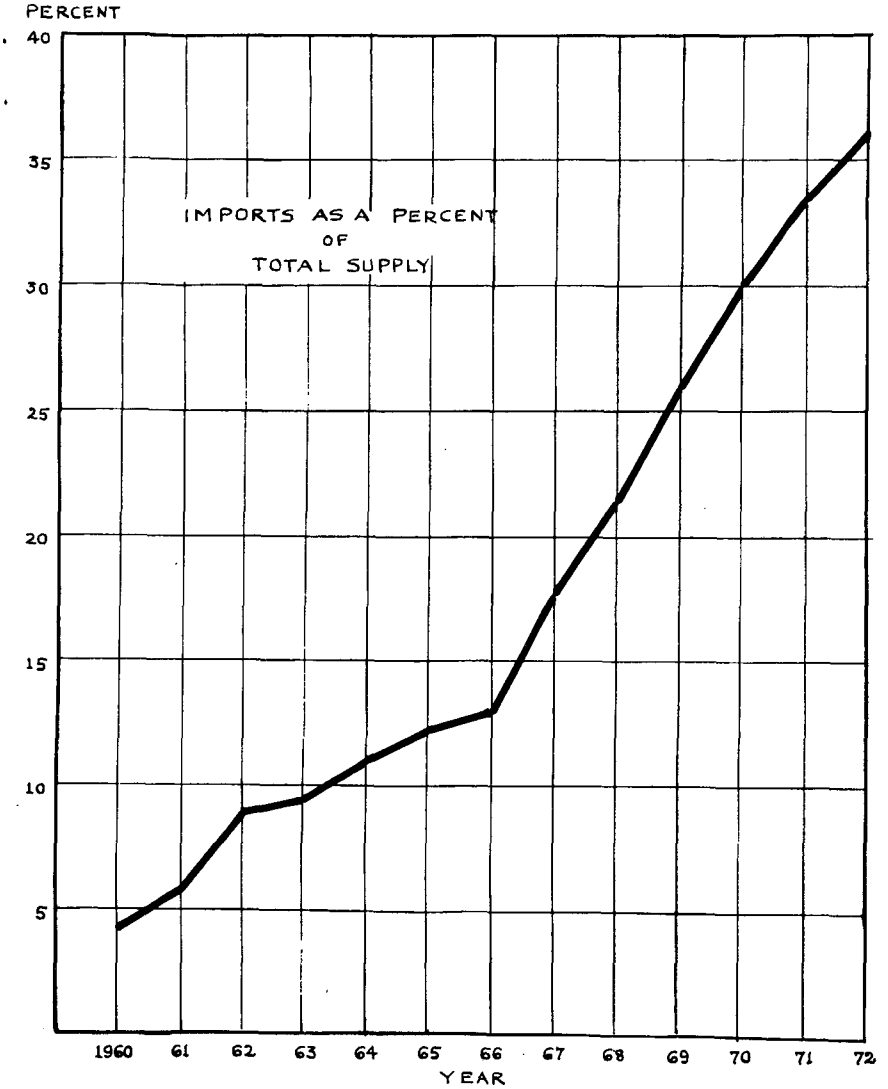
Mr. ULLMAN. Thank you

Without objection, the supplemental materials will be included in the record.

[The material referred to follows:]

ATTACHMENT A

NONRUBBER FOOTWEAR: IMPORTS AS A PERCENT OF TOTAL SUPPLY 1960-1972



SOURCE: BASED ON DATA FROM U.S. DEPT. OF COMMERCE.

(ATTACHMENT B)

COMPARISON OF RATIOS OF IMPORTS TO APPARENT CONSUMPTION, 1968-72 (PRELIMINARY)

Sch 7

Pt 1

Brief description (TSUSA No. or grouping)	Value of 1972 imports	Ratio of imports to consumption					Remarks
		1968	1969	1970	1971	1972	
	1,000 dollars	Percent	Percent	Percent	Percent	Percent	
SCHEDULE 7 - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS							
Part 1. - Footwear; headwear and hat braids; gloves; luggage, handbags, billfolds, and other flat goods							
Nonrubber footwear for women and misses 700.0500 700.1000 700.1500pt 700.2040 700.3000pt 700.4100 700.4310 700.4315pt 700.4320 700.4330 700.4335pt 700.4340 700.4345 700.4360 700.4365 700.4510 700.4515pt 700.4520 700.4525 700.4530 700.4535pt 700.4540 700.4545 700.4560 700.4565 700.5523pt 700.5545 700.5575pt 700.6620pt 700.6660pt 700.6820 700.6860 700.7050pt 700.7500pt 700.8050pt 700.8300 700.8550pt	E 499,066	E 30	E 34	E 39	E 44	E 47	
Nonrubber footwear for children and infants 700.1500pt 700.2060 700.4315pt 700.4325 700.4335pt 700.4350 700.4355 700.4370 700.4375 700.4515pt 700.4535pt 700.4550 700.4555 700.4570 700.4575 700.5523pt 700.5555 700.5575pt 700.6620pt 700.6660pt 700.7050pt 700.8050pt 700.8550pt	E 33,590	E 18	E 25	E 26	E 28	E 35	

* = Less than $500 or 0.5 percent.
E = Estimated.
Note.--Ratios computed on the basis of quantity except as noted.

April 1973

SOURCE: Committee on Ways and Means, U. S. House of Representatives, Briefing Paper No. 2, Prepared by U. S. Tariff Commission, May 1973, Pp. 309 - 310.

COMPARISON OF RATIOS OF IMPORTS TO APPARENT CONSUMPTION, 1968-72 (PRELIMINARY)

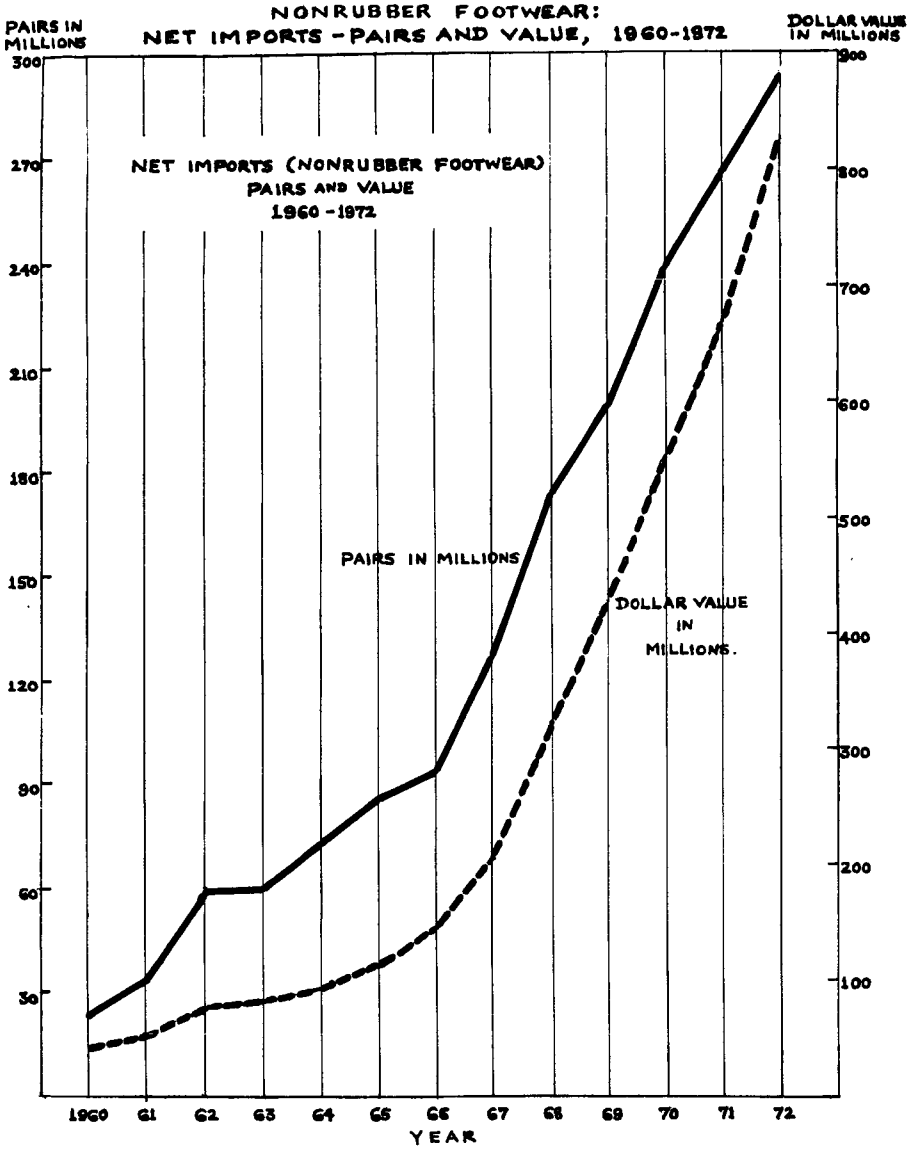
Brief description (TSUSA No. or grouping)	Value of 1972 imports	Ratio of imports to consumption					Remarks
		1968	1969	1970	1971	1972	
	1,000 dollars	Percent	Percent	Percent	Percent	Percent	
SCHEDULE 7 - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS--Continued							
Part 1. - Footwear; headwear and hat braids; gloves; luggage, handbags, billfolds, and other flat goods--Continued							
Nonrubber footwear for men, youths, and boys 700.1500pt 700.2020 700.2500 700.2630 700.2650 700.2738 700.2748 700.2960 700.2980 700.3000pt 700.3530 700.3535 700.3540 700.3545 700.3550 700.3555 700.3575 700.3580 700.5523pt 700.5535 700.5575pt 700.6620pt 700.6640 700.6840 700.7020 700.7500pt 700.8020 700.8520 700.8550pt	E 250,937	E 21	E 27	E 32	E 37	E 35	
Work footwear 700.2610 700.2718 700.2940 700.3525	11,297	E 5	E 5	E 5	E 5	E 5	
Athletic footwear 700.2800 700.2920 700.3505 700.3515 700.4305 700.4505	39,837	E 20	E 18	E 31	E 38	E 40	
Slippers and certain footwear of rubber or plastics 700.3200 700.6035pt 700.6045pt 700.6055pt 700.6060pt	E 32,000	E 15	E 16	E 22	E 23	E 26	Virtually all of the imports are entered under item 700.60 as "non-ASP" footwear. A large part of such imports are believed to be slippers and other inexpensive footwear.

* = Less than $500 or 0.5 percent.
E = Estimated.
Note.--Ratios computed on the basis of quantity except as noted.

April 1973

ATTACHMENT C

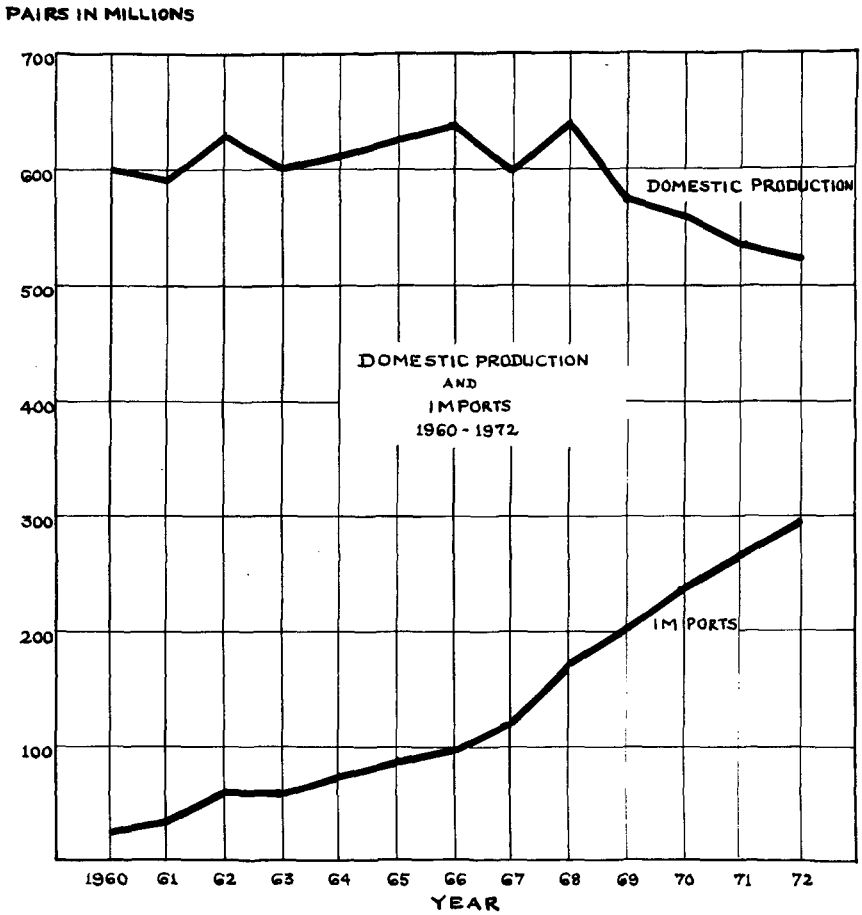
NONRUBBER FOOTWEAR:
NET IMPORTS - PAIRS AND VALUE, 1960-1972



SOURCE: BASED ON DATA FROM U.S. DEPT. OF COMMERCE.

ATTACHMENT D

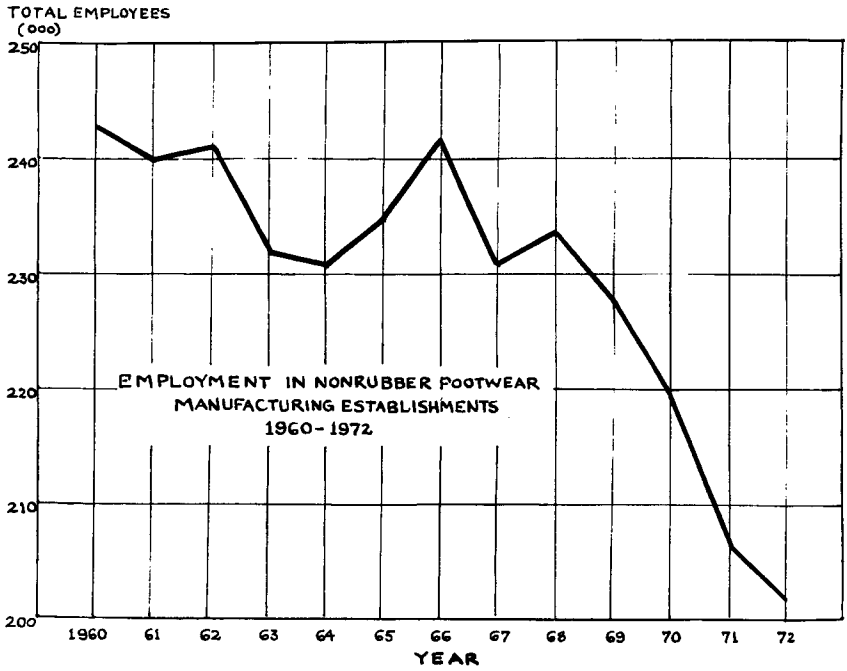
NONRUBBER FOOTWEAR:
DOMESTIC PRODUCTION AND IMPORTS
1960 - 1972



SOURCE: U.S. DEPARTMENT OF COMMERCE

ATTACHMENT E

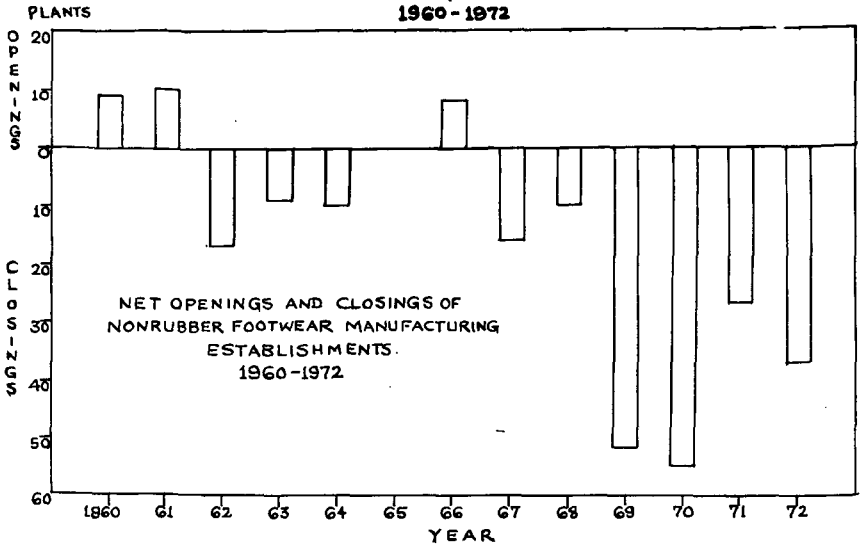
EMPLOYMENT IN NONRUBBER FOOTWEAR MANUFACTURING ESTABLISHMENTS, 1960-1972

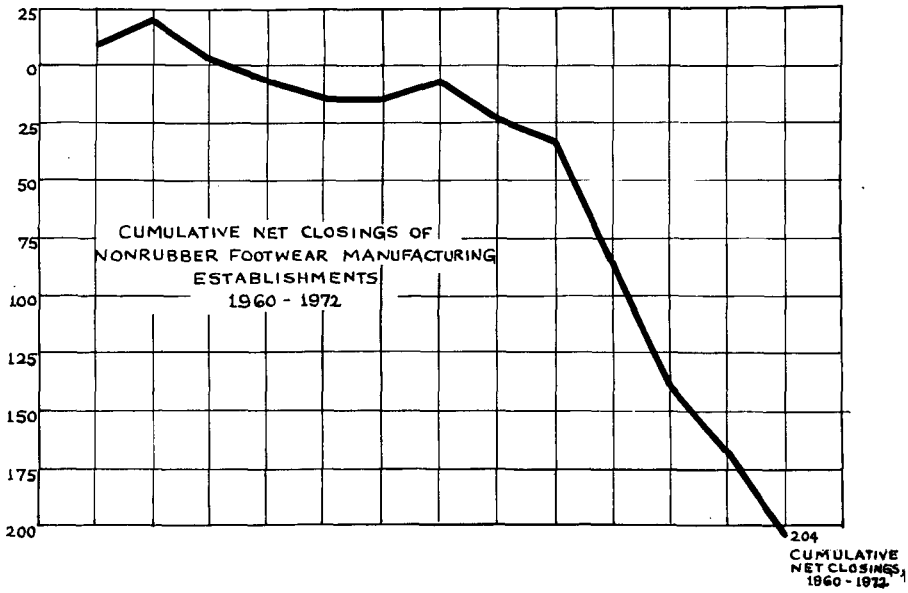


SOURCE: U.S. DEPARTMENT OF LABOR, B.L.S.

ATTACHMENT F

NET OPENINGS AND CLOSINGS OF NONRUBBER FOOTWEAR MANUFACTURING ESTABLISHMENTS 1960-1972





(ATTACHMENT G)

U.S. IMPORTS OF NONRUBBER FOOTWEAR
FROM MAJOR ELEVEN SOURCES IN 1972 AND SELECTED
NEW STARTERS

NONRUBBER FOOTWEAR IMPORTS

Country of Origin	Quantity in 000 Pairs						
	1968	1969	1970	1971	1972	Three Months	
						1972	1973
Taiwan	15,316	25,897	42,045	64,787	91,259	26,782	33,845
Italy	58,996	61,083	80,680	77,849	79,698	30,470	30,636
Spain	14,248	20,729	21,250	31,216	39,254	11,151	9,992
Japan	65,145	66,632	59,789	51,371	27,502	8,443	3,544
Brazil	*	377	2,410	8,136	11,809	2,711	5,905
Korean Republic	*	879	1,924	3,296	7,950	1,092	1,522
Hong Kong	2,300	4,311	5,465	5,995	6,813	1,969	1,774
Mexico	2,468	2,451	3,963	3,538	4,044	701	2,181
India	1,924	2,097	2,926	3,029	3,547	1,565	1,129
France	2,622	2,520	3,102	2,883	2,957	883	710
West Germany	962	1,942	2,807	2,453	2,660	739	553

SELECTED NEW STARTERS

Country of Origin	Quantity in 000 Pairs						
	1968	1969	1970	1971	1972	Three Months	
						1972	1973
Greece	83	228	480	776	1,581	355	803
Austria	149	199	270	365	1,373	327	576
Romania	740	601	585	681	1,068	191	404
Argentina	*	*	56	301	465	40	552

* Negligible

SOURCE: Compiled from official statistics of the U. S. Department of Commerce.

(ATTACHMENT H)

NON-RUBBER FOOTWEAR: LANDED COSTS OF IMPORTS COMPARED TO DOMESTIC AVERAGE FACTORY VALUE

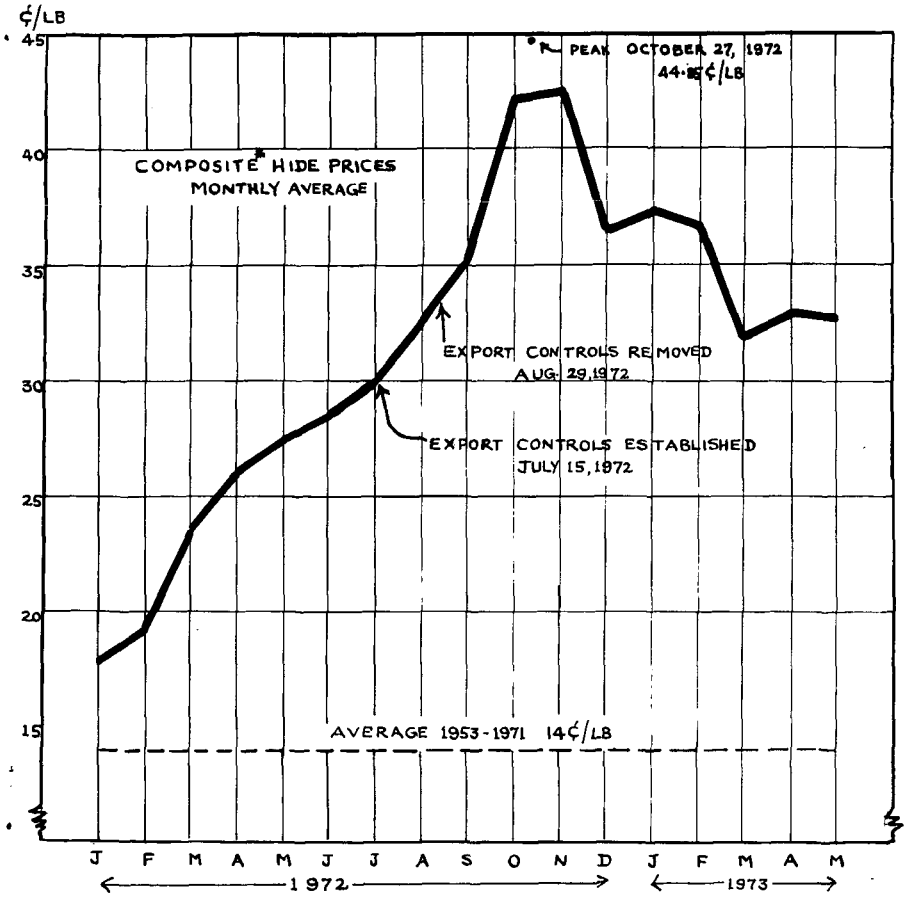
(Based on 1972 Data)

	Total Non-rubber	Men's Youths' and Boys'	Women's Misses' Children's and Infants'	Slippers including Soft Soles	ITALY Leather Footwear (1)	SPAIN Leather Footwear (2)	BRAZIL Leather Footwear (3)	TAIWAN Vinyl Footwear (4)	ROMANIA Leather Footwear (5)	ARGENTINA Leather Footwear (6)
1. F.O.B. Average Value per pair of Imported Footwear	$2.81	$4.50	$2.48	$0.88	$4.40	$4.60	$3.58	$0.85	$2.68	$4.40
2. Average Duty Percent	8.9%	8.2%	9.4%	6.0%	10.0%	9.8%	10.0%	6.0%	19.3%	10.0%
3. Duty in Dollars (Percent Duty times F.O.B.)	$0.25	$0.37	$0.23	$0.05	$0.44	$0.45	$0.36	$0.05	$0.52	$0.44
4. C.I.F. Costs	$0.33	$0.37	$0.31	$0.31	$0.33	$0.33	$0.33	$0.33	$0.33	$0.33
5. Landed Cost	$3.39	$5.24	$3.02	$1.24	$5.17	$5.38	$4.27	$1.23	$3.53	$5.17
6. Average Factory Value per pair	$5.56	$8.21	$5.37	$1.67	$6.54	$6.54	$6.54	$3.27	$6.54	$6.54
7. Line 6 minus Line 5 (Difference between Landed Value of Imports and Average Factory Value	$2.17	$2.97	$2.35	$0.43	$1.37	$1.16	$2.27	$2.04	$3.01	$1.37
8. Required Additional Duty to Equalize Domestic and Import Values	77.2%	66.0%	94.8%	48.9%	31.1%	25.2%	63.4%	240.0%	112.3%	31.1%

FOOTNOTES:
(1) Leather footwear from Italy accounted for 90.4% of the total f.o.b. value of shipments from Italy.
(2) Leather footwear from Spain accounted for 94.4% of the total f.o.b. value of shipments from Spain.
(3) Leather footwear from Brazil accounted for 99.7% of the total f.o.b. value of shipments from Brazil.
(4) Vinyl footwear from Taiwan accounted for 95.0% of the total f.o.b. value of shipments from Taiwan.
(5) Leather footwear from Romania accounted for 100% of the total f.o.b. value of shipments from Romania.
(6) Leather footwear from Argentina accounted for 89.9% of the total f.o.b. value of shipments from Argentina.

ATTACHMENT I

COMPOSITE HIDE PRICES – MONTHLY AVERAGE: JAN. 1972 TO MAY 1973



* COMPOSITE OF 3 COMMON TYPES:
HEAVY NATIVE STEER LIGHT NATIVE STEER BUTT BRAND STEER

SOURCE: HIDE AND LEATHER BULLETIN, THE JACOBSON PUBLISHING CO. CHICAGO, U.S. DEPT. OF COMMERCE

Mr. ULLMAN. Are there questions?

Mr. Burke will inquire.

Mr. BURKE. I have in my hands here the tariffs charged by our country and also those charged by our trading partners.

Why do you believe that we have only an 8½-percent ad valorem tax on footwear for men, youth, and boys in the United States, and Japan has an ad valorem tax of 23.4 percent? Why should they have a higher tariff than the United States?

Mr. SHOMAKER. Well, their point, obviously, is to exclude shoes manufactured here. There is some demand in Japan for trade names of shoes produced in this country, and there are some few sold, but they are under such rigorous quotas that it is a totally insignificant amount getting into Japan.

Of course, they have a growing retail market over there, and we believe that U.S. trade names would mean something in Japan. But the quotas, which is really more controlling than the duties, is so limited that it is held by about 30 or so trading companies, and the quota provisions are actually sold between the various trading companies. But the amount of pairs that can get in there from the United States is about 4 million pair, I think.

Mr. BURKE. Isn't it true that our trading partners, in setting up their tariffs, include in their computation the transportation and insurance costs, where we do not do that?

Mr. SHOMAKER. That is correct.

Mr. BURKE. This results in a considerable break to our trading partners?

Mr. SHOMAKER. Yes.

The United States at one time did export shoes, if we go far enough back. But as these developing countries began their own industries, we were more and more excluded, to the point that there are very, very few shoes exported out of this country, just under 2 million pair last year.

Mr. BURKE. In other words, what these countries are doing is what is being fought here in the United States. They are setting up all kinds of trade barriers, increasing their tariffs over ours, and making it more difficult for us to get our goods into their countries. Is that true?

Mr. SHOMAKER. It is certainly the case in shoes.

Mr. BURKE. Then when they come over here preaching about free trade, when they are talking about free trade, they mean free trade into our ports, but not free trade into their ports?

Mr. SHOMAKER. Well, this is a great open market that we have here, and it is the plum of every shoe exporting nation in the world.

We in this industry are not asking for no imports. We have better than a third of our supplies already in the hands of importers. But we would like some control on the continued increase to try to save what industry we do have left here.

Mr. BURKE. Of course, in this bill, in addition to the nonrubber footwear, the provisions of the administration bill call for the elimination of the American selling price, which will affect the rubber footwear industry. This means that they will be in a worse position than they are at the present time because that makes a lowering of the tariffs on their goods.

Mr. SHOMAKER. That is correct.

Mr. BURKE. Do you have the feeling that some people feel that your industry is expendable?

Mr. SHOMAKER. Well, at this point, based on the record, I think that part of the industry believes that, as evidenced by those who have decided rather than fight it, to try to secure what assets they have and get out of the business. We have lost 181 plants over the last 3 or 4 years, so that I think that gives a pretty good indication of the feeling of at least a number of the people in the industry.

Mr. BURKE. Thank you, Mr. Chairman.

Mr. ULLMAN. Mr. Broyhill.

Mr. BROYHILL. Mr. Chairman.

I would like to take this opportunity to welcome to the committee Mr. Robert S. Lockridge, the president of the Craddock-Terry Shoe Corp. of Lynchburg. His company has been a very significant factor in the economic health and well-being of the city of Lynchburg for a number of years, and his industry is also important to the Commonwealth of Virginia.

I should like to say to you, Mr. Lockridge, that I am hopeful the committee will not take any action with respect to this legislation which will be injurious to your industry, because if we do, it will be injurious to the economy of Virginia.

I also should like for the gentleman from Massachusetts, Mr. Burke, to know that he has an ally in his endeavor to make known the situation of the shoe industry insofar as trade legislation is concerned. We certainly have the same overriding objective.

Mr. BURKE. I want to welcome you aboard, but you have actually been aboard for several years, and I appreciate your strong support, because you are an able ally.

Mr. LOCKRIDGE. I want to thank you, also, Mr. Broyhill.

Mr. ULLMAN. Are there further questions?

Mr. PETTIS. Mr. Chairman.

Mr. ULLMAN. Yes, Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

Mr. Lockridge, I am kind of curious about one thing in this footwear business.

I can never find a Member of Congress that is wearing a foreign-made shoe. I have never bought one. I very seldom see them. I wonder where most of these shoes are sold, and who buys them.

Mr. LOCKRIDGE. Well, to answer that question, roughly 300 million pairs were sold in the year 1972, and they are sold in independent shoe stores, department stores, discount stores, shoe shops, just anywhere that you normally buy shoes.

I think the reason, probably, that you may not see some of those shoes is because you might go to a place that might sell $45, $50, $60 shoes, and we have found that retailers generally I think sort of like to get a little extra markup on a lot of imported shoes, because they have to solve some of the problems that they have with them.

But generally you will find in major department stores and major shoe outlets that these shoes are being sold all over the country. If you walk down the street today and look at a pair of sandals on a lady's foot, I expect that 80 or 85 percent of them are foreign made, right on the street today.

Mr. PETTIS. I would assume that the profit margins on the kind of shoe you are talking about are not very large, your sandals, compared, as you were talking about, with the dress shoe.

Mr. LOCKRIDGE. The markup generally is the same, depending on the cost of the shoe. The markup that a retailer makes, regardless of what it is, whether it is 45, 50, or 55 percent, is a markup on selling price against cost, and it is the same percentage markup. He has to make the same markup to stay in business, basically.

Mr. PETTIS. On page 3 of your testimony you use percentages, here. Maybe part of the answer is in the next paragraph, but in this footwear total volume, isn't there more money represented in the top of the line footwear than there is in the sandal, the cheap shoe, the tennis shoe kind of footwear?

Mr. LOCKRIDGE. Well, in total, there probably is.

Mr. PETTIS. I am talking about in total.

Mr. LOCKRIDGE. Let's take Spain, for example. Spain is exporting plenty of women's shoes into this country that retail from $22 to $30, leather made shoes, the same type of shoes that we make in this country.

So that just talking sort of off the top of my head, if you will look at the Spanish imports coming into this country, they have in women's shoes probably the highest price per pair, and the highest priced men's shoes coming in would probably be from Italy. A lot of men are paying $35 to $40 for Italian-made shoes. A lot of these shoes are sold in large metropolitan areas.

Mr. PETTIS. Are these the new exotic style shoes, or are these the quality dress type of shoe?

Mr. LOCKRIDGE. Well, they are somewhat sort of mixed. They are what you might call exotic styles, the pointier toes, the faster looking shoes.

I think most American men our age tend to still gravitate to welt shoes, which has been more or less a basic shoe for years. I think maybe that is the reason. I know I have on a pair like that, and probably most everybody here has on a pair like that. I think it has something to do with that type of shoe that we have been used to over the years.

Mr. PETTIS. I am in sympathy with the problem that you have presented here this morning, but I still conclude that the quality shoes in America are still American made across the board. Is that true, or false?

Mr. SHOMAKER. That is false. Some of the very highest priced shoes sold in this country are imported. Some of the very lowest priced are, also. But the wholesale value of the imports has been climbing faster than the number of pairs every year. They are climbing much faster, the dollars are climbing much faster in relation to the wholesale value of our shoes.

It is true that the first penetration was in the lower priced shoes, and still is in vinyls, but they are moving up in quality as well as in quantity, and in our factories in this country we still talk about pairs and not dollars because pairs are what keep plants going.

Mr. PETTIS. Have you had a chance yet to determine the impact of the second devaluation on this shoe business?

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Mr. SHOMAKER. We have had some early information on it. Probably the only country that looks like it might have been bothered at all by it is Spain.

However, in the other cases, several things have happened. In the case of Italy, they have gone in some cases to less expensive materials, maybe even away from leather, gone into synthetics, very fine synthetics which they are bringing into the country.

In South America, actually the cruzeiro is in a worse relative position than it was when we devalued, so that we believe that the big increase in leather footwear is coming from Brazil and Argentina, and their currencies are floating with ours and devalued with ours, so that we are in no relatively better shape in these two countries, which are the coming sources of leather footwear coming into this country.

Mr. PETTIS. And worldwide, then, the realinement of currencies has not been of any benefit to you?

Mr. SHOMAKER. We have been unable to detect any major benefit from it.

Mr. PETTIS. Thank you, Mr. Chairman.

Mr. ULLMAN. Mrs. Griffiths will inquire.

Mrs. GRIFFITHS. I only inquire to point out to the Congressman who is buying these foreign made shoes.

Our neighbor took their little 5-year-old girl to buy a pair of shoes. They bought her an Italian-made pair, and the child was extremely fond of them. When they came home, they realized she was really fonder of the box than she was of the shoes, and finally they began inquiring, and she said, "Oh, I am so glad to have something made in Italy rather than Japan."

Aren't these shoes actually still sold at the American price, even when they are purchased by the importer for prices as low as $1.45 a pair? Is that right? Aren't many of them sold at absolutely fantastic markups?

Mr. SHOMAKER. Yes; they are.

Mrs. GRIFFITHS. I am sure they are.

Mr. ULLMAN. Mr. Duncan.

Mr. DUNCAN. Thank you.

I would like to welcome you gentlemen to the committee.

Mr. White, Congressman Fulton asked me last night to express to you his sorrow that he could not be present, but I see he is here now.

May I ask you this: In 1970, when we had the trade expansion hearings, imports were at 32 percent of the U.S. market. What is it today?

Mr. LOCKRIDGE. Probably between 37 and 38 percent.

Mr. DUNCAN. Has it grown in the past 10 years?

Mr. LOCKRIDGE. Every year I think since 1958.

Mr. DUNCAN. Could you furnish for the record the percentage of the market that imports have taken for the past 10 years?

Mr. LOCKRIDGE. I believe it is in one of these charts.

The attachment C gives you some idea of the imports. In 1960, we were importing less than 30 million pairs. Today, we are importing 300 million pairs, in a period of 12 years.

Mr. DUNCAN. The reason that some give for imports is that some say it is because of style, and some say it is our technology, and some say it is domestic inefficiency. How do you answer that question?

Mr. LOCKRIDGE. Well, I could say a word or two about it, I think.

The style is a matter of 8 hours on a jet. A lot of importers in this country can take a style that is developed in this country, in a higher priced shoe, and take it to a foreign country in 8 hours, and reproduce the style.

By the same token, I guess if we wanted to copy in medium-priced footwear any style that was originated in any other part of the world, we could copy it. So that style is a very fluid thing as far as we in this shoe industry are concerned.

As far as our own inefficiency is concerned, we still produce more pairs per hour per operator than any other country, as far as I know, or we were a year ago, and I don't think it has changed any. So that we are not deficient in that sense of the word.

We are still expanding our know-how in the shoe industry, going to computer grading, buying new equipment, using all the latest technologies that are available to produce shoes.

But we all have to get back to one fact alone, that we are in a very high labor intensive industry, and labor plays a very important factor in the cost of our product, and we can't get around that.

There are about 70 different sizes to a normal woman's shoe, and it takes about 145 operations to produce them, and there is just so much labor involved that we can't compete with 21 cents an hour in Taiwan or 70 cents an hour in Argentina, or $1 an hour in Spain.

Mr. DUNCAN. Do you consider quotas inflationary?

Mr. LOCKRIDGE. You mean restriction of imports coming here inflationary?

Mr. DUNCAN. Yes, sir.

Mr. LOCKRIDGE. I don't think so. No; I wouldn't consider it so.

Mr. SHOMAKER. In our industry, we have about 500 or so manufacturers, almost 1,000 plants, 900 plants. We are one of the most intensely competitive industries in the country, and even if we had no imports, and before we had imports, this industry was terribly competitive. The largest manufacturer doesn't have more than 5 percent of the market. So that we compete very effectively among ourselves.

We are handicapped, as we have indicated here, by higher wage rates, though our people do produce better, and by restrictions and help by the governments of people who wish to import here.

Mr. DUNCAN. Are imports marked up to a greater percent than domestic production at the retail level?

Mr. SHOMAKER. Traditionally, the retailer does mark imports up to a greater degree, and it varies all over the lot.

I don't know that we are competent to say how much he is marking them up, but we know that there are very, very few imports that would be sold with a retail markup under 55 percent. It would be closer to 60, 65, or 70 percent, which is probably in the ball park.

Mr. DUNCAN. In other words, the benefit doesn't all go to the consumer, then, on the markup?

Mr. SHOMAKER. No; it does not.

Mr. DUNCAN. Thank you very much, gentleman.

Thank you, Mr. Chairman.

Mr. ULLMAN. Are there further questions?

Mr. Karth.

Mr. KARTH. Mr. Chairman.

I can understand why it is difficult for you to compete with a country which pays 21 cents an hour, but you have also testified that you can't even compete with those who sell expensive shoes in this country, and I wonder why. It must have something to do with styling. It must have something to do with the desire on the part of the customer. It seems to me that you have fallen down in both areas.

Even in an area where you ought to be able to compete, you admit you can't compete, and I want to know why.

Mr. SHOMAKER. In Italy, which is the highest priced competition in terms of wages——

Mr. KARTH. They are also your highest prices?

Mr. SHOMAKER. Not growing in the same degree. Their figures would be $1.80 versus our $3.22 and $3.30.

Mr. KARTH. And there are many programs that the government has there which provide subsidy for the employee, which you, I suppose, don't include.

I don't think you are suggesting that you would like to pay 21 cents an hour. You have already testified that your workers are highly skilled or highly semiskilled. At an average of $3.22 an hour, including fringe benefits, it doesn't seem to me that they are buying many pounds of beefsteak for their families each week, at that rate.

Mr. SHOMAKER. Obviously, when an industry is subjected to this kind of pressure, and it is very competitive in this country, and we have not only competition within or own industry but with imports, there is always a tremendous downward pressure on wages, of course.

Mr. KARTH. I understand that.

I am just suggesting to you that even in those areas where the foreign competition sells an expensive shoe, you don't seem to be able to compete very favorably, and I wonder why.

Mr. SHOMAKER. Mainly since labor makes up 25 to 30 percent of the value of a normal shoe.

The kind of shoes you are talking about, I would say in that range we can make any style that any country in this world can make, but when we are applying labor that is twice as costly, even though it be more productive, we are at a distinct disadvantage.

As Mr. Lockridge pointed out, this industry has shaken itself up, particularly in the last 5 years. We have moved as fast as we can to improve our processes and our efficiency and our productivity, and I will have to say that the equipment available to the industry is not too extensive.

Even with the movement that we have made toward standardization, toward improvement of efficiency, we are still unable to compete.

And not only that, but even if we were able to compete, we couldn't sell the shoes elsewhere. We can't get into these countries that move them here.

Mr. KARTH. But we are talking about competing within this country.

Mr. SHOMAKER. That is correct.

Mr. KARTH. It seems to me that you ought to be able to compete favorably with $35 or $40 or $45 shoes, irrespective, and you have already attested to the fact that you can. Maybe your merchandising habits are bad. Maybe your advertising campaign is lacking. I don't know what it is.

Mr. SHOMAKER. I don't think we mean to imply that the major bulk of imports are high-priced. They are not high-priced. They would be low priced. There are some high-priced ones.

Mr. KARTH. I thought you said that Spanish shoes and Italian shoes are in the $35, $40, $45 range. I don't buy them, but I guess they are. Certainly you ought to be able to compete with that.

Mr. SHOMAKER. The major bulk of shoes coming into this country is not in those price ranges, and, obviously, we do compete the best in the higher priced shoes.

Then in many cases it becomes almost snob appeal. There is no style made anywhere in this world that we can't make in this country.

Mr. KARTH. Do you make them? I understand that you could make them. Do you make them?

Mr. SHOMAKER. We do make them.

Mr. LOCKRIDGE. We do make them.

Let's take a woman's shoe coming into this country that might have a handwoven design, or a man's shoe coming into this country that might have hand stitching on it.

When we are talking about labor rates in Italy of $1.82, that includes the government subsidy. They get about half of that, actually, and the rest is paid out in social types of payments.

Mr. KARTH. I want to compliment you. You are the only industry that has been able to ascertain what those subsidies are. Every other one we have asked were unable to ascertain what they were.

But go ahead, please.

Mr. LOCKRIDGE. In Spain, when we were looking at a 52-cent hourly rate, which includes benefits, if you have a woven design on a man's laced vamp or handstitching around it or parts stitched together by hand, and this takes hours upon hours to do, we can't do that.

Another thing is that we have a law in this country that if we send out work to have it done outside of our plants, we are restricted by law to paying a rate. In Spain or Italy, 90 percent of all the stitching work is sent out where this intricate stitching is done in cottage-type situations where they come and get a couple of cases of shoes and bring them back the next day, and they pay them something to do it while the children are playing around, or whatever it is.

These are the things we are faced with on the intricate type shoes, where we have to pay the higher labor rates to have it done. That is one of the big factors.

Mr. KARTH. Can you supply to the committee what the pairs of shoes produced per hour per employee is? I see you have the rates of pay and the fringe benefit costs.

Mr. LOCKRIDGE. You mean the average for the industry?

Mr. KARTH. The average for our industry as it compares with the foreign imports.

Mr. LOCKRIDGE. The average for our country I believe is somewhere around 1.65 pairs per hour per operator.

Mr. KARTH. How about foreign imports?

Mr. LOCKRIDGE. Well, in foreign situations, it would be much higher than that.

As we said a while ago, our productivity rate, shoe for shoe, is higher than anywhere in the world, but there are no accurate figures from foreign countries, basically. They are all from the government. For

the reason that I just stated, that so much of this work is done in the home on a 24-hour-a-day basis, a do-when-you-can situation, they don't know how much labor content is in a shoe.

Mr. KARTH. But our productivity per hour is higher than that of any other country in the world?

Mr. LOCKRIDGE. That is right.

Mr. KARTH. Doesn't that somewhat compensate for the difference in rates of pay?

Mr. LOCKRIDGE. Not enough. When you have a 100 or 150 percent difference in labor cost, and you have a 10- or 15- or 25-percent difference in productivity, it doesn't compensate, when we have a high labor intensive industry.

Mr. KARTH. Thank you, Mr. Chairman.

Mr. ULLMAN. Mr. Fulton will inquire.

Mr. FULTON. Thank you, Mr. Chairman.

I would like to thank my colleague, John Duncan, also, for having related my regrets that I was not going to be here early enough this morning. Fortunately the flight was on time.

I extend a welcome especially to Eli White. For the benefit of the committee, Eli had a paper route many years ago. I was only a helper.

I would like for you to know, Eli, that I am still a helper, even though things have changed since that time.

I will not belabor the committee or witnesses by asking questions.

I have been a representative of Nashville, Tenn., the home of Genesco, and the very large segments of our population fortunately employed in the shoe industry, and I am very familiar with the plight of the industry at this time, and I assure you that you have a very sympathetic and understanding person here.

Mr. WAGGONNER. Will the gentleman yield?

Mr. FULTON. Yes.

Mr. WAGGONNER. He is understanding to the point that he sees that I wear Genesco shoes.

Mr. KARTH. Will the gentleman yield?

Mr. FULTON. I yield.

Mr. KARTH. I think I can say that he does very good for you on this committee and on other places in the Congress.

Just for another question, sometime back Congress allowed the exportation of U.S. hides, or it seems to me that we did, or at least the bill passed the House. That is another problem, isn't it? These other countries are keeping their own hides to produce shoes to sell in the American marketplace.

We are short on hides, but we go ahead and allow the exportation just because they can get a better price somewhere else. I think you might address yourself to that problem. Maybe we can correct some of our problems that we have created right here.

Mr. SHOMAKER. We did, Congressman, mention that in the testimony. The hide situation got out of hand when Argentina restricted their exports. They were the second largest exporters of hides in the world market. For various reasons they pulled their hides out of the export picture and that brought all of their customers here. They did it to develop their own tanning and their own shoemaking and leatherworking industries.

That, of course, raised the price of our shoes and I might say that that was during the phase 1, the freeze and phase 2 so that the hides were flowing out of the country and we were in a controlled situation. Our basic raw material was going through the roof and we were sending the hides all over the world and getting them back in the form of finished shoes.

Mr. KARTH. So we made the hide industry healthy and made you sick at the same time, I guess that is probably the long and short of it?

Mr. SHOMAKER. That is essentially what happened.

Mr. LOCKRIDGE. The balance of trade got quite out of whack, too. We would export $25 million worth of hides and get back $600 million worth of shoes.

Mr. KARTH. That is all, Mr. Chairman.

Mr. BURKE [presiding]. Mr. Broztman is recognized.

Mr. BROTZMAN. I want to follow up a bit on styling. As I understand what you said, in the expensive shoes we don't compete. My question really is who sets the styles on these shoes and, particularly, let's take women's shoes as an example.

For example, who initiated or reinitiated the Carmen Miranda syndrome that we see in our country in women's shoes? How did that come about?

Mr. SHOMAKER. I think as Mr. Lockridge said, there is probably no style in Italy or Spain that could be imported into this country unexpurgated. In other words, our people in this industry, our importers or our retailers are great style people and they search the world market for style either here or there. It is hard to say where a particular style does originate or how it originates. Of course, it does have something to do with the apparel that is worn because it is essentially an accessory as well as a necessity.

Hem lines of the dresses or pants all have an influence on styling. I would say that our retail industry is one of the best. It moves more shoes accidentally than the Europeans do on purpose. It directs the kind of style that comes into this country. They decide what they are going to sell to the consumer. The styles are available.

Mr. BROTZMAN. So the styles are set outside of this country, right?

Mr. SHOMAKER. The styles can be set anywhere. They can come out of our fashion centers or out of Italy or out of London or Paris or wherever. One group of stylists may be in the ascendancy for a while and then it shifts to another country. We are seeing in this country now a return to the more classic footwear. Those are the kinds of footwear that originate here.

The bow saddle, which is an old American standby, is being made very effectively overseas and brought here. So that while the style movement may start here or may start wherever, style is sort of universal particularly as we mentioned with jet transport. I think that any style has to be interpreted for this market and the retailer is excellent at doing that and will get that style wherever he can at the best price.

Mr. LOCKRIDGE. You are talking about women's shoes in the early 1940's?

Mr. BROTZMAN. I think there is a greater fluctuation in women's shoes, but I am not sure about that. It seems to me that they change awfully fast and not always for the best, but that is a personal matter.

Mr. LOCKRIDGE. In the early 1940's we had what we call platform shoes. They were made in two constructions, split-lasted and regular platform shoes and we had a big run on platform shoes. Then they came back in 1971, I guess. Platforms began to come back. The same thing happened on platform shoes.

It was an American conception of long ago because in 1940 most Europeans were wearing very clumsy unstyled shoes. So the retailers over here took a cyclical situation and took it to Italy and began to get heavier and heavier platforms built and the same thing happened to these platforms that happened to fins on automobiles from 1954 to 1960.

They got bigger and higher and bigger and higher.

Mr. BROTZMAN. They are still growing.

Mr. LOCKRIDGE. When they get big enough, they will go back to nothing, so that we are just in a cycle.

Mr. BROTZMAN. Thank you very much.

Mr. BURKE. Are there further questions? Mr. Carey is recognized.

Mr. CAREY. Thank you, Mr. Chairman. What is the extent of multinational development in the shoe industry? Is there any pattern of multinational management shoe companies, companies operating on both sides of the water or in many countries at once.

Mr. SHOMAKER. There are very few American manufacturers with facilities outside of this country.

Mr. CAREY. You say there are very few. Are they large? Are they major?

Mr. SHOMAKER. They would not be a major factor in any of the domestic manufacturers' battery of plants. They are very minimal. This has been primarily caused by the fact that we import shoes and, of course, we are rather opportunistic. We will go to the lowest labor rate and so no manufacturer wants to put plants in Italy to find out that Spain next year is more competitive or that Brazil is the following year or Argentina is the following year, so that there are very few shoes manufactured by domestic companies overseas for this market.

Mr. CAREY. Let's put it the other way around. There were no new openings in the shoe industry, as I see it, since 1966, no new plants opening in this country. Is it also true that foreign manufacturers have not set up any facilities in this country, no new openings by them?

Mr. SHOMAKER. There are very few examples of any kind of foreign ownership of domestic plants. There have been some plants opened in those periods. You are looking at net closings.

Mr. CAREY. Openings shows zero shoes for 6 years, I think.

Mr. SHOMAKER. There have been some plants opened in this country, but there have been a much greater number closed, so that you are looking at a net figure, I think, on that bar chart.

Mr. CAREY. Attachment F. Page 24 says, "Net openings and closings" and shows above the bar graph line on openings the last year as 1966 and shows no openings from then on. That is what I am suggesting.

Mr. SHOMAKER. But it is a net figure.

Mr. CAREY. You mean openings subtracted from closings?

Mr. SHOMAKER. Right.

Mr. CAREY. I see. We hear from internationalists—I guess that is the best word for them—that we have to be prepared in this country to see labor-intensive industry go abroad, and that we will have to subsist in the future on service-oriented type industry for employment opportunities—this is not my position—but do you think that there ought to be categories of manufacturers that are so intimately related to the quality of life that we should always maintain domestic production of food and fiber; in other words, the things that we eat and the things we wear? I am looking at the possibility that we might not have available to us, if all the manufacturing is done overseas, clothes and wearing apparel and shoes for our needs if there is any breakdown in the international system.

What I am driving at is do you think our trade negotiations ought to possibly proceed in categories? It is one thing if chemicals are produced overseas or if oil developments occur overseas—because that is the only place where it can be found today, but it is another thing if all of our apparel and shoewear and footwear are produced outside the country. We had a leading merchandise representative of a large retail group tell us that we have the prospect of a fiber shortage in the fall in man's woolen suits and women's woolen apparel, because there is a worldwide wool shortage and we are not going to be able to have enough wool suits and dresses, so that when the fuel shortage hits us we won't be able to dress warmly.

Do you think we ought to divide this into categories where we say regardless of our desire to be reciprocal in trade we ought to insist that we have facilities in the country that will guarantee us at least apparel to wear and things that are necessities for the family.

Mr. SHOEMAKER. We happen to think in the shoe industry that we shouldn't export all of our labor-intensive jobs. We would certainly agree that the shoe, while it is a style article, is still a basic necessity of wearing apparel. As we pointed out, many of our plants are located in small communities, not in the metropolitan areas. We use a lot of labor. Most of it comes to us totally untrained and totally unskilled.

We spend a lot of money training them to become shoe workers. Work is a shoe factory is not easy. As a matter of fact, some of the jobs require long training periods and are difficult, physically and mentally.

We provide employment in many of these rural settings. In the case of our own company we have established a plant in the inner city of St. Louis using practically about 95 percent black employees right in the neighborhood from the ghetto. We believe that there need to be some industries in this country that still employ labor and that we are not all in the service industries.

Mr. CAREY. I have the idea that the chairman today may be a little generous in time if I ask the right questions. I have just one more here, if the question is appropriate. I am sure this has been addressed in other forums, but considering the laid-down cost of footwear imports, the CIF-duty paid cost of leather shoes from Italy, Spain, and so forth, it doesn't seem that the consumer is getting much of a bargain in the retail shoe store as a result of these imports.

Comparisons of leading shoe retailers in the New York City area and the Washington area indicate that whether it be an American shoe or overseas import, the prices comes out the same, so that there must

be a whale of a markup on the imported shoes. This gives, I think, some rebuttal to the notion advanced by many academic people that the whole purpose of trade is to attract imports because it brings the cost of living down.

I can see this in imported shoes because I can't find any bargains in the shoe store. Somehow the markup gets up as far as it belongs so far as the retailer is concerned.

Mr. LOCKRIDGE. I think you have summed it up basically. I would like to add that I think this country should not only be concerned about some of the steel maybe or the lumber or the cotton or other things that are going out of it, but we are the world's supplier of hides now. A large percentage of the world's supply of hides comes from this country because we eat the red meat. I think Congress should be thinking about keeping some hides in this country for the very reason that you were talking about, that it is necessary to have certain cover in certain things.

When we have hides going out of this country at the rate they have been going out, it is not only costly for the American consumer, but if it gets out of hand, we will have a shortage.

Mr. CAREY. I hope we can listen to Mr. Burke on that.

Mr. BURKE. Will the gentleman yield?

Mr. CAREY. Yes.

Mr. BURKE. I would like permission to insert in the record statistics provided by the committee staff showing that the price of hides in 1970 was $8.40 per hide and in April of 1973 they were $21.97 per hide. I ask unanimous consent to have this inserted in the record at this point.

[The table follows:]

CATTLE HIDES: U.S. EXPORTS OF DOMESTIC MERCHANDISE, 1970–72, JANUARY TO APRIL 1972, AND JANUARY TO APRIL 1973

Period	Quantity (thousand hides)	Value (thousands)	Unit value (per hide)
1970	15,222	$127,803	$8.40
1971	15,962	129,288	8.10
1972	17,589	261,617	14.87
January to April:			
1972	5,256	53,080	10.10
1973	6,440	141,512	21.97

Note: The statistics shown are for exports of whole cattle hides (schedule B, class 211.1010) and cattle hides cut into croupons, crops, dossets, sides, hutts or butt bends (schedule B, class 211,1015).

Source: U.S. Department of Commerce.

Mr. FULTON. Will the gentleman yield?

Mr. CAREY. I yield to the gentleman from Tennessee.

Mr. FULTON. I appreciate you bringing up the question of whether or not the savings from foreign-produced products are passed on to the consumer. I tried to point this out a few weeks ago with reference to color television sets primarily produced overeas now, that they are not retailing for any less than the one American-made set still manufactured completely in our country, as well as the importation of bicycles.

Foreign-made bicycles from Taiwan are not retailing any cheaper or as cheap as those made here in America. I think this is a false question

which has been raised by many that to place quotas or to try to control the imports coming into this country will have an adverse effect on the consumer.

I certainly do not agree with that.

Mr. CAREY. My last point is that I hope the American footwear industry can do something to look at the excessive styles, and I am not against good styling, but before long we will have a whole generation of young people who are club-footed, knock-kneed and unable to do something about the unisex program under which the men are wearing the platforms and high heels. I am predicting we will come out last in the Olympics 8 years from now because all the barefoot people run like mad and we will not be able to get off the block.

So do something about the style please.

Mr. FULTON. May I be recognized, Mr. Chairman?

Mr. BURKE. Yes.

Mr. FULTON. Just last night in Nashville at a banquet one of the oustanding female executives in the country was there and she was on crutches. She had fallen as a result of a high platform shoe and broken her ankle.

Mr. CONABLE. Mr. Chairman?

Mr. BURKE. Mr. Conable is recognized.

Mr. CONABLE. I would be interested in inquiring, sir, what has happened in the shoe industry as a result of these high hide prices. Has there been any movement back toward some of the previously unacceptable synthetics like Corfram and others? Are we trying to find some way of accommodating or is leather so vital that we can't take advantage of the synthetic developments?

I understand that Corfram, for instance, was abandoned as a shoemaking material by Du Pont because it was not publicly accepted. I happen to like Corfram. I wore Corfram shoes quite extensively back when they were readily available. How about that? Are we doing any accommodating or are we sitting back and feeling regretful that Congress didn't respond to an administration initiative to embargo the export of hides?

Mr. SHOMAKER. Well, as we in the industry told the hide industry as the price of hides and the resulting price of leather reached the heights that it did last year, you did begin to get pretty massive substitution. It is true that Corfam, which was manufactured by Du Pont, is no longer manufactured under that name. The plant was sold to the Government of Poland and is presently being installed in Poland to commence production probably about in 1974 or 1975. There are a number of synthetics and a greater number coming every day into this industry.

Of course, that again likely there is a worldwide market. Some of the best synthetics are made in Germany and excellent ones in Japan and good ones here. Corfam as a material is still being used in this country.

Mr. CONABLE. Out of stockpiles?

Mr. SHOMAKER. It was originally out of stockpiles, but those stockpiles are about depleted, I believe, and similar materials are being manufactured by at least two manufacturers in this country.

Mr. CONABLE. The problem was not price competitiveness, so that the rise in the price of hides would make synthetics more acceptable. The problem was one of the quality of material?

Mr. SHOMAKER. No. Du Pont just happened to have Corfam on-stream when the hide market was at a rather low point and a very stable point for a number of years. They priced it as a very excellent product and priced it above the price of many of the leathers that were currently being used in this country. They brought it out as a premium product. It is an excellent product but in many respects not as good as leather.

The more current synthetics are priced competitively with leather or less than leather and this is accounting for their large growth.

Mr. PETTIS. Will the gentleman yield?

Mr. CONABLE. Yes, I yield.

Mr. PETTIS. Would you elaborate on the difference between Corfam and leather in terms of these characteristics that you spoke of?

Mr. SHOMAKER. The major characteristics in terms of shoemaking would be probably its porosity. That is the amount of moisture that can be absorbed or extruded through the material.

Mr. PETTIS. It doesn't breathe?

Mr. SHOMAKER. Corfam did breathe, but not to the same degree that lightweight calfskin would have, for instance.

Mr. LOCKRIDGE. One of the other big areas is that leather fibers, of course, God made and they are intertwined and matted and it gives them the capability of stretching on the foot and then after you take your shoes off and set them in the closet at night, they tend to go back a little bit and then you wear them again the next day and they elongate again.

The fibers are so concentrated in leather. Most of the manmade materials currently are made on a woven base and the warp and woof in this base is tight one way and a little looser in the other, so that really with a leather shoe in addition to the things that Mr. Shomaker was talking about, you get a whole lot more comfort from a leather shoe because of the give as well as an evaporation of moisture from your foot.

Mr. SHOMAKER. Thank you.

Mr. CONABLE. That is all, Mr. Chairman. Thank you.

Mr. BURKE. Mr. Clancy is recognized.

Mr. CLANCY. Thank you, Mr. Chairman. Could you gentlemen tell me whether or not any U.S. shoe manufacturers own and operate retail outlets?

Mr. LOCKRIDGE. Quite a few. Practically all.

Mr. CLANCY. Do these retail outlets sell imported shoes?

Mr. SHOMAKER. Yes, they do.

Mr. LOCKRIDGE. Yes, sir.

Mr. CLANCY. Why is that?

Mr. SHOEMAKER. Well, I think the testimony pretty much speaks to it. When you can buy shoes of equivalent quality at much lower prices, you are either forced to join them or get out of business and that is what has happened in this industry. In order to survive at all, those manufacturers that have retail outlets and are in competition with those who do not have manufacturing plants have been forced by virtue of the number of imports coming into this country to have a posi-

tion in those imports. It is sort of like you either join them or get beat, one or the other.

Mr. LOCKRIDGE. It is the survival of the fittest.

Mr. CLANCY. From observation it would appear to me that the quality of imported shoes is very inferior, but you say that the quality is good.

Mr. SHOMAKER. It varies depending upon the price and the material used. Some imports are of fine quality and others not. It varies up and down the scale because when you are importing 300 million pairs of shoes, you can't categorize them as all cheap or all expensive. They cover the spectrum though they tend to be on the lower end of the scale.

Mr. CLANCY. When we export hides, we export different grades of hides, isn't this true?

Mr. SHOMAKER. Right.

Mr. CLANCY. What do our exports consist of? Are they high-grade hides or are they low-grade?

Mr. LOCKRIDGE. Some of the best and some of the worst.

Mr. CLANCY. Where do the best go if you know?

Mr. LOCKRIDGE. Some of them go to Italy, some to Spain, some to Japan. It depends on where they need them. A lot of them go to Russia.

Mr. CLANCY. Let's take Italy, for example. How much of their imports of hides, come from the United States?

Mr. LOCKRIDGE. I would think that probably it is 75 percent. That is just a round figure. We have the same problem in the tanning industry in Italy as we do in the shoe industry. You go to Florence where a lot of the tanneries are located in Italy and within 15 miles of Florence there are probably located 600 tanneries. This is the same small tannery operation that you have in the shoe operation, the cottage-type tannery, and they can take our hides and for a whole lot less money come up with leather that we can't do because of the labor content in hides.

I don't know anything about the leather industry. I am talking hearsay, but I have been in those tanneries and I have seen tannery after tannery after tannery. They don't have a big capacity, but they tan our hides into good leather in the mom-and-pop-type operation. They might have 10 or 15 people doing a good job with either cheap or low-priced hides.

Mr. CLANCY. Does Italy import any hides from Argentina?

Mr. LOCKRIDGE. I am sure they have. Not right now, because it has almost all been cut off.

Mr. CLANCY. I have just one final question. What percentage of the imports come from Greece, if you know?

Mr. LOCKRIDGE. I don't know.

Mr. SHOMAKER. It is a relatively small percentage, but growing.

Mr. LOCKRIDGE. Are they new in this area as far as exporting to us?

Mr. SHOMAKER. Right. In the last 2 to 3 years they have been growing as have many of the underdeveloped nations. The shoes are made where the labor is the least expensive.

Mr. CLANCY. Thank you very much.

Mr. KARTH. Mr. Chairman?

Mr. FULTON [presiding]. Mr. Karth.

Mr. KARTH. Mr. Chairman, I hesitate to belabor the labor question, but I have done some quick and simple arithmetic and find that with $3.22 an hour including all fringe benefit costs and an employee producing 1.65 pairs per hour on average as you have indicated and if 25 percent of the cost of a pair of shoes is labor, that the average labor cost for a piar of shoes is about 55 cents or 60 cents, is that right?

Mr. SHOMAKER. That would be quite low, Congressman.

Mr. KARTH. I took your figures. Let's figure it out, if you want to. $3.22 an hour. One-fourth of the cost of every pair of shoes is labor cost. 1.65 pairs an hour is the average. That comes out to about 60 cents labor cost per pair of shoes.

Mr. LOCKRIDGE. The average direct labor cost in this country basically and I don't know what Mr. Shomaker's costs or Mr. White's cost is.

Mr. KARTH. I am only using the figures you gave to the committee in your testimony. That is what it comes out at.

Mr. LOCKRIDGE. I want to give you exactly what it is. Our labor cost in Virginia, which is about average I would say, runs depending on the type of shoes from about $1.40 to $2 a pair direct labor cost in the factory.

Mr. KARTH. You better look at your testimony tomorrow when you get a copy of the transcript, because the figures that you gave this committee on a very simple basis of arithmetic come out at that. I think you had better correct it.

Mr. LOCKRIDGE. We are talking about leather shoes made under this type of arrangement. If we are making canvas shoes or molded-bottom shoes or something like that where you have very few parts, all of this is averaged in your 1.6 pairs.

Mr. KARTH. I am talking about the average.

Mr. SHOMAKER. Congressman, let's take our figures. $3.25 an hour in 8 hours produces a wage of $26 a day. That employee is producing about 12 pair per day. 12 pair per day into $26——

Mr. KARTH. He is producing about 13.5 pair, but I am not going to quibble about a percentage. Let's say 12 pair.

Mr. SHOMAKER. As you can see, it is considerably over $1.

Mr. KARTH. 1.6 pairs per hour comes out a little over 13 pairs, but go ahead. If one-fourth of that cost is labor cost, it comes out to about 60 cents a pair.

Mr. SHOMAKER. You used the figure of 60 cents a pair. My figures would indicate well over $1 a pair. It would be closer to $2.

Mr. WHITE. I think probably one of the problems is the fact that the 25 percent of cost in the pair of shoes is constituted in labor. The labor is $3. It is not 25 percent of the $3.22.

Mr. LOCKRIDGE. In other words, Congressman, let's say we are talking about $3 to make it simple. We are talking about $3 an hour. In eight hours we produce a wage of $24 a day. Eight times 1.5 is 12 pairs. You came up with 13. So you divide 12 or 13.

Mr. KARTH. You said it was 1.65 pairs per hour. That is why I came up with 13.

Mr. LOCKRIDGE. Per hour per operator. You have to multiply the $3.22 by eight and then divide it by the 13 pairs per day.

Mr. KARTH. And one-fourth of the cost of that shoe is labor?

Mr. LOCKRIDGE. We are only talking about labor cost now.

Mr. KARTH. That's right. That is all I was talking about.

Mr. SHOMAKER. We are saying that the average labor content in a pair of American-made shoes even on these rough figures would be from $1.40 to $2.50 per pair.

Mr. KARTH. On a $50 pair of shoes that is not a great deal, is it, even if it were $2.50, the highest figure you mentioned? I guess the cost of hides is much more significant.

Mr. SHOMAKER. Your materials constitute another big part of it and your labor and hopefully a little profit in there. Then, of course, the retailer adds his markup, which is certainly equivalent to your wholesale selling price. But we are talking about labor content in most American shoes being close to $2 a pair.

Mr. KARTH. I will recheck those figures. Thank you, Mr. Chairman.

Mr. FULTON. Are there any additional questions?

Mr. GREEN. I want to ask one question, if I may.

Mr. FULTON. Mr. Green.

Mr. GREEN. You say the original labor cost for a pair of shoes in this country is $2.50. What is the average price for a pair of shoes in this country?

Mr. SHOMAKER. I think our average would be slightly over $10, probably $10, $11, somewhere in that area.

Mr. GREEN. Are you including all sorts of shoes, the clogs and molded and everything right down the line?

Mr. SHOMAKER. That's right.

Mr. GREEN. What is the sort of average cost for, let's say, the kind of a man's shoe that is leather, sewn together either by hand or by machine. What is the sort of the run of the mill cost for a pair of shoes?

Mr. SHOMAKER. That you would buy?

Mr. GREEN. Yes.

Mr. SHOMAKER. Well, I would say you are now talking in the area of an all-leather shoe, $25 to $35. Let's say it probably would average around $30 for a full leather shoe.

Mr. GREEN. What percentage of the market is that kind of product?

Mr. SHOMAKER. Well, a relatively large part of the men's basic shoes would be in that area. You are talking an all-leather shoe.

Mr. GREEN. It doesn't have to be all leather.

Mr. SHOMAKER. Then the average men's price when we consider all footwear is probably in the neighborhood of $15 to $17 or $18.

Mr. GREEN. Roughly in that area. How many pairs of shoes all told are sold in this country every year?

Mr. SHOMAKER. About 1 billion pair.

Mr. GREEN. How many?

Mr. SHOMAKER. About 1 billion.

Mr. GREEN. Five pairs per person roughtly?

Mr. SHOMAKER. Roughly that. It would be a little under that.

Mr. GREEN. Thank you. Thank you, gentlemen.

Mr. FULTON. If there are no further questions, we certainly appreciate the contribution that you have made to the deliberations of this committee.

Mr. GREEN. May I ask one question?

Mr. FULTON. Mr. Green.

Mr. GREEN. Excuse me for coming back again. How does the five pairs per person compare with consumption, let's say, in Italy, Spain, France, other western industrialized nations of the world—England?

Mr. SHOMAKER. It would be higher genrally than the rest of the world and I would say probably higher than those countries you alluded to, but not a whole lot. The per capita consumption in the developed nations is growing. It is not approaching ours yet, but I would say getting close. It would be 75 or 80 percent.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. SHOMAKER. I would like to say one final thing, that we believe our future is in the hands of this committee and this Congress and we would like to reemphasize that we certainly need your help.

[The following was subsequently received for inclusion in the record:]

AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION,
Arlington, Va., June 13, 1973.

Mr. JOHN M. MARTIN, JR.,
Chief Counsel, House Ways and Means Committee, Suite 1102, LHOB, Washington, D.C.

DEAR MR. MARTIN. At yesterday's hearings on trade reform before the Committee on Ways and Means, the witnesses on behalf of the American Footwear Industries Association were asked by Representative Joseph E. Karth about the productivity of the American footwear industry in relation to the productivity of foreign footwear industries. The purpose of this letter is to provide a still mode detailed reply for the record.

The Association has had the opportunity to study comparative productivity in the American and foreign footwear industries. Our study shows that the productivity of the U.S. industry is some 12 to 50% higher in terms of pairs of shoes produced per employee per day than that of our key competitors in Europe. Although footwear productivity data are not available with regard to Far Eastern and Latin American producers, it would be our judgment that the situation would not be too dissimilar with regard to those countries as well. The attached table compares productivity in the U.S., Italian, French, German, and Spanish footwear industries for six different types of shoes.

As was pointed out in yesterday's hearings, significantly lower foreign labor costs more than offset the higher productivity of the U.S. industry, placing the domestic industry in a difficult competitive position, particularly with the footwear industries of the developing low- labor-cost countries.

Reference was also made during the testimony to unit labor costs in the domestic footwear industry. Based on the figures for the U.S. shown in the attached table and an average labor cost of $3.22 per hour, including fringe benefits, the labor costs to produce shoes in the U.S. would range from $1.28 per pair to $4.29 per pair for women's shoes and $2.15 per pair to $6.44 per pair for men's shoes. These figures compare with the average U.S. factory selling price in 1972 of $5.56 per pair for all non-rubber footwear, $8.21 for men's shoes, $5.37 for women's shoes, and $1.67 for slippers (Attachment H of AFIA testimony, June 12, 1973).

We hope that the foregoing information will be helpful to the Committee.

Sincerely yours,

MARK E. RICHARDSON.

Attachment.

COMPARISON OF NONRUBBER FOOTWEAR, MANUFACTURING PRODUCTIVITY

Productivity, pairs per employee per day	Italy	France	Germany	Spain	United States
Women's:					
High fashion	3	3	5–6	3–4	6
Medium fashion	6	6	8–10	5–7	8–10
Medium casual (flatties)	12	12	12	8–10	12–20
Men's:					
High street	3	4	5	2–3	4–6
Medium street	6	8	7–10	3–5	6–10
Medium casual	9	13	7–10	6–8	10–12

Note: Since working days are longer in the foreign countries than in the United States, the productivity figures shown above are not necessarily peoportional to pairs per man-hour.

Mr. FULTON. Our next witness is Mr. George Fecteau. Mr. Fecteau, we welcome you to the committee. If you would for the benefit of the stenographer identify yourself and give your identity with the union please, you will be recognized.

STATEMENT OF GEORGE FECTEAU, PRESIDENT, UNITED SHOE WORKERS OF AMERICA, AND ON BEHALF OF THE BOOT & SHOE WORKERS UNION

Mr. FECTEAU. My name is George O. Fecteau. I am president of the United Shoe Workers of America with headquarters in Boston, Mass. I am appearing before you to testify not only in behalf of my own union, but also on behalf of the Boot & Shoe Workers Union at the request of its president, John E. Mara. These two unions together represent about 90 percent of all unionized workers in the footwear industry. The industry is more than 50 percent unionized.

Both of our unions are strongly in support of H.R. 62, the Foreign Trade and Investment Act of 1973, commonly referred to as the Burke-Hartke bill. We support this legislation because we have had long experience in the shoe industry with the impact of imports upon the employment picture. And it is clear to us that there is a need for straightforward and unequivocal action.

That action must be taken promptly. We have seen shoe imports move from an almost negligible amount 20 years ago to the point where they took 36 percent of all domestic shoe sales in 1972, and are now moving toward taking 42 percent in 1973.

The shoe industry, together with its allied suppliers, provides employment for approximately 300,000 workers. These jobs represent the basic livelihood for approximately 1.2 million people. With the well-being of over 1 million people at stake, I know this committee will want to propose the type of legislation that can keep willing and able workers off of welfare rolls and on payrolls.

Our unions are both members of the AFL–CIO and we have provided leadership within that organization in bringing home the message that the preservation of domestic employment is a fundamental aspect of providing good union leadership.

For that reason I would like to reiterate the words of Mr. I. W. Abel when he testified before you on May 17th. Speaking of the Burke-Hartke bill, he said that "it provides a rational, logical, reasonable framework for attacking the pressing problems we face as a result of our world trade position."

If I might digress a moment at this time, I would like to add for the record that the Burke-Hartke bill has been viciously attacked by multinational corporations, free trade advocates, lobbyists for large foreign investors, importers, chambers of commerce and others who are more concerned with profits than the economic health of our country and its workers.

In 1972 when the United States experienced its first trade deficit in this century, and in 1972 the deficit amounted to $6.4 billion, meanwhile U.S. markets became flooded with excessive imports. Then suddenly the attitude of many toward the Burke-Hartke bill changed from outright criticism to agreement that a major problem did exist

They realized, for example, that the bill does not build walls as its critics charge, but actually provides for a sliding door guaranteeing a fair share of U.S. markets to our trading partners instead of permitting unlimited inflow of goods and outflow of jobs to spread economic disaster. The bill would restrict the present rush by U.S. companies to go abroad for a greater profit while weakening America's standard of living at home.

Following is a summary of the Foreign Trade and Investment Act as introduced by Burke in his bill, H.R. 62, and Hartke in his bill in 151. Briefly it would eliminate special tax concessions now enjoyed by U.S. corporations on their operations overseas; regulate the flood of imports that have smothered U.S. production and cost hundreds of thousands of U.S. jobs; regulate the export of billions of U.S. dollars, equipment, and jobs now being sent overseas regardless of the harm done to U.S. citizens and modernizes the adjustment assistance clause to make injury easier to determine and relief more accessible; establish procedures to collect more pertinent information on foreign trade and labeling of goods and foreign-made parts which U.S. companies assemble in foreign countries and ship to the United States as made in the United States.

Adoption of the Burke-Hartke bill would also provide that all products coming into the United States be awarded annual quotas equivalent to the number of such imports entering the United States during 1965 and 1969. Thus foreign goods entering the United States would be guaranteed a share of our market, but not a license to ruin our markets through the exportation of low foreign wages.

Today U.S. multinational firms and others cry free trade, which really means keep the United States wide open for their profit regardless of the destruction of U.S. market industries and workers' jobs. We believe adoption of the Burke-Hartke bill would reverse this problem and go a long way toward regaining a favorable balance in world trade, restore our economy, protect our jobs, reduce the high rate of unemployment, and place our country in a position to recapture its fair share of trade at home and abroad.

Gentlemen, I think you are aware that the footwear industry was an exporting industry in 1953 and that we contributed our share to the country's healthy balance-of-trade and balance-of-payment surpluses. Since that time, however, the willingness of the United States to open its doors to an unheard of flood of imports—while at the same time sitting still for every possible type of tariff and nontariff barrier abroad—has brought us to the point where the footwear industry by itself contributed in 1972 approximately $900 million to the U.S. overall trade deficit of approximately $6.4 billion. This is close to one-seventh of the entire deficit.

I don't mind telling you that it burns me up when I hear those big multinational corporations and trade groups like the Chamber of Commerce, the American Retail Federation, and the NAM come in here and tell you that what we need is more exports. Where were they in 1953 when the shoe industry was an exporting industry but suddenly found its markets abroad disappearing?

And what is this nonsense about multinational corporation creating jobs in this country by closing factories here and importing from abroad.

If somebody can tell me how shoes made by a 12-year-old Spanish boy, standing on a box to reach a cutting machine without guards and being paid no money at all for his first 2 years of employment because—says the Spanish Government—he is an apprentice and then shipping those shoes into this country, replacing in part the output of workers here, who are hard-working, taxpaying consumers, is creating jobs in this country, I would like to hear more about it.

We all know that the strongest currency in the world today is the Japanese yen. We also know that it got that way by erecting every sort of limitation, barrier, quota, tariff restriction, and what-have-you, to the purchase of imported goods into Japan. Maybe it is about time that we tried to make the dollar as strong as the yen and paid some attention as to how Japan got to be the nation with a currency that is constantly being revalued upward while our dollar is constantly being valued downward.

Only recently, under the leadership of such able men as Congressman Jim Burke and Senator Vance Hartke, has the country begun to become aware of the real facts of international trade. We see in the administration's bill, H.R. 7676, a sudden recognition that we must export to live, but we still see no inclination on the part of the administration to follow the other half of the Japanese formula which is the restriction of unnecessary and economically harmful imports, I would hope that Congress will pay attention to both sides of that coin.

We are never going to strengthen the dollar, we are never going to cure our balance-of-payments problem, we are never going to lick our high unemployment, we are never going to eliminate an ever-worsening inflation, as long as the United States sits idly by as a dumping ground for shoes, TV sets, apparel, steel and automobiles, et cetera. It is about time that we told the Japanese, the Spanish, the Italians, the Brazilians, the Argentinians, and others who insist on flooding our country with imported shoes that enough is enough.

Every other country on earth is smart enough to put limitations on how much can be shipped into their country, but we have sat idly by and done nothing here in the United States. Even worse, the President of the United States has sat idly by and done nothing about the shoe problem when he had all the power necessary to grant relief. We as a part of the shoe industry testified before the Tariff Commission in 1970 and proved our case even under the ridiculously stringent requirements of the Tariff Act which led to a tariff decision that gave the President the power to institute relief for the shoe industry. The failure to take any action under the Tariff Commission decision is a clear indication of why the shoe workers of this country are not willing to listen any longer when the administration says it needs more power to help import-injured industries.

Since January 1971 the President has been free to give us relief and he hasn't done so. Imports in 1970 came to 240 million pairs. Last year imports came to 300 million pairs. In that short interval alone, employment in our industry has dropped from 219,000 workers to less than 200,000 and among our supplying industries we have seen an even greater percentage loss than the 8- to 10-percent loss of jobs among shoe workers in just that 2 years' time that the President has been siting on our case. Unemployment is running high in every major shoe-manufacturing area that I know of.

Shoe workers have had to go on unemployment, and then on welfare, and they don't want to do that. They are proud, energetic people with a tradition of hard work and all they ask for is a decent job at a decent wage and action by our Government to preserve the jobs that still remain.

There would be almost twice as many jobs in the shoe industry today if we had maintained our relative balance of imports and exports as they existed 20 years ago in 1953. Think of it, gentlemen, 200,000 more shoe workers would have jobs today, and our balance of trade would be substantially better if we had been able to sustain our industry at an even keel over the last 20 years.

But how can you have that kind of situation when our Government seems to do everything it can to see that foreign workers have jobs but the American shoe workers go unemployed? Our workers are not that well paid. The official Government statistics show, however, that despite the fact that the American shoe worker was only averaging about $3.10 an hour in wages and fringe benefits in 1972, his counterpart in Italy was getting about $1.69 an hour; in Japan about $1.09 an hour; and the workers in other countries like Spain, Brazil, Taiwan, Hong Kong, and South Korea were being paid at a wage level including fringes of approximately two to four bits an hour.

I would like to read to you, gentlemen, an interesting quotation I came across the other day.

> Moreover, the impact of imports on jobs is greatest in those U.S. industries which are labor-intensive. When the unit labor cost of a product is great, as in shoes, some types of textiles, inexpensive toys, et cetera—highly paid U.S. labor (even at minimum U.S. wages) is at a competitive disadvantage with foreign producers, especially the low-wage developing countries. In addition, these marginal U.S. industries are often situated in less industrialized areas of the United States. This is a legitimate social as well as economic problem, and it cannot be ignored.

That quote, believe it or not, is from a pamphlet called "Who's Right" which was printed and distributed by the American Importers Association. When they state the point so well, what do I have to say further to establish the essentiality of action by this committee and by the full House and Senate to bring relief to an industry that is long overdue in receiving necessary consideration as a supplier of jobs?

Thank you.

Gentlemen and Mr. Chairman, if I may at this point, I was allotted 20 minutes, I believe, by your good committee, and I have taken less, I think, time, than this. I have with me another gentleman who has a very urgent negotiation confronting him later on this afternoon, who is also associated with the shoe industry to some extent as far as workers are concerned. If he is compelled to testify later on, he has to either miss testifying before this committee or miss these very important negotiations.

I wonder if it would be imposing on the committee if I would share the 20 minutes that I have available with this gentleman. I speak of Mr. Peter Bommarito of the Rubber Shoe Workers Union.

Mr. BURKE [presiding]. Is there any objection? The Chair hears no objection. Mr. Bommarito may approach and he may testify within the time limit of Mr. Fecteau.

STATEMENT OF HON. JOHN F. SEIBERLING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. SEIBERLING. Mr. Chairman, I wonder if I could introduce Mr. Bommarito. He is a constituent of mine. His union, of which he is the president, has a great many members in Akron, Ohio, which is the headquarters of the rubber industry in the United States. It is a real privilege for me to be here today and listen to his testimony.

Thank you.

Mr. BURKE. You are recognized. You may identify yourself and your colleagues and proceed with your testimony.

STATEMENT OF PETER BOMMARITO, PRESIDENT, UNITED RUBBER, CORK, LINOLEUM & PLASTIC WORKERS OF AMERICA, AFL-CIO, CLC, ACCOMPANIED BY JOHN CAMPBELL, ASSISTANT COUNSEL, AND STEVE CLEM, ASSISTANT RESEARCH DIRECTOR

SUMMARY

1. The URW supports the implementation of a foreign trade policy that would restore full employment, improve living standards both here and abroad and achieve an equitable balance of trade between the United States and the rest of the world.

2. The URW calls for the following:

(*a*) The imposition of quotas on labor-intensified products which threaten the extinction of U.S. manufacturers and increases unemployment among our workers.

(*b*) The formation of a trade commission charged with the authority to investigate and impose sanctions against the dumping practices of foreign nations. This commission would also be responsible for the imposition of countervailing duties.

(*c*) The revision of trade readjustment allowances in order to realistically assist affected workers.

(*d*) The immediate repeal of TSUS Sections 807.00 and 806.30.

(*e*) The revision of tax laws as they apply to the multinational corporation subsidiaries.

3. The foreign trade policies of the last decade have encouraged increased production of footwear products in low-wage countries and have contributed to the deterioration of the U.S. footwear industry.

Trade Adjustment Assistance has not provided the cathartic effect which Congress originally intended because of the inability of workers to qualify under its unrealistic and unreasonable criteria.

5. The free traders idealistic yet unrealistic theory that increased imports engenders consumer benefits through lower prices is a myth.

6. Present trade policies have contributed to the near demise of the bicycle and motorcycle tire industry.

7. The outlook for the automotive tire industry is promising although threatening signs are appearing with greater consistency—

a) Imports have increased their share of the domestic market to 10 percent.

b) Foreign nations have invoked increased tariff barriers against American products.

c) Foreign nations have offered inducements to tire manufacturers in the relocation and establishment of new facilities (Michelin and Canada).

d) Technology sharing and "sweetheart" arrangements with foreign producers has increased.

8. If the present rate of import growth is maintained the domestic automotive tire market will be controlled by imports in the mid 1980's.

Mr. BOMMARITO. Thank you, Mr. Burke, Congressman Seiberling, and Mr. Fecteau. This is John Campbell, our assistant counsel, and Steve Clem, our assistant research director.

Mr. BURKE. For the information of the witness the committee will proceed until the quorum call is called and we will then recess until 2 p.m.

Mr. BOMMARITO. Thank you.

Mr. Chairman and members of the House Ways and Means Committee, our concern with the problems of international commerce is not of a recent origin. Nor was it spawned by purely emotional issues. We are concerned because all foreign trade policies involve people.

We are even more concerned because we believe that the wealth and strength of this great Nation is not in its multinational corporations or its wealthy insurance firms. It is not in the hands of the stock market manipulators or in the coffers of the international banking institutes. We believe that the wealth and strength of this great Nation lies in its people—people who are fully employed in a decent job with decent wages—people whose children are afforded the opportunity to attend the school of their choice—people whose heritage forms the foundation of this great Nation.

We know that foreign trade and the welfare of our people are interrelated and inseparable. However, when we see our Government formulating trade policies with apparent disregard of the impact that these decisions would have on our people, than mere concern or token involvement is not enough. There must be a total commitment of involvement to reverse these actions.

We appeared before you in 1965 when we represented over 10,000 workers in the rubber-soled footwear industry. We pointed out the impending disaster facing the shoe industry if the trade programs which were easing trade barriers on these products were to continue.

We appeared before you again in 1970 and again we asked for relief through the adoption of a revised and sensible trade program. Yet and despite the fact that the U.S. Tariff Commission found that increased imports were the major factor causing or threatening to cause unemployment or underemployment in the canvas rubber footwear industry, our pleas fell again on deaf ears. Thousands of footwear employees have since joined the ranks of the unemployed. Hundreds of plants have been closed.

In adopting and developing its new trade policies Congress inserted a section into its 1962 trade bill that established trade readjustment allowances. This section was intended to aid and assist workers whose employment was affected by increased imports. It granted them subsistence payments, moving allowances or reeducation for a different line of work.

Scores of former footwear workers have applied for adjustment assistance in the past 3 years. Ninety-one different groups of shoe manufacturers' employees have requested aid. Only 11 were successful. It required presidential action to help 21 others. The remaining two-thirds were denied relief even though imports caused them to lose their jobs.

Apparently Government programs offering temporary relief or Federal assistance are not the answer to the concept of maintaining full employment. Nor will they serve as a replacement for the exportation of jobs from the American scene.

The American taxpayer should not be called upon to subsidize American workers who have lost their jobs because of trade policies enacted by our Government for the benefit of the greedy multinational corporations.

The production of footwear is a labor-intensive industry. It is highly susceptible to the impact of cheaply produced items from low-wage foreign countries. Recognizing the fact that increased cheaply produced imports would exact a toll of our workers and in the face of considerable criticism the United Rubber Workers took it upon themselves to do something.

I remember visiting the members of our Local 224, employees of the Uniroyal Footwear plant in Woonsocket, R.I., in late 1969. I was inspired as I talked to many loyal employees, some of whom had accumulated seniority of 45 to 50 years. They disbelieved company spokesmen who said that the plant would close in early 1970. To them the footwear plant was like a part of the family. Their parents, their children and many of their relatives and friends had worked there over the years. The company was an integral part of the community.

The absolute disbelief that the plant would close continued right up until the last day as indicated by a very low rate of absenteeism during the final days. Several months later I had an occasion to talk to one of the unemployed women and she told me through red, swollen eyes, with tears running down her cheeks, that she wanted to work, that she had worked all of her life and was ashamed to go on relief. She said that she would rather make less money per hour and work than to make more while staying at home unemployed. The company was gone, the community was dying. I could never forget the look on that sister's face.

The irony of the whole thing is that the company was making a little profit at the plant and were in the middle of a renovation program. The truth is simple: People and loyalty meant nothing when it came to profits.

The average United Rubber worker is proud of his job and his product. Perhaps this fierce pride is the reason that many of our local unions have done what they had to do in order to continue their employment. Local 45 members, employees of the Uniroyal Footwear plant located in Naugatuck, Conn., asked for and was granted a moratorium on wages.

Goodyear Footwear plant, Local 239 in Windsor, Vt., waived negotiated wage increases rather than accept a phaseout of that facility. The direction of our current negotiations has demonstrated clearly to all of industry that we are concerned for our family and that job security is one of our prime bargaining goals.

But we can't do it alone. We need your help. We are puzzled by the refusal of Congress to invoke policies which would implement our goals, match our sacrifices, and give protection to the working people of this great Nation.

When the President introduced his present pending trade bill he indicated that certain import-sensitive duty-free products from less developed countries would be excluded from such prevention treatment. He was referring specifically to footwear. We are leery of promises. We don't want indications or good intentions.

What about prices? Many free traders argue that any regulation of goods eventually affects the consumer right where it hurts the most—in the pocketbook. Practical experience and common knowledge shows just the opposite.

In 1970 the freight on board value of nonrubber footwear imported into the United States was $550 million. The wholesale price was $890 million. This was a markup of 60 percent. The price to the buyer in the store was $1.88 billion dollars, a profit of 111 percent over the wholesale price.

In the beginning imports, when directly competitive with American products, usually sell for less than the American product is selling for at that time on the domestic market. However, once the foreign import has driven out the American-produced item the price of the foreign product will eventually rise above the American selling price. Eventually the product is foreign-made with an American name selling at American prices.

I would also like to call your attention to other products which we produce which are equally as affected. I refer to tires, rubber hose, belting, toys, golf balls, balloons, and footwear component parts. Since time does not permit me to present a discussion on all of these matters, I would like to limit the balance of my discussion to the tire industry.

The experience of the cycle tire segment of the domestic rubber industry is a classic example of the consequences of this Nation's lack of a realistic foreign trade policy.

Because of imports there are only two producers of bicycle tires in the United States: Goodyear Tire & Rubber Co. in New Bedford, Mass. and Carlisle Corp. in Carlisle, Pa. Uniroyal in Indianapolis, Ind., was the most recent casualty having shut down its bicycle tire operations in 1970. Total employment at the two remaining facilities is very insignificant in the aggregate, but obviously very meaningful to those whose livelihood depends on the retention of bicycle tire production in the United States.

U.S. imports of bicycle tires first became a problem in the late fifties. A once gradual influx into the market began to increase rapidly. Today imports control 77 percent of our market.

A similar situation exists relative to the motorcycle tire segment of the industry. Imported motorcycle tires constituted over 80 percent of the U.S. replacement market in 1971. Data on domestic shipments is not yet available for 1972, however, 1972 imports of replacement motorcycle tires rose by 35 percent over 1971. This is a clear indication that imports continued to increase their share of the U.S. market last year, the majority of these imports coming from low-wage, managed economies. These same countries have set up numerous barriers to goods from the United States.

The experience of the bicycle and motorcycle tire portions of our industry stands as a warning of what can happen to the automotive tire industry unless positive action is taken. We must overhaul our nonexistent trade policy and mold it to benefit the United States rather than benefit the rest of the world at our expense.

By way of definition automotive tires include passenger car, truck, and bus tires. Imports have not yet taken over this market, but they do pose a serious threat to the continuing prosperity of this segment of the tire industry. Imported automotive tires refer to both replace-

ment tires and to tires mounted on imported automobiles, trucks, and buses.

In 1963 imported automotive tires had less than 2 percent of the domestic tire market. By 1968 imports had control of 6.6 percent of the market and by 1972 more than 10 percent. This growth has taken place in a market that has experienced increased consumer demand. This fact alone makes the growth of imported tire demand even more remarkable.

There are a number of reasons for the increase in import growth. First, imported automotive vehicles have carved out for themselves a rather substantial share of the U.S. market and in the process created preferences on the part of some U.S. consumers for foreign tires.

Second, the U.S. tire industry, like so many other industries, is at a distinct disadvantage in its international trade relationships because of the barriers that have been erected against our products. Many of the U.S. trading partners closely control their import structures while subsidizing exports.

Third, the differences in technology have narrowed over the years. The rubber companies have found the sale of know-how an attractive money-making arrangement, making them partially responsible for the degree of import penetration that exists in this industry.

Fourth, there are considerable difference in wage levels throughout the world, and with foreign tire companies catching up in terms of technology, this fact takes on added meaning.

A fifth factor to be considered in the fact that U.S. rubber companies regularly import tires from their foreign subsidiaries. In 1970 over 32 percent of automotive replacement tire imports came from foreign subsidiaries of U.S. rubber companies.

In 1971 approximately 11 percent of this category of tires came from U.S. companies' foreign plants. Yet the rubber companies vehemently contend that imports from their foreign subsidiaries are a negigible factor in the domestic U.S. market.

Last, with the drawing of the so-called radial age, it appears that American firms have been caught napping, having put most of their faith in the bias-belted market. As a result of the American tire companies' inability to meet demand for original equipment from Detroit, radials will be imported to fill the need.

All of this has left us understandably concerned about the prospects for the American tire industry. Using the average annual rate of growth during the period 1963–72 and projecting this into the future, we found that imports can be expected to control the domestic market with 59 percent in 1981.

However, because the growth rate of imports slowed somewhat in the period since 1968, we felt it desirable to also make a projection based on more recent trends. Assuming that the average annual growth rate for 1968–72 will hold steady in the future, we have determined that imports could exceed 50 percent of the market by 1987.

Each million automobile tires annually manufactured in the United States requires the employment of 457 persons. Since 1968 nearly 12,000 job opportunities have been lost to imports. Assuming the 1968–72 growth rate for total imports, we predict that a total of 19,000 job opportunities will have been lost by 1975, 41,000 by 1980 and 123,000 by 1987.

Unless something is done, the domestic automotive segment of the tire industry will go the same route as have bicycle and motorcycle tires.

It is too late to save the bicycle and motorcycle tire industry. We can only hope that our country's misconceived idea of what constitutes equity in foreign trade relationships will be abandoned before more industries are more jobs are lost.

The real gut issue at stake here as we see it is the American standard of living, the Nation's productivity advance and American job opportunities. Other countries protect and advance their interests as they see fit. They manage their economies, permit monopolies, encourage and grant direct export subsidies, and erect import barriers. They impose technical and capital regulations and enact domestic policies of many kinds that affect flows of trade and technology. They have this right, of course, and they use it.

But what about us American workers? Have we no right to ask to be protected? For years the United States has accepted on her shores goods from every nation in the world. We were good old "Uncle Sugar" accepting all, rejecting little. We didn't want to hurt any countries' feelings. Well, we just can't do that anymore and it is about time our government took a good, hard look at things as they really are.

We don't think it is asking too much to suggest that the Government of the United States first consider the primary interest of its own American citizens.

The URW is firmly committed to and has provided consistent support to the implementation of an enforceable foreign trade policy which would restore an equitable balance of trade between the United States and the rest of the world. In order to obtain these we are requesting that:

(*a*) Realistic restraints through quotas must be placed against the rising import of products of foreign nations, many of which have erected unscalable tariff barriers against American-manufactured products.

(*b*) The practice of dumping of products on the U.S. market at prices less than those for which those same products are sold at home must be stopped.

(*c*) The assembling of U.S.-manufactured component parts into finished products with little or no imposition of duty must be curbed.

(*d*) Adjustment assistance for affected workers must be realistically approached.

(*e*) The Nation's trade policies which are now diffused and disorganized among a number of Federal agencies must be coordinated.

We believe that the Burke-Hartke bill as presently submitted will fulfill these needs, restore full employment and improve living standards both at home and abroad.

I have had the opportunity to listen to many outstanding speakers and to read the testimonies of others who have expressed their views and related their experiences in the field of foreign trade. Throughout all of these presentations it appears evident that one particular thought is prevalent and that is that nothing is important unless it relates to people. It is in this regard that I recall the principle proposed by Pope Pius XII in Quadragesimo Anno:

It is totally false to ascribe to capital alone or to labor alone that which is obtained by the joint effort of one and the other. And it is flagrantly unjust that either should deny the efficacy of the other and seize all the profits.

We should remember, moreover, that adjustments between wages and profits ought to be made in conformity with the demands of the common good, both of the Nation and of the entire human family.

When one considers it on the national level, the common good demands the following: to provide employment to the greatest number of workers, to prevent the emergence of privileged classes even among the workers, to maintain an equal balance between wages and prices, to make goods and services of a higher quality available to the greatest possible number, to eliminate or check inequalities existing between the sectors of agriculture, manufacturing, and services, to effect a balance between economic expansion and the development of essential public services, to adjust so far as possible the means of production to the progress of science and technology; finally, to insure that improvements in the standard of living should not only serve the interests of the present, but also look to the advantage of future generations.

There are also demands of the common good in the international order: to avoid all forms of unfair competition between the economies of different countries; to encourage harmony, understanding, and fruitful collaboration among these national economies; to cooperate effectively in the economic development of underdeveloped nations.

Mr. BURKE. Your entire statement and all your charts, everything appended to your statement, will appear in the record.

[The prepared statement of Peter Bommarito follows:]

STATEMENT OF PETER BOMMARITO, PRESIDENT, UNITED RUBBER, CORK, LINOLEUM AND PLASTIC WORKERS OF AMERICA, AFL-CIO, CLC

Mr. Chairman and Members of the House Ways and Means Committee:

INTRODUCTION

Our concern with the problems of international commerce is not of a recent origin. It was not spontaneously spawned by emotionally energized issues of shallow substance. He are concerned because all foreign trade policies involve people.

We are even more concerned because we believe that the wealth and strength of this great nation is not in its multinational corporations, or its wealthy insurance firms. It is not in the hands of the stock market manipulators or in the coffers of the international banking institutes. We believe that the wealth and strength of this great nation lies in its people—people who are fully employed in a decent job with decent wages—people whose children are afforded the opportunity to attend the school of their choice—people whose heritage forms the foundation of this great nation.

We know that foreign trade and the welfare of our people are interrelated and inseparable. However, when we see our government formulating trade policies with apparent disregard of the impact that these decisions would have on our people, then mere concern or token involvement is not enough. There must be a total commitment by us at every level.

PREVIOUS APPEARANCES

We appeared before you in 1965 when we represented over 10,000 workers in the rubber-soled footwear industry. At that time, we pointed out the impending disaster facing the shoe industry if the trade programs which were easing trade barriers on these products were to continue. Nothing was done and within three short years we lost over 2,000 workers.

We appeared before you again in 1970 and again we asked for relief through the adoption of a revised and sensible trade program. Yet and despite the fact that the United States Tariff Commission found that increased imports were the major factor causing or threatening to cause unemployment or under employmen in the canvas-rubber footwear industry, our pleas again fell on deaf ears. Thousands of rubber-soled footwear employees have since joined the ranks of the unemployed. Scores of plants have been closed.

We appeared before the House Committee on Foreign Affairs SubCommittee on Foreign Economic Policy on Trade Adjustment Assitance on May 17, 1972. We reviewed the past record, the successes and failures of the program and offered our suggestions for future adjustment assistance programs. Our formal statement was submitted to that committee. We respectfully request that it be incorporated in these proceedings by reference in order to prevent repetitious reproduction.

TRADE ADJUSTMENT ASSISTANCE

In adopting and developing new trade policies and with full knowledge of what would happen, Congress in 1962 inserted a section into its trade bill which dealt with Trade Readjustment Allowances. The intent of this section was to aid and assist workers whose employment was affected by imports by granting to them subsistence or by reeducating them for a different line of work.

Scores of former footwear workers applied for adjustment assistance. As a matter of fact 91 different groups of shoe manufacturers' employees have requested aid since 1970. Eleven were granted TRA. It required Presidential action to help 21 others. The remaining two-thirds were denied relief even though our government caused them to lose their jobs. Obviously Trade Readjustment Allowance Assistance is not the answer.

No federal program offering relief or federal assistance is a meaningful answer to the concept of maintaining full employment, nor will it serve as a replacement for the exportation of jobs. The American taxpayer should not be called upon to subsidize unemployed workers who have lost their jobs because of trade policies enacted for the sole benefit of American multinational corporations. (Table 15)

EMPLOYEE ACTION

The production of footwear is a labor-intensive industry. It is highly susceptible to the impact of cheaply produced items from low wage foreign countries. Imports of rubber-soled canvas footwear from all sources between 1968–1972 increased 15.5 percent with the greatest increase noted in imports from Korea up 705.7 percent.

Imports of protective footwear from 1968–1972 showed an increase of .5 percent with the countries of Taiwan (+150.9 percent) and Korea (27.9 percent) leading the others.

During the above periods imported canvas shoes consistently captured over 25 percent of the American market. (Tables 12, 13, 14)

Recognizing the fact that increased cheaply produced imports would exact a toll of our workers and in the face of considerable criticism the United Rubber Workers took it upon themselves to do something.

Employees of the Uniroyal Footwear Plant, Local 45, Naugatuck, Connecticut, asked for and were granted a moratorium on wages. Goodyear Footwear Plant, Local 289 in Windsor, Vermont, waived negotiated wage increases rather than accept a phase out of that facility. The direction of our current negotiations has demonstrated clearly to all of industry that we are concerned with people's problems and that job security is one of our prime bargaining goals.

PRESIDENTIAL POLICY

But we can't do it alone. We need your help. We are completely frustrated by our President's refusal to invoke policies which would implement our goals, match our sacrifices, and give protection to the working people of this great nation.

When the President introduced his present pending trade bill he indicated that certain import-sensitive duty-free products from less developed countries would be excluded from such prevention treatment. He was referring specifically to footwear. We are leery of promises. We don't want indications or good intentions. We want specific exclusions for specific goods incorporated into the law.

FREE TRADE—CONSUMER PRICES

Many free traders argue that any regulation of goods eventually affects the consumer right where it hurts the most—in the pocketbook. Practical experience and common knowledge shows just the opposite.

In 1970 the freight-on-board value of non-rubber footwear imported into the United States was 550 million dollars. The wholesale price was 890 million dollars. This is a mark-up of 60 percent. The price to the buyer in the store was 1.9 billion dollars, *a profit of 111 percent over the wholesale price.*

In the beginning, imports, when directly competitive with American products, will often sell for far less than the American product is currently selling for on the domestic market. However, once the foreign import has driven out the American produced item the price will even eventually rise above the former American selling price. This has happened in the field of home electronics, typewriters, radios, cameras, phonographs and tape recorders. All are foreign made or assembled in foreign plants, given American names to sell at American prices.

IMPORTS AND THE TIRE INDUSTRY

Like many other industries in the United States, the tire industry has been adversely affected by imports and by the activities of its own multinational firms. In the following text, we have attempted to show what has happened in this industry in the past, what is currently taking place, and what we fear may occur in the relatively near future.

BICYCLE AND MOTORCYCLE TIRES

The experience of the cycle tire segment of the domestic rubber industry is a classic example of the consequences of this nation's lack of a realistic foreign trade policy.

Because of imports there are only two producers of bicycle tires in the United States—Goodyear Tire & Rubber Company in New Bedford, Massachusetts and Carlisle Corporation in Carlisle, Pennsylvania. Uniroyal in Indianapolis, Indiana, is the most recent casualty, having shut down its bicycle tire operations in 1970. Total employment at the two remaining American facilities is very insignificant in the aggregate, but obviously very meaningful to those whose livelihood depends on the retention of bicycle tire production in the United States.

U.S. imports of bicycle tires began to increase and become a problem in the late 1950's. In 1958, nearly 25 percent of the total U.S. market for bicycle tires (replacement *and* original equipment) was held by imports. In 1963, imports represented 45 percent of the market. Between 1963 and 1972, imports of bicycle tires increased by more than 300 percent and enlarged their share of the domestic market from 45 to 77 percent. (Table 1)

FUTURE EFFECT ON BICYCLE TIRES

If this growth continues at its present pace, the remaining two U.S. plants will be forced to get out of the field within the next several years. In view of the dramatic increase of imports in 1972, the end may come considerably faster for this beleagured segment of the tire industry.

In 1972, total imports of bicycle tires reached a record high in excess of 35 million units—nearly double the 1971 total of 18.5 million units.

While imports soared, domestic shipments have remained relatively stable in absolute terms, but since 1958, for example, their share of the U.S. market dwindled from 75 percent to less than 24 percent—a complete switch in 14 years. The U.S. bicycle tire industry has not been able to compete with the flood of imports coming from the low-wage countries of the Far East. (Table 2)

MOTORCYCLE TIRES

A similar situation exists relative to the motorcycle tire segment of the industry. Imported motorcycle tires constituted over 80 percent of the United States replacement market in 1971—as recently as 1968, foreign tires held "only" 60 percent. (Table 3) Data on domestic shipments is not yet available for 1972, however, 1972 imports of replacement motorcycle tires rose by 35 percent over 1971. This is a clear indication, we believe, that imports continued to increase their share of the U.S. market last year.

ORIGIN OF IMPORTS

In both bicycle and motorcycle tires, it is significant to note that the majority of these imports are coming from low-wage, managed economies which have set up numerous barriers to goods from the United States. It is probably too late to do anything to save the bicycle and motorcycle industry. We can only hope that the United States Government will abandon its misconceived idea of what constitutes equity in foreign trade relationships before more industries and more jobs are lost.

AUTOMOTIVE TIRES

To the United Rubber Workers, the experience of the bicycle and motorcycle tire portions of our industry stands as a warning of what can happen to the economically more important automotive tire industry unless action is taken to overhaul our non-existent trade policy and mold it to benefit the United States, rather than the rest of the world at our expense.

By the way of definition, automotive tires include passenger car, truck and bus tires, and while imports have not *yet* taken over this market, they do pose a serious threat to the continuing prosperity of this segment of the tire industry. For purposes of my testimony in this area, imported tires shall refer to both replacement tires and to tires mounted on imported automobiles, trucks and buses, unless otherwise noted.

In 1963, just ten years ago, imported automotive tires had less than two percent of the domestic tire market. By 1968, imports had control of 6.6 percent of the market and by 1972, more than 10 percent. This has taken place in a market that has experienced increasing demand, a fact which makes even more remarkable the growth of imported tire demand. (Table 5)

OUTLOOK FOR U.S. AUTOMOTIVE TIRE INDUSTRY

Ten percent market penetration may not appear, at first glance, to be overly distressing, however, one need only look more deeply at the statistics to become concerned. Imports increased at an average annual rate of 30 percent during the period 1963–1972, while the market (including imports) expanded just seven percent per year during the same period. If these historical growth rates hold steady, we can project that imports will comprise nearly 50 percent of the U.S. market by 1980 and will control the market with 59 percent in 1981.

According to our calculations the U.S. market will hit 462.6 million units in 1981—of that total, 274.7 million units will be from other countries. Domestic shipments in 1972 totaled 226 million units. In 1981, the U.S. will only be producing 188 million units.

The growth rate of imports has slowed considerably since 1968, however, and we felt it desirable to also make a projection based on the average annual growth rates between 1968 and 1972. The total market increased by 4.8 percent per year during this more recent period, while imports rose by 16.9 percent a year. Projecting these more recent trends, we determined that imports would exceed 50 percent of the market in 1987.

Thus far, we have been concerned with the total market for tires, both original equipment and replacement. However, when we conducted the same kind of growth analysis with the replacement tire sector alone, the figures were even more alarming. According to statistics, the auto, truck, and bus replacement tire market increased at an average yearly rate of 7.6 percenet between 1963 and 1972. At the same time, imports of these tires were rising on an average of nearly 44 percent per year and, consequently, increasing their share of the domestic market. Over this period, domestic shipments of replacement tires rose by an average annual rate of 6.8 percent.

If we assume that these respective rates of growth remain the same, then by 1979, imports will have succeeded in taking over the United States replacement tire market with 53 percent of the total market share.

The outlook for the continued dominance of the U.S. automotive tire industry in its own country is only slightly brighter if estimates of import penetration are made on the basis of the average annual rates of growth which prevailed in the period, 1968–1972. The average rate of growth of the domestic replacement market in this period was 5.2 percent per year. For imports, the rate was 24.4 percent. If these rates continue, imports will capture 53 percent of the market by 1984.

Whichever projections one might decade to be the more reliable as an indicator of future conditions, one fact is alarmingly clear—unless something is done, we

can expect the domestic automotive segment of the tire industry to go the same route as have bicycle and motorcycle tires.

EFFECTS ON EMPLOYMENT

According to the Rubber Manufacturers Association, each million automotive tires annually manufactured in the United States requires the employment of 457 persons. When imports come into this country, it simply means that some workers who could otherwise have found employment in a tire factory, will have to look elsewhere.

Since 1963, nearly 12,000 job opportunities have been lost to imports. Assuming the 1968–1972 growth rate for total imports, a total of 19,000 job opportunities will have been lost by 1975, 41,000 by 1980 and 123,000 by 1987. It should be noted that we are not here considering associate industry employment.

At some point in the future, tire industry employment will actually begin to decline even in the face of a growing market if imports are allowed to increase at their historical rates.

REASONS BEHIND THE CURRENT SITUATION

There are a number of reasons why this situation has arisen. First, imported automotive vehicles have carved out for themselves a rather substantial share of the United States market and in the process created preferences on the part of some U.S. consumers for foreign tires. This is especially meaningful since tires mounted on imported vehicles account for more sales than imported replacement tires.

Secondly, the U.S. tire industry, like so many other industries, is at a distinct disadvantage in its international trade relationships because of the barriers that have been erected against our products. Many of the United States' trading partners closely control their import structures while subsidizing exports. The U.S. rubber companies gives this as a reason for expanding in foreign countries rather than exporting from the U.S. They accept protectionism in other nations, but deny vehemently the right of the U.S. to fair trade. These multinationals are primarily interested in profit growth. Their position on current trade proposals before this Congress demonstrates clearly that they are interested in having the best of both worlds—barriers or free trade (which is unrealistic in today's world economy), whichever serves their purposes better. Why is it that only in the United States it is considered unfriendly to set quotas on foreign manufacturers?

Thirdly, the differences in technology have narrowed over the years partially because the rubber companies have found the sale of know-how an attractive money-making arrangement. In Japan, for example, most of the tire manufacturers either are currently involved in, or have had, technical and other agreements with their U.S. counterparts. Japan is one of four countries, each of which export over one million replacement passenger car tires to the U.S. each year and is, therefore, a major competitor of American tire companies. Yet B.F. Goodrich owns 35 percent of Yokohama, the second largest Japanese tire company, and Goodyear has a two percent interest in Bridgestone Tire, the largest Japanese tire makers. These are only two of many examples which could be given to emphasize that American multinational rubber companies are partially responsible for the degree of import penetration that exists in this industry.

Fourth, there are considerable differences in wage levels throughout the world, and with foreign tire companies catching up in terms of technology, this fact takes on added meaning.

Another factor to be considered when discussing the tire import problem is the fact that United States rubber companies regularly import tires from their foreign subsidiaries. In 1970, over 32 percent of automotive replacement tire imports came from foreign subsidiaries of United States rubber companies. In 1971, approximately 11 percent of this category of tires came from U.S. companies' foreign plants. Yet the rubber companies contend that imports from their foreign subsidiaries are a negligible factor in the domestic U.S. market.

The U.S. automotive tire industry thus faces (1) dwindling foreign markets for tires produced by American workers, and (2) rising imports.

Multinational corporations are, admittedly, not particular about where they make their money, just so they continue to grow. It is the worker who takes the brunt of adjustments to imports and it is he who must be given primary con-

sideration in determining the content of new trade legislation. What is needed is a positive policy to regulate imports in this industry, regulate activities of the multinational firms, and insure the continuance of this industry's contribution to the nation's economy. The Administration's proposals, while providing the President with ample authority to control imports, do not carry any assurances that such authority will be used in the best interest, if indeed at all. In some areas, e.q.—countervailing duties and marking of origin—present law would even be diluted. The question of the exportation of technology is not even approached by the Administration bill.

The Burke-Hartke bill is more in tune with the realities of current world trade mechanisms and would provide a more suitable answer to the problems currently faced by the U.S. tire industry. Burke-Hartke would halt the present trend in tire imports and regulate the selling of technology to competitors.

THE SPECIAL SITUATION RE MICHELIN IN CANADA

Michelin of France exports more tires to the United States than any other company in the world and, consequently, has long been a source of concern. This concern was heightened in 1969 when Michelin secured from the Canadian Government an agreement to subsidize the building of two Michelin plants in Nova Scotia. In addition to financial assistance, Canada granted Michelin a deal under which it could import duty-free, for a three-year period, all tire lines which it was not going to make in Canada. The Canadian government did not undertake this arrangement to have its own somewhat-limited tire market penetrated—part of the deal was that at least 85 percent of Michelin's Canadian production would be exported to the United States. The probable effects on the U.S. market are obvious.

The tariff concessions Michelin received have been under vigorous attack from the time they were granted and, finally, in February, 1973, the U.S. Treasury Department ordered a 6.6 percent countervailing duty on Canadian-manufactured Michelin tires coming into the United States in addition to the standard four-percent tariff on all tires shipped from Canada. With duities totaling 10.6 percent on its tires coming in from Canada, the American tire market and jobs associated with it should be somewhat protected from the unfair competition that would have otherwise been the result of the Canadian government's deal with Michelin.

Under the Administration's trade proposals, countervailing duties would become too discretionary to be meaningful. Presently, the Secretary of the Treasury must impose a countervailing duty whenever it is determined that a foreign bounty or grant is made. Under the Administration's bill, this requirement would be eliminated. Further, the bill conditions the imposition of such a duty on the determination of injury to the industry and then allows the Secretary of the Treasury the latitude of deciding whether or not to actually put a duty into effect. It is our opinion that the Administration's proposals on countervailing duties diminish effectiveness to the point that it is in opposition to the original concept.

CONCLUSION

The United Rubber Workers has supported and promoted the Burke-Hartke bill since its inception. We have done so because present foreign trade policies are inappropriate and outdated in a world of managed economies and multinational manipulation. The American labor movement has always been known as a socially and economically progressive force. We have worked long and hard to achieve our goals—we must not lose what has been gained, but lose it we will, job-by-job, plant-by-plant, and industry-by-industry:

If nothing is done to impress other nations of the world that the time for "fair" trade has come and that the United States is through playing "Uncle Sucker" in international trade,

If nothing is done to correct the obvious and flagrant inequities which exist in our tariff laws which have added thousands to our jobless roles,

If nothing is done to curb the power of the multinationals to export jobs, plants and technology.

Burke-Hartke would provide this nation with a constructive and positive foreign trade policy and restore the United States to its former position in world trade. Burke-Hartke represents the first complete legislative program to bring together in one bill a needed reshaping of tax, trade and other federal laws to challenge the international crisis that now threatens American workers' jobs and the economic future of the United States.

Burke-Hartke, through its establishment of a "sliding door" concept would guarantee both foreign and domestic goods a percentage of the U.S. market. However, quotas under Burke-Hartke would not be applied in the case of a government-to-government agreement nor where a U.S. company makes no effort to compete.

The Burke-Harke bill would end the dumping of foreign products on the United States market and take away the loopholes in the Tariff Schedules. In addition, this bill would regulate the activities of multinational corporations for the best interests of the United States rather than allow them to continue their acivities at our expense. The bill would also permit a reasonable approach to the question of adjustment assistance. Finally, the bill would consolidate the coordination of the nation's trade policies by setting up a new commission to handle the duties formerly the responsibility of a number of federal agencies.

We are concerned about the American economy and about the jobs of our members. We believe that it is necessary to face up to the present realities in international trade, to replace doctrines which are not working in 1973 by a policy of fair trade. The Burke-Hartke bill provides the necessary vehicle.

TABLE 1.—BICYCLE TIRES, TOTAL U.S. MARKET, DOMESTIC SHIPMENTS, EXPORTS AND IMPORTS, 1963–72

[Thousands of units]

Year	Total U.S. market	Domestic shipments			Exports [1]	Imports			Total imports as percent of total U.S. market
		Total	OE	Replacement		Total	OE	Replacement	
1963	18,294	10,151	4,038	6,113	13	8,143	2,534	5,609	44.5
1964	21,414	11,645	4,810	6,835	17	9,768	2,020	7,749	45.6
1965	20,980	10,432	4,460	5,972	14	10,548	2,078	8,470	50.3
1966	19,759	10,489	4,994	5,495	15	9,270	1,854	7,416	46.9
1967	20,942	10,410	4,982	5,428	14	10,532	2,234	8,298	50.3
1968	25,929	10,922	5,453	5,469	18	15,007	3,068	11,939	57.9
1969	22,784	8,262	3,515	4,747	17	14,522	3,962	10,560	63.7
1970	22,187	7,677	3,378	4,299	9	14,510	3,898	10,612	65.4
1971	27,801	9,344	4,714	4,630	1	18,457	4,681	13,776	66.4
1972	45,936	10,816	5,784	5,032	1	35,120	10,315	24,805	76.5

[1] Not included in total market figure.

Source: FT135, RMA "Rubber Industry Facts."

TABLE 2.—U.S. BICYCLE TIRE IMPORTS (REPLACEMENT) BY COUNTRY, 1968 TO 1972

Country	1968	1969	1970	1971	1972	1968–72 percent change
Sweden	3,042,960	1,915,262	2,193,101	2,847,370	3,820,244	+25.5
United Kingdom	73,915	107,295	73,477	77,063	118,502	+60.3
Netherlands	1,271,184	905,223	359,406	656,200	871,283	−31.5
Belgium	430,061	309,454	352,238	327,734	629,394	+46.3
France	4,920	7,710	8,064	55,102	315,267	+5,407.9
West Germany	116,016	72,210	54,586	193,223	187,745	+61.8
Austria	212,029	177,619	170,909	240,991	214,166	+1.0
Italy	44,503	37,448	60,175	121,205	216,874	+387.3
India	306,600	135,800	154,150	181,505	257,200	−16.1
Korea	372,350	332,095	555,550	814,150	3,920,250	+952.8
Taiwan	257,450	137,215	560,430	1,229,840	3,470,505	+1,248.0
Japan	5,794,310	6,400,328	6,052,258	7,010,831	10,626,393	+83.4
Others	12,400	22,644	17,650	20,529	157,431	+1,169.6
Total	11,938,698	10,560,330	10,611,994	1,375,743	24,805,255	+107.8

Source: FT135, "Imports—Commodity by Country," U.S. Department of Commerce.

TABLE 3.—MOTORCYCLE TIRES, REPLACEMENT—DOMESTIC SHIPMENTS VERSUS IMPORTS, 1968-71

Year	U.S. replacement market	Domestic shipments	Imports	Imports as percent of U.S. market
1968	547,768	217,000	330,768	60.4
1969	926,773	175,000	751,773	81.1
1970	1,212,220	199,000	1,013,220	83.4
1971	1,384,597	247,000	1,137,597	82.2

Note: Data on domestic shipments is not yet available for 1972. However, imports of replacement motorcycle tires for 1972 rose 35 percent over 1971 to 1,541,220 units.

Sources: "Rubber Industry Facts," RMA FT135, "Imports—Commodity by Country," U.S. Department of Commerce.

TABLE 4.—MOTORCYCLE TIRES, REPLACEMENT—IMPORTS, 1968-72

Country	1968	1969	1970	1971	1972	Percent change, 1968-72
United Kingdom	92,951	115,458	125,679	140,740	216,545	+133.0
Taiwan	23,852	199,925	191,096	143,712	256,044	+973.5
Japan	161,450	307,545	557,435	666,913	796,296	+393.2
Others	52,515	128,845	139,010	186,232	272,335	+418.6
Total	330,768	751,773	1,013,220	1,137,597	1,541,220	+336.0

Source: FT135, "Imports—Commodity by Country," U.S. Department of Commerce.

TABLE 5.—U.S. AUTOMOTIVE TIRE REPORT—AUTO, TRUCK, AND BUS, ORIGINAL EQUIPMENT AND REPLACEMENT 1968 TO 1972

[Million units]

Year	Total	Original equipment	Replacement
Domestic shipments:			
1968	195.7	58.4	137.3
1969	202.2	55.7	146.5
1970	192.4	46.1	146.3
1971	212.3	58.9	153.4
1972	225.7	63.9	161.8
Percent change, 1968 to 1972	+15.3	+9.4	+17.8
Imports:			
1968	13.9	[1] 8.7	5.2
1969	16.4	[1] 10.0	6.4
1970	19.3	[1] 10.6	8.7
1971	23.2	[1] 13.7	9.5
1972	25.9	[1] 13.6	12.3
Percent change, 1968 to 1972	+86.3	[1] +56.3	+136.8

	Total	Original equipment	Replacement	Imports as percent of total
U.S. market:				
1968	209.6	67.1	142.5	6.6
1969	218.6	65.7	152.9	7.5
1970	211.7	56.7	155.0	9.1
1971	235.5	72.6	162.9	9.9
1972	251.6	77.5	174.1	10.3
Percent change, 1968 to 1972	+20.0	+15.5	+22.2	

[1] The original equipment figure under "imports" refers to tires mounted on cars, trucks and buses imported by the United States. The figure was calculated on basis of 5 tires per vehicle and so represents a slight understatement.

TABLE 6.—U.S. IMPORTS VERSUS EXPORTS—AUTO, TRUCK, AND BUS REPLACEMENT TIRES, 1963–72

[Millions of units]

Year	Imports	Exports	Net balance (exports-imports)
1963	0.6	1.5	0.9
1964	1.4	2.1	.7
1965	1.5	2.9	1.4
1966	2.3	2.4	.1
1967	3.2	2.1	−1.1
1968	5.2	3.2	−2.0
1969	6.4	2.4	−4.0
1970	8.7	1.9	−6.8
1971	9.5	2.0	−7.5
1972	12.3	2.3	−10.0

Sources: FT135, "Imports—Commodity by Country," U.S. Department of Commerce. Statement of Rubber Manufacturers Association before the U.S. Tariff Commission investigation of the impact of imports on U.S. industries, Nov. 25, 1970. RMA Report, December 1972. "Rubber Industry Facts," Statistical Department, Rubber Manufacturers Association.

TABLE 7.—PROJECTION OF FUTURE U.S. TIRE MARKET (O.E. AND REPLACEMENT) BASED ON AVERAGE ANNUAL GROWTH RATE FOR 1963–72 AUTO, TRUCK, AND BUS TIRES

[millions]

Year	Total U.S. Market	Percent change year-to-year	Imports	Percent change year-to-year
1963	139.0		2.6	
		9.4		53.8
1964	152.0		4.0	
		11.8		17.5
1965	170.0		4.7	
		3.5		44.7
1966	176.0		6.8	
		1.1		38.2
1967	178.0		9.4	
		17.8		47.9
1968	209.6		13.9	
		4.3		18.0
1969	218.6		16.4	
		−3.2		17.7
1970	211.7		19.3	
		11.2		20.2
1971	235.5		23.2	
		6.8		11.6
1972	251.6		25.9	
Average annual growth rate		7.0		30.0

ESTIMATES BASED ON AVERAGE ANNUAL GROWTH RATES FOR 1963–73

Year	U.S. market	Imports	Imports as percent of market
1973	269 2	33.7	12.5
1974	288.1	43.8	15.2
1975	308.2	56.9	18.5
1976	329.8	74.0	22.4
1977	352.9	96.2	27.3
1978	377.6	125.0	33.1
1979	404.0	162.5	40.2
1980	432.3	211.3	48.9
1981	462.6	274.7	59.4

TABLE 8.—PROJECTION OF FUTURE U.S. TIRE MARKET (ORIGINAL EQUIPMENT AND REPLACEMENT) BASED ON AVERAGE ANNUAL GROWTH RATE FOR 1968-72, AUTO, TRUCK, AND BUS TIRES

[Millions]

Year	Total U.S. market	Percent change year-to-year	Imports	Percent change year-to-year
1968	209.6		13.9	
		4.3		18.0
1969	218.6		16.4	
		−3.2		17.7
1970	211.7		19.3	
		11.2		20.2
1971	235.5		23.2	
		6.8		11.6
1972	251.6		25.9	
Average annual growth rate		4.8		16.9

ESTIMATES BASED ON AVERAGE ANNUAL GROWTH RATES FOR 1968-72

[Millions]

Year	U.S. markets	Imports	Imports as percent of market
1973	263.7	30.3	11.5
1974	276.3	35.4	12.8
1975	289.6	41.4	14.3
1976	303.5	48.4	15.9
1977	318.1	56.5	17.8
1978	333.3	66.1	19.8
1979	349.3	77.3	22.1
1980	366.1	90.3	24.7
1981	383.7	105.6	27.5
1982	402.1	123.4	30.7
1983	421.4	144.3	34.2
1984	441.6	168.7	38.2
1985	462.8	197.2	42.6
1986	485.0	230.5	47.5
1987	508.3	269.5	53.0

TABLE 9.—PROJECTION OF FUTURE U.S. REPLACEMENT MARKET BASED ON AVERAGE ANNUAL GROWTH RATE FOR 1963-72 AUTO, TRUCK, AND BUS TIRES

[Millions]

Year	Domestic replacement market	Percent change year-to-year	Imports	Percent change year to-year
1963	90.1		0.6	
		12.3		133.3
1964	101.2		1.4	
		7.2		7.1
1965	108.5		1.5	
		7.7		53.3
1966	116.9		2.3	
		6.3		39.1
1967	124.3		3.2	
		14.6		62.5
1968	142.5		5.2	
		7.3		23.1
1969	152.9		6.4	
		1.4		35.9
1970	155.0		8.7	
		5.1		9.2
1971	162.9		9.5	
		6.9		29.5
1972	174.1		12.3	
Average annual growth rate		7.6		43.6

ESTIMATES BASED ON AVERAGE ANNUAL GROWTH RATES FOR 1963-72

Year	Domestic market	Imports	Imports as percent of market
1973	187.3	17.7	9.5
1974	201.6	25.4	12.6
1975	216.9	36.4	16.8
1976	233.4	52.3	22.4
1977	251.1	75.1	29.9
1978	270.2	107.9	39.9
1979	290.7	154.9	53.3

TABLE 10.—PROJECTION OF FUTURE U.S. REPLACEMENT MARKET BASED ON AVERAGE ANNUAL GROWTH RATE FOR 1968-72 AUTO, TRUCK, AND BUS TIRES

[Millions]

Year	Domestic replacement market	Percent change, year-to-year	Imports	Percent change, year to-year
1968	142.5		5.2	
		7.3		23.1
1969	152.9		6.4	
		1.4		35.9
1970	155.0		8.7	
		5.1		9.2
1971	162.9		9.5	
		6.9		29.5
1972	174.1		12.3	
Average annual growth rate		5.2		24.4

ESTIMATES BASED ON AVERAGE ANNUAL GROWTH RATES FOR 1968-72

Year	Domestic market	Imports	Imports as percent of market
1973	183.2	15.3	8.4
1974	192.7	19.0	9.9
1975	202.7	23.7	11.7
1976	213.2	29.5	13.8
1977	224.3	36.6	16.3
1978	236.0	45.6	19.3
1979	248.3	56.7	22.8
1980	261.2	70.5	27.0
1981	274.8	87.8	32.0
1982	289.0	109.2	37.8
1983	304.0	135.8	44.7
1984	319.8	168.9	52.8

TABLE 11.—U.S. IMPORTS, AUTOMOTIVE REPLACEMENT TIRES—TOTAL IMPORTS VERSUS IMPORTS FROM FOREIGN SUBSIDIARIES, 1970-71

Year	Total imports	Imports from foreign subsidiaries	Percent
1970	8,707,297	2,806,000	32.2
1971	9,489,970	1,022,161	10.8

Sources: "Akron Beacon Journal" article, citing U.S. Department of Commerce figures for 1970, (July 7, 1971). "The Role of Multinational Corporations in the American Tire Manufacturing Industry," Rubber Manufacturers Association, December 1972

TABLE 12.—RUBBER-SOLED CANVAS FOOTWEAR, U.S. IMPORTS, 1968-72

[Pairs]

Country	1968	1969	1970	1971	1972	1968-72 percent change
Korea	2,455,810	1,696,794	3,307,003	13,596,684	19,786,000	+705.7
Hong Kong	4,499,826	4,751,644	4,640,370	2,560,074	2,872,737	−36.2
Taiwan	9,269,224	6,940,498	9,450,157	12,942,602	15,744,466	+69.9
Japan	32,585,779	27,503,819	29,636,495	28,937,611	15,562,818	−52.2
Others	1,800,841	2,666,930	3,763,225	4,142,469	4,501,824	+150.0
Total	50,611,480	43,560,685	50,797,250	62,179,440	58,467,845	+15.5

Source: FT135, "Imports—Commodity by Country," U.S. Department of Commerce.

TABLE 13.—PROTECTIVE FOOTWEAR—U.S. IMPORTS, 1968-72

[Pairs]

Country	1968	1969	1970	1971	1972	1968-72 percent change
Korea	5,388,166	4,572,070	6,361,265	5,233,424	6,890,438	+27.9
Hong Kong	867,438	1,184,340	706,207	727,054	719,480	−17.1
Taiwan	1,526,886	2,517,149	3,680,257	4,155,858	3,831,604	+150.9
Japan	3,988,833	2,971,705	1,930,851	1,031,716	619,908	−84.5
Other	1,315,838	1,270,976	1,835,042	1,250,061	1,091,161	−17.1
Total	13,087,161	12,516,240	14,513,622	12,398,123	13,152,591	+.5

Source: FT135, "Imports—Commodity by Country," Commodity Codes: 8510105, 8510115, and 8510125—U.S. Department of Commerce.

TABLE 14.—RUBBER-SOLED CANVAS FOOTWEAR SHIPMENTS—EXPORTS AND IMPORTS, 1968-72

[Pairs]

Year	Domestic shipments	Imports	U.S. markets	Exports	Percent imports of U.S. markets
1968	152,257,000	50,611,480	202,868,480	239	24.9
1969	140,575,000	43,560,685	184,135,685	195	23.7
1970	145,865,000	50,797,250	196,662,250	129	25.8
1971	156,489,000	62,179,440	218,668,440	112	28.4
1972	159,399,000	58,467,845	217,866,845	105	26.8

Sources: RMA, issued Apr. 19, 1973, FT135, "Imports—Commodity by Country," U.S. Department of Commerce.

TABLE 15.—APPLICATIONS BY FOOTWEAR EMPLOYEES, ADJUSTMENT ASSISTANCE 1970-73

	Divided	Ineligible	Eligible
1. Kayser Roth Shoes, New York, N.Y		1	
2. Johnson Shoes, Inc., Manchester, N.H			1
3. Shapira Bro. Shoes, Auburn, Maine		1	
4. Consolidated Nat. Shoe, Norwood, Mass	1		
5. Bates Shoes, a Division of Wolverine Worldwide, Rockford, Mich		1	
6. Hammond Shoe, Worcester, Mass		1	
7. Andal Shoes, Haverhill, Mass		1	
8. Rose Bro. Shoe Co., Boston, Mass	1		
9. Dainty Maid Footwear, Gettysburg, Pa		1	
10. Wise Shoe Co., Exeter, N.H			1
11. Bernie Shoe Co., Haverhill, Mass	1		
12. Genesco, Inc., Carrolton, Ga		1	
13. Genesco, Inc., Harrisburg, Pa		1	
14. Welpro, Inc., Seabrook, N.H			1
15. Elkland Leather, Inc., Elkland, Pa.[1]		1	
16. Wilson Shoe, Shamokin, Pa	1		
17. Frank H. Pfeiffer Co., Worcester, Mass			1
18. United States Shoe Corp., Cincinnati, Ohio		1	
19. Wilson Shoe Corp., Shamokin, Pa			1
20. Duchess Footwear, Salem, Mass			1

See footnote at end of table.

TABLE 15.—APPLICATIONS BY FOOTWEAR EMPLOYEES, ADJUSTMENT ASSISTANCE 1970–73—Continued

	Divided	Ineligible	Eligible
21. Ohio Leather Co., Girard, Ohio[1]		1	
22. Pittsfield Shoe Co., Pittsfield, N.H		1	
23. Brown Shoe Co., Vincennes, Ind		1	
24. Queensville Shoe Co., Queensville, Mo		1	
25. Grenet Footwear, Miami, Fla		1	
26. Vulcan Corporation, Portsmouth, Ohio[1]		1	
27. Seymour Shoes, Haverhill, Mass		1	
28. Dave Aronoff Shoes, Los Angeles, Calif		1	
29. P. M. Footwear, Lajas, Puerto Rico		1	
30. Moca Shoes, Moca, Puerto Rico		1	
31. Yabucoa Shoe Corp., Yabucoa, Puerto Rico		1	
32. Las Piedras Shoe, Las Piedras, Puerto Rico		1	
33. B. E. Cole Co., Norway, Maine		1	
34. Francine Shoe Co., Norway, Maine		1	
35. Sun Mfg., Mayaguez, Puerto Rico[1]		1	
36. Wisconsin Shoe Co., Milwaukee, Wis		1	
37. French Shriner & Umer Manufacturing Co		1	
38. Bangor Shoe Manufacturing, Bangor, Maine		1	
39. Stacy-Adams Co., Brockton, Mass		1	
40. Johnson, Stephens and Shinkle Shoe, St. Louis, Mo		1	
41. Copley Shoe Co., Wakefield, Mass		1	
42. Papagallo, Inc., New York, N.Y		1	
43. Seymour Shoes, Haverhill, Mass		1	
44. Pla-Moc, Lynn, Mass		1	
45. D'Antonio Shoe, New York, N.Y		1	
46. Knapp King Size, Brockton, Mass		1	
47. Bernardo Sandals, New York, N.Y		1	
48. Commonwealth Shoe & Leather, Whitman, Mass		1	
49. Town-Salvage Shoe, Auburn, Maine		1	
50. Bernice Shoe Co., Haverhill, Mass		1	
51. Louis Shoe Co., Amesbury, Mass	1		
52. Ganins, Inc., Wilkes-Barre, Pa		1	
53. Andrew Geller, Inc., Brooklyn, N.Y		1	
54. International Shoe, Jefferson City, Mo		1	
55. Ornstien Shoe, Haverhill, Mass	1		
56. Klwen Shoe Sales, North Brookfield, Mass	1		
57. Sinclair Shoes, Haverhill, Mass	1		
58. Smith Shoe Corp,. New Market, N.H		1	
59. Kalmon Shoe Manufacturer, St. Louis, Mo		1	
60. Deb Shoe Co., Washington, Mo		1	
61. Rolla Shoe Manufacturer, Rolla, Mo		1	
62. Wolpf Shoe Manufacturer, St. Louis, Mo		1	
63. Reliable Footwear, New York, N.Y		1	
64. Bella Mia Footwear, Brooklyn, N.Y	1		
65. Johnson, Stephens & Shimkle, Vandalia, Ill	1		
66. Caswell Shoes, Lynn, Mass		1	
67. Dori Shoe Co., Lynn, Mass		1	
68. Wolsam Ltd., New York, N.Y		1	
69. L. E. Beaudim, Hanover, Pa		1	
70. Selwyn Shoe, Boonville, Mo		1	
71. Alby Shoe, Inc., Everett, Mass		1	
72. Adlib, Inc., Hialeah, Fla		1	
73. Stylecrest Footwear, Brooklyn, N.Y		1	
74. Kickerinos, Newport, Ark		1	
75. Jodi Shoe, Derry, N.H	1		
76. Maine Shoe Corp., Brunswick, Maine	1		
77. Foot Flairs, Manchester, N.H	1		
78. Goldberg Bros., Haverhill, Mass	1		
79. National Ballet Makers, Medford, Mass	1		
80. Stage Door, Inc., Raymond, N.H	1		
81. Kramer Shoe Co., Haverhill, Mass	1		
82. Evangeline Shoe, Inc., Manchester, N.H	1		
83. Caressa, Miami, Fla			1
84. Uniroyal, Mishawaka, Ind			1
85. B. F. Goodrich, Watertown, Mass			1
86. Servis Rubber, Rock Island, Ill			1
87. Benson Shoe, Lynn, Mass	1		
88. Dartmouth Shoe, Brockton, Mass	1		
89. Hartman Shoe, Inc., Haverhill, Mass	1		
90. Lemar Shoes, Inc., Haverhill, Mass	1		
91. Uniroyal, Woonsocket, R.I			1

[1] Component parts for shoes—manufacturers.

Appendix 1

Hose and Belting

Between 1967 and 1972, U.S. tariff duties on both hose and belting were reduced by one-half. At the same time, the value of imports of hose rose from $8.6 million to about $31 million, an increase of 259 percent over a five-year period. Imports of belting and belts for machinery increased from $5.2 million in 1967 to $13.2 million in 1972, a hike of 154 percent.

As can be seen from the accompanying table, imports have increased their respective share of the market in each of the last five years. While imports have grown at an average rate of 29 percent per year, domestic shipments have only been growing at a 5 percent rate.

HOSE SUITABLE FOR CONDUCTING GASES OR LIQUIDS, DOMESTIC MARKET, DOMESTIC SHIPMENTS, IMPORTS AND EXPORTS, NET BALANCE 1967–72

[In millions of dollars]

Year	U.S. market	Domestic shipments	Imports		Exports	Net balances, export versus imports
			Value	Percent of market		
1967	330.1	321.5	8.6	2.6	14.5	+5.9
1968	356.0	345.4	10.6	3.0	16.6	+6.0
1969	395.1	380.3	14.8	3.8	18.7	+3.9
1970	399.0	380.1	18.9	4.7	18.9	0.0
1971	397.7	374.6	23.1	5.8	22.4	−.7
1972	440.5	409.6	30.9	7.0	24.5	−6.4

Virtually the same situation exists regarding belting and belts for machinery. Imports nearly tripled themselves in the past five years while domestic shipments increased by only 23 percent. The result has been that imports doubled their share of the U.S. Market.

BELTING AND BELTS FOR MACHINERY (EXCLUDING V-BELTS), DOMESTIC MARKET, DOMESTIC SHIPMENTS IMPORTS, EXPORTS, AND NET BALANCE 1967–72

[In millions of dollars]

Year	U.S. market	Domestic shipments	Imports		Exports	Net balance, exports versus imports
			Value	Percent of market		
1967	130.4	125.2	5.2	4.0	6.9	+1.7
1968	150.5	144.4	6.1	4.1	6.6	+.5
1969	151.4	144.0	7.4	4.9	8.1	+.7
1970	156.6	148.8	7.8	5.0	7.3	−.5
1971	165.9	156.1	9.8	5.9	7.0	−2.8
1972	167.8	154.1	13.7	8.2	6.9	−6.8

Without restraints on imports, these two segments of the domestic rubber industry will have serious problems in the relatively near future. We believe that action along the lines of that proposed by the Burke-Hartke bill is needed. If such action is not taken it is the contention of the United Rubber Workers that we will continue to watch our industries losing more and more of their own domestic market. American industry cannot exist under these conditions indefinitely.

Appendix 2

Objections to Administration Trade Bill

For some years, the United States has possessed a trade philosophy and policy which is better suited to another period in history. This country has stubbornly held on to a free trade policy while other nations were recognizing that such a policy was outmoded and adopting sophisticated methods of import and export management designed to enhance their own internal economies. As a consequence,

the United States experienced a trade defit in 1971 (the first since 1893) followed by a much larger deficit in 1972. Looking behind the dollar balances, one will find that entire industries no longer exist in the United States—the victims of a massive influx of imports. This course of events in one of the strongest economies in the world was hastened by the activities of U.S.-based multinationals in their relentless search for higher profits.

If the United States is to recapture and maintain its former position in the world economy, U.S. trade policy must be redesigned to be in tune with the rest of the world.

We do not believe that the Trade Reform Act of 1973 would accomplish this objective. The Administration bill has no clear direction in many areas. Under this proposal, the President would be granted authority to raise and lower tariffs, institute quotas, negotiate and renegotiate trade agreements, decide whether or not relief should be granted an industry, reduce tariffs to zero on products imported from developing countries, and take numerous other actions. Yet, the Bill provides no guidelines to be followed nor any objectives to be reached and there is no assurance or guarantee that the Executive Branch will utilize its power in the proper manner. We realize that "to err is human," but we feel that the Administration bill provides too much exclusive power (and too much opportunity for mistakes) to the Executive Branch.

In many ways, the Trade Reform Act of 1973, as trade policy, is little different from that which now exists. It fails to recognize that this country needs a positive foreign trade policy if we are to restore our balance of trade; if we are to regulate the growing number of imports that have cost the U.S. economy over one million job opportunities in the last five or six years; if we are to remain a major manufacturing nation; if we are to compete with our "grown-up" trading partners on a "fair" rather than a "free" basis. Not only must the United States adopt a policy of "fair trade," but we must also take steps to control the exportation of technology and jobs.

However, the Administration bill does not contain any effective provisions to regulate the activities of multinational companies. A trade bill without such provisions cannot be the answer to America's problems in international trade. Multinationals regard themselves as members of the world economy owing no particular allegiance to any country.

Aside from these rather fundamental shortcomings, we have several other specific objections to the Administration bill. First of all, Title I, Sec. 103(c) proposes to give the President the authority to eliminate the American Selling Price valuation. If the President were to invoke such action, it would mean an end to the rubber footwear industry. We do not believe the President should be given this power. However, our position on ASP as it currently operates relative to the rubber footwear industry goes much further. While it provides some measure of protection to this industry, it is not enough to restrain import growth. What is needed is a higher ASP valuation, higher tariffs, or quota protection, none of which are assured under the terms of the bill.

Sec. 103(c) also gives the President the authority to remove requirements for marking of country of origin. If we are to keep jobs and production in America, consumers must insist on U.S.-made products. If marking requirements were removed, that would be impossible and it would encourage manufacturers to move their facilities to take advantage of the cheapest labor available. It is already hard enough to find an item that is "made in America" without this additional complication.

Thirdly, under Section 203, the President would be given the authority to suspend the application of 806.30 and 807.00 of the Tariff Schedules. This is not enough. These tariff loopholes should be repealed, for they have injured the American worker by encouraging corporations to shut down their U.S. operations and transfer production to low-wage countries. The Mexican Border situation is the prime example of how current U.S. trade policies work against the good of the people. The corporation using these loopholes, benefits by having labor intensive work done in Mexico, then shipping the product back to the U.S., paying duty only on the value added by cheap labor, and then selling it in the U.S. market at American prices. The corporation widens its profit margin, but the American worker is out of a job. At least two thousand of our members lost their jobs because Mattel, a toy manufacturer, took advantage of 807.00.

Fourth, we do not find acceptable the Administration's proposals relating to countervailing duties. Under the Act, countervailing duties would become too discretionary to be meaningful. Presently, the Secretary of the Treasury must

impose a countervailing duty whenever it is determined that a "foreign bounty or grant" is made. Under the Administration's bill, this requirement would be eliminated. Further, the bill conditions the imposition of such a duty on the determination of material injury to the industry and then allows the Secretary of the Treasury the latitude of deciding whether or not to actually put a duty into effect. It is our opinion that the Administration's proposals on countervailing duties diminish effectiveness to the point that it is in opposition to the original concept.

Mr. BOMMARITO. Thank you very much.

Mr. BURKE. The committee will recess until 2 o'clock.

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

AFTERNOON SESSION

Mr. BURKE. The committee will be in order.

Our next witness is David B. Jenkins. Will you identify yourself and proceed with your testimony.

STATEMENT OF DAVID B. JENKINS, MEMBER, GOVERNMENT AFFAIRS COMMITTEE, NATIONAL SHOEBOARD CONFERENCE, INC.

Mr. JENKINS. Yes, sir.

Mr. Chairman, my name is David B. Jenkins. I appear before your committee as a member and on behalf of the Government Affairs Committee, National Shoeboard Conference, Inc., Boston, Mass. My comments and recommendations are directed strictly to the provisions of H.R. 6767.

The National Shoeboard Conference, through its government affairs committee, has been actively interested in foreign trade legislation over the past decade and has strongly supported our Government's efforts to achieve fair and free trading arrangements among the nations. As a result of the so-called Kennedy round, the U.S. tariff on our products—shoeboard and leatherboard—has been virtually eliminated. It stands at about 3.5 percent. Foreign tariffs have not been correspondingly lowered and, in the case of many countries, additional nontariff barriers have been erected. Thus, our industry finds itself severely limited in export opportunities while the U.S. market is wide open to foreign producers. At the same time the shoe industry, our principal market, has lost one-third of its production and we have, therefore, lost one-third of our potential market to firms outside the United States. In view of the frustration of U.S. efforts to secure fair trading arrangements for our own industries in the world economy and the particular pressures arising from the drastic shift in the centers of world shoe production, we strongly support the general objectives of H.R. 6767 and, with the few exceptions noted hereafter, we concur in the major provisions of the bill.

I would like to just summarize our views.

TITLE I—DELEGATION OF AUTHORITY TO PRESIDENT TO NEGOTIATE TRADE AGREEMENTS

Chapter 1, section 101. Basic authority for trade agreements. We believe the delegation of broad negotiating authority to the President is essential in view of the rapid change in the structure of international trade and the need for extraordinary measures to protect the U.S. position in the world economy.

Chapter 1, section 103. Nontariff barriers to trade. Nontariff barriers have led to the imposition of penalties and, in some instances, to the exclusion of U.S. products—including those of our industry—from many foreign markets. The experience of the member firms of our conference, which we will cite later in this statement, leads us to make the strongest possible recommendations both for the grant of authoriy to the President to negotiate the reduction and/or elimination of these nontariff barriers and for the aggressive exercise of this authority.

TITLE II—RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION

Chapter 1, import relief. Industries which are vulnerable to foreign competition, like the shoe industry, our principal market, must be protected from the threat of extinction by imports. Our statement will contain some specific comments on the provisions of this title, especially the definitions of "market disruption" and the methods of applying direct import relief.

Chapter 2, adjustment assistance for workers. We are opposed to a policy which permits the undue elimination of domestic jobs as a result of massive imports and thereby necessitates the establishment of elaborate assistance programs for displaced workers. We argue that import restraints are a better solution than so-called adjustment assistance which, in our view, may be regarded as burial insurance.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

Chapter 1, foreign import restrictions. We support the provisions of title III relative to unfair trade practices which have severely limited U.S. exports to many countries. We have comments on the powers given to the President to deal with such practices.

Chapter 2, antidumping duties. While the provisions of this chapter may be of assistance to some industries, the experience of our own industry points up the need for stronger legislation than has been proposed. We argue for a more restrictive antidumping law of the type adopted by many other countries to protect their own markets.

Chapter 3, countervailing duties.

Chapter 4, unfair practices in import trade. We support these provisions although our industry has not had substantial experience in respect to these particular areas.

TITLE IV—INTERNATIONAL TRADE POLICY MANAGEMENT

We support the provisions of this title. We particularly endorse the provisions which give the President power to impose surcharges on imports, when necessary to deal with balance-of-payment and export-import trade balances, to withdraw trade concessions from foreign countries for cause, and to withdraw or extend the most-favored-nation policy when necessary in the economic and trade interests of the United States.

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

We favor a delegation to the President of the authority to make bilateral trade agreements with countries not now enjoying the MFN policy by the United States and the authority to extend the provisions

of the MFN policy to such nations subject to the conditions set forth in the title.

TITLE VI—GENERALIZED SYSTEM OF PREFERENCES

If, as we believe, this title would authorize the President to extend duty-free U.S. treatment for selected products originating in developing countries, we are compelled to oppose it since we foresee the distinct possibility of the establishment of a subsidized plant manufacturing shoeboard in a so-called developing country with disastrous effects on the U.S. shoeboard market arising from the export of such products.

We appreciate the opportunity to present our views.

Thank you.

[Mr. Jenkins' prepared statement follows:]

STATEMENT OF DAVID B. JENKINS

THE SHOEBOARD INDUSTRY

The Shoeboard industry consists of eight mills which manufacture cellulose and leather fibreboards used principally in the making of components for footwear. All of the firms are members of the National Shoeboard Conference, Inc., which I represent. Approximately 40,000 tons of shoeboard are produced annually in the United States and the total product has a value of about $14,000,000. Although the industry is small, components made from its products are found in over two-thirds of the shoes manufactured in the United States and, during World War II, the industry had the highest priority rating because shoeboard was essential in the manufacture of shoes for the armed forces.

U.S. participation in foreign trade in shoeboard consists primarily of imports under tariff items 251.49 (shoeboard) and 791.57 (leatherboard). Exports, which are not separately identified in the official statistics, do not exceed $300,000 annually. While the volume of foreign trade in shoeboard has, thus far, not been substantial, our products are increasingly sensitive to changes in the cost structure of international trade and, in the uncertain period ahead, it is vital that fair treatment be achieved for our products in foreign markets.

Recent foreign trade policy has not helped our industry and a continuation of current trends over a long period could do great harm. Whereas import duties on our products were about 20–25% ad valorem under the Tariff Act of 1930, the duties are now at the level of 3.5–3.75% ad valorem. While some countries reduced their tariffs on our products under the so-called reciprocal trade agreements, many countries still maintain substantial tariff barriers three to four times the U.S. rates, and the effective tariff is still higher in many cases due to the increasing resort to nontariff barriers.

We believe that our situation is comparable to many hundreds of other small industries whose domestic markets are vulnerable to imports through the trade agreements program and which, like ourselves, have secured little, if any, benefit from that program over many years. Like many other industries, large and small, we are appearing before this Committee in the hope that new legislation and a new foreign trade policy will establish conditions of fair competition among trading nations.

In the past decade, over 35% of the American footwear market has been captured by foreign producers. Since shoe manufacturers are the chief purchasers of our products, it has become necessary for our industry to pursue this market where ever it is found. It is in this context that the high tariff and nontariff barriers overseas pose such a threat to our industry. Although we have supported free trade policy in the past, we can no longer do so, if other countries shut out our products while here at home barriers to the penetration of our U.S. market are lifted.

VIEWS AND RECOMMENDATIONS ON H.R. 6767—"TRADE REFORM ACT OF 1973"

Title I—Delegation of Extraordinary Powers to the President—chapter 1, section 101

We fully support the proposal to grant extraordinary tariff and trade negotiation authority to the President as set forth in Title I of the Bill. The delegation would permit the President the widest range of action in such matters as maintaining, lowering, and increasing tariff rates; negotiating future trade agreements without restrictions as to limits of concessions given and demanded; imposing quotas on imports; imposing border taxes and surtaxes on imports for various reasons such as punitive actions against other countries; balance of trade problems; and all other actions appropriate to the general objectives of the proposed legislations. We believe it essential that the Congress delegate to the President the wide powers called for in the provisions of H.R. 6767 if the objectives of the proposed legislation are to be achieved. From the 1930's through 1962, the Congress delegated relatively limited authority to the President in the negotiation of trade agreements. These limitations tended to place U.S. negotiators in a very vulnerable position at the bargaining table. Foreign representatives knew precisely the bargaining position and limitations of our negotiators. This made for a one-sided negotiation with the U.S. usually having to accept, as so-called "reciprocal" trade agreements, what was offered to us on a "take it or leave it" basis. The result in our experience has been an increase in the gap between the tariffs our shoeboard face overseas and those our competitors face shipping into the U.S.

The bargaining power of the United States has greatly eroded during the past decade. U.S. tariff rates were cut by about fifty percent under the last trade agreement—the final reductions going into effect in January, 1972. There are few important U.S. tariff reductions left to offer in future agreements. Fifty percent reduction of a 15% ad valorem rate was much more attractive to a foreign country 10 years ago than a fifty percent, or higher, reduction of a 3.75% duty would be in 1974–75. On the other hand, the competitive position of foreign producers has registered a spectacular increase in the last decade. Most U.S. tariffs are not a bar to an expanded market in the U.S. for foreign producers in Western Europe and Japan. U.S. imports during 1972 were above 50 billion dollars. A large portion of such imports are competitive with U.S. manufacturers in their home markets.

With the full authority proposed in this bill, the President would have enormous leverage in righting this imbalance in dealing with other countries to secure equitable treatment in future trade agreements, removal of nontariff rates and other inequities against U.S. trade as may exist. With such authority, the President would no longer be limited to granting imports duty reductions to gain trade concessions from foreign countries, especially in the removal of nontariff barriers and obtaining relief for domestic producers from excessive imports. Due to the competitive power of foreign manufacturers, and the low level of U.S. import duties, it seems that reciprocal tariff reductions will be secondary in importance, in future trade agreements, to the volume of trade and in effect upon the economy of countries participating in such agreements.

Title I—Nontariff Barriers to Trade—Chapter 1, Section 103

In our opinion this provision is one of the most important parts of the bill. The maintaining of nontariff charges on imports by foreign countries has distorted competitive trade, and nullified many reciprocal trade agreements. We are gratified that the provisions of the bill contain a "mandate" to the President to deal with this important phase of international trade.

Some of our members who have tried to promote exports, have found that the nontariff charges on imports are more of a restriction on export sales than the formal tariffs. Although we have collected information from official sources on the nontariff charges in foreign countries, we are sure that your Committee has in its possession extensive information on this subject and we see no need to include such information in this presentation. The final cost of our exports to the foreign dealer or distributor is greater than just the addition of the import duty and other charges as set forth in the official publications of foreign coun-

tries. Later this year we shall give to appropriate government agencies the *actual* costs of making shipments of our goods to foreign buyers.

Title II—Relief From Disruption by Fair Competition—Chapter 1

We fully support the purport of Chapter 1 of this title to provide relief from disruption of our domestic market by excessive imports and we are hopeful that, when a finding of injury is made, the programs to assist affected industries will be vigorously implemented. We are particularly interested in the factors enumerated in the determination of "disruptive" imports and the duration of import relief.

We recommend the repeal of all of the provisions of the Trade Expansion Act of 1962 with respect to relief to domestic industry ("escape clause" provisions). Although our industry has had import competition, we have not had any experience with the "escape clause" provisions of the existing law. However, many of our principal customers—the shoe manufacturers—have sought to take advantage of the relief provisions, and we are reliably informed that such provisions have not provided them with any material benefit.

Nevertheless, we support the general provisions of Chapter 1 of Title II. We generally approve of the new criteria proposed to define injury to or disruption of domestic industry from imports, whether or not such imports are tied to any previous reductions of U.S. tariffs. We suggest the word "substantial" be used instead of "primary" in making the determinations set forth in this Chapter. During the last decade, forty thousand workers in U.S. shoe plants have been displaced and eight producers of shoeboard have ceased operations, in part at least, due to the loss of this market.

Title II. Chapter 2

We *oppose* Chapter 2 of Title II which apparently sets forth an expensive relief program for workers displaced by imports. We oppose the general concept that a foreign trade policy program anticipates the displacement of workers in U.S. industrial plants. During the last two years or so, many thousands of workers in U.S. plants have been displaced by excessive imports. One of the chief purposes of the proposed legislation is to reverse this trend. We believe that, in the event there is unemployment or displacement, existing government programs—local, state and national—are available to deal with the problem, whatever the cause may be.

Title III—Relief From Unfair Trade Practices—Chapter 1—Foreign Import Restrictions

We endorse the authority that would be given to the President to deal with unfair and discriminatory foreign import restrictions, including export subsidies to third countries, which directly or indirectly affect U.S. export trade. Most important, in our opinion, is the authority that would be given to the President to deal with such unfair and discriminatory restrictions by retaliation against the country involved.

Title III, Chapter 2—Antidumping Duties

Members of our industry have had some experience with the Antidumping Act. Our opinion is that the present law is unsatisfactory. We recommend the complete revision of this law. Dumping is an unfair trade practice, and when found, dumping duties should be imposed on the affected imports from origin of the offense to termination. The function of the Tariff Commission under the present law should be eliminated.

Title III, Chapter 3—Countervailing Duties

So far as we are aware, foreign exports of shoeboards have not been subsidized nor have bounties been paid. It is possible that such conditions might exist or arise in the future. We have no opinions on the provisions of Sec. 330.

Title IV—International Trade Policy Management

We limit our comments and recommendation to the provisions of this Title to Sec. 407.

Most-Favored-Nation Principle

We believe it is essential that the President have adequate authority to deviate from the most-favored-nation principle. Useful and advantageous agreements could be made by the United States with one of more countries on a specialized agreement, only to have such agreement nullified by a non-agreement country. The only solution in cases of this sort is to withdraw the MFN treatment to the offending country.

Title V—Trade Relations With Countries Not Enjoying Most-Favored-Nation Tariff Treatment

We believe that trade relations between the United States, and China and the USSR should be expanded consistent with our national interests. The provisions of Title V provide guidelines with respect to the expansion of trade relations with the Communist areas which should give adequate protection to private firms, and the Government, in conducting business with these areas.

Title IV—Special Tariff Treatment to "Developing Countries"

This title has extensive provisions for granting duty free treatment, on selected articles, that are imported from developing countries. We do not endorse the substance of this part of the bill. We believe that duty free importation of competitive products into the U.S. market from developing countries would inspire the location of plants in those areas for the principal, or sole, purpose of exporting to the United States. We suggest that the underdeveloped country would be likely to subsidize the plant in order to export to the United States.

Mr. BURKE. Are there any questions? Mr. Collier.

Mr. COLLIER. Mr. Chairman. I regret that our previous witnesses had completed their testimony at the time of the rollcall, but I did want to ask them one question and perhaps you can respond to it because it is rather general in nature. We were told this morning that had we maintained our import-export status in the shoe industry as it was in 1953, it would have 200,000 more jobs. However, going back to the hearings in 1968, we had testimony before this committee, whether aggregate or otherwise and I won't belabor the committee by reading all of them, because they point up what is the basis of my question.

Footwear News in 1968 said that the "plants were operating at capacity level, though still battling a critical labor shortage." One executive stated, "If we could get more people, we could make more shoes."

In another article in Footwear News it says:

As a matter of fact, factories are not looking actively for new accounts in this country at the present time. With shoes as hard to get out of the factory as they are under present labor shortage conditions and with a high volume of business, it would be surprising if makers even sought to recruit new accounts—

And so forth.

It doesn't ring quite true with the statement that there are some 200,000 jobs in the industry loss unless these statements from the record are inaccurate. Do you find anywhere that there has been during the subsequent period of increasing imports a shortage of labor in the shoe industry. Are you aware of any or are these statements that appeared in these publications completely fallacious?

Mr. JENKINS. I would not say the statements are fallacious. I am not really able to comment on Mr. Fecteau's statement as to how many jobs there would be if we had the same trade balance as we did in 1953.

Mr. COLLIER. Could we find 200,000 workers?

Mr. JENKINS. That part of your question that I can respond to is are there people available to make shoes if we had the orders to make them.

Mr. COLLIER. If we did something about this influx of imports which I want to do something about.

Mr. JENKINS. Thank you. In my own industry, first, we consist of eight mills. There were 16 mills 11 years ago. I would not be accurate to say that the only reason there are half as many mills is because of imports, but there is no question that because a third of the shoes sold in the United States are made elsewhere and because of the duty

arrangements in those countries plus freight and other things, we are not able to be in those shoes in those other countries. Therefore, we have lost one-third of our market. I am sure that the eight firms that failed, failed for several reasons, but one important reason was the fact that there has been a diminished market here in the United States for our product. One step farther from us is the shoe industry itself. I live in New England, which has suffered more than perhaps any other part of the country in terms of closings. Congressman Burke is well aware of that and has been very helpful in making the plea of the New England shoe industry well known. There is no question that in South Weymouth today, where a shoe factory closed 2 weeks ago, we have a factory full of people who would be very happy to be making shoes. I can't speak in general, of course, but I say from my own experience whether you can make half again as many shoes is one question but as to the other question, "can we make more shoes?" we certainly can if more orders were available.

Mr. COLLIER. So this is not true today?

Mr. JENKINS. I think if you asked the automobile industry in 1968 or anyone else, people were having a hard time finding help in 1968.

Mr. COLLIER. Let me ask just one other question. In the testimony given to the committee previously, I gathered that a good part of the criticism for the truly unfortunate plight of the shoe industry was directed at actions or lack of actions in the past 4 years. Isn't it true, however, that the trend from the good year of 1953 toward increasing imports year after year was a steady trend up until 1962 at which time Congress enacted the so-called Trade Expansion Act with substantial support from organized labor and yet in the subsequent years the trend continued. It didn't just start in 1968. It started back actually in 1953, but became worse from 1962 so that there was really no relief whatsoever for the industry from the 1962 act and the subsequent negotiations of GATT was there?

Mr. JENKINS. Speaking first for my own industry, there has been one element of relief from the 1962 negotiations vis-a-vis Canada, but in every other instance a greater gap developed between our ability to export and the ability of our competitors overseas to import into the United States.

Our duty rates fell from 8 or 8.5 percent to 3 percent and we are facing rates now in Europe where the EEC is 13 percent and Brazil and Argentina that were mentioned this morning are 100 percent. That is for us to send our goods there for those shoes being made. As far as the shoe industry itself getting relief from the Trade Expansion Act, certainly it is very clear that the executive branch of the Government has not been very aggressive, at least from the shoe industries' viewpoint——

Mr. COLLIER. Through two administrations.

Mr. JENKINS. Yes, sir, through two administrations—in the plight of the shoe industry has had the opportunity to grant relief under certain of the provisions and not exercising that relief. In this statement, I think we have tried to say, even though we support the bill and have supported other positions earlier for free trade, that it hasn't turned out to be free. It has turned out to be fairly one-sided and we feel that the shoe industry has been a very distinct sufferer and where there has been relief available that relief has not been accorded for one reason or another.

Mr. COLLIER. That is about the way I had it sized up. I think if we learn nothing else from the Trade Expansion Act, which in reality became a trade depletion act, we should have learned that some provisions must be written into whatever bill we pass to prevent negotiators from doing exactly what they did in 1962 when they hurt the shoe and a number of other industries in their negotiations at Geneva.

Thank you, sir.

Mr. BURKE. Mr. Vanik.

Mr. VANIK. I just want to ask one brief question. What are the imports of shoe board? In your statement on page 5 you talk about participation in foreign trade consisting of imports. What is the dollar value of imports?

Mr. JENKINS. There are several categories. The Department of Commerce collects information and the information sometimes is not very clear so that I will have to give you my estimate on that. There are two categories to which we refer here as imports. The imports of leatherboard are approximately $1 million. They were a couple of years ago about $2 million and subsequently a domestic plant has been started to produce a material which has reduced that input.

Mr. VANIK. So that your import problem is about 8 percent, isn't it?

Mr. JENKINS. That is one part of it. We have a second part which is paperboard, the second category for shoeboard that falls into our two classifications for our trade.

Mr. VANIK. That is just waterproof paper, isn't it, substantially?

Mr. JENKINS. No, sir. Some of it is water-resisting material. It is designed primarily for use in shoes, luggage, and automotive applications, and the bulk of the importation of paper products, luggage, would come from Sweden. The importation of automotive materials basically comes from Canada.

Mr. VANIK. What is the estimate of those?

Mr. JENKINS. About $700,000, £5 million, sir.

Mr. VANIK. You don't include that in your product value of $14 million?

Mr. JENKINS. No, that represents production of the conference.

Mr. VANIK. What is the domestic production?

Mr. JENKINS. You are talking about our shoe boards, not shoes?

Mr. VANIK. I am talking about shoe boards. You had a second category in which you were talking about the cellulose products. Does the $14 million which you talk about on page 5 include the cellulose products that you make?

Mr. JENKINS. The $14 million only relates to the value of production of the National Shoeboard Conference, which is a combination of all of the domestic producers.

Mr. VANIK. Does that include both the shoe board and the cellulose and leather?

Mr. JENKINS. Yes, sir.

Mr. VANIK. For shoes and automobiles and luggage?

Mr. JENKINS. Yes, sir, for our National Shoeboard Conference. It does not represent all producers of board which might go into shoes or luggage or automobiles.

Mr. VANIK. Just the members of your conference?

Mr. JENKINS. Yes, sir.

Mr. VANIK. What production is outside of your conference?

Mr. JENKINS. Well, the production reflected here is a trade association that produces materials in a specific way. The National Shoeboard Conference is composed of members who use what is called a wet machine. It makes a high-density product, and a very substantial amount of shoe board produced in the United States is not made in that process and, consequently, is not represented in our figures.

We are not speaking for all producers of shoe board. We are speaking for producers of wet machine products and as a producer myself we export our products, try to, around the world, but 85 percent of our production stays here in the United States.

Mr. VANIK. If by the action of this committee, we do not increase your imports by 8 percent and probably give you an opportunity to raise your exports, wouldn't you find some kind of accord in that sort of situation?

Mr. JENKINS. We have been fortunate because we have had the devaluation and the terms of our export position have improved somewhat.

Mr. VANIK. It raised the price of the imported product, too?

Mr. JENKINS. From certain countries, not from England particularly, but it did from Germany. Our problem is that shoe production is moving to countries where the tariff treatment is very discriminatory. As I said earlier, Argentina and Brazil have a 100-percent duty on our products. There is no way we can get into those shoes. All the Common Market countries are 13 percent. I lost some business in my own company last week. Canada can import competitive goods into our country at 3.5 percent. I lost an order because our duty is 20 percent going to Canada on the same goods.

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

Mr. BURKE. Mr. Clancy will inquire.

Mr. CLANCY. I have just one question. How many tons of shoe board were produced 10 years ago compared to the 40,000 tons today?

Mr. JENKINS. I would say about 55,000 tons.

Mr. CLANCY. Thank you.

Mr. JENKINS. Certainly the production is not half of what it was even though there are half the number of mills. The stronger mills survived.

Mr. BURKE. Are there further questions? We wish to thank you, Mr. Jenkins, for your contribution here today. The committee appreciates your appearance.

Mr. JENKINS. Thank you very much.

Mr. BURKE. Our next witness is Irving Glass, president of the Tanners Council of America. We welcome you to the committee, Mr. Glass. You may identify yourself and proceed with your testimony.

STATEMENT OF IRVING GLASS, PRESIDENT, TANNERS COUNCIL OF AMERICA

Mr. GLASS. Mr. Chairman and gentlemen, I am Irving R. Glass, president of the Tanners Council of America, the national trade association of the tanning industry of this country. I wonder if I might begin with your indulgence, Mr. Chairman, by responding to the question Mr. Collier asked the previous witness in reference to the point made this morning by one of the witnesses of the shoe industry.

The presumption was that in the absence of the import trend we have seen during the past 12 years, or more properly since 1953, we could have employed and would have employed some 200,000 more people in the shoe business. That calculation, sir, is based on these simple facts. In 1953 our production of shoes was 500 million pairs. Our total shoe consumption in this country has now grown to a production level of 1 billion pairs.

If the domestic manufacturers' share of that market had been maintained proportionately to its share in 1953, we would have had to increase our capacity by roughly 80 percent and 80 percent in terms of jobs would have represented about 200,000 more jobs than were available in 1953. There is no question in my mind that the labor resources, the people, are there. The shoe industry is distributed throughout the country in many small communities. In all too many communities it is the sole payroll producer. In hundreds, literally hundreds of communities, therefore, we could have had people gainfully employed instead of having to find the alternatives of relief or of temporary employment insurance or of mobility and shift into other areas of the economy.

Mr. COLLIER. I would presume the last would be mainly the case, that if an industry begins to sustain the injury from abroad, workers who normally would stay in that industry would tend to disperse into other means of gainful employment where it was available. I presume it would be hard to get them back, assuming at some subsequent time we did improve the import-export relationship; is that correct?

Mr. GLASS. Injury, Mr. Collier, grows on it. When, for example, one plant closes, the news gets around and suddenly that industry becomes suspect in the minds of employees. They look to their future and worry about what the shoe economy will hold for them in the future.

Mr. COLLIER. Which is understandable, certainly.

Mr. GLASS. Our reputation—that is, the reputation of the shoe industry and the leather industry—as havens for capital, as potentially profitable employment, certainly hasn't been enhanced by the inroads of imports during the past 20 years.

Mr. COLLIER. One of the other reasons that was cited in past hearings is the fact that the shoe industry seems to be one industry in which there has been no injection of Government money for research, development, and expansion. Is that a fair observation?

Mr. GLASS. I think so. My explanation for that, candidly, is that the shoe industry in many respects is one of the last strongholds of pure Adam Smith economics, a competitive industry. Every shoe manufacturer seems to be born with a desire to cut a competitor's throat and as a result over the years the industry has never relied on or looked to Government for assistance. It has always looked to itself. It has been a family-owned business and typically in family-owned industries there are obligations which dictate the character of management, of ownership, which are quite different from large publicly held corporations, its obligations to employees, obligation to associates, and obligation to communities, all of which seem to animate such industries. I feel that the shoe industry in many respects is probably the worst example in the country today of the import disease, a malady which has been apparent in my opinion for a number of years.

We have recognized after a fashion the symptoms. We haven't done anything about getting at the root causes of the disease. That in a sense, Mr. Collier, brings me to the point of industry I should like to express to your committee today. I have had occasion to talk to this committee in its consideration of trade legislation on several occasions in the past. The principal objection of the tanning industry of the United States to one of the bills you now have under consideration, the Trade Reform Act of 1973, is simply this: We do not believe that that bill addresses itself in any sense clearly, plainly and explicitly to what is the crucial problem of foreign trade in the world today.

We think it deals with peripheral issues. We think it is concerned with the lines of authority in coping with those issues. But it doesn't tackle the major question of our times: How do you reconcile a viable U.S. economy with foreign trade? In our opinion that reconciliation is going to be impossible without clearly drawn and clearly legislated criteria for the imposition of mandatory restraints on imports.

In the past we have unfortunately found it necessary from time to time to point out to this committee what we thought was going to happen in coming years as a result of policies which had been in effect in the past.

I might digress again, in response to a question which Mr. Collier asked, and say, yes, I think the responsibility does not rest upon one administration, Mr. Collier. I think five successive administrations have been victims of an economic philosophy, an ideology, in foreign trade which was wrong from its inception, which had no provision of the future and which in one way or another has contributed to the deplorable state of the U.S. economy today.

It certainly isn't any consolation whatsoever to us that the views we have expressed so consistently in the past have been confirmed completely and utterly by the events and the developments of the past 2 years. All of our forebodings and our apprehensions have, regretably, been realized.

The consequences we anticipated from the reliance on outmoded and mistaken foreign trade policy by this country are now a sad reality. The Nation is in deep trouble and the respondent in our opinion rests on the willful, perverse, and even fatuous persistence in policies which were demonstrably wrong years ago.

We make no effort here in testifying to you on this occasion to get into the arithmetic of foreign trade, to deal with the figures, to recount the sad story of how many shoe factories have closed, how many leather plants have been forced to liquidate, or the toll we have suffered in unemployment in the United States.

In my opinion those facts are as familiar to us as they are to you. I don't hesitate to say that no jury would hesitate to reach a verdict on the basis of the cumulative facts of our present condition and the plainly identifiable causes for that reason.

You will recall that again and again in the past we presumed to warn that a supposedly favorable balance of trade was delusion or worse—a hoax. In 1971 and 1972 the chickens came home to roost with a vengeance. I might point out that even the acknowledged red ink of last year, $6.4 billion, which is a matter of record, be really a painted lily. The true picture, and I am sure you have heard this from other witnesses, is much worse.

If you correct the import side from CIF values and the export side for our charity, the foreign trade deficit last year was billions larger than actually reported.

Certainly none of us take any comfort whatsoever from having predicted accurately that the erosion and destruction of labor-intensive industry in this country would bring insoluble problems. I point out to you that during the past year, in spite of the fact that our economy has been heated up by self-administered fiscal and monetary injections, the unemployment rate remains high.

That is a direct reflection of missing job opportunities in labor-intensive industries. We submit that the Congress must be deeply concerned with the ultimate solution of the problems both in our metropolitan areas and in our smaller communities. How do we tackle unemployment with a shrunken manufacturing base? The cliche, of which I am guilty and many others, is we can't all be physicists or astronauts or engaged in exotic industries.

We must have labor-intensive industry to provide a base for manufacturing employment. Strangely enough, in spite of the facts and their apparent consequences today, there still is a persistence for the circulation of absurd and romantic economic notions. People who should know better who have gotten past first grade economics practice talk blithely about a service economy. I noted this morning the reference to the possibility held or the thought held in some quarters that we could survive as a service economy with a loss of a manufacturing base, that we could expand industry for the sake of becoming a service economy.

I point out to you no one has yet drawn a patent on a perpetual motion machine and no group of people ever learned how to live by taking in one another's wash. Somehow or other the bill always has to be paid and in a service economy the final reckoning has to be fiscal disaster. No one knows that better than your committee from your consideration of various problems such as the welfare problem, the adjustment assistance, the national debt limit, and taxes.

There are still other economic pundits who claim that our national hope lies in the maintenance of our superiority in so-called high technology industry, our preeminence in certain industrial areas such as 747's or computers.

I point out to you that in my opinion such thinking is nothing more than self-deception. There are no boundaries to the diffusion of technology in the modern world, the multinations, whether United States, Japanese, or European, make it absolutely certain that production know-how, technological know-how, can be and will be transferred and applied to every spot on the planet.

Lately we have heard still another intriguing notion. This purports to be an answer to our imbalance in trade and to the resulting economic difficulties.

Mr. BURKE. Mr. Glass, I am sorry to interrupt you. There has been another automatic rollcall. The bells have just rung. We will to recess until 2:55.

Mr. GLASS. I am at your service.

Mr. BURKE. I would like to have you back here at that time.

Mr. GLASS. Surely.

Mr. BURKE. The committee stands in recess until 2:55.

[A recess was taken.]

Mr. BURKE. The committee will be in order.

You may proceed, Mr. Glass.

Mr. GLASS. Thank you, Mr. Burke.

I think I was referring to some of the economic illusions which seem to be circulating nowadays. One of them seems to be that agriculture can be the saviour and the St. George of the U.S. economy.

All of us would agree, of course, that the entire world ought to be grateful for American achievement in agriculture. But even if we could feed the entire planet, that accomplishment would not solve our basic and crucial problems, for the obvious reason that we cannot all be farmers and in the long run healthy agriculture requires a healthy economy.

What we see missing from the draft of the Trade Reform Act of 1973 is purpose, program, philosophy, a conception of foreign trade in terms of national needs and objectives. Everywhere else in the world, every other nation regards foreign trade as an instrument of national economic policy.

But now, for the better part of two generations we seem to have been to generalization and to abstractions and then, when necessary, from time to time to makeshift improvisation.

We take the liberty, our district takes the liberty, of urging your committee to return to principle, to take the initiative in initiating legislation which will define the terms, the obligations and the limits of foreign trade in the light of the present economic reality at home and abroad.

We can be concrete in our suggestions. We suggest in the first instance that the time has come for the most forthright and rigorously defined statement of reciprocity. In our opinion, title III of the bill is merely a vague gesture in that direction.

Our industry is convinced from bitter experience that such suggestions or expressions of good intentions are not enough. We want to see U.S. trade law implement a simple principle: let others do unto us as we do unto them, or else. That principle can be spelled out in practicable and enforceable terms without the slighest necessity for discretionary authority in enforcement.

Our trade relations with Japan is a shocking case in point. For more than 20 years the tanning industry of the United States has been petitioning and pleading for reciprocity in leather trade with Japan. The initial excuse they offered for the barrier against U.S. leather was dollar shortage. Now, when that excuse has obviously disappeared in an enormous Japanese dollar surplus, U.S. leather continues to be banned for the most ludicrous excuses.

By any of the conventional precepts of trade which are so revered in academia, and about which so much has been made in the past specialization, U.S. tanneries should be busy today producing and shipping to Japan the greater values in leather which Japanese consumers want. But we are not. We are excluded out, while Japan remains completely free to ship to the United States the baseball gloves, the shoes and the other leather products made from U.S. raw material.

Thousands of jobs could be filled in New England, in the Midwest, the South and the West Coast, producing leather which could compete more than effectively in Japan. Those jobs have been destroyed by the most blatant kind of trade inequity and discrimination.

Your committee is familiar, I am sure, that the spirit and the practice of trade equality is violated by many means other than outright import bans, such as Japan imposes. Some of our friends in South America who enjoy most-favored-nation status with us, use astronomical tariffs.

Argentine leather, for example, enters the United States at 5 percent ad valorem, whereas U.S. leather must pay 100 percent or more to clear the docks in Buenos Aires.

It has often been implied that our Government must be concerned with many far-ranging issues of political or strategic character. Hence, it has been suggested, equality in foreign trade is not the simple or straightforward matter that laymen might conceive. In our opinion it is high time to use the broom of commonsense on that rationale. It has become a haven for inertia, for easygoing complacency, for diplomatic indifference and for reluctance to grasp the nettle of reality.

Let us return to principle and if that be naivete, then by all means let us become naive by setting equality and reciprocity for the United States as a fundamental condition of foreign trade. Several years ago in 1970 specifically, your committee framed and submitted to the Congress a blow to moderate and contain the rising flood of imports. We believe that your insight then had, in this respect, been profoundly confirmed.

The Mills bill would have prevented much of the vast damage caused since then by our unbalanced foreign trade, by the cumulative excesses of imports.

We believe that the concept of reasonable and mandatory restraint of imports must and will inevitably be applied. Quantitative measures to enforce orderly marketing by the only alternative to recurrent economic dislocation in a complex world. Devaluation or currency juggling is not the answer. Far too many countries are controlled or semicontrolled economies where export imperatives can be gained through internal means.

These includes direct subsidies, tax remission for exports, and other kinds of government assistance.

I noted this morning, Mr. Chairman, questions addressed by the committee to shoe industry witnesses with respect to the effect in the change of the alinement of currency on the situation of shoe imports.

The basic change has not appeared. In my opinion it will not appear, because if Italy and Spain and other countries find it necessary for their internal economic objectives to maintain their exports they will find the way to do so regardless of the comparative and minor changes in currency which have occurred. And many other countries have allowed their currencies to float along with the dollar, so that for all practical purposes there has been no change in economic relationships.

Is there any longer any question that the principle reasonable import restraint has been implicitly recognized in this country through the so-called voluntary quotas negotiated for steel and textiles?

Why was the principle right for those industries and not right for shoes, leather, and leather products? In my opinion there is no admissible answer to that question. All of the obvious criteria should have dictated priority action for shoes where degree of penetration and import injury were far greater than in any other product.

It seems rather striking that title II of the Trade Reform Act of 1973 succinctly defines all of the relevant preconditions or import

controls necessary to prevent and limit economic injury and then fails to offer a decisive solution.

Delegation of authority progressively to the Tariff Commission and to the Executive will always be after the fact if experience is any guide. That has happened in the shoe industry. This country can no longer afford the luxury of prolonged study, of investigation and deliberation, to prove to everyone's satisfaction that injury has actually been caused. Of what available remedy of the court of last resort if the patient has died in the interval?

We believe what the country needs is provision for mandatory action on the presentation of a prima facie case and with further deliberation to take place while there is still hope for the patient's recovery rather than assistance for his burial.

We see no difficulty in drafting an equitable and easily administered provision. If, for example, in any specified preceding period imports have risen faster than total domestic consumption and caused domestic production to curtail or plants to shut down, a prima facie case would exist for the immediate imposition of orderly marketing controls and restraints upon imports.

The danger level of unacceptable economic injury could be expressed as a general percentage of the total domestic market, and that danger level, once reached, should make mandatory the immediate stabilization of imports. Modification of the percentage applicable, industry by industry, should follow, not precede, the halt to further cumulative damage.

We take that concept of equity for granted in our jurisprudence. It can fare equally well in the economics of foreign trade.

The tanning industry of the United States has suffered directly and indirectly from imports. We suffer indirectly because the shoe business has lost such a large proportion of its market that we have lost a correlative share of our domestic market. We suffer directly from the imports of leather and other leather products from various countries which ship to us under inequitable terms with the advantage of low labor costs, with the advantage of being able to lurk behind astronomical tariffs or, like Japan, behind outright barriers against our goods.

Our industry, therefore, believes that the country needs a new and vigorous departure in foreign trade legislation. At this juncture we must look to you, to the Congress, to define the dimensions of our economic problems arising from foreign trade and to affirm principles which will meet those problems.

In our struggle for survival we urge you to set a new course in which genuine trade reciprocity, genuine foreign trade equity and mandatory orderly marketing will enable labor-intensive industries to continue to function within the United States.

Thank you, sir.

Mr. BURKE. Mr. Collier?

Mr. COLLIER. No questions.

Mr. BURKE. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

How much of a trade deficit do we have in the shoe industry today?

Mr. GLASS. The total deficit in the shoe and related products area last year was $1,067 million.

Mr. DUNCAN. Has that been increasing throughout the years?

Mr. GLASS. Yes, sir, it has.

Mr. BURKE. Now, with relation to the tariffs charged by Argentine leather, for example: that enters at a 5 percent ad valorem, whereas yours must pay 100 percent or more to clear the docks at Buenos Aires. Are they part of the GATT agreements, do you know?

Mr. GLASS. Yes, they are part of the GATT agreements.

Mr. BURKE. Have they raised their tariffs since?

Mr. GLASS. No. The original tariff on leather in Argentina was 125 percent and in their magnanimity, they reduced it to 100 percent.

Mr. BURKE. Quite generous.

Mr. GLASS. Yes, sir.

Congressman, you ask a question which has frequently puzzled us. We don't understand. Again and again we have been told by agencies of the Government: this can't be done or that can't be done because we are signatories to GATT and therefore are tied.

How come other countries are untied? Why are other countries permitted to engage in practices which are so blatantly unfair, whereas we somehow or other must always toe the the mark?

Mr. BURKE. What I am concerned about are these negotiators that are going over there to negotiate. And from the testimony we have had before this committee since the trade bill started, apparently business wasn't consulted during the GATT agreements and it doesn't look like they are going to be consulted and even labor hasn't been consulted to find out what the impact on those industries is going to be. And I am in a bit of a quandry here. There are so many attacks made on the Burke-Hartke bill that I don't like to discuss that bill because it gives some people high blood pressure.

But I was wondering: do you think we ought to get into more reciprocal negotiation or do you think we ought to just give them carte blanche to go out and abolish all of our tariffs and eliminate the American selling price and give away everything and get nothing in return?

Mr. GLASS. I should like to see a fundamentally new and simple principle adopted—genuine equality and reciprocty. If the Common Market imposes against U.S. products a tariff rate plus a border tax plus other excises or impositions, we ought to do likewise in order to equalize the terms of trade.

Conversely, if Japan—and you recall the testimony this morning—it developed that not only do the Japanese restrict the quantity of U.S. shoes which can come into Japan but also impose a prohibitive tariff. Well, if Japan insists upon imposing a tariff of 26 percent on U.S. shoes we ought to impose a similar tariff against Japan.

Certainly the terms, the dollar or yen equivalent of our trade, justifies such action. Why do we permit the Japanese such gross advantages to the disadvantage of domestic industry?

Mr. BURKE. Do you think that most of our problems are coming from the Orient rather than from the European market?

Mr. GLASS. The bulk of our deficit in foreign trade originates in the Orient today with Japan. But we have a significant problem in Europe today. That problem had its genesis in value-added tax which has been adopted by all of the Common Market. Our tax system, as your committee knows, is based upon the income tax primarily, whereas the European tax system now relies largely on the sales tax or the value-added tax.

The value-added tax is applied to incomes. It becomes an automatic border tax against our products. How do we cope with it?

Conversely, when a European manufacturer, a European tanner, for instance, in West Germany or Italy or France, exports to the United States, the value-added tax on that export is remitted.

Now, we have claimed in our wisdom to the Treasury of the United States that such remission of tax for export purposes is subsidy and contrary to our tariff law. The Treasury claims that it is not, that tax action by any nation is within its sovereign power.

But how do we cope with it economically? We can produce leather cheaper than tanners in Europe today. On the other hand, if the European tanner doesn't pay any tax whatsoever on exports they can ship leather to the United States at prices we can't meet.

How do we cope with Argentina, for example? Leather is coming in from Argentina, roughly 60 millon feet a year last year. But it is coming in under a subsidy. The Argentine Government has a differential tax system. Raw material is penalized.

In other words, if hides are to be exported, the Argentine Government penalizes them with a tax of 25 percent. Finished products are rewarded by a subsidy of 15 to 25 percent. The obvious impact of such a tax system is to aid the export of finished goods. We become the unfortunate recipients.

Mr. BURKE. How is the problem on the exportation of hides working out?

Mr. GLASS. I must admit in all candor I do not think that is a problem currently, Congressman Burke.

Mr. BURKE. It was a problem.

Mr. GLASS. It was a problem while we had the shortage resulting on the shortfall in Argentina. Currently I do not believe it is a problem.

I think the core of the problem, the basic issue we must meet in the shoe business, is to control the flow, the flood, of imports of shoes into the United States. And if we did that, then foreign demand for U.S. raw material would automatically diminish. They buy our hides to make shoes to ship back to us.

Mr. BURKE. I was surprised to hear you speak of the deficit in trade. Is that for 1972?

Mr. GLASS. 1972.

Mr. BURKE. 1 billion——

Mr. GLASS. $67 million.

Mr. BURKE. It was about $800 million back a few years ago, 2 years ago.

Mr. GLASS. Our deficit in the shoe and leather products area accounted for exactly one-sixth of the official U.S. deficit last year.

Mr. BURKE. I believe you have been reading the papers about this energy crisis, a shortage of oil and how we are going to be forced to buy about $20 to $25 billion more in oil than we are buying as of 1972, within 8 years. Do you think it is economically possible for this country to buy that additional oil and also allow for the deficit in leather goods, textiles, and other goods that are coming into the country with floodgates wide open? Will we have the money to be able to hold up this economy and stand up and will the dollar be able to stand up under these conditions?

Mr. GLASS. No, sir. I have to tell you, Congresman, that I regret that my expectations over the years as an economist—I have been somewhat unorthodox among my colleagues in this opinion. I have claimed for 8 years that we have not had a trade surplus, that our trade surplus was actually a statistical hoax. And second, I have predicted that we are moving into an era of an enormous trade deficit. And that came true in 1971 and 1972. And I think the dimensions of the problem are growing enormously and that unless we cope with those by utilizing our own resources of raw material, of labor, of energetic innovators and enterprises to make labor-intensive products at home, we are going to build an untenable structure and one of these days the dollar won't be devalued 17 percent, which it is today, but it may be 40 and 50 and 60 percent because we cannot sustain that flood of imports and pay for the energy we must import.

Mr. COLLIER. In the light of what Mr. Glass has said in the last couple of minutes I think it is well to recall that Congress did have an opportunity to take the action you are now recommending back in 1958 when the late Dick Simpson was a Member of the House and sought to get in the reciprocal trade bill that year and had the mandatory ad valorem provision.

I think he was successful at that time, as I recall, in getting about 79 votes for his proposal.

Thank you, Mr. Chairman.

Mr. BURKE. Thank you very much, Mr. Glass. We appreciate your testimony.

Mr. GLASS. Thank you.

Mr. BURKE. Our next witnesses are: Benjamin Feldman, general president, and Abraham S. Weiss, director of research, International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO.

STATEMENT OF BENJAMIN FELDMAN, GENERAL PRESIDENT, INTERNATIONAL LEATHER GOODS, PLASTICS & NOVELTY WORKERS' UNION, AFL-CIO, AS PRESENTED BY ABRAHAM S. WEISS, DIRECTOR OF RESEARCH

Mr. WEISS. Mr. Chairman, my name is Abraham S. Weiss. I am director of research, International Leather Goods, Plastics & Novelty Workers' Union, an affiliate of the AFL-CIO, with a membership of approximately 45,000.

The general president of the Leather Goods International Union has submitted to this committee a statement with reference to the proposed trade reform bill of 1973 and I would like to submit it for the record and make a few additional comments, if I may, based upon that statement.

In the interest of conserving time and also not to go over ground that has been explored in detail by others, I would like to make a few points with specific reference to our industry. It is a small-scale industry with a total volume, dollar volume, of less than a billion dollars. There are approximately a thousand small plants predominately in the industry. And it is an industry which has been, particularly during the past two decades, and especially in the past 5 years, a study in constant escalation of imports—imports to a point where in one crucial sector of the jurisdiction of our union, in handbags,

the imports compromise well over 50 percent of the total American market.

The result has been an erosion of jobs in the industry and we can speak, of course, in general terms of how the number of workers went down from 60,000 or 65,000, to 55,000, but I would like to pinpoint it if I may, by a discussion of two situations.

Mr. BURKE. I am sorry, but there is another automatic rollcall. We will have to recess until 20 minutes of 4 or quarter of 4, unless we return sooner.

So the committee is in recess, subject to the call of the Chair, and we should be back here by quarter of 4.

[A recess was taken.]

Mr. BURKE. Without objection, the committee will be in order. And you may continue, Mr. Weiss.

Mr. WEISS. At the time of the recess I was referring to the erosion of jobs in the leather goods industry and I wanted to specify particularly the situation with regard to two of our most important affiliates.

In Local 1, New York, which had a membership of 12,000 in 1970 we are now down to 8,000 members. In Local 29, Newburgh, which is the second largest handbag market in New York and the United States, had a membership of 2,000. We are down now to 1,000.

What is particularly significant about that is that these men, and more particularly women, are of minority groups and if they do not have jobs in the handbag industry, particularly in Newburgh, there are no alternative opportunities for employment.

This creates, understandably, social problems and social tensions.

I want to refer to a question which was raised in the morning session that is particularly significant for this industry. The question was posed whether or not there are any technological or machine developments which would act as a countervailing force to the high-wage structure in the United States vis-a-vis the low-wage structure in other countries.

Now, we all know that in the United States the people I represent are pretty much at the low end of the economic scale. The average wage is $2.65 an hour which, by any standard, is abysmally low, but compared to the standards as noted in other countries, it is very high. There is, however, and this is the crucial factor, there is, however, this compelling circumstance.

We are dealing here with a labor-intensive industry, where the emphasis is on manual dexterity. It really makes no difference whether the work is done by an American or by a Taïwanese, or by a Haitian. Eventually, through the process of manual dexterity, they will reach a level of proficiency with that of an American worker. And the crucial consideration, then, is one of wages, particularly in an industry where the cost of the product in terms of labor content is between 30 and 35 percent.

We simply could not compete in that situation. I want to refer, for example, to another situation, in Puerto Rico, where 2 weeks ago I was a witness at a minimum wage hearing. In Puerto Rico during the course of a decade, the personal leather goods industry had increased to a point where by 1970 there were 3,600 jobs. It is now down to 1,800 jobs. These jobs have gone primarily to Jamaica and to Haiti. And why? Because in Puerto Rico we had a minimum wage of $1.325

an hour and in Jamacia the average wage is 28 cents an hour and in Haiti it is a dollar and a half a day.

I submit, Mr. Chairman, that under these circumstances, as noted in our statement, we cannot compete with the coolie wages that we are confronted with. And so long as our country is an open market, a free haven for these coolie wages, we are confronted with a situation where tens of thousands of people, including these workers in the handbag and personal leather goods industry, have absolutely no future.

The continuation of the present situation is one in which we can only predict that there will be no jobs, there will be no union, and to the degree that this will contribute to unemployment and mounting social frustrations, I think that something must be done and must be done affirmatively by the committee.

And certainly from that standpoint the viewpoint that is set forth in the Burke-Hartke bill is a much more realistic approach to the problems our industry is confronted with an any other bill now before the committee.

Thank you, Mr. Chairman.

[The prepared statement of Benjamin Feldman follows:]

STATEMENT OF BENJAMIN FELDMAN, GENERAL PRESIDENT, INTERNATIONAL LEATHER GOODS, PLASTICS AND NOVELTY WORKERS' UNION, AFL–CIO

I. INTRODUCTION

"We need basic trade reform, and we need it now." With these words, last month, President Nixon sent Congress a bill entitled, "Trade Reform Act of 1973" which would give him sweeping new authority to raise and lower tariffs and other trade barriers—proposals whose ostensible aim is to strengthen the President's hand in major international trade negotiations scheduled to be held later this year.

It is our considered judgment, as has been set forth at length by the AFL–CIO of which our International Union is an integral part, that the President's proposed legislation does not meet the grave problems of trade, particularly those problems which have had such a marked impact upon the industries where our members are employed. Or, to put it more precisely, where they have lost jobs in ever increasing numbers and are underemployed.

The Administration's proposals do not deal at all with such important causes as the export of American technology and capital. The proposal on taxation of profits of foreign subsidiaries, while finally recognizing this as a problem, does virtually nothing to close lucrative tax loopholes for American-based multinational companies. The proposals provide no specific machinery to regulate the flood of imports, and indeed, some would increase the amount of damage to American employment and industrial production in general and that relating to the industries within our jurisdiction in particular. In sum, the proposals would open the door to further deterioration of America's position in the world economy and to the further export of American jobs.

We, as trade unionists, understand why the President wants flexibility when he goes to the bargaining table. This is a stratagem which is basic to the negotiating process, although our International Union would have liked to see it coupled with an indication that the low-wage structure of exporting countries—whose products have flooded the American market—be an item on the bargaining agenda. But even if the approach on this score was along the lines noted later in this brief, we submit that in a democracy no President can have unlimited, unaccountable power to regulate the lives of the people. And the Burke-Hartke bill (H.R. 62 and S. 151)—which our International Union supports and maintains is a more realistic and viable approach to the problems of foreign trade than is the Administration's proposals—would provide responsible, albeit somewhat more limited, flexibility for the President and his representative when the GATT and other trade discussions commence.

II. BACKGROUND

Behind President Nixon's move is the drastic deterioration of the American trade balance in recent years, from a surplus of $6.5 billion in 1964 to a deficit of $6.4 billion in 1972—a deterioration of vital importance for many segments of the American economy, including our own, and for America, relations with the nations of the world. Neither changes in dollar valuation (the international monetary agreement in December 1971 and the dollar devaluation in February 1973) nor other piecemeal attempts to attack the problem of the deteriorating U.S. position in the world economy have worked. That deterioration continues and it may get worse unless a comprehensive policy is adopted and pursued vigorously to meet the realities of the changing American trade position.

That position has been altered as a consequence of the following major economic developments during the past decade:

A. The spread of managed national economics, together with the emergence of trading blocs such as the European Common Market, with coterminous direct and indirect government barriers to imports and aids and incentives to exports as part of an overall pattern of protectionism.

B. The internationalization of technology, coupled with the skyrocketing rise of foreign investments by U.S. firms and the corresponding rapid spread of multinational corporations which can manipulate the location of operations (depending upon labor costs, taxes and foreign exchange rates) as well as juggling exports, imports, prices and dividends from one country to another within the corporate structure—considerations which tend to reduce or eliminate the former U.S. productivity-lead in many industries.

C. The continuing, and in many instances the ever increasing, disparity between the wages and standards of American workers and those overseas has become even more pronounced during the 1960s for the surge of imports in all sectors of the American economy, particularly in such relatively labor-intensive products as are worked on by employees in the jurisdiction of our International Union as well as shoes, textiles, clothing, steel, autos, ceramic tile, radios and TV, as well as dolls and toys.

The cumulative impact of these trends is that imports are becoming more and more a major factor in the American market. At the start of the Sixties, only about one-third of imports from abroad were competitive with American-made products. By 1972, approximately three-fourths were in that competitive posture. In other words, we are confronted with the reality that imports are cutting an ever wider swath in America and that the trend is most definitely upward.

As a consequence, in 1972, it would have taken nearly 2.5 million jobs to produce the equivalent value of the nearly 75 percent of imports into the U.S. that were competitive with U.S.-made products. And this three-quarter percentile figure, in turn, was a market increase over the one-third percentile figure existing at the beginning of the decade of the 1960s. By the projection of these figures it is estimated that in 1972 nearly three million Americans were unemployed as a consequence of the impact of imports.

The loss of such job opportunities has occurred at a time when unemployment is stabilized at a figure approximating five percent of the workforce in the United States. It goes without saying that such job erosion has severe economic and social consequences. From an economic standpoint, there is a most urgent need for both unskilled and semi-skilled production jobs for the American labor force, now growing at an estimated 1,500,000 each year. Such acuteness of need is especially accentuated for members of minority groups who are seeking to enter the mainstream of the American economy. Failure to do that can contribute only to mounting frustration and discontent which can only militate against the constructive solution of the abrasive problems of American society.

The impact of escalating imports is most harsh on affected businesses, workers and communities. The latter, for example, see an erosion of employment and of their tax base at a time when finances are crucially needed to maintain and elevate services in such crucial areas as safety, education and housing. The mortality and bankruptcy of business firms which are vulnerable to competition from imports exact a fierce toll not only upon employers but also on workers as well as on trade unions which represent these workers.

It is a fact of economic life that those industries where the impact of imports has been greatest are also those in which (1) labor costs constitute a significant part of the total costs and, as a consequence, are usually most susceptible to wage-cost competition, and (2) a considerable part of the employment tends

to be lesser-skilled and lower-paid, at least within the total context of the American economy, with large concentrations of older workers, women and minority groups.

The juxtaposition of these two facts tends to place labor organizations, and certainly our own International Union, in a collective bargaining bind unrelated to the current consideration of economic controls. On the one hand, the members of our organization are pressing, understandably, for wage increases and other adjustments if only to meet the soaring escalation in living costs. On the other hand, the contractual implementation of these demands may result in placing employers in an even more difficult economic posture and may price the company out of the market. The jobs of our members and the standards and conditions built up over the years have been, to put it bluntly but not inaccurately, sacrificed upon the altar of a trade policy which was incompatible with the hopes and aspirations of American workers.

It is out of such concern that we must view the proposals, as set forth by President Nixon's bill and more especially in Title II, Chapter 2 which deals with the issue of adjustment assistance for workers. Such a step is most desirable and appropriate, for the experience of the Trade Expansion Act of 1962 in this regard has left much to be desired. In fact, the U.S. Tariff Commission generally took a jaundiced view of applications for such adjustment assistance, and it was not until 1969 that affirmative action on that score was taken, albeit still in only a limited sense. Anything that would ameliorate the conditions of both employers and employees who have been adversely affected by the flood of imports would therefore be a consequential improvement on past practice.

But, we submit, one should not be too sanguine about liberalizing the guidelines for adjustment assistance. Those who look to retraining of handbag workers, for example, as a solution to the problems created by imports must face up to the reality that shutdowns of plants and/or departments usually result in the loss to workers of seniority and seniority-related benefits. Unless the worker involved would transfer within his own union—a situation which would be desirable but not always feasible—he could be deprived of many benefits, including retirement benefits which are always linked to length of service and, in many instances to length of service in either a particular plant or a particular sector of an industry. Unless legislation is promulgated with respect to portability of benefits, a matter now under Congressional consideration, this worker would forfeit such benefits—and nothing in the law as it now stands or as it would be amended would alter this situation.

Another consideration is that there is a marked limitation on retraining. For example, an unskilled worker in a handbag or luggage factory would hardly be a fit candidate for employment as a computer expert. Loss of a job means that special work-skills, developed and refined in a specific plant or industry, cannot readily and automatically be applied elsewhere. Even the assumption of an effective program of retraining does not carry with it a guarantee that there would be a job available for the handbag worker in a new plant or industry in the locality in which he has lived.

Accordingly, one consequence of job loss that is tempered by a program of retraining is that workers and their families may be required to move from one community to another. Even if the expenses of such a move were to be absorbed by the program of retraining and other adjustment assistance, nothing can be done about the loss of friends, schools, church and social relationships that have developed over many years. In the impact of imports there is a social as well as an economic factor that cannot be ignored. Or it can be ignored only at the pain of frustration and resentment, the kind of pyschological qualities hardly attuned to the process of readjustment.

III. THE ECONOMICAL ANATOMY OF THE LEATHER GOODS' INDUSTRIES

These general considerations to which we have addressed ourselves must be projected against the backdrop of the specific economic elements of the industries which constitute the major jurisdiction of our International Union—handbays, luggage and personal leather goods.

Typically, the leather goods' plant is small. A profile of these industries in 1969 compiled by the U.S. Department of Commerce revealed that there were 310 luggage plants (as compared to 379 such plants in 1963) which employed 21,000 workers; 472 handbag plants (as compared to 1963 when there were 545 such plants) employing 23,000 workers; and 280 small leather goods'

plants which had a roster of 15,000 employees. By 1972, the number of plants, according to the Department of Commerce, had continued its downward trend. There was a similar loss of jobs—an employment total in 1971 of 55,000 as as compared to 59,000 two years earlier. The median employment remains at 55 workers in each plant. While there are variations, of course, the inexorable fact emerging from these statistics is that the typical leather goods plant is small-scale.

Save for the luggage industry, which has witnessed tremendous technological advances during the past decade, including the most recent technique of injection molding of shells, the industry as a whole has continued in that handcraft tradition which requires very little capital. While there have been some technological changes in the handbag and small leather goods' industries, especially that attendant upon the use of supported and unsupported vinyl materials, mass production techniques and mechanization are conspicuous by their absence.

Because these industries are not technologically oriented, there is nothing comparable with the massive export of machinery and capital such as exists with respect to other industries which lend themselves to the requirements of the multinational corporation. Nevertheless, the industries do have many importers—and their number is growing—who have encouraged foreign producers with technical guidance, financial assistance, advice on styling, fashion trends and merchandising, as well as managerial know-how.

These industries have been highly competitive in the past, and will undoubtedly continue to be so in the future. And this competition becomes all the more pressing when it takes place in a buyers' market, and indeed is the catalyst for further and more pronounced instability. Thus, when one retailer in a shopping area begins to undersell his competitors by offering handbags, for example, at a lower price, a chain reaction is started. Rival retailers demand concessions from their suppliers to meet this competition. Domestic manufacturers of handbags, understandably fearful of the loss of crucial retail outlets, resort to all sorts of stratagems in an effort to meet this price competition.

There was a time in the past when this effort to meet price competition in such a labor-intensive product as handbags would take the form of cutting wages and speeding up workers. But the existence of strong and effective trade unionism in the handbag industry militates against such a possibility. Many producers, therefore, take another alternative, becoming importers themselves and thereby closing down factories, eliminating jobs, and bringing acute distress to their former employees and to the communities in which they had operated. The economic desuetude plaguing the handbag industry during the decade of the 1960s and continuing down to the present can be pinpointed primarily by the escalation in the imports of leather, plastic and fabric handbags.

The loss of jobs is pointed up by the developments in the handbag industry in New York State which has been the center of production for the industry. In February 1960, there were 17,000 handbag workers in the Empire State. Ten years later, the figure had dropped to just a little more than 14,000 workers. In 1973, the total is under 12,000. It should be noted that such job elimination was not accompanied by accretion of employment in other areas of the country where the number of jobs, in fact, was virtually stationery throughout the decade. It is true, of course, that the value of the product went up slightly in this decade—from $238 million to $292 million. Much of this increase, however, can be attributed to the inflationary spiral as well as to the flood of imports from abroad. However, shipments went down during the 1970s, and in 1972 it had declined to $266 million.

Another barometer along the same lines is the number of New York shops that have closed their doors since January 1, 1968—a significant date since that coincided with the first ten percent reduction in duties as a result of U.S. ratification of the GATT agreement in the so-called Kennedy Round. We will submit a list of shops in contractual relations with Local 1, Pocketbook and Novelty Workers' Union of New York, which were either liquidated or went bankrupt in this period of five years. In every instance, the primary and compelling reason for going out of business was that these businesses simply could not compete with imports. In passing, it should also be pointed out that long before the January 1, 1968 date there had also been a substantial drop in employment and in the number of shops closed because of the pre-emption of the American market by imported handbags for the summer trade coming from Hong Kong, Japan and Taiwan.

For years this summer trade had served to give employment to thousands of workers who needed this cushion in an industry subject to the vicissitudes of

fashion. But the so-called "white market" is now a historical relic—analagous in the handbag industry to what happened when the Japanese virtually pre-empted the market for such items of vinylized or rubberized materials as school bags, beach bags, underarm plastic bags and club bags. And with its disappearance there has also disappeared the work which kept thousands of members of Local 1 gainfully employed in the handbag industry during the spring and summer months. These jobs too have been sacrificed on the altar of a tariff policy which opened the gates of the American market for the products of coolie-wage workers abroad.

IV. LABOR COSTS AND DIFFERENTIALS

We have already cited the irrefragable fact that labor costs in the various leather goods' industries—as in other labor-intensive industries—play a decisive part in the over-all selling cost. It is unquestionable that the most important single factor accounting for the explosion of shipments of handbags, purses and other personal leather goods to the U.S. is the substantial, continuing and at times even mounting difference between wages paid to American workers and wages paid to workers in foreign lands whose products are competitive with ours. Superimposed on these wage differentials are other benefits, including the panoply of paid vacations, paid holidays, premium pay for overtime, and such benefits as health and welfare, pension and severance, approximately 27 percent of payroll. The contrast between American and foreign standards is comparable to factory conditions today in contradistinction to those obtaining in the era of the sweatshop.

Authoritative studies, published under the imprimatur of the International Labor Office, the Twentieth Century Fund and the Brookings Institution establish in abundant detail that the manufacture of handbags, luggage and personal leather goods is a ready source of employment for unskilled and semi-skilled workers, particularly plethoric in the underdeveloped countries of the world. Despite the existence of vast and unfulfilled needs in their own countries, these manufacturers have chosen to concentrate on the export market. Especially inviting has been the United States where relative freedom from the entrance of imports is coupled with the material wherewithal which establishes the American market as the richest in the world. And if this is not incentive enough, many countries offer an added impetus to exports from their lands in the form of tax rebates and similar measures. It is understandable, therefore, why manufacturers in so many different countries have preferred to take the quick profits from exporting to this country as an alternative to following the economically sounder and socially more responsible path of building factories that will cater to the domestic needs of those countries.

Nor can manufacturers of handbags, luggage and personal leather goods offset, as we have already established, the low-wage competition from abroad with such improvements in machinery and operating methods as at one time gave other sectors of the American economy a distinct advantage. But the fact remains that for the vast majority of industries this past offsetting advantage is no longer relevant, for technological advances are readily available to producers throughout the world. In any case, this was never really applicable to handbag and personal leather goods' producers. The relatively low cost of "setting up shop" has always made it possible for foreign handbag manufacturers to equip their plants with virtually the same machinery and the same equipment as can be found in the most advanced American factories.

But there is more to this situation than can be found in the fact that there is little or no technological advantage for American manufacturers of handbags, luggage and personal leather goods as compared with their foreign competitors. On this score, the experience of "Operation Bootstrap" in Puerto Rico is highly relevant. About two decades ago, producers of wallets, purses and small leather goods begin to gravitate to the Island. In consequence of a favorable climate for economic growth—a long period of tax exemption, low rentals on factories built at government expense, financial subsidies for the training of workers, and low wages—these companies flourished and gradually superseded the mainland as a source for such leather goods. The workers in Puerto Rico took to such employment like ducks to water, reaching in a comparatively short time that high level of proficiency which eliminated differences in productivity between the mainland worker and his Puerto Rican counterpart. So adept were they, in fact, that Island employers who had in the past objected to wage increases for leather goods' workers on the grounds that the latter had productivity capability below

that of the mainland workers officially acknowledged in 1965 that productivity in Puerto Rico was actually on a par with productivity on the mainland.

What has been demonstrably true for Puerto Rico is true in other quarters of the globe. When we are dealing with manual dexterity—in other words, where productivity is worker-paced rather than machine-paced—any argument based on productivity differentials is spurious and ill-founded. In the leather goods' industries the only relevant criterion is labor costs.

In his article on "Trends in Labor Compensation" in *Western European Labor and the American Corporation* (edited by Alfred Kamin and published in March 1970 by the Bureau of National Affairs, Inc.), Peter Henle, then the chief economist of the Bureau of Labor Statistics of the U.S. Department of Labor, points out that while data on "average hourly earnings for production workers in manufacturing" may not always be complete, "yet only by focusing on such an indicator is sufficient data available for comparisons."

A handbag worker in the United States receives, on the average, $2.60 hourly. Converted to U.S. currency units at official exchange rates, including the impact of the latest dollar devaluation, the average for various competitive countries is as follows: $1.37 for male workers and $.93 for female workers in the United Kingdom (where a combined figure for both sexes is not available); $1.65 in Germany; $1.08 in France; $.88 in Italy; $.82 in Japan; $.67 in Spain; $.32 in Hong Kong; and $.33 in Taiwan. It should be observed that in many countries, particularly the Oriental lands, there is a prevalence of home work and child labor with all the endemic features of exploitation associated with those evils that are today virtually non-existent in the United States.

We have already indicated that the wage rates for handbag workers are among the lowest in the private sector of the American economy. Nevertheless and despite the fact that percentage increases overseas have been greater than in our country, the comparable wages rates existing in competitive countries range from one-tenth to one-half of the American wage structure. And in a labor-intensive industry this must be the basic comparison—and the chief factor in making it impossible for American industry to compete with foreign imports!

V. IMPORT TRENDS

In 1950, the imports of handbags and other leather goods were a mere trickle—only 114,342 handbags, primarily leather, were imported into the U.S. in that year. By 1960, the trickle had been transformed into a fast moving current. Today that current has become a flood which threatens to deluge the domestic market.

In 1960, for example, according to figures furnished by the U.S. Tariff Commission, there were 2,989,000 handbags imported into this country at a value of $7,456,000. By the end of the decade there were 55,340,329 units with a value of $61,912,881.

During 1971 and 1972, imports increased at a rate of 19 percent per annum—a figure projected by the U.S. Department of Commerce for the future. Imports are the crucial aspect of the operations of the handbag industry where, during the past decade, they rose by 850 percent.

Much more relevant, however, are the number of units—and the relationship of these units to the total American market. Fifteen years ago, in 1958, U.S. production of handbags was 115,000,000 bags. Imports at that time constituted only 3,100,000 bags, or 2.7 percent of the market. By 1963, there were 121,000,000 bags, with imports amounting to 5,700,000 bags, or 4.7 percent of the market. In the past decade, however, the industry has literally been transformed by the astronomical burgeoning of imports, while at the same time domestic production went down by approximately one-third of the 1963 figure. In 1969 86,000,000 bags were produced in the United States, as compared to 52,000,000 imports. By 1972, the gap was narrowed, and it is anticipated that imports and domestic production should be at a coterminous level by 1975.

Leather handbags were up 56.1 percent in 1972 over 1971—to 1,448,100 dozens, with dollar value up 52.4 percent to $46,102,000. Over-all, total handbag imports were up 18.4 percent to 5,598,300 dozens and 28.2 percent in value to $86,890,400.

In H.R. 16920, submitted by Mr. Wilbur Mills to the House Ways and Means Committee in 1970, reference was made to "the rapidly increasing penetration of United States footwear markets by imported shoes" as a "specific cause of footwear plant closings in the United States." "This increase has been relentless for more than ten years," the bill stated, adding that "no change in this alarming trend is now foreseen" and that, as a consequence of this "disruption," workers in the shoe (and textile) industries have been "injured" through "underemployment and unemployment."

The same process of reasoning is clearly applicable now to the leather goods' industries and most specifically to the handbag industry. In this context, it should be noted that there is a close relationship between the shoe industry and the handbag industry, functionally and economically. Shoes and handbags are often coordinates in the fashion scheme of things, and in many retail shops there is a juxtaposition of the two items. Equally significant is the fact that many shoe manufacturers contract work to handbag manufacturers, making the economic tie-in even more binding.

VI. RECOMMENDATIONS

At the very outset, we made clear our preference of the Burke-Hartke bill with its provisions for mandatory quotas to the discretionary and flexible approach set forth in the Trade Reform Act of 1973. It has been argued that adoption by Congress of the principle of mandatory quotas would invite reprisals by other countries and undermine the whole structure of international trade. That such a possibility exists cannot be gainsaid but it should be pointed out that every country, to our knowledge, bases its trade policies on what is best for its economy and its people. There is no reason why the U.S. should not do the same, however belatedly.

It would be heartening if voluntary quotas would be effectuated but experience along these lines has not made us sanguine about the possibilities. It is essential to do through a mandatory procedure what is unlikely to materialize in a voluntary way. The alternative is, for our industry at least, economic disaster, for the continued accretion of imports will mean the loss of jobs at a time when, as a result of spreading layoffs, production cutbacks and rising unemployment, they are sorely needed.

The United States is currently engaging in largely ineffectual efforts to train unemployed workers for low-skilled jobs—precisely those jobs which, due to recent and current economic developments, are disappearing. We submit that the continuation of the current foreign trade policy must redound to the detriment of American workers, including those who are the most disadvantaged. And the corollary is that a change in such policy, through the adoption of the principle of mandatory quotas, would be far more effective in maintaining jobs for American workers than any other program for retraining and adjustment assistance.

Another recommendation we would like to make, though not incorporated in a specific bill, deals with the matter of fair international labor standards. It is our view that the U.S. Government, working in such international organizations as GATT as well as the International Labor Organization, can and should do everything possible to promote the principle of fair labor standards in international trade. Its most significant feature is the concept that in international tariff and trade negotiations and through multilateral tariff and trade machinery, efforts can be made to raise wages and improve labor standards in exporting countries. This would help to eliminate unfair labor standards in exporting countries as either a competitive cost advantage or as a basis for increased trade restrictions by the importing country.

If there are substantial differences in unit labor cost, let us say, between personal leather goods' workers in New York City and their Italian counterparts, there is at least a prima facie case for concluding that labor in the exporting country is being exploited. There may be offsetting cost disadvantages (transportation for example) which prevent an increase in wages, however. The test of what the balance is between the cost advantage to the employer of low labor costs and offsetting cost disadvantages is his rate of profit.

It is our Union's view that wages of leather goods' workers in any country involved in the GATT deliberations should be raised when the unit labor costs of such industries are substantially below those of foreign competitors. Raising wages in this circumstance would not only lessen the threat to employment opportunities of workers in importing countries, such as our members in New York, but would also assure that the employer in the exporting country would not reap the sole gains from expanded markets with all decisions as to how such funds are to be distributed left to him.

These proposals made by our Union are aimed at assuring that broadened trade opportunities for exporting countries are reflected in improved wages and labor conditions for workers in these countries, while at the same time not placing the workers in the importing countries at a disadvantage in striving for improvements in their own standards—improvements which are predicated on

the continued health and prosperity of their industry. In other words, raising levels of wages and labor standards in exporting countries from unduly low levels will help eliminate competitive advantages based on unfair labor conditions which curtail employment opportunities and depress labor standards in competing importing countries.

One final point: The AFL–CIO, of which our International Union is an integral part, has submitted a brief calling for revision of a trade policy which has resulted in the deterioration of American trade and has encouraged the export of U.S. jobs. We concur with the philosophy and the specific proposals of that brief, and we submit that its implementation could shore up our economy at a time when it manifestly requires that kind of buttress. We feel strongly that the Burke-Hartke bill, supported by the American labor movement, addresses itself more realistically to our problems than does the Trade Reform Act of 1973, and we urge this Committee to place the imprimatur of its approval on the Burke-Hartke bill as a general approach to the complicated problems of fair trade in the '70s.

Mr. BURKE. Thank you.

Mr. Duncan, do you wish to inquire?

Mr. DUNCAN. I have no questions. Thank you, Mr. Chairman.

Mr. BURKE. Your testimony indicates the reasons for the high welfare costs in the city of New York. One of the reasons for the high welfare costs in the city of New York is that these people are losing their jobs up there.

Mr. WEISS. In New York City in the past 4 years, as undoubtedly there has been testimony before this committee, there has been a total loss of a quarter of a million manufacturing jobs. We have made our contribution on that score and to the degree that you have this erosion of jobs you are going to find people on the welfare roll.

Mr. BURKE. That is what concerns me about our liberal brothers who are so concerned about the plight of the minority people in the country, and yet they are not concerned about the loss of jobs that these people are experiencing today. And then when they go on welfare we have the liberals on one side, and then we have the conservatives on the other side, charging them with violations by going on welfare.

Mr. WEISS. That is a tragic situation. It seems to me that certainly these people have an opportunity to work and to derive—I am not saying a tremendous salary, but at least a decent livelihood. Your committee certainly should be given every opportunity to accord them that chance.

Mr. BURKE. These people have indicated in the past that they wanted to work but they lost their jobs through no fault of their own.

Mr. WEISS. That is true.

Mr. BURKE. They have lost their jobs because of the glutting of the market with these goods that come in from the low-wage countries.

Mr. WEISS. Let me add this, if I may, Mr. Chairman: We have now on the books some sort of measure in which you can go to the Tariff Commission and ask for relief. One firm in our industry, employing 300 workers, went to the Tariff Commission last year and the Tariff Commission made an investigation and they did find out that they had been an accretion of imports but they turned down this petition for assistance on the ground that this particular plant produced plastic handbags, and plastics were exempted from the Kennedy round adjustment of tariff reductions, and, therefore, although there had been a 400-percent increase of imports in a period of 5 years, since this was not as a consequence of a specific agreement, such as the GATT agreement, the petition was rejected.

And last month this J. Rudolph firm went out of business and when it went out of business 300 workers lost their jobs.

Mr. BURKE. Of course this can be repeated over and over again. The reason we filed the Burke-Hartke bill was to try to get the attention of people in charge of these things and see if they couldn't bring some relief, and it shook them up so much that they started to pay attention.

And then, of course, the devaluations came in and then they started to look at it a little more seriously.

But I am beginning to believe that maybe we are beginning to see the light at the end of the tunnel. If we don't see the light, God help us.

Mr. WEISS. I agree.

Mr. BURKE. I want to thank you for your testimony and your appearance here today.

Mr. WEISS. Thank you, Mr. Chairman.

Mr. BURKE. Our next witness is Mr. Milton Gordon.

Mr. WEISS. I will also appear with Mr. Gordon.

Mr. BURKE. You stay right where you are. And Mr. Gordon, will you identify yourself for the record? You may proceed with your testimony.

STATEMENT OF MILTON GORDON, SECRETARY-TREASURER, AND ABRAHAM S. WEISS, DIRECTOR OF RESEARCH, INTERNATIONAL UNION OF DOLLS, TOYS, PLAYTHINGS, NOVELTIES & ALLIED PRODUCTS OF THE UNITED STATES & CANADA, AFL–CIO

Mr. GORDON. My name is Milton Gordon. I am international secretary-treasurer of the International Union of Dolls, Toys, Playthings, Novelties & Allied Products of the U.S. & Canada AFL–CIO.

Mr. WEISS. Mr. Chairman, again, there is a statement that has been presented on behalf of the union and I am informed that this statement will be made a part of the record.

I merely want to make one brief statement to the committee, not a statement of my own, but a statement which appears in the "U.S. Industrial Outlook, 1973," which is a publication of the U.S. Department of Commerce.

On pages 124 and 125 in that book, apropos of the doll, toy, and game industry, the point is made with reference to what they call the rebounding of imports.

U.S. firms were shipping domestic-made materials to foreign countries, chiefly Mexico, for processing, assembling, and reimportation into the United States. Estimated 1972 imports of $285 million were 22 percent over 1971. Similar gains, incidentally, were made in dolls and toys and in children's wheeled vehicles. Roughly 13 percent of U.S. imports consist of the reimportation of U.S. materials processed and assembled abroad under section 807.00 of the Tariff Schedules of the United States, which assess duty only on value added by the labor performed abroad.

These account for approximately 32 percent of the annual value of doll imports, 33 percent of toys and so forth.

I might mention that what is true of Mexico is also true of Haiti, where I had an opportunity to visit about 3 weeks ago. In Haiti I saw several plants that were established, that were producing dolls, toys,

and games, again at the minimum of $1.50 a day but they are produced in so-called industrial parks.

And it is rather interesting when one does visit that area to see that these parks are fenced around and that they are guarded by soldiers. Two soldiers were standing there conspicuously, with machineguns on the ready, just in case, I suppose, people get the idea that they ought to organize in order to achieve dignity for themselves.

I mention this, Mr. Chairman, because this is a growing trend, a trend that is of significance, certainly, to this industry, and beyond that, to the United States as a whole.

Mr. GORDON. I would like to add a few remarks concerning what he said. Last year, about a year and a half ago, I was sent as a representative of the United States to Colombia, Venezuela, and Ecuador. And in each of these countries they were starting up their own plants to manufacture dolls, toys, and so forth.

The thing that strikes you as most significant: even the tools and dies that in 90 percent of the other countries come from the United States—these tools and dies used there are not coming from the United States. They are being bought in Italy; they are being bought from Japan. And nothing there that will eventually be allowed in from the United States.

You don't have to go further. Walk into any hotel lobby in this city, and I don't care which one you pick. Pick up anything on the counter, whether it is a picture of George Washington, Dwight Eisenhower, or whoever it is, turn the darned thing over and it will say, "Made in Japan," "Made in Taiwan," "Made in Hong Kong."

And this is the only country which has the situation that with regard to its national sport, baseball, 90 percent of the equipment is made out of this country. If you went to England or you went to Canada and you picked up a hockey puck or a hockey stick, it would be stamped "Made in Canada." In the United States your gloves are made in Taiwan; your baseballs are made in Haiti. The canvas that they get for the baseballs comes from Mexico. Even our own national sport is not produced in this country any more. And eventually, it won't be long, I imagine, when they make the baseball bats somewhere else, too; as soon as somebody grows enough trees to give them the wood.

We have been fighting this battle since 1947. I have appeared before all kinds of committees. I was called all kinds of names. I was once called a Smoot-Hawley addict. I didn't even know who Smoot-Hawley was. I was a little too young, but since then I have found out. If being a protectionist in order to protect the jobs of my membership, puts me in that category, then I am what you call a Smoot-Hawley addict.

Our industries are industries that are basically users of your unskilled, your minorities, because it does not take much training to give it to them. Plant after plant is closing down; segment after segment of the industry is no longer made here.

We have just had two closings in New Jersey; 1 plant of 400, because the man refused to go in for imports. He wouldn't make it. He is out of business.

We have another one: Childhood Interests, in La Salle, N.J., employed 250 women. The average age in that plant was 55; they are down to 38. Who are going to hire these women when they are laid off? These women don't work because they love to work; it is because

they have pride. They don't want to go on relief. And they want to take care of themselves.

There are no jobs for these people and let's be practical. Nobody is going to hire them when they are over 45 anyway, in most of these heavier industries.

But that is the picture that we have been faced with for years. We talk of our trade deficits. As for these figures here, if they took in and added all of the sideline effects, I guarantee it would wipe out the trade deficit, that alone.

Take all of your cartons that this stuff is packed in. Take all your printing that is done on these cartons. The paper that it is wrapped in. All of that being done here in this country would put this thing up to maybe $4 or $5 billion. Your companies today are going out of business. They are becoming known by your large multinational companies. You couldn't buy an electric train in this country that was made in the United States.

Mr. DUNCAN. I understand that most American flags are made in Hong Kong?

Mr. GORDON. I would like to go through that so-called zone down to Mexico and take a look. A company like Mattel has closed every single plant they had in the East. They have one small plant left in California. Their two large plants are now in Mexico.

Now, how long can this keep on going on? Eventually you are going to find that there is going to be no place to put these unskilled people, these minority people because everybody cannot operate a computer, including myself.

But the answer is if we don't come up with some quotas to prevent these people from dumping, then we are going to find ourselves in the position that we are going to have a tremendous group of people who not only will be on relief, but their children will grow up on relief. I know of no other way that this can be straightened out.

Your Christmas items, anything you look at—try to go out and buy something made in the United States. I would like to find one.

But all I can say, in closing, is: We have been in favor of something like the Burke-Hartke bill. We are in favor of anything that would prevent the dumping and the fact that these big companies who are buying out the smaller companies, closing them down here, make everything somewhere else and bring it in.

There was a question concerning Puerto Rico. Years ago, when we were not in our right minds, let's put it, we agreed to Operation Bootstrap. Over 50 toy plants moved down to the island of Puerto Rico. Today there is one left, employing 60 people. And I don't know how much longer he will be there.

These plants are now going to Haiti; these plants are now going to Santa Domingo. I don't know where else they will go, but I guess Jamaica or someplace like that. But as long as this continues, all I can say is that we are going to have a country where you are either going to be an office worker or a salesman or someone in the service industry, and you are not going to have anything in these small marginal industries, that not only keep these people off relief, but in a lot of towns, small towns in particular, help pay the taxes.

And if there is no one there to pay the taxes, then the taxes fall upon the homeowner. The homeowner doesn't have a job. We find ourselves in the position of relief.

I wish to thank you gentlemen for your attention. And after 1947 I am glad I got this far. I don't know if I will be around to get much further, but I hope someday something will be done.

[Mr. Gordon's prepared statement follows:]

STATEMENT OF INTERNATIONAL UNION OF DOLLS, TOYS, PLAYTHINGS, NOVELTIES AND ALLIED PRODUCTS OF THE UNITED STATES AND CANADA, AFL–CIO

"We need basic trade reform, and we need it now." with these words President Nixon sent Congress last month a bill, entitled "Trade Reform Act of 1973" which would give him sweeping new authority to raise and lower tariffs and other trade barriers—proposals whose ostensible aim is to strengthen the President's hand in major international trade negotiations scheduled to be held later this year.

It is our considered judgment, as has been set forth at length by the AFL–CIO of which our International Union is an integral part, that the President's proposed legislation do not meet the grave problems of trade, particularly those problems which have had such a marked impact upon the industries where our members are employed—or, to put it more precisely, where they have lost jobs in ever-increasing numbers and are underemployed.

The Administration's proposals do not deal at all with such important causes as the export of American technology and capital. The proposal on taxation of profits of foreign subsidiaries, while finally recognizing this as a problem, does virtually nothing to close lucrative tax loopholes for American-based multinational companies. The proposals provide no specific machinery to regulate the flood of imports and indeed, some would increase the amount of damage to American employment and industrial production in general and that relating to the industries within our jurisdiction in particular. In sum, the proposals would open the door to further deterioration of America's position in the world economy and to the further export of American jobs.

We, as trade unionists, understand why the President wants flexibility when he goes to the bargaining table. This is a stratagem which is basic to the negotiating process, although our International Union would have liked to see it coupled with an indication that the low-wage structure of exporting countries—whose products have flooded the American market—be an item on the bargaining agenda. But even if the approach on this score was along the lines submitted later in this brief, we submit that in a democracy no President can have unlimited, unaccountable power to regulate the lives of the people. And the Burke-Hartke bill—which our International Union supports and maintains is a more realistic and visible approach to the problems of foreign trade than is the Administration's proposals—would provide responsible, albeit somewhat more limited, flexibility for the President and his representative when the GATT and other trade discusions commence.

II. BACKGROUND

Behind President Nixon's move is the drastic deterioration of the American trade balance in recent years, from a surplus of $6.5 billion in 1964 to a deficit of $6.4 billion in 1972—a deterioration of vital importance for many segments of the American economy, including our own, and for America's relations with the nations of the world. Neither changes in dollar valuation (the international monetary agreement in December 1971 and the dollar devaluation in February 1973) nor other piecemeal attempts to attack the problem of the deteriorating U.S. position in the world ecenomy have worked. That deterioration continues and it may get worse unless a comprehensive policy is adopted and pursued vigorously to meet the realities of the changing American trade position.

That position has been altered as a consequence of the following major economic developments during the past decade:

1. The spread of managed national economies, together with the emergence of trade blocs such as the European Common Market, with coterminus direct and indirect government barriers to imports and specific aids and incentives to exports as part of an overall pattern of protectionism;

2. The internationalization of technology, coupled with the skyrocketing rise of foreign investments by U.S. firms and correspondening rapid spread of multinational corporations which can manipulate the location of operations (depending upon labor costs, taxes and foreign exchange rates) as well as juggle exports,

imports, prices and dividends from one country to another within the corporate structure—considerations which tend to reduce or eliminate the former U.S. productivity—lead in many industries;

3. The continuing, and in many instances the over-increasing disparity between the wages and standards of American workers and those overseas has become an even more pronounced prod during the 1960's for the surge of imports in all sectors of the American economy, particularly in such relatively labor-intensive products as are worked upon by employees in the jurisdiction of our International Union as well as shoes, textiles, leather clothing, steel, autos, ceramic tile, radios and TV.

The cumulative impact of these trends is that imports are becoming, more and more, a major factor in the American market. At the start of the Sixties, only about one-third of imports from abroad were competitive with American-made products; by 1972, approximately three-fourths were in that competitive posture. In other words, we are confronted with the reality that imports are cutting an ever-wider swathe in America and that the trend is most definitely upward.

As a consequence, in 1972 it would have taken nearly 2.5 million jobs to produce the equivalent value of the approximately 75 percent of imports into the U.S. that were competitive with U.S.-made products; and this three-quarter percentile figure, in turn, was a marked increase over the one-third percentile figure existing at the beginning of the decade of the 1960's. By the projection of these figures it is estimated that in 1972 nearly three million Americans were unemployed as a consequence of the impact of imports.

The loss of such job opportunities has occurred at a time when unemployment is stabilized at a figure approximating 5% of the workforce in the United States. It goes without saying that such job erosion has severe economic and social consequences. From an economic standpoint there is most urgently needed both unskilled and semi-skilled production jobs for the American labor force, now growing at an estimated 1,500,000 each year. Such acuteness of need is especially accentuated for members of minority groups who are seeking to enter the mainstream of the American economy. Failure to do that can contribute only to mounting frustration and discontent which can only militate against the constructive solution of the abrasive problems of American society.

The impact of escalating imports is most harsh on affected business, workers and communities. The latter, for example, see an eroion of employment and of their tax base at a time when finances are crucially needed to maintain and elevate services in such crucial area as safety, education and housing. The mortality and bankrupcy of business firms which are vulnerable to competition from imports exact a fierce toll not only upon employers but also workers as well as trade unions which represent these workers.

It is a fact of economic life that those industries where the impact of imports has been greatest are also those in which (a) labor costs constitute a significant part of the total costs and as a consequence are usually most susceptible to wage-cost competition, and (b) a considerable part of the employment tends to be lesser-skilled and lower-paid, at least within the total context of the American economy, with large concentrations of older workers, women and minority groups.

The juxtaposition of these two facts tend to place labor organizations, and certainly our own International Union, in a collective bargaining bind unrelated to the current consideration of economic controls. On the one hand, the members of our organization are pressing, understandably, for wage increases and other adjustments if only to meet the soaring escalation in living costs. On the other hand, the contractual implementation of these demands may result in placing employers in an even more difficult economic posture and may conceivably price the company out of the market. The jobs of our members and the standards and conditions built up over the years have been, to put it bluntly but not inaccurately, sacrificed upon the altar of a trade policy which, regardless of intent, was then transformed into a scaffold.

It is out of such concern that we must view the proposals, as set forth in Title II, Chapter 2, which deals with adjustment assistance for workers. Such a step is most desirable and appropriate, for the experience of the Trade Expansion Act of 1962 in this regard has left must to be desired. In fact, the U.S. Tariff Commission, until recently, generally took a jaundiced view of applications for such adjustment assistance, and it was not until 1969 that affirmative action on that score was taken, albeit still in only a limited sense. Anything that would ameliorate the conditions of both employers and employees who have been ad-

versely affected by the flood of imports would therefore be a consequential improvement upon past practice.

But one should not be too sanguine, we submit, about liberalizing the guidelines for adjustment assistance. Those who look to retraining of doll and/or toy workers as a solution to the problems created by imports must face up to the reality that shutdowns of plants and/or departments usually result in the loss of workers of seniority and seniority-related benefits. Unless the worker involved would transfer within his own union—a situation which would be desirable but not always feasible—he could be deprived of many benefits, including retirement benefits which are always linked to length of service and in many instances to length of service in either a particular plant or a particular sector of an industry. Unless legislation is promulgated with respect to portability of benefits, and such legislation is currently under Congressional consideration, this worker would forfeit such benefits—and nothing in the law as it now stands or as it would be amended would alter this situation.

Another consideration is that there is a marked limitation upon retraining—for example, an unskilled worker in a toy factory would hardly be a fit candidate for employment as a computer expert. Loss of a job means that special work-skills, developed and refined in a specific plant or industry, cannot be readily and automatically applied elsewhere. Even the assumption of an effective program of retraining does not carry with it a guarantee that there would be a job available for the toy worker in a new plant or industry in the locality in which he has lived.

Accordingly, one consequence of job loss that is tempered by a program of retraining is that workers and their families may be required to move from one community to another. Even if the expenses of such a move were to be absorbed by the program of retraining and other adjustment assistance, nothing can be done about the loss of friends, schools, church and social relationships that have been developed over many years. In the impact of imports there is a social as well as an economic factor that cannot be ignored. Or it can be ignored only at the pain of frustration and resentment, the kind of psychological qualities hardly attuned to the process of readjustment.

III. THE ECONOMIC ANATOMY OF THE TOY, GAMES, DOLLS AND RELATED INDUSTRIES

These general considerations to which we have addressed ourselves must be projected against the backdrop of the specific economic elements in the industries which lie within the jurisdiction of our International Union—dolls, toys, playthings, novelties and allied products.

During the 1960s there was a substantial accretion in the value of shipments in the industry, including an increase in toys and games, from $568 million in 1960 to $1,032 million in 1969, and to $1,328 million in 1972, and in dolls and stuffed animals from $198 million (1960) to $243 million (1969) to a decline to $241 million in 1972. In the same period there was actually a decrease in the number of production workers—from 54,600 in 1960 to 57,500 in 1969, to 52,900 in 1972. It is anticipated by the Department of Commerce that these trends will be projected during the decade ahead—namely, a modest increase in toys and games, comparative stability with respect to dolls and stuffed animals, and continued decline in the number of production workers in the industry.

But the demand will continue to escalate in this decade, owing primarily to rising income and the growing number of children under 15 years of age. But much of this demand will be funnelled into imports—which, as the U.S. Department of Commerce noted recently, "are taking an increasing share of the U.S. market." The Department also pointed out that "imports have been increasing at a faster rate than domestic shipments."

What these imports mean in statistical terms are set forth in considerable detail in Volume 4 of the "Summaries of Trade and Tariff Information", pages 171–198, to which reference can be made for import and export figures for the period from 1960 to 1966 as well as for cogent comments on the nature of the industry. The chief point made in this summary, prepared by the U.S. Tariff Commission and released in 1968, is that Japan and Hong Kong "because of price differentials" had become increasingly competitive not only to American exports but also on the American market.

More recent developments are pinpointed in Table 1 and Table 11.

TABLE I.—U.S. FOREIGN TRADE IN TOYS, GAMES, DOLLS, AND WHEELED GOODS, WITH MAJOR COUNTRIES OF ORIGIN AND DESTINATION

[In thousands of dollars]

Countries	1967		1968		1967–68 percentage change	
	U.S. imports	U.S. exports	U.S. imports	U.S. exports	Imports	Exports
Total	115, 389	26, 809	159, 735	26, 428	38. 5	1. 4
Japan	52, 687	1, 256	61, 288	913	16. 3	27. 3
Hong Kong	30, 220	797	43, 503	841	44. 0	5. 5
United Kingdom	13, 314	1, 561	16, 645	1, 486	25. 0	4. 8
West Germany	6, 266	1, 400	9, 112	1, 407	45. 4	.5
Italy	4, 398	580	6, 276	423	42. 7	27. 1
Canada	2, 096	7, 840	2, 200	9, 140	5. 0	16. 6
Mexico	1, 280	963	10, 614	1, 419	729. 2	47. 4
Other	5, 108	17, 412	10, 097	10, 799		

Source: Bureau of the Census.

TABLE 11.—MODELS, DOLLS, AND TOYS—IMPORTS FOR CONSUMPTION

[In thousands of dollars]

Year	Models	Toys	Dolls	Total
1963	2, 373	39, 245	26, 786	68, 405
1964	2, 098	44, 058	27, 032	73, 188
1965	4, 440	47, 037	26, 888	78, 358
1966	9, 237	48, 725	31, 216	89, 178
1967	15, 227	54, 246	35, 851	105, 324
1968	24, 087	75, 023	47, 097	146, 207
1969	25, 736	99, 105	50, 729	175, 570

Source: Compiled from official statistics of the U.S. Department of Commerce.

In the past seven years, therefore, we have seen a constant burgeoning of imports. Models went up 985% in this period, toys 153% and dolls 89%. During the decade of the 1960s as a whole, imports as a percentage of the total American market went up more than 300%—from a miniscule four percent in 1958 to 13 percent in 1968 and 17% in 1969. With the full impact of the Kennedy Round tariff decreases in 1972, imports escalated to approximately one-fourth of the total American market. In 1971 imports amounts to $233.3 million—and in 1972 this amount increased by 22% to $275 million.

But these official figures do not tell the whole story. U.S. companies, particularly in the toys and games sector of the industry which accounts for approximately 75 percent of total imports as well as approximately the same proportion of total product value of domestic shipments, have subsidiaries in Canada, Liberia, The Netherlands, the United Kingdom, Italy, Belgium, Norway, Sweden, West Germany, France, Spain, Australia, New Zealand, Switzerland, the Republic of China, Hong Kong, Mexico, Venezuela, Colombia and South Africa.

IV. TARIFF CODE

In testimony presented before the United States Tariff Commission on May 5, 1970, the AFL–CIO, of which this International Union is an integral part, pointed out that the mushrooming expansion of foreign subsidiary operations of U.S. firms, thanks primarily to Item 807.00 of the U.S. Tariff Code, have been a major factor in the deterioration of both the Volume and composition of the U.S. trade balance. This item provides reduced U.S. tariff duties on imports which contain U.S. produced components and which have been assembled or processed abroad. The tariff duty, therefore, is applied effectively to merely the value added in foreign assembly or processing—often, to merely the very low wages of workers in the foreign operations. Under 807, the firm's advantage twofold. There is substantial advantage from the utilization of American equipment and know-how,

usually combined with wages and fringe benefits that are 50% to 90% less than in the U.S. 807 adds to this a reduced-tariff subsidy.

Like many tax loopholes, 807 and similar provisions tend to grow. Reported imports under 807 shot up from $577 million in 1965 to $1.6 billion in 1969. In Table 1, dealing with the products of our industry particularly, the largest percentage change in 1967–8 was in Mexico—where there was an escalation of 729.2% and that trend became even more accentuated in 1971 (*U.S. Imports, General and Consumption, Schedule A Commodity and Country,* Bureau of the Census, U.S. Department of Commerce) when $31 million came from Mexico.

Moreover, these figures may well be understated, since multinational firms can juggle their prices in intra-corporate transactions, for the benefit of the firm.

The practice, under 807, started as a mistake and it became part of the law. It is now one of a number of various devices available to U.S. companies, including those in the toy and games industry, to spur the expansion of the production of goods in foreign subsidiaries for importation into the U.S.—to encourage the avoidance, by such companies, of U.S. wages, labor and social standards. The porfit margins of such operations are thereby aided, to the detriment of American workers and communities.

Whether or not the operations of U.S. firms under 807 are rational decisions for the firms should not be a major consideration in this study. The issue is the consequences on the American economy, on American workers and their communities. Business decisions for the sales and profit advantage of the firm are not necessarily identical with the interests of the U.S. . . ., as a nation, and of the American people as a whole.

The AFL–CIO has called attention repeatedly to growing problems concerning Mexico, a friendly neighbor to the South, where in a substantially different economic, social and political environment, U.S. companies utilize 807 to the detriment of jobs for U.S. workers without building the interchanges that are supposed to occur under U.S. trade policy. Imports from Mexico, under 807, rose from $3.1 million in 1965 to $195.8 million in 1971 with toy and games imports pacing that advance as indicated above. These are low-wage imports—with wages about 75% lower than in the U.S.

Mexico follows a protectionist policy, designed to promote industrialization on a Mexican basis, on the foundation of its own determination of its national interests. The United States trades with Mexico as if Mexico were a member of the General Agreement on Tariffs and trade, which Mexico is not, and as if there were a "two-way street," which there is not. No analysis that ignores these operative facts is a realistic economic analysis of the problem.

Perhaps the best description of 807's operation in Mexico is described in the April 1970 issue of *Fortune:* "Under Schedule 8 of the U.S. Tariff Code, goods can be exported from the U.S. for assembly or processing abroad and then sent back to the U.S. at highly favorable tariffs. Duties are levied, in effect, only on the value added by foreign labor and not on the full value of the returning goods. *This arrangement provides a kind of preferential access to the U.S. market.*

"Where the economics of transportation permit, U.S. companies can perform technical or capital-intensive operations at home and labor-intensive operations abroad, and then bring the products home again for final processing and marketing.

"A special beneficiary of Schedule 8 is Mexico. The transportation costs permit such shuffling of goods across the border on a very substantial scale. As a result Schedule 8 has spawned a sizeable border-industry complex. According to Mexico's Ministry of Industry and Commerce, 140 factories have set up operations on the Mexican side of the border since 1966. These plants employ 17,000 people and have an annual payroll of $16,800,000. Eighteen other installations are currently under construction. Many of the Mexican affiliates of U.S. companies shun publicity to avoid being branded as "runaway" plants. At some facilities there are no signs to identify the premises, and security guards turn away all questioners. The only way U.S. labor unions can find out what these companies are doing is to interview workers in nearby cantinas."

A *Wall Street Journal* story on July 20, 1967, also reported that "Production in Mexico is negotiated for anonymous U.S. clients by a California concern, Cal-Pacifica, Newport Beach, Cal Pacifica says the services is for companies that would be embarrassed, for one reason or another, by disclosures that their products are made outside the U.S."

According to these business publications, firms are "embarrassed" to reveal that their products are produced outside the U.S., even though U.S. law

requires labelling of all products imported from abroad. It is not just labor unions who should be interested, because there are millions of Americans—many of them unorganized workers—who are affected by the loss of these jobs, losses to other countries, and the threat of much greater losses in the next few years.

And, according to *Fortune*, 807 provides a preferential access to the huge and lucrative American market—preferentially lower tariff duties for manufactured imports, produced by foreign subsidiaries of American firms or to their licensees, for sale in the most open market of all industrial nations.

As for conditions along the Mexican border, Charles A. Meyer, Assistant Secretary of State, declared in September, 1969:

"Nearly three million people live in the 25 U.S. counties on the border. More than two million live in the adjacent communities of Mexico. Unemployment is high in the U.S. border counties—nearly six percent over-all and nine percent in at least five. Per capita income is about 50 to 75 percent of the national average, except in a city such as San Diego. It has been estimated that about 400,000 people in South Texas alone belong to families with incomes less than $2,000. Birth rates are high, levels of educational attainment low. Trends in agricultural employment, which has been an important factor in the area, are toward fewer jobs. Throughout much of the area, gains in employment and income lag behind national standards.

"Conditions in Mexico's border cities are better than in most areas of the interior, but still depressed by U.S. standards. The result has been large-scale internal migration to Mexican border cities. This process has been accompanied by unemployment, rising expectations, inadequate housing, and inadequate health conditions."

U.S. production and jobs, therefore, are exported to subsidiary operations in Mexico, while high unemployment and poverty pervade most of the U.S. border counties. And the export jobs is subsidized by 807.

At the same time, these 807 operations in Mexico tend to attract a large-scale internal migration from the Mexican interior to the northern border areas—with resultant depressed conditions and additional pressures on U.S. border areas from illegal entrants and green-carders. Item 807, thereby, is a contributing factor to troubles on both sides of the border.

It would be well for Congress to contemplate how long the United States labor force and the U.S. market can withstand the pressures from those who wish to maximize their short-term dollar returns on investment by using the U.S. market for their sales, while they export production and jobs to the lowest possible wage areas in foreign countries.

In this game of immediate advantage, American workers and communities are adversely affected. Each foreign country, from the vantage-point of its own national interests, views these trade issues as if they were bilateral arrangements, with the huge and relatively open U.S. market as the target. And U.S. firms view it, in terms of their private advantage, to maximize sales and profits. But these short-run advantages and goals, for them, are not necessarily rational goals for the U.S., as a nation. And in the long-run, these goals may be irrational for both the foreign countries and the multinational firms.

The Companies which have set up subsidiaries abroad to produce toys naturally take advantage of government incentives provided to them. These kinds of arrangements, as in 807, help to create trade losses of the U.S. They are not part of the liberal trade policy. They are preferential arrangements, for special benefits to some U.S. companies—usually unknown to most Americans, not explained in detail to the Congress and without adequate data to support the continuation of the preferential practices.

The reported value of shipments under 807 depends upon intracorporate valuations. As a result, we do not accept the data as precise or even as necessarily a close approximation of reality, although we are compelled to use them, as the only available indication of trends. The customs officials' advance agreements with the companies, however honestly motivated, make it impossible for a private citizen or public group like our own to accept the *data* as valid. The actual impacts are probably greater than the data implies. The U.S. Tariff Commission's investigation of this issue, therefore, cannot be based on statistics of shipments, alone.

For the U.S., the effects are obvious—the displacement of production and employment not only in our industry but throughout the American economy. 807 operations contribute to mushrooming developments and, also, to the reduction of competition in the U.S. economy. Once such trend is begun effectively

in a product line, the development mushrooms, as indicated by the reported shipments of toys of the past several years. The 807 operator has the distinct advantage of the U.S. government's preferential treatment—with substantially lower unit costs and greater profit margins. Domestic competitors are thereby compelled to go out of business, reducing competition in the product-line, or to join the parade by establishing their own foreign subsidiaries, which displace additional U.S. production and employment.

Within the dynamic functioning of the American economy generally and our industry particularly, 807 is a disruptive and harmful factor—contributing to adverse impacts and to the speed of adverse trends. Even the U.S. Department of Commerce took official cognizance of this development in a statement published in *U.S. Industrial Outlook, 1970:* "This provision (Item 807) in the tariff regulations has enabled U.S. toy producers to take advantage of the lower wages by shipping raw materials and/or parts for assembly and then return them for sale in the U.S. at duties lower than those applied to other imports in the same categories." The Department also noted that a similar development has taken place in Canada, Japan, Venezuela, West Germany, the United Kingdom and Hong Kong. In 1973's "Industrial Outlook," it was noted that "imports of dolls and toys rebounded in 1972 . . . because U.S. firms were shipping domestic-made materials to foreign countries, chiefly Mexico, for processing, assembly and reimportation into the United States."

V. LABOR COSTS AND DIFFERENTIALS

Perhaps the most cogent point consistently made by the U.S. Department of Commerce is the reference to "lower wages". Like in other labor-intensive industries, labor costs play a decisive part in the overall selling cost and is a key factor in understanding the nature of the import explosion which has raised such havoc among our members and which will undoubtedly contribute to a further deterioration of the standards and conditions which our Union has built up over the years—unless something affirmative is done with respect to our policy on international trade.

We will be the first to assert that it is difficult, if not impossible, to explain deterioration into the U.S. trade balance simply in terms of differences in hourly wage rates or overall labor costs between the U.S. and other countries. These are important and crucial but are not the only causative factor. Indeed, economists of the AFL–CIO have been at pains to establish that fact in testimony before the Committee as well as before other agencies in government. But buyers do not purchase monthly or weekly or hourly salary and/or wage rates—they buy products at a price. The price is importantly affected by profit margins and such costs as raw materials and energy (electricity or coal, etc.) per unit, as well as the cost of labor per unit.

Foreign trade economic competition does not center on prices, alone. Product design, for example, is of great importance in the export and import of many items. Other non-price, competitive factors in world trade include patent and licensing arrangements and the servicing of foreign-purchased equipment.

The labor cost, therefore, is one of several different economic factors. Moreover, the unit labor cost is the result of productivity (output per manhour) and the hourly compensation of employees, so that the combination of high wages and high productivity can result in low unit labor costs. Indeed, America's traditional prowess in world trade has been largely based on high wages, combined with high productivity—on technology, efficiency of operations, manpower skills, large volume of output and a highly educated population—as well as on the availability of raw materials and sources of energy.

However, new factors, like the internationalization of technology, the multinational corporations, managed national economies with trade subsidies and barriers have changed the trade relationships of labor rates and unit costs in recent years. American production can hardly compete, for example, with the output of foreign subsidiaries of U.S.-based multi-national companies—using American technology, achieving productivity levels that are close to those of American plants and paying wages and fringe benefits that are 50% to 90% lower than American wages.

It is in this context that we must understand labor costs, and the impact that differentials create with respect to our industries and the members of our Union who are employed in them. It is the best part of wisdom to fully understand that in these industries there is a substantial, continuing and at times even mounting difference between wages paid to American workers and wages paid to workers in foreign lands whose products are competitive to ours.

Superimposed upon these wage differentials are other benefits, including the panoply of paid vacations, paid holidays, premium pay for overtime, and such benefits as health and welfare, pension and severance. The contrast between American and foreign standards is comparable to factory conditions today in contradistinction to those obtaining in the era of the sweatshop.

Authoritative studies, published under the imprimatur of the International Labor Office, The Twentieth Century Fund and the Brookings Institution, established in abundant detail that the manufacturing of toys, games and dolls is a ready source of employment for unskilled and semi-skilled workers, particularly plethoric in the underdeveloped countries of the world. Despite the existence of vast and unfulfilled needs in their own countries, these manufacturers have chosen to concentrate on the export market. Especially inviting on this score has been the United States where relative freedom for the entrance of imports is coupled with the material wherewithal which establishes the American market as the richest in the world. And if this is not incentive enough, many countries offer an added impetus to exports from their lands in the form of tax rebates and similar measures. It is understandable, therefore, why manufacturers in so many different countries have preferred to take the quick profits from exporting to this country as an alternative to following the economically sounder and socially more responsible path of building factories that will cater to the domestic needs of those countries.

Nor can manufacturers of dolls, toys and games offset, as we have already established, the low-wage competition from abroad with such improvements in machinery and operating methods as at one time gave other sectors of the American economy a distinct advantage. However, American investment and management has made this past offsetting advantage no longer relevant, for technological advances are readily available to producers throughout the world. The export of American capital and know-how possible for toy manufacturers to equip their plants with virtually the same machinery and the same equipment as can be found in the most advanced American factories.

But there is more to this situation than can be found in the fact that there is little or no technological advantage for American manufacturers of toys, games and dolls as compared with their foreign competitors. On this score the experience of "Operation Bootstrap" in Puerto Rico is highly relevant. A little more than a decade ago, producers of games, dolls and toys began to gravitate to the Island. In consequence of a favorable climate for economic growth—a long period of tax exemption, low rentals on factories built at government expense, financial subsidies for training of workers and low wages—these companies flourished. The workers in Puerto Rico took to such employment as a duck to water, reaching in a comparatively short time that high level of proficiency which eliminated differences in productivity between mainland worker and his Puerto Rican counterpart. So adept were they, in fact, that Island employers who had in the past objected to wage increases for Puerto Rican workers on the grounds that the latter had productivity capability below that of the mainland workers officially acknowledged that productivity in Puerto Rico was actually on a par with productivity on the mainland.

What has been demonstrably true for Puerto Rico is true in other quarters of the globe. When we are dealing with manual dexterity—and for most jobs in our industry this is applicable—any argument based on productivity differentials is spurious and ill-founded.

In his article on "Trends in Labor Compensation" in *Western European Labor and the American Corporation* (edited by Alfred Kamin and published in March 1970 by the Bureau of National Affairs, Inc.), Peter Henle, at that time the Chief Economist of the Bureau of Labor Statistics of the U.S. Department of Labor, points out that while data on "average hourly earnings for production workers in manufacturing" may not always be complete, "yet only by focusing on such an indicator is sufficient data available for comparisons" (p. 317).

A toy or doll worker in the United States receives, on the average, $2.87 hourly. Converted to U.S. currency units at official exchange rates, the average for various competitive countries is, as follows: $1.27 for male workers and .93¢ for female workers in the United Kingdom (where a combined figure for both sexes is not available), $1.65 in Germany; $1.02 in France; .93¢ in Mexico; .89¢ in Italy; .94¢ in Japan; .59¢ in Venezuela; .32¢ in Hong Kong; and .33¢ in Taiwan.

With a national average of $2.87 an hour the rate for toy and doll workers are among the lowest in the private sector of the American economy. Nevertheless, the comparable wage rates existing in competive countries, as can be seen

above, range from one-tenth to one-half of the American wage structure. This differential, which looms large in a labor-intensive industry like ours, is an open sesame for an accretion of imports and the resulting deterioration of the standards and conditions which members of our Union have built up over the years as well as a threat to the very existence of their jobs.

The continuation of American Policy on international trade is, like it or not, an encouragement to subsidize and encourage the export of U.S. jobs. The problems our members will face, accordingly, are graphically depicted in a recent statement to the Senate Subcommittee on Manpower:

"During at least the past two decades, the growth patterns of our affluent society have created vastly different conditions in the upper and lower sectors of our labor market. Less-skilled and less-educated workers have faced conditions of shrinking job opportunities and chronic looseness in their part of the labor market. Their reported unemployment rates have risen relative to those in the upper sector; and hundreds of thousands of them, perceiving the search for work as futile, have stopped looking, even though many or most of them—especially those still in the prime of life—are undoubtedly still able and willing to work. The great majority of the workers in this lower sector still have jobs, of course; but the increasingly bitter competition for the shrinking job supply has retarded increases in earnings; although those still employed in this labor market sector are better off economically than they were two decades ago, they have had a much smaller share than their brethern in the upper sector in the increasing bounty of an effluent society. Higher-skilled and better-educated workers have lived in a quite different world—one with abundant and growing opportunity, with falling unemployment rates, with a chronically tight labor market. . ."

In addition to aiming to permit our members to continue to operate in the mainstream of the American economy, we are anxious to elevate their standards and to give them an added measure of job security. But we are confronted here with a basic dilemma, for any improvement to our members may run with it the risk of pricing ourselves out of the market. Were we to fully deply our collective bargaining strength, we undoubtedly could achieve a higher rate of pay than the average of $2.87 an hour, together with ancillary welfare and pension benefits. But such elevation of standards, while necessary from the standpoint of enabling our members to cope with increased living costs, will only make the industry less competitive and open further the sluice gates for those imports of toys, dolls and games which have been taking over an increasing share of the American market.

VI. SUMMARY AND RECOMMENDATIONS

We have seen accordingly that:

1. Imports have taken over during the past decade a progressively larger sector of the American market and the prospects are for an even greater penetration of that market in the decade ahead, with a corresponding loss of American jobs and a threat to standards and conditions built up by our members through the process of collective bargaining.

2. The major factors contributing to the accretion of imports have been the export of American technology and know-how abroad, the present provisions in existing tariff laws and the disparity between American and foreign labor costs.

We therefore respectfully request that the following steps be taken:

1. The imposition of mandatory quotas, as set forth in the Burke-Hartke bill, is a "must" for our members. While voluntary quotas would be something all of us would prefer, experience has underscored the untenable nature of such an arrangement. Quotas would not mean the end of imports—they would serve to guarantee a limit beyond which these imports would not go. It is import, in our estimate, that this mandatory arrangement be worked out, for the continuation of present policies or dependence upon a voluntary quota would not materially alter the festering problem which confronts us.

2. In forthcoming conferences on trade and tariff, including those under the aegis of GATT, emphasis be placed by American spokesmen on the need for international fair labor standards—that is, making adjustments in duties and other tariff concessions predicated upon an appropriate upward adjustment in the wages and working standards of the exporting countries.

3. In addition to these two specific recommendations, the AFL–CIO in testimony before this Committee has already presented a comprehensive program on tariffs and trades which we endorse as a constructive approach to this problem.

Mr. BURKE. Mr. Gordon, you mentioned that you never met Mr. Hawley or Mr. Smoot. If you take a look over your right shoulder, that painting on the bottom is Mr. Hawley.

Mr. GORDON. I have news for you. I might say something off the record that is wrong, but I wish he was in Congress today.

Mr. BURKE. He seems to look this way when he hears his name taken in vain.

I think what you have said is very true and what Mr. Weiss has said also. Apparently there is an attitude among some people in our government that many industries are expendable. And as you pointed out, these people have no place to go. They talk about these job training programs and you wonder what jobs they are going to train them for.

Mr. GORDON. I don't know. All I know is that after coming out of an industry, if I had to go back I am pretty close to 60 years of age and if they were going to teach me to operate a computer I think I would be scared to get near the machine.

Mr. WEISS. Mr. Burke, I just want to say: In 1969, according to the figures of the Bureau of the Census, there were 64,000 production workers. That was 3 years ago. In 1972 the number has declined to 53,000. How much longer can this process of job erosion continue?

Mr. BURKE. You see, actually you people are a small industry.

Mr. WEISS. But there are hundreds of these small industries around, and the cumulative effect is very great.

Mr. BURKE. That is right; there are over a million jobs that have been lost. And yet we have all these people coming before this committee crying all the way to the bank and telling us about retaliation. If we do something in our country that other countries are doing to us, there will be a trade war. And when you look at the testimony of Mr. Feldman or Mr. Glass and yourself on the differential between the tariffs charged by Argentina and the 100 percent down there for our goods that go into their country—how much more can they retaliate?

Mr. DUNCAN. It looks like we have been in a trade war and have been on the losing end for some time.

Mr. WEISS. Maybe we didn't know it.

Mr. GORDON. We won the war, but we lost the peace.

Mr. BURKE. We had people in here complaining about those who had agreed to lower tariffs on paper goods from 12 percent to zero. But our paper goods that go over there have to pay the 12 or 13 percent tariff to get into their market. We have this all over the world and they keep making the charge.

He said he was called "a Smoot-Hawley." I have been characterized as a "Smoot-Hawley," and I am really a free trader. I voted for the trade bill in 1962 because I listened to the glib promises talking about all the wonderful things we were going to do if people were injured, but we found out those promises were not kept.

As some of you point out, we didn't even give them burial expenses. Less than 5 percent of the footwear industry received decisions in their favor, over 95 percent of them were turned down. There is a footwear decision now that has been laying in the White House

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for 2 years. They won't break the tie down there and issue a decision which is quite apparent to everybody.

When 115 shoe factories in New England have closed since 1965, and I think close to 180 of them closed all over the country, and this all happened since the trade bill became effective, this must be caused by imports.

Mr. WEISS. The message seems to be clear, Mr. Chairman. There doesn't seem to be any other cause.

Mr. GORDON. Mr. Chairman, when you just said that they threatened us: in 1949, I believe it was, when we appeared before some committee in the Government, some department, some agency, they told us, "Well, what are you going to do? They won't buy our automobiles; they won't buy our steel; they won't buy our chemicals." Now I find that they don't have to buy our steel; they don't have to buy our autos; they don't have to buy our chemicals.

So all that these people are saying, to me anyway, the way I see is, is that they are going to use us for the products they need as long as they need them, or until they can make them, and the day they can make them they take them and go. Now, that is exactly what has happened. I mean it is not a very hard thing for anyone who wants to find out to look at it.

Your automobile industry was in rough shape for a while; steel the same condition. Those conditions they are talking of that happened in 1947, 1949, and 1951, when they needed us—that is all gone. They don't need us. They are going to make their own; they are going to use their own. And we will use our technology, our moneys and then they will tell us: "You want to bring something in here? You can't compete with us."

And that is exactly what has happened.

Mr. BURKE. The employees of the film industry who make the films for TV and movies were in here about a week ago and they were expressing concern about all these films being made overseas. And I forget who it was, but somebody referred to the fact that now that we have recognized Peking, our western pictures will start being made in China with Chinese cowboys and Chinese Indians.

Mr. DUNCAN. Do you think perhaps some leadership in labor for purely political reasons went along on this free trade phase for so long and that they misled their membership? Because back in the fifties and the early sixties some in the Congress could see what was coming. And in fact, organized labor leaders counted it a vote against labor interests, if you were for quotas back then.

There has been a change of heart during the years. It turned out those men were right and the rest of us were perhaps wrong.

Mr. GORDON. Let me put it this way: you can only learn from the mistakes you have made. There are a lot of people there who thought I was crazy when I said what I did. Today I find those people on my side backing me.

We took a gamble. This country has been noted for gambling. And we lost. I was always taught that when you go broke pick up your hat and coat and go home. If you get fresh money you come back; if you don't get it you are out of luck.

The thing here is that we have to make a fresh start. Let's make the start somewhere. Let's start saving somebody's job. If it is not my industry, somebody else's but let's keep people working in

this country. You are never going to get below the 5 percent. They say 5 percent, but I guarantee it is closer to 7 percent.

But they talk of five percent because millions of people are ashamed. They can't get any more unemployment insurance and they will not go on welfare. I thought we were back in the depression days. I saw a guy peddling right outside my hotel. I thought we were back in the days of the depression.

Mr. DUNCAN. We hear a lot of people say, the so-called free traders, that imports are in the best interests of the consumers. In the products that you people manufacture, is there much difference in the price? Say, a doll?

Mr. GORDON. There is no difference in the price because when you get it over here the biggest item to purchase is the item that is spent on television. It is the cost of making the item and so forth. Take for example a dress or an outfit made in this country. The prices are higher today, with their being made in Japan, than when we made them here.

Everyone who has daughters, ask them. When they go out to buy the outfits for the Barbee dolls or the miniature dolls you pay $5 or $6 for an outfit. When they made them here they cost $3.

Mr. WEISS. May I address myself to that question in a different context? Approximately 6 years ago the Japanese and the Taiwanese wiped out the vinyl material bags in the United States. That industry went down the drain because we could not compete with the Japanese and the Taiwanese and at that time the price that these vinyl bags that we use for the beach and related items, sold at, was a price that was roughly one-half of the price that was characteristic of the domestic products.

But as soon as the domestic industry went out of existence immediately it went up to the old American price and beyond that.

Mr. DUNCAN. That is a question I was interested in, to see that as they secured a greater percentage of the market their prices increased.

Mr. GORDON. It is the old story of the chainstore throwing everybody out of competition around them and then the prices go up.

Mr. BURKE. Isn't it true also that the retail outlets will buy the imported goods at a low price and refuse to buy the domestic goods because of the higher markup? And actually the consumer does not save any money. I notice we have been filing the footwear imports into Boston and they come in there at about $4.50 a pair at the Port of Boston. But when we follow them along to the retail outlet, we find them retailing for $29.95 a pair. And they are almost a duplication of the shoes that were formerly made here in America.

Once they gain that market the price can go as high as it will bear. So actually the consumer doesn't get any break. This false notion that they put out that imports cause lower priecs—actually once they drive their comeptitor out of business, then they sneak their price up and they get the top dollar for their goods.

Mr. WEISS. That is true.

Mr. DUNCAN. What percentage of the market does imports have now, in the toy market?

Mr. GORDON. I would have to guess because I don't think anybody could give you a true picture, because it is divided into two. One is where the parts are made and everything is brought here for assembly, like they do in Mexico. Or where the completed item is brought over from Taiwan, Japan, and so forth.

But I would say that approximately 50 percent or better is made from foreign merchandise. And I don't care if anybody wants to doubt my word. All I want to do is take him to any store he wants. Let him name it. Take carnival merchandise. There isn't an America-made item that is being given away. There isn't an American-made item that is made for carnivals today.

Mr. DUNCAN. What percent of a doll or similar product is labor costs?

Mr. GORDON. Well, it depends. The average wage is about $2.67 or $2.65 an hour.

Mr. DUNCAN. On the completed product what percentage of that cost, then, would be labor cost?

Mr. WEISS. That I think would depend on the segment of the industry in which it exists. I think that where you have more mechanization—well, it would range from about 25 to 30 percent. That would be my offhand guesstimate.

Mr. DUNCAN. Is the production level of our production workers good?

Mr. GORDON. Much higher. Most of it is done by machines. Years ago a doll was made where there were four skilled workers with the doll, (1) it was made from composition. And the body was formed under intense heat; (2) the eyesetter; (3) the person who put the hair in; and (4) the joiner, who joins the arms and legs to the body. Today they get plastic parts and they knock them out one after the other and they just snatch them right in. There is no skill required. The only skill left today is the eye-setter.

Mr. DUNCAN. How many people are working in the industry now?

Mr. GORDON. Today I would say about 30,000. How many are working at the present time?

Mr. WEISS. According to the figures of the Department of Commerce, the cumulative number of production workers in 1972, from the latest figures available, were 53,100.

Mr. DUNCAN. How does that compare with, say, 10 years ago?

Mr. WEISS. In 1969 there were 64,200 workers. In other words, there was a drop of approximately 11,000 in a period of 3 years.

Mr. DUNCAN. And I presume that you had a drop all through the sixties.

Mr. GORDON. There is another part of this, Mr. Duncan. This was an industry that from the month of September to the month of December, say about a week or 10 days before Christmas, would take every unemployed person off the street and put him to work without any skill. Because they used them to wrap tissue paper, to put a dress on the doll. At least there were 3 or 4 months where these people could find some work.

You don't have that any more. There is nothing here for them.

Mr. BURKE. Before we conclude, are there any plants located in the State of Ohio?

Mr. GORDON. Oh, yes. There is Ohio Art. There are four or five of them. A lot of them have closed down. Take the sporting goods part of the industry. We don't have a plant left in this country. We used to have plants like Buffalo Sporting Goods employing 500 people.

Mr. BURKE. In Ohio?

Mr. GORDON. This was in New York, the upper end of New York. And I actually couldn't tell you the amount, but I would say that in

Ohio there may be 10 plants, a few that make rubber toys and Ohio Art, which makes pails. Cincinnati antenna.

Mr. BURKE. I just asked the question about Ohio because it happened to come to mind at this time.

I want to thank you very much for your testimony.

This completes the public hearing for today and the committee stands adjourned now to meet at 10 a.m. tomorrow morning.

[The following material was submitted for the record:]

STATEMENT ON BEHALF OF THE VOLUME FOOTWEAR RETAILERS OF AMERICA

IN GENERAL SUPPORT OF H.R. 6767, THE TRADE REFORM ACT OF 1973 AND IN OPPOSITION TO H.R. 62 AND H.R. 8518

The Volume Footwear Retailers of America, 51 East 42d Street, New York, New York, is a national trade association whose member firms retail more than one-half of all of the shoes purchased annually by American consumers. Its member firms operate almost 20,000 stores and shoe departments throughout the United States. Nearly 50,000 persons are employed in their retail establishments and in their warehouses and offices. Many of the members of the Association are integrated shoe enterprises in that they manufacture as well as distribute and retail footwear.

The Volume Footwear Retailers of America (hereinafter referred to as "VFRA") generally supports the principles of H.R. 6767, The Trade Reform Act of 1973, and opposes H.R. 62 and H.R. 8518. Respecting H.R. 6767, the VFRA is unalterably opposed to the inclusion within its provisions of any import relief for specific products or items. VFRA believes that all imports should be subject to whatever system is finally devised by the Congress for import relief, and that no special treatment is justified for any particular item or items.

Additionally, VFRA suggests that the market disruption test of Chapter I of Title II of the proposed Act be modified, that the adjustment systems provided by Chapter 2 of Title II be strengthened, and that the relief from unfair trade practices growing out of subsidized exports provided by Chapter 3 of Title III be strengthened.

Title II of H.R. 6767 reflects the belief on behalf of the Administration, the Congress, American business and the public in general that the Trade Expansion Act of 1962 needs to be reviewed and changed to reflect a new system for determining when import relief ought to be granted. The system proposed therein, as modified or substituted therefore by the action of the United States Congress, will establish the new rules under which trade in general will be changed as a matter of law for the purpose of determining those businesses and those product lines which ought to be the beneficiaries of import relief. It would be bootless to devise a totally new system for determining import relief if in the same piece of legislation the Congress should attempt to determine, on the state of the record before it, that special relief ought to be accorded, without the general rules, to a particular product or product line. If the record made by the United States Tariff Commission within the purview of the rules established in the Trade Expansion Act of 1962, has established the need for new rules, then let them be established within the Trade Reform Act of 1973 and let them be established in such a manner that they can deal fairly and effectively with trade in general. To open the door to specific relief for specific products or product lines is simply to denegate the attempt to establish a workable system of rules for trade in general.

During the course of the hearings conducted to date on the provisions of H.R. 6767, various industries have argued for specific product relief. Evidently they contend that having failed to secure relief under the provisions of the Trade Expansion Act of 1962, they will also be unable to meet any reasonable criteria to be established under the Trade Reform Act of 1973. The position taken on June 12, 1973, by the American Footwear Industries Association ("AFIA") is typical. Therein the AFIA argues that in the framework of market conditions existing between 1962 and 1970 it could not meet the conditions for import relief imposed by the Trade Expansion Act of 1962, and thus will be unable to meet the new criteria for import relief to be established by H.R. 6767,

even in the framework of vastly changed marketing conditions within the shoe industry today.

In other words, the AFIA wishes Congress to prejudge its case and to accord it a specific exemption from the general, and as yet undetermined, rules which will be established by new legislation. It requests this specific relief on the basis of 1962–70 market conditions which were such that it could not gain relief under the Trade Expansion Act of 1962, and chooses to ignore in its request the current market conditions which could obviate the need for any specific relief.

As a frame of reference for judging the reasonableness of AFIA's request for specific product relief for shoes, it is fair to compare the rules as they have existed under the Trade Expansion Act of 1962, which, as an industry, the membership of AFIA could not meet, and the rules proposed under the Trade Reform Act of 1973, which, in prejudging its own case, AFIA contends that, as an industry, its membership cannot meet.

In order to obtain relief under the Trade Expansion Act of 1962, it must first be demonstrated that imports of a particular item have or are increasing in "major " part as a result of past tariff concessions by the United States. H.R. 6767, as introduced, does away entirely with the requirement that increased imports be in any way related to tariff concessions by the U.S. Next, under the Trade Expansion Act of 1962, an industry must show that it is suffering serious injury and that the major cause of the serious injury is increased imports. Under H.R. 6767, the petitioning industry would simply be required to establish that increased imports were the primary rather than the major cause of injury. That is to say, that the imports were the largest single cause of injury rather than the one cause greater than all other causes combined. Accordingly, even before the market disruption formula proposed in Section 201 (f) (2) of H.R. 6767 were to come into effect upon the petition of AFIA, the criteria for import relief would have been greatly liberalized.

The market disruption test of H.R. 6767, which is the most severely criticized provision of the bill and one which truly ought to be modified, requires only that the petitioning industry establish that imports are substantial, that they are increasing rapidly, both absolutely and as a proportion of total domestic consumption, and that they are offered at prices substantially below those of comparable domestic articles. Thus, the membership of AFIA contends that it cannot secure relief under the provisions of H.R. 6767, even though the market disruption test would not require them to establish that imports are the cause of serious injury.

Since a finding of market disruption establishes under Section 201 (f) (2) a *prima facie* case that increased imports are indeed a primary cause of injury, the new test shifts the burden of proof from the petitioning industry to the importer-exporter of the item in question. Apparently AFIA is contending that such a burden of proof can be met with respect to shoes and, therefore, that shoes ought to be treated differently from any other item of trade.

Whether or not the import relief provisions of the Trade Expansion Act of 1962 are left to stand, or the test proposed for import relief under H.R. 6767 becomes the law as proposed, or some new and entirely different general system for determining import relief is enacted by the Congress and becomes law, the chosen course of action must be dictated by an analysis of the true conditions within the shoe industry today as well as the projections for the future and the effect of such action on the interests of the people of the United States.

The principal problem confronting the shoe industry in the U.S. today is one of fulfilling consumer demand. What follows is a portrait of the shoe industry as it affects the consumer in the U.S. today.

THE DECLINE OF GROWTH IN FOOTWEAR IMPORTS

In almost every year since the early 1960's, imported footwear increased its share of the total U.S. shoe market. However, in 1973 this trend will show a significant slowdown. By the end of the year U.S. manufacturers will be able to envision an increasing share of the market for nonrubber footwear.

In each of the seven years preceding 1971, the market share for imports grew nearly 4% a year. Between 1971 and 1972, the imports market share rose 2.6%. This declining trend will become even more evident in 1973. Imports should total no more than 313 million pairs, compared with 296 million pairs in 1972. Domestic manufacturers could achieve a gain in output over last year's 527 million pairs, the first upturn since 1968.

An increase in consumers' appetite for shoes has become evident in 1973. The level of demand, which has been on a plateau for the past three years, is accelerating and domestic manufacturers are destined to get the major share of the growth in total market.

Scarcities of factory workers and delays in obtaining component materials, rather than lack of orders from retailers, are the principal reasons why U.S. nonrubber footwear production is still running slightly behind 1972.

Manufacturing sources projected a growth in import pairage of nonrubber footwear amounting to 8% in 1973.[1]

In testimony before the Ways and Means Committee on June 12, 1973, the projection was increased to 10%.

However, results of an inquiry conducted by VFRA among its member firms clearly shows that neither of the projections by shoe manufacturers will materialize. On the contrary, major retailers state that nonrubber footwear import will rise only moderately, with the increase this year expected to be about 5.5% over the 296 million pairs imported in 1972.

This data is based on *orders already placed* with both domestic and overseas suppliers by major retailers of footwear.

Because of the extensive lead time necessary, there can be no substantial change in the proportion of commitments between the domestic and foreign sources. Any shift that does occur will tend to raise the proportion supplied by domestic factories.

In the 1968–70 period, nonrubber footwear imports enjoyed an average growth of nearly 20% per year. In the 1970–72 period, annual growth had dropped to about 10%. Although it is running 9% ahead for the first five months of 1973, this rate will turn downward in the months ahead.

The *slowdown* in imports in 1973 will affect *share of market* and *total numbers.*

MAJOR REASONS FOR IMPORT SLOWDOWN

1. The *effects of currency revaluations* has been substantial. Prices in Spain and Italy have risen sharply while substitution of synthetic materials for leather has become the rule rather than the exception. Downward pressure on the value of the dollar is continuing with no foreseeable reversal in sight. A large U.S. shoe company reports that the products of its Spanish shoe factory can no longer compete with shoes manufactured in its United States plants. Unless the Spanish factory can sell at least half of its output in the Common Market, it will have to be shut down.

2. Leather costs *have risen faster* in Europe than in the United States. Widespread substitution of synthetic materials in Spanish and Italian footwear has diminished their sales appeal in this country. Managements of leading volume retail firms are unanimous in their conviction that U.S. footwear manufacturers can make nonleather footwear more efficiently and with greater productivity than can European factories. As this advantage comes increasingly into play, imports should diminish further. The trend to nonleather shoes already is clearly evident in first quarter statistics of both domestic production and imports, a reflection of leather cost rises.

In its Marketing Services Bulletin of June 15, 1973, American Footwear Industries Association reports that for the first three months domestic production of leather footwear dropped 12%, while nonleather footwear increased 8%. In the same period, imports of leather footwear failed to increase at all, while imports of nonleather footwear rose 17%. Total "market supply," however, remained virtually unchanged at 228.5 million pairs against 228.1 million pairs in 1972.

3. *Labor costs are rising* more sharply in Western Europe than in the United States. With Italian imports just slightly ahead of last year, a new three-year contract between labor unions and footwear manufacturers has just been announced in Milan. Effective July 21, labor costs will be raised an estimated 20–24% according to the head of the Italian Footwear Association. A leading manufacturer already has increased his Fall-Winter price list an average of 10%. In Spain there are virtually lifetime job guarantees in effect for shoe workers, and in many other countries there are unique labor-cost factors and fringe benefits which do not show up in shoe-wage comparisons cited by proponents of import restraints.

[1] AFIA Statistical Reporter, June 1, 1973.

4. *Freight rates* on footwear shipments from overseas are mounting sharply. A 26% rise in ocean rates for all commodities has just been proposed by the Brazilian Shipping Conference. Both air freight tariffs and maritime rates from the Mediterranean and North Atlantic ports have advanced up to 10% within the past year.

5. *A worldwide scarcity* of petro-chemicals exemplifies supply strictures that are affecting footwear production. In Taiwan this probably will cause a shift in product mix toward more expensive leather footwear. As this develops, output and export of lower priced vinyls will diminish, limiting their availability for lower income consumers, and contributing to a decline in total import pairage from Taiwan.

6. The *first unilateral limitation* on footwear exports was confirmed within the past week. South Korea has agreed to limit to no more than 20% a year its annual growth of footwear exports to the United States. Over the past three years, the average annual growth rate has been 216%, with a total of 19 million pairs imported in 1972.

UPTURN IN U.S. FOOTWEAR MANUFACTURING

1. U.S. footwear manufacturers, especially those supplying volume retailers, are evidencing a high degree of responsiveness to changing style trends, are improving their marketing strategies, are adopting advances in shoe manufacturing technology and, as a consequence, are finding easier access to adequate financing.

2. Virtually all domestic producers are operating at a high level and are unable to accept orders for delivery sooner than four to five months hence. This condition is in sharp contrast to production levels a year ago when deliveries could be fulfilled within a matter of weeks, rather than months.

3. In 1972 the leather and leather products industry showed a 19.3% pre-tax net profit in ratio to investment, compared to 18.4% for all manufacturing corporations. This ratio moved upward from below 18% in each of the 1969–71 years. As a ratio of sales, pre-tax profits for the leather and leather products corporations advanced from 4.8% in 1971 to 5.1% in 1972.[2]

Financial reports for the first quarter of 1973 indicate even better results for this year.

4. Domestic nonrubber footwear production was 5.3% below 1972 in the first two months of this year.[3] By the end of the first quarter the decline had diminished to 5%. In recent testimony before the Ways and Means Committee, shoe manufacturers said that for full 1973, the decline might be "3% to 5%." The Tanners Council of America[4] noted "the effects of currency realignment and higher costs abroad have not yet shown up in the official trade statistics. . . . however estimates. . . . for last month. . . . do point to a straw in the wind."

5. "Plant Closings" statistics do not tell a complete story. Production *capacity of closed factories* should be balanced against increased output from factory expansions and new plant openings. In addition to quantifying this factor on a net basis, account also should be taken of the types of footwear formerly made in the closed factories, compared with the types produced in new and expanded facilities. It is probable that the "new production" meets the needs of the marketplace.

6. The Tariff Commission has decided affirmatively or rendered split decisions in 29 petitions for adjustment assistance to workers. Eight firms have been certified as eligible for assistance from the Department of Commerce. While this type of help has been scorned by proponents of mandatory import quotas, it is known to have had salutary effect in several cases. Duchess Footwear is heavily booked, with its total production capacity committed for many months ahead. Benson Shoe Company reports a record volume of orders, projects 50% higher sales than last year, and 2½ times higher than in 1970. Its expanded sales, the company says, are also reflected in other Lynn, Massachusetts shoe factories which are experiencing "a strong comeback."[5] Government assistance to ambitious and well-managed shoe manufacturers *may not be "funeral expenses" after all.*

In summary, conditions now prevailing in footwear production centers, abroad and at home, point to a crest in the tide of imports and a strengthening of U.S.

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[2] FTC. SEC.
[3] AFIA statement, June 12, 1973, before House Ways and Means Committee.
[4] "Council News," June 22, 1973.
[5] "American Shoemaking" Magazine, June 13, 1972.

footwear manufacturing. In medical terms, the import fever has broken and the crisis has passed.

As a national trade association whose member firms sell more than half the shoes purchased annually by American consumers, Volume Footwear Retailers of America has a vital stake in the well-being of U.S. footwear manufacturers. Flexible, innovative and healthy domestic resources are essential to its member companies. The nonrubber footwear industry in this country has weathered a transition period and has become a stronger, more efficient, more market-oriented industry, better equipped to satisfy the needs of the American consumer and to compete with imports. American products and imports must be allowed to compete on an equal basis. Thus, no American product should be forced to compete with an imported item, the price of which reflects direct or indirect subsidy by the country in which it is manufactured. A realistic strengthening of Chapter 3 of Title III of H.R. 6767 is, therefore, urgently recommended.

For these reasons, legislating mandatory import quota restraints is neither necessary nor desirable. Imported footwear should receive no special treatment in the provisions of the 1973 Trade Bill.

Statement of Edward Lipkowitz, Chairman, Footwear Group, American Importers Association

This statement is submitted on behalf of the Footwear Group of the American Importers Association, 420 Lexington Avenue, New York, New York, 10017. The Footwear Group consists of approximately 25 importers of footwear from all footwear exporting countries.

POSITION ON TRADE LEGISLATION

The Footwear Group supports the position taken on H.R. 6767, The Trade Reform Act of 1973, by the American Importers Association (AIA) and refers the Committee to the AIA testimony of May 14, 1973.

The Footwear Group opposes the Burke-Hartke Bill (H.R. 62) and the Fulton Bill (H.R. 8518), both of which would provide for a system of quotas on importations of footwear.

PREVIOUS TESTIMONY

We also respectfully refer the Committee to testimony given on behalf of the Footwear Group in 1968 (Hearings, pp. 4109, 4155) and in 1970 (Hearings, p. 2103) before this Committee. Much of that testimony is still relevant to the issues which are pending at this time. For this reason, the present statement is focused mainly on recent events affecting the trade in footwear.

THE TARIFF COMMISSION CASES

The American Footwear Industries Association (AFIA) has urged the Congress to impose a system of quotas by legislation because the President has not done so under authority that he possesses under the Trade Expansion Act of 1962, pursuant to a split report of the Tariff Commission. The refusal of the Administration to impose mandatory quotas pursuant to its statutory power under this report amounts to a decision on its part that such action would not be in the public interest. The door was opened, however, to adjustment assistance for footwear workers, and 29 cases decided by the Tariff Commission have resulted either in affirmative findings or split decisions in which relief can or has been granted. It is reported in the briefing materials of this Committee (p. 272) that as of April 1, 1973, approximately 7,145 workers from 27 shoe firms have been certified eligible for assistance. The table at p. 274 of the briefing materials indicates that, in terms of number of workers, relief has been made available to almost half of the workers on whose behalf petitions were made.

The record with respect to firms shows that eight firms certified as eligible by the Tariff Commission have applied to the Department of Commerce, and all have received some form of adjustment assistance. Other firms have been found eligible by the Tariff Commission, and their applications are pending at Commerce. The most recent example occurred on June 12, 1973, when the Commission, by a vote of 3 to 2, found both Regina Footwear, Inc., and its workers, to be eligible.

It is submitted that far from indicating a failure of the Trade Expansion Act to operate as desired, the experience with respect to footwear indicates that

the present Act has operated as intended, and that certain of the legislative changes envisioned by H.R. 6767 would be unwise.

Three of the present members of the Tariff Commission have consistently found the statutory standard of connection between increased imports and tariff reductions to exist, and two have consistently held that the standard has not been met. A study of the opinions of the three members of the Commission who have found that test to be met offers an excellent model by which to predict the effect of proposals to revise these standards of casual connection, by changing "major" to "primary" and introducing the so-called market disruption test. In case after case, those Commissioners who have found the test between tariff concessions and increased imports to have been met have gone on to consider whether increased imports are the major cause of the difficulties which a firm has encountered. For example, in two recent cases the Commission found that increased imports were not the major cause of difficulties encountered by firms.

In *Bates Shoe Division of Wolverine World-Wide, Inc.* (TEA-W-175, T. C. Pub. 558, March, 1973) an investigation conducted pursuant to a workers' petition, the Commission unanimously found that the causes of difficulties experienced by Bates were abnormally high wage rates demanded by its union, low productivity, and "the inability of management to anticipate and make a timely adjustment to changing consumer preferences and to effectively control its costs." T. C. Pub. 558, p. 6.

In *Shapiro Brothers Shoe Co., Inc.* (TEA-W-185, T. C. Pub 570, April, 1973) again the Commission unanimously found:

"That the declining sales were caused by price increases necessitated by increased production costs and a shift in consumer preferences to styles and qualities not produced by Shapiro . . . [I]ncreased prices Shapiro Bros.' shoes out of line with the price requirements of its customers and higher than those charged by other producers of like or competitive footwear, both domestic and foreign." T. C. Pub. 570, pp. 3–4.

This investigation further disclosed that customers and former customers of Shapiro Brothers made no significant shift toward the purchase of imported footwear when they reduced their purchases from Shapiro Brothers. On the contrary, their two largest customers continued to rely on domestic sources for shoes of the type formerly obtained from Shapiro Brothers.

Before making any change in the present standards, it is urged that this Committee analyze carefully past decisions of the Commission. It is our belief these cases indicate the Commission can and has discriminated quite carefully among the causes of injury, and that it has indeed carried out the intent of Congress in making relief available where it has been warranted. Unless the Committee finds that the Tariff Commission has not been carrying out the desires of Congress, it should not alter the standards under which the Tariff Commission has been operating. We believe that liberalization of the present standards would invite the Commission to open the doors to relief in many cases where imports are not a sufficiently large factor to justify import restrictions as a possible remedy. Restrictions on imports which have done no injury cannot help firms which are encountering difficulties, and only the consumer will suffer.

REASONS FOR NOT IMPOSING QUOTAS

We are not aware of any full statement of the Administration's reasons for not granting mandatory import relief, as it could do under the present law, but it does not require much imagination to see some obvious ones. The factors are no doubt in two general categories: those relating to what is happening within the U.S. economy; and those relating to our relationships with other countries.

Within the U.S. economy, imports offer a significant counter-inflationary force for key products in the consumer's basket. In an industry such as footwear of 900 plants, individual experience is so varied that any generalizations that can be offered will be inapplicable in many cases. This industry is highly style conscious, especially in recent years. Those companies that are efficient in production and are most successful in sensing and meeting the style needs of the marketplace have prospered.

Internationally, footwear is exported chiefly by developing countries, many of which have enjoyed special relationships to the United States, notably Spain, Taiwan and Korea. The two principal sources of leather footwear for the American market, Italy and Spain, have been affected very considerably by the two devaluations of the dollar. Italian exports, because of economic conditions there, had already leveled off. They suffered price increases from the dollar devalua-

tions of 7%, and much higher price increases because of increased costs in Italy. Spain has suffered exchange rate increases of almost 20%, equivalent to a duty of this amount on top of the existing duties on footwear from that country. Japan has suffered increases of almost 35% and has declined from the position of principal supplier of vinyl footwear in the American market to a minor role.

The rapid changes that have been taking place in styling just in a few years and in the national sources of imports into the United States indicate the undesirability of freezing any pattern by quotas. It would be hard to think of any industry where bureaucratic controls over the choices of the marketplace would be less justifiable.

THE U.S. FOOTWEAR SCENE IN 1973

The information furnished to this Committee by the AFIA gives a totally inadequate picture of what has been happening in this industry. By stressing just a few statistical factors, they fail to give a balanced economic analysis. The following points, we believe, are well known today in the trade, and fill in some of the blanks in the AFIA portrait of this market.

First, there is an unfilled demand for product, which cannot be met either from domestic production or from imports. Domestic producers that understand the needs of the marketplace are doing very well and are back-ordered. Second, there is a shortage of footwear workers, which is holding down production. Footwear has always been a relatively unattractive labor intensive trade, and when employment is reasonably high, as it is now, it is difficult to recruit footwear workers in competition with more attractive high technology industries. This competition for resources exists independent of imports. Imports have served a vital role in meeting the needs of the marketplace which would not have been met if growing imports had not been available. Third, the apparent demise of large numbers of footwear firms shown by the statistics is misleading. Most footwear enterprises today are a mixture in some way of domestic production, importing and distributing. Independent footwear producers have been a favorite target for acquisition, either by integrated footwear firms or by conglomerates. Further, producers of vinyl footwear worldwide have serious problems today in meeting the demands of their customers because vinyl is in short supply. Finally, the principal problem of importers is to get timely delivery at a reasonable price. Foreign producers' costs are increasing at a far more rapid rate than in the United States which, when coupled with currency realignments, makes their product less attractive.

VINYL FOOTWEAR SERVES THE NEED OF MARKET FOR INEXPENSIVE FOOTWEAR

At present in the non-rubber field the bottom of the market in terms of price is served by injection-molded vinyl footwear made in the United States. There is not, however, a large amount of such production. The lower middle of the market is served by vinyl footwear, largely from the Far East, which has become considerably more expensive in recent years. For instance, a $3 retail article for women of 1970 is now about $5. Nevertheless, this is cheaper than any comparable product made in the United States except injection-molded, and any limitation on such imports would cause definite hardship to people who have to buy footwear strictly on a budget. As indicated above, costs for this type of footwear are rising in any case, and there are problems of supply since vinyl and the petroleum from which vinyl is made are in short supply. It would be very much contrary to the interest of the American buying public to impose any further limitations on the availability of these products.

AMERICAN SELLING PRICE ON RUBBER-CANVAS FOOTWEAR

The Footwear Division of the Rubber Manufacturers Association has taken exception (testimony of June 12) to Section 103(c) of H.R. 6767 to the extent that it would authorize the President to eliminate ASP valuation on rubber-canvas footwear without explicit Congressional approval.

It is remarkable that in 1973 so much rhetoric can be expended on behalf of this anomalous and anachronistic customs provision. We invite attention to our discussion of this subject in the 1968 hearings, rather than burden this record further with the curious history of ASP footwear.

It is high time, however, that some common sense was introduced into the discussion of ASP as applied to rubber footwear. For 40 years this industry has managed to defend duties which by their own statement, are now over 58% on an *ad valorem* basis. Some are over 100%. During the last decade, however,

most of the production of rubber-canvas footwear in the United States has moved to the injection-molded system, which is competitive with such footwear produced anywhere in the world. U.S. production undoubtedly exceeds the official estimates, and the import figures which have been presented seriously overstate the role of imports. They have in fact declined considerably.

See, for the best estimate available through 1967, the table at page 4165 of the 1968 hearings, which indicates that the peak ratio of imports to domestic consumption was reached in 1961, and that it has been considerably lower in recent years. Table 2 attached to the statement of the RMA before this Committee, shows imports of 58 million pairs of rubber-soled canvas-upper footwear in 1972. This is the statistical figure as reported by the Census Bureau for imports under Item 700.60 of the TSUS, which is not correctly described as "rubber-soled canvas-upper footwear", but as "other". The figure of 58 million pairs includes a large number, perhaps as many as 30 million, of articles which were not sneakers at all, but other footwear which for accidental reasons come under this TSUS number. See the Tariff Commission's Note at page 310 of the Comparison of Ratios of Imports to Apparent Consumption, 1968–1972, prepared for this Committee.

Notwithstanding the facts that imports of sneaker type footwear have declined, that most of the American production today is machine-made, and that the rate of duty under the ASP system is extremely high in comparison with any comparable items in the entire Tariff Schedules of the United States, this does not appear to be an attractive U.S. industry. The B. F. Goodrich Company got out of it, and the Uniroyal company is reported to be desirous of doing so. What is this Congress to make of an American industry which is not attractive to U.S. capital even under such circumstances? How much protection do they want?

We believe that it is high time that this method of valuation was abolished in the interest of the American consumer and of American trade. The principal vice of ASP today in footwear is not even the extraordinarily high valuations, but the delays, confusions and uncertainties that are involved for the trade. Importers of such merchandise are constantly forced to gamble on assessments of duty which they are unable to determine in advance, and liquidations of customs entries months and years after entry are by no means uncommon. Forty years of special protection for this tiny segment of U.S. industry should be enough. We fear that by seeking a negotiated abolition of this non-tariff trade barrier, the President may try to trade it against foreign concessions when abolition of American selling price is called for by American interests without the necessity for international negotiations. The converted rate can be reduced by negotiation more easily than by seeking to combine that negotiation with the abolition of ASP itself. This did not succeed in 1967, and is not likely to succeed any better in 1974.

KOREAN EXPORT RESTRICTIONS

Strange things are happening. It is reliably reported that the Korean Government has imposed restrictions on the exportation to the United States of rubber and rubber-canvas footwear. This is related to discussions which have been held with representatives of the United States Government, which are in turn, no doubt, related to the complaint which has been under study for some time by the Treasury Department under the Countervailing Duty law, Section 303 of the Tariff Act of 1930, that Korean footwear benefits from bounties or grants of various types provided by the Korean Government. There has been no official announcement by either Government that such export controls exist or that they are under consideration.

So far as the Countervailing Duty law is concerned, we believe that this law should be regarded as part of the President's authority to deal with trade problems in the diplomatic arena, and that it is proper for our Government to discuss with the Korean Government any practices on its part which appear to be outside the area of internationally accepted trade practices. When it comes to quantitive restrictions, however, whether they be those of the United States or a foreign country, we believe strongly that this should not be imposed or sought without public hearings under a statutory standard. By what authority flowing from legislation adopted by the Congress of the United States does the President of the United States negotiate with a foreign government to limit its exportations of rubber-canvas footwear, which are already subject to duties well over 58% and very likely in the neighborhood of 100%? There has been no Tariff Commission proceeding on this product to lay a foundation for such a negotiation, and if there has been any finding of injury within the Executive Branch, it has been

a well-kept secret. The consuming public and the importers and distributors are entitled to be heard when such matters are being considered.

The same is true of protective footwear, which is subject to a duty, for the most part, of 37.5%, much higher than that applicable to footwear products in the non-rubber field. As importers we are presently hearing from our suppliers in Korea that their shipments to us will be limited to quantities assigned to them by the Korean Government, and that this results from negotiations with the United States Government. From our own Government we have no information on this subject except a vague confirmation that discussions have taken place. Certainly, we have had no opportunity to know what is being considered and to submit our views in connection therewith. We protest strongly against such arbitrary action.

STATEMENT OF IRVING W. ALLERHAND, EXECUTIVE VICE PRESIDENT, CITC INDUSTRIES, INC.

I am Irving W. Allerhand, Vice President, CITC Industries, Inc., 1 Park Avenue, New York, New York, a firm engaged in the sale and distribution of imported footwear throughout the United States.

Our company has been in business for twenty years and has pioneered the introduction of new shoe styles which have revolutionized the casual footwear market in the United States. When this company started business, the casual footwear industry in America was a restricted, self-contained market selling approximately fifty million pairs a year of white tennis shoes (red and blue in summer) and black and white basketball shoes. We introduced style, color, fashion, and design heretofore unknown in the American rubber footwear industry. As a result, the United States domestic market has increased probably five-fold in the last twenty years—all to the benefit of the American consumer.

The Rubber Manufacturers Association (hereinafter referred to as "RMA") has said that the members of that association "account for most of the waterproof footwear and rubber-soled footwear with fabric uppers produced in this country." The adjective "most" would appear to suggest that the vast majority of such footwear was prodced by members of the Rubber Manufacturers Association. The facts are otherwise. In discussing rubber-soled footwear, we must distinguish between hand wrapped and machine made shoes. There is, in the United States today, a large rubber-footwear industry whose members do not belong to RMA. These companies produce in the United States as much or more of rubber footwear than the RMA subscribers.

In addition to understanding the domestic production, the United States producers have failed to make the critical distinction between hand wrapped and machine-made shoes. Almost ten years ago this company advised this Committee, the Tariff Commission and the Office of the President's Special Trade Representative that foreign patented machinery would soon be imported into the United States and its use would revolutionize the canvas footwear business in this country. Much to our regret this was an accurate prophesy. All the non-RMA members and some of the RMA producers themselves manufacture the machine-made shoes. Out of total domestic production, ⅔ are machine-made. The totality of machine-made production in the United States by all of the non-RMA members and a certain percentage of RMA member production would likely be 66% machine-made and 34% hand wrapped. We, as manufacturers, cannot compete with machine-made shoes in the United States. Our company, today and historically, imports quality footwear retailing at prices comparable with the best American made hand wrapped shoes. In fact, several years ago our company, at the expense of almost $200,000, purchased 60 injection-molding Desma machines for use in the production of canvas sneaker basketball shoes. Subsequently, we found that the rapidly developing growth of injection-molded shoes produced in the United States made it impossible for us to compete in this market. Our equipment sits unused in warehouse storage today.

In addition to understating the size of the United States market and the competition within that market brought about by machine technology, the RMA is still complaining about too little protection against imports. In fac, imported footwear is subject to the most objectionable tariff barrier in the world—the American Selling Price method of valuation.

The Tariff Commission has investigated products subject to duty on the ASP basis of valuation and was asked to determine those rates of duty which would have provided an amount of collected duty on imports equivalent to

the ASP protection. The weighted average ad valorem equivalent rate on ASP footwear was 60% several years ago. Much of the goods we import have equivalent rates as high as 90% ad valorem. It has been reported that ASP rates on some chemical imports are as high as 175% ad valorem.

The application of the extraordinarily high ASP duties are made even more punitive by the administration of ASP assessments. For many years, our company was forced to pay the exorbitant duties on the basis of a Customs appraiser selecting the highest priced United States shoe for comparison with the imported product in determining the American Selling Price. After a 3½ year investigation that was impeded at every step by the domestics the Customs Bureau in 1966 adopted guidelines for appraisement of ASP rubber footwear to replace what Customs had determined were previous erroneous practices. Following the guidelines adoption, the Commissioner of Customs advised the Finance Committee as to the reason for the new regulations:

"On the basis of a full-scale investigation undertaken to determine whether reconsideration and revision of appraisement procedures in this area were warranted, *it was concluded that the practice of using the highest priced United States products as our yardstick was clearly wrong*, and that we were not complying with the Presidential mandate that 'similar' articles offered in the United States' principal markets should be used as a basis for comparison. Judicial precedents clearly indicate that price is a factor to be considered in determining similarity for purposes of the customs valuation statutes, including the American selling price statutory basis of valuation. If all other factors bearing on similarity are equal, an article which is closest in price to another article will ordinarily be the acceptable substitute in the marketplace. This has been the practice in all areas of customs valuation other than American selling price of rubber-soled footwear."

At the outset, appraisement under the new guidelines produced generally reasonable rates of duty albeit still monstrously high in relation to all other imports. It then became apparent to the domestics that the administration of the new guidelines was working to their economic detriment.

As noted, the guidelines require Customs to consider, along with all other elements of similarity, a domestic product which is closest in price to the imported shoe. In order to determine similarity in all respects, including price, Customs appraisers must of necessity rely upon information submitted to them by the U.S. rubber footwear producers. Thus, both Customs and the American importers are in a position of having duty rates determined by domestic, commercial, competitive interests.

The use of list prices for ASP purposes is extremely vulnerable. Domestic manufacturers, through apparent manipulation of the technical language relating to special discounts and specially bargained prices, create artificially high figures and thus, the highest catalog prices are taken for the purpose of assessing ASP duties. In fact, a majority of such goods sold in the market place are retailed at lower prices. Only token sales are made at the artificially high prices for the sake of pretended compliance.

In choosing the American products freely offered on a national basis, moreover, Customs generally winds up with a limited number of American Companies and most often uses prices found only in their "catalogs." This often results in a choice of the highest prices, rather than industry wide lower prices because in most cases their apparent similarity as to real likeness makes time-consuming research unnecessary. This was not, and is not, the intention of even such a punitive law as ASP.

An actually case will serve to illustrate: One domestic company's regular basic women's canvas bal sneaker had been used by Customs directly after the guidelines investigation as the most similar U.S. shoe of its type. Their price was then 1.55 per pair, and that price was listed in the first two price lists issued in 1966 covering periods from February 18, 1966 through May 18, 1966 and May 19, 1966. through May 26, 1967. When the next pricelists were issued to cover the period from May 27, 1967 through December 31, 1967, the price became $1.95. Purportedly, their $1.55 shoe was not in their new catalog as had been the case for many years prior. This implied that they were no longer making, nor freely offering, this sneaker when, in fact, they were producing not only as many but somewhat more than before and selling such products in basically the same manner. In the most recent pricelist issued toward the end of 1971, covering the period from November 1, 1969 to September 30, 1970, we were informally advised that, as a result of our pleas for investigation of ASP appraisement practices, that company thus answered Customs questions in such a manner

as to make it a non-freely offered company. Therefore, their shoes could not be used at all by Customs when determining like or similarity on any imported product. This was the company whose catalog prices most closely approximated actual and direct market prices existing in that selling period (November 1, 1969 to September 30, 1970).

In another case, in a domestic's catalog covering the period of 1969, the U.S. producer had a women's basic bal sneaker listed at $1.75 per pair. Customs use of the $1.75 price in appraisement came only after our relentless insistence that this was the true freely offered price. In a later catalog covering the period from the end of 1970 through 1971, this shoe did not appear at all, although large quantities were still being made and the lowest price in this new catalog for such a shoe was $2.85 per pair.

Beginning in 1969, our company imported a striped adidas-type shoe that was popularized by usage at the 1968 Mexico City Olympics. At the time we brought in this shoe, there was no comparable American product and hence the duty rate was 20% ad valorem of the FOB price. Our version of the adidas-type shoe was very popular and met with wide acceptance by wholesale and retail customers alike. Within 6 to 8 months after we brought in this shoe, at least one domestic producer began showing samples of a similar product. Let me emphasize that these were samples of goods not in production. As a result of the representations made by certain domestic producers, imported goods which had been designed, manufactured and sold in the U.S. market by American businessmen, originally entered under non-ASP duties, were subsequently found to be subject to the enormously high ASP tariff. It is impossible to believe that the Congress in enacting ASP intended that domestic manufacturers' production schedules and token sales methods would set off a series of events in the administration of ASP that result in a time lag of up to two years thus making ASP duties retroactive.

In fairness, Congress should provide that at least twelve months elapse between the time that the domestics freely offer a production line shoe and the time when Customs may use such shoe in assessing ASP duties on a similar imported shoe which theretofore was admitted under an ad valorem FOB rate. There is for the importer a twelve month lag between design and retail sale.

Administration of ASP has had adverse effects on our business volume. In 1970 our volume was $22,5000,000 and $23,500,000 in 1971 (although 1971 was less in pairs sold). Our sales in 1972 approximately only $17,000,000. Furthermore, for the first time in our company's history we have an extremely large and costly inventory approaching the staggering proportions of approximately $9,000,000—300% greater than the previous largest inventory and 600% greater than the general average dollar inventory over the past five years. The inequities present in the administration of ASP have resulted in a situation whereby our planned and booked costs are considerably higher than anticipated. While it has been our company's policy to limit inventory to approximately $1,500,000 worth of goods, the higher actual cost resulting from ASP administration has priced us out of the market, thereby causing the above-mentioned astronomical $9,000,000 inventory.

Domestics always complain that whatever their economic woes the cause is foreign competition. In an objective comprehensive study, the Federal Reserve Bank of Boston found that restrictions on the volume of imports would not solve New England's footwear problems. Since it is the New England segment of the industry which is most vocal in asking for import restrictions, a study of the economics of that region is most useful. The shoe industry as it exists in New England is composed of a large number of relatively small firms. It is a relatively easy business to enter and leave, thus explaining many of the so-called failures. The required capital investment is relatively limited and the leasing of equipment is widespread. Another factor found by the study was the competition for labor in New England. Specialized industries such as electronics have been winning the battle for workers from the shoe producers. As the study says, this may explain why shoe production employment was increasing in some southern states and declining in New England. In addition, the old New England facilities were found to be unattractive and unappealing places in which to work. The following significant conclusion was made:

"In fact, many New England shoe manufacturers feel that the major constraint upon the level of their output is not foreign competition but the high cost of labor in New England.

It is also noted that one major problem facing the New England shoe industry can be traced directly to the nature of the industry. The modest level of

required capital outlay for entry is characteristic and when styles undergo major and frequent changes, most small producers experience financial strain. The companies most frequently cited as experiencing difficulty were makers of high fashion women's shoes. They lost their business not to imports, but to the manufacturers of women's casual flats, when the traditional dress shoe heel dropped.

The Federal Reserve Bank study concludes that it is debatable whether trade restrictions would permanently solve the problems of the New England shoe industry, noting that the regional wage differentials in the nation make the New England industry vulnerable to domestic competition. Other reasons given for rejecting a quota approach are (1) damage to exporters in New England, (2) much higher priced shoes and restricted choice for consumers, (3) retaliation by foreign governments against U.S. exports, and (4) the inherent conflict with the movement toward freer trade in the world. According to Arthur H. Watson, of IBM, jobs directly attributable to exports are estimated at 300,000 in New England alone.

We recommend that United States' taxes on undistributed foreign income continue to be deferred. Repeal of this provision would be a major setback in our efforts to expand American trade.

It is our opinion that major American corporations have invested abroad primarily for markets that could not be served by exports from the United States. International trade is highly competitive and should our American firms be discouraged from operating in foreign countries, there is no question that foreign companies would take over the markets.

We support the exclusion from income tax of foreign earned income of a United States citizen who has been present in a foreign country for 17 months out of 18.

We strongly object to the "market disruption" formula contained in the Administration's Bill. Enactment of this provision would pose many problems especially in the footwear field where for the most part—ease of entry and access—poor management—undercapitalization, etc.

With few exceptions, the domestic footwear manufacturing companies that have gone out of business have listed "imports" as the reason for their failure. The Tariff Commission in its wisdom, and the objective sources have—after careful scrutiny—found that crying wolf was not good enough and that factual data to support this claim was lacking.

We oppose the surcharge in the form that it was implemented on August 15th, 1971. In the initial announcement, no consideration was given to goods in transit, etc., and no compensation was extended to those of us who had priced our commodities many months prior to August 15th.

This firm wishes to go on record as objecting vehemently to ever again including ASP items under the surcharge guidelines. Presidential proclamation 4074 applied the 10% surcharge to all dutiable imports not subject to quantitative limitations. ASP dutiable footwear is subject to quantitative restrictions and should have been excluded from surcharge.

The additional financial costs which we had to bear unnecessarily—and wrongfully as stated by the former Commissioner of Customs—were of sufficient magnitude to put a smaller company out of business. I urge the members of this Committee to keep in mind that we are talking about an American company that provides employment for many other Americans and pays a sizable municipal, state, and federal tax every year.

Instead of looking inward and erecting artificial barriers which could lead to a trade war, this Country should be doing everything possible to expand our exports. A few years ago this company called for the creation of an office of "Export Czar" and described same as follows:

"This office should have all the powers and prestige of a cabinet officer, ambassador or special assistant to the President. The staff and office budget should be commensurate with the responsibilities. This job should go to an individual with experience in industry and finance and known and respected here and abroad."

One of the many advantages of a government export expansion program would be the publication and dissemination of meaningful statistics showing the states and their elected representatives, the value of export trade in the creation of jobs and income. A thorough study in this area would likely reverse the anomalous situation in which state business leaders are working many time at cross-purposes to their Congressional delegations.

It makes little sense for state officials to be traveling abroad and establishing offices in foreign countries for the expansion of exports when others are leading the fight for protectionist legislation. An export czar with all the power and prestige of the United States Government behind him would be the greatest new step in the field of international trade since the onset of reciprocal trade legislation.

If this Committee should decide to abolish ASP in favor of a straight ad valorem rate, as was done in the case of protective footwear, the rate should be no higher than the basic 20%. As this Committee knows, 20% ad valorem is the duty rate for canvas footwear against which ASP is applied. There is actually no need for any tariff protection for a basically sound, growing domestic rubber footwear industry. Even in the case of non-rubber footwear, an industry which claims even more distress and does not enjoy the extreme ASP protection, a U.S. Government Task Force did not find facts of import competition to "constitute a case of injury to the overall footwear industry." The report found a few companies suffering, not from imports, but mismanagement or undercapitalization. Overall, the industry was healthy.

Justice and fair play dictate that ASP duties be eliminated entirely. They are an anachronism dating back to 1933, are unnecessary, impede trade, and have been punitive in their application as Commissioner Johnson of Customs admitted when he said that ASP appraisement for years had been "clearly wrong."

In summary, this Committee should take from the Administration's bill those positive aspects which clearly will promote greater trade and add to them its own constructive provisions to insure that world trade remains strong and continues to grow, benefiting all countries.

[From the Footwear News, May 19, 1973]

LABOR SHORTAGE HAMPERING PENNSYLVANIA PRODUCERS

(By Wesley Stilwell)

LEBANON, PA. (FNS)—A tight labor market is cramping the production of central Pennsylvania producers of children's footwear.

Executives of area companies told FN recently that they need people in almost all manufacturing categories, but especially in their fitting rooms.

Most companies, particularly those in this area, have been running help-wanted ads in the daily newspapers without any great success.

The lack of sufficient personnel for their factories had several plants running behind their production and delivery schedules as they entered the month of May.

One executive, who produces footwear for girls, reported that his deliveries were running a month late. Another said he was a week behind. A third said he was "slightly behind" schedule.

One ray of hope entering the picture is the fact that at the end of this month, many plants will be taking on vacationing students for the summer. However, this will be only a temporary easing of the problem.

On the business front, practically all plants were working to capacity, with several invoking overtime as much as possible to get orders out.

One executive reported that his entire production has been sold "up into August."

A maker of baby shoes said ordering has been heavy and his plant is running about 5 per cent ahead of a year ago. At least three other executives reported that their plants also were running ahead of their figures for the corresponding period in 1972.

[From the Footwear News, May 31, 1973]

PA. CONCERNS GEAR UP FOR B-T-S DRIVE

LEBANON, PA. (FNS)—Despite a continuing tight labor market, central Pennsylvania children's shoe manufacturers are gearing up for June production of back-to-school shoes.

Most companies reported working full, often with the labor of students from area high schools and colleges. The students are expected to relieve some of the labor problem during the summer.

Many companies have gone back to working as much overtime as their employes are willing to work.

Business generally was described as very good. However, it was almost a unanimous opinion that it would be better if more and better plant help could be obtained.

"We have to hire 10 to get one or two goods ones," one executive asserted.

"We'll hire anybody who breathes," declared another.

"The labor market is terrible," another executive stated.

This lack of help was holding back production in one company where the president said his plant is "booked up almost through October." This producer of infants' and babies' footwear was running two months behind schedule in projections, 10 per cent ahead of a year ago in sales and from 5 to 10 per cent behind a year ago in profits.

Another producer of shoes for babies said his production is sold "up through August," but he continues to accept orders. His plant was reported on schedule.

[From Footwear News, June 1972]

FLORSHEIM BUILDING PLANT

KIRKSVILLE, MO. (FNS)—Florsheim Shoe Co. started consrtuction last week on a one-level, 90,000 square foot plant here.

It will replace the firm's present plant here of some 70,000 square feet spread over five stories. Florsheim produces men's shoes here.

[From Footwear News, June 1973]

ENCORE BUYING HUBBARD PLANT

MANCHESTER, N.H.—Encore Shoe is buying the former Hubbard shoe factory building in Rochester.

Earl Katz, president of Encore, told FN that the company expects to take possession of the building around July 1 and begin producing shoes around the middle of August.

Katz said that the purchase is for expansion purposes only and that Encore is not relocating from Manchester.

[From Footwear News, May 24, 1973]

ST. LOUIS FALL ORDERING ADDING UP TO A PLUS SEASON

(By Ron Cohen)

ST. LOUIS (FNS)—With the majority of initial fall orders in, women's shoe manufacturers in this area appear to have booked a plus season.

Individually, firms estimated pairage commitments running from even with last year to "very definite" gains—in one case as high as 15 percent. They also estimated that anywhere from 65 to 90 percent of initial orders have been written. On certain constructions and patterns, delivery periods are sold up through mid-August or into September.

All this does not necessarily indicate a resounding success. Several officials quickly pointed out: "We would have liked to have sold more." And some expressed concern as to how those customers yet to write orders will come through.

Several companies further indicated it will be a continuing struggle to get production out on schedule this season. "Deliveries on raw materials are the worst I've ever seen," complained an executive at one multi-line firm.

"With the varied new constructions and patterns, it's just taking us longer to get shoes through the plant," reported another. "We seem to be having production meetings almost every day."

Nevertheless, firms for the most part said they expect to overcome these obstacles to get production out as promised.

Some have already started shipping fall shoes. Others will start June 1. Peak shipments are seen building anywhere from the middle of June into August, depending on style. Shoes for back-to-school selling—such as cushion crepe-soled saddle types continuing as a hot item—will get the early push. More mature women's dressy or tailored shoes will peak later.

Sandals, both cement and slip-lasted styles, are also significant in early fall shipments at some manufacturers. They say retailers ordered important quantities of these styles for selling in June, July and August, and the trend to more opened-up patterns carries through in styles ordered for later fall selling. Retailers appear to be betting heavily on sling backs, open toe, open back and open shank treatments.

[From Footwear News, May 31, 1973]

BROWN GROUP PROFITS UP 12.5% IN 2D QTR.

ST. LOUIS.—Earnings of Brown Group, Inc., rose 12.5 per cent for the second quarter and were up 8.2 per cent for the six months ended April 28. Sales increased 16.9 per cent for the three months and gained 15.8 per cent for the half year.

Net income for the quarter amounted to $6.3 million, equal to 83 cents per share, compared with $5.6 million, or 74 cents, for the same period a year ago. Six months profits were $11.9 million, or $1.57, against $11 million, or $1.46.

Sales for the three months were $165.6 million, against $141.6 million, and for the half year totaled $315.8 million, compared with $272.6 million last year.

"Our shoe manufacturing business was strong during the first half of the year, with noticeable improvement in productivity in our plants," W. L. Hadley Griffin, chairman and President, said. "Our retail business was particularly strong in March and April with especially good sales in women's and men's shoes."

Griffin noted expansion plans call for a "significant number of new retail units" in shoe departments and shoe stores as well as fabric stores and specialty retail stores.

"As we enter the second half of our fiscal year, orders and reorders are well ahead of last year," he added. "Our manufacturing schedules are strong and should continue so. Retail sales are at a high level. Our inventories at both wholesale and retail are in excellent balance."

[From Footwear News, Jan. 25, 1973]

AMFESCO LEASES FACTORY FOR SLIPPER PRODUCTION

NEW YORK.—Amfesco Industries has signed a five-year lease with a purchase option on a 50,000-square foot plant in Brewer, Me. The three-year-old, 1-level building is owned by Sandler of Boston.

The plant, which will be used to manufacture Amfesco's slipper lines, is scheduled to begin production by mid-February. The work force will number from 150 to 200, according to Allan Greenblatt, executive vice-president.

STATEMENT OF GARY DIETRICH, PRESIDENT, VANCO, INC.

I. THE PROPOSED LEGISLATION WOULD GRANT EXCESSIVE AUTHORITY TO THE PRESIDENT AND ESTABLISH ILL-SUITED CRITERIA FOR THE DETERMINATION OF INJURY

A. *There should be a limit on the president's authority to raise duties under section 101*

Congress should establish a maximum permissible limit beyond which tariff duties cannot be raised by the President.

B. *The criteria proposed for finding injury are unrealistic*

In developing criteria for the determination of injury or market disruption to a domestic injury, Congress should ensure that the legislative standards adopted pemit the imposition of restrictive trade relief only when the injury is the direct result of, and not merely coincidental with, increased imports. In short, the direct causal relationship between the alleged injury or market disruption and increased imports should be clearly established before import relief is recommended.

II. QUOTAS ARE AN UNNECESSARY AND UNWARRANTED FORM OF RELIEF

Import quotas are an extreme and arbitrary remedy and the power to impose them should not be included within the President's discretionary authority.

A. *Quotas are an inappropriate remedy for our national balance of payments problem*

A balance of payments disequilibrium is more likely to result from the failure of our overall national economic policy than from increased imports. Accordingly, the imposition of quotas cannot be justified as a means of rectifying a balance of payments problem.

B. *If quotas are authorized the legislation should provide a procedure to exempt noninjurious imports*

If the Congress grants to the President the authority to impose quotas, the legislation should also incorporate a procedure by which the importation of non-injurious products within an otherwise injured industry may be exempted. The proposed Trade Act of 1970 contained an exemption procedure and a similar provision should be included in any trade legislation which authorizes the imposition of import quotas.

III. CONCLUSION

The Adidas importers submit that import relief should be granted to an allegedly injured domestic industry only if there is demonstrable evidence of injury and a finding of fact by the Tariff Commission that increased imports are the direct cause of such injury; and then, the relief granted should affect only those imports directly responsible for the injury.

The Adidas importers oppose quotas and urge this Committee to delete from any proposed trade legislation authorization for the President to impose quotas.

I. INTRODUCTION

The purpose of this statement is to express to the Committee the views of the four United States importers and distributors of Adidas specialty athletic shoes on the foreign trade and tariff legislation presently under consideration by the Committee, and in particular on H.R. 6767, the "Trade Reform Act of 1973."

Adidas is a manufacturer of high-quality, specialized athletic shoes, and currently produces over fifty different styles of athletic footwear. Adidas is the major European exporter to the United States of non-rubber specialty athletic footwear. Its specialty athletic shoes have received wide acceptance by professional and amateur athletes both in the United States and abroad.

As American businessmen involved in international trade, we recognize that it may be in the best interest of the United States for the President to have additional authority so that he might act with greater effectiveness in matters relating to trade and tariffs. The legislation which has been proposed by the Administration, however, contains numerous provisions which we feel grant excessive authority and discretion to the President. Moreover, H.R. 6767 fails to provide a procedure to exempt non-injurious imported products from restrictive trade measures imposed to protect an injured domestic industry.

II. THE PROPOSED LEGISLATION WOULD GRANT EXCESSIVE AUTHORITY TO THE PRESIDENT AND ESTABLISH ILL-SUITED CRITERIA FOR THE DETERMINATION OF INJURY

The bill proposed by the Administration would grant new and significant discretionary powers to the President of the United States in the field of foreign trade and tariffs. In H.R. 6767, the President has requested authority, which, if granted, will enable him to establish new or additional restrictions on imports, through the imposition of higher tariffs, quotas, or both, when he determines that certain conditions or criteria have been met. Specifically, Sections 201, 202, 203, 301, and 401 would enable the President to impose quotas, a form of relief which can only be justified under extreme circumstances. In addition, these same sections would permit the President to raise the duty on imports to any level he deemed appropriate. In our opinion, the President should not have such broad discretionary authority.

A. *There should be a limit on the President's authority to increase duties under section 101*

We agree with the American Importers Association, Inc. (AIA), which suggested to this Committee that Section 101(2) be amended to restrict the President's authority so that he cannot increase duties beyond the level set by Congress in the Tariff Act of 1930. As the AIA stated, "We find it hard to believe that anyone seriously could suggest that the President be allowed, without any standards of criteria, to go beyond the highest tariff set by Congress in our history."[1] The Adidas importers agree with the AIA that there is no need to authorize the President to increase tariff duties to any level he deems appropriate. Accordingly, Congress should establish a maximum permissible limit beyond which tariff duties cannot be raised.

[1] Testimony of American Importers Association, Inc., before Ways and Means Committee of House of Representatives, May 14, 1973, p. 7–8.

B. The criteria proposed for finding injury are unrealistic

1. Injury or threat thereof to a domestic industry.—Title II of the proposed bill grants excessively broad authority to the President and contains a number of provisions which we believe should be amended by the Committee. For example, Section 201(b)(1) provides that the Tariff Commission may conduct an investigation "to determine whether an article is being imported into the United States in such increased quantities as to be the primary cause of serious injury, or the threat thereof, to the domestic industry producing articles like or directly competitive wih the imported article." Section 201(b)(2) further provides that in determining whether there has been "serious injury or threat thereof" to the industry, the Tariff Commission shall also consider the "inability of a significant number of firms to operate at a reasonable level of profit" and whether there is "significant unemployment or underemployment within the industry." It is our view that the criteria by which injury to the industry is to be measured fail to take into consideration the realities of the marketplace. For example, as this Committee knows, for many years some sectors of the domestic shoe industry have encountered economic difficulties. It is entirely possible that the Tariff Commission, upon the completion of an investigation, might find that a "significant number" of domestic shoe manufacturing firms were unable to operate at a "reasonable level of profit" and that there is "significant unemployment within the industry." However, the failure of a shoe manufacturer to operate at a reasonable level of profit, and the possible resultant reduction of unemployment at that factory, coupled with a general increase in shoe imports, do not lead to the ineluctable conclusion that the increased imports are responsible for the decline in profits in the domestic shoe industry. In many industries there are a significant number of firms which may fail "to operate at a reasonable level of profit." The Internal Revenue Service has reported that in 1970, the year for which the most recent data is available, 38.2 percent (38.2%) of all manufacturing corporations reported no profit.[2] The failure of manufacturing firms to operate efficiently and profitably often results from causes totally unrelated to competitive imports. The criteria established in Section 201(b)(2) for measuring injury to a domestic industry fail to take such causes into account. Consequently, in developing criteria for ascertaining injury, this Committee should ensure that the legislative standards established permit the imposition of restrictive trade relief only when the injury to a domestic industry is the direct result of, and not merely coincidental with, increased imports.

2. Market disruption.—The concept of "market disruption" as defined in Sections 201 (b)(5) and 201 (f)(2) is poorly conceived and, in our view, these sections should also be amended. Section 201 (f)(2) permits the Tariff Commission to render a finding of market disruption if it determines that "imports of a like or directly competitive article are substantial, that they are increasing rapidly both absolutely and as a proportion of total domestic consumption, and that they are offered at prices substantially below those of comparable domestic articles" and if it also finds "serious injury or threat thereof," to the domestic industry. While we recognize that the relationship between increased imports of an article and injury to the domestic industry manufacturing that article may suggest that the increased imports are partially responsible for the injury, we feel strongly that such a relationship does not constitute prima facie evidence that the imports are the major factor causing or threatening to cause the injury to the domestic manufacturers.

3. The present law contrasted.—The concepts of "injury" and "market disruption" developed in Section 201 of the proposed bill represent a significant departure from the policy underlying Section 301 of the Trade Expansion Act of 1962. In our view, a Tariff Commission determination that increased imports are being sold at a price substantially below that of a "comparable" domestic article and that the industry is experiencing economic difficulties does not justify a prima facie presumption that the imports are the cause of the injury. For example, in the shoe industry, antiquated equipment and manufacturing inefficiencies are the most frequent causes of injury to the industry, not increased imports. Accordingly, the fact that increased shoe imports are sold at a lower price within a slumping domestic shoe industry should not give rise to a prima facie presumption that the imports are the cause of injury to the industry.

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[2] U.S. Department of the Treasury, Internal Revenue Service, Corporation Income Tax Returns, 1970, (preliminary) IRS Pub. 159 (10–72).

C. The restrictive relief authorized by section 203 is too broad

If the Tariff Commission finds that there has been "injury to a domestic industry" or "market disruption" pursuant to Section 201 or 202, the President is authorized by Section 203 to "provide an increase in, or imposition of, any duty *or other import restriction* on the article causing or threatening to cause serious injury to such industry, or . . . take any combination of such actions" (emphasis added). The phrase "imposition of . . . other import restriction" suggests the imposition of import quotas and, as stated below, we are opposed to quotas, and urge this Committee to delete from the proposed legislation authorization for the President to impose quotas. However, should the Committee decide that such authority is needed by the President, at the very least, the statutory period during which quotas can be maintained should be reduced to one year from the five years proposed in H.R. 6767.

III. QUOTAS ARE AN UNNECCESSARY AND UNWARRANTED FORM OF RELIEF

Import quotas are such an extreme measure that they should not be included in any arsenal of restrictive trade measures granted to the President in legislation reported out of this Committee. We oppose quotas because they have an arbitrary impact upon all imports related to a protected industry, even upon those imports which are non-injurious, and because their imposition is often a reflection of the self-interest of a noncompetitive domestic industry rather than a reflection of the best interests of the consuming public.

A. Quotas are an inappropriate remedy for our national balance of payments problem

Except insofar as the Congress may determine that it is in the country's best interest for the President to have limited authority to raise or lower tariffs in order to deal more effectively with balance of payments problems, we are opposed to the provisions of Section 401. In addition to the reasons stated above, we submit that a balance of payments disequilibrium cannot justify the establishment of import quotas. Moreover, we are opposed to granting the President broad discretionary authority to impose restrictive trade relief under any circumstances without a finding of fact by an independent executive agency supporting the need for such action. Quotas are simply an inappropriate means of rectifying a disequilibrium in U.S. balance of payments. This is particularly true since a balance of payments disequilibrium results primarily from the failure of our overall national economic policy rather than from increased imports.

B. If quotas are authorized, the legislation must provide a procedure to exempt noninjurious imports

More importantly, if the Committee grants to the President authority to impose quotas, the legislation should also incorporate a procedure by which the importation of non-injurious articles within an otherwise injured industry may be exempted. A procedure to exempt non-injurious imports is particularly important in the shoe industry, where the importation of high-quality, specialized athletic shoes does not injure or disrupt the domestic industry.

1. The noninjurious nature of the importation of athletic shoes demonstrates the need for such an exemption.—The non-rubber footwear industry, as defined for tariff purposes, covers a wide variety of footwear, including dress, work and athletic shoes, as well as sandals, slippers, slipper socks, mocassins and boots. While athletic shoes are, for purposes of statistical tabulations of imports, an integral part of the non-rubber footwear industry, it is important to note that imported athletic shoes represent less than one percent (1%) of all non-rubber footwear consumed in the United States. Moreover, the most recent available statistics reveal that all athletic shoes, both U.S. manufactured and imported, represent less than two percent (2%) of the total U.S. consumption of footwear. Available data further reveals that only three (3) out of every thousand pairs of non-rubber footwear sold in the United States were imported shoes specially designed for athletic use. The small imported, specialized athletic footwear volume reflects the specialized nature of the market. While the typical non-rubber footwear import is a woman's shoe, largely vinyl, imported from Japan or Taiwan and sold at discount prices in discount stores, imported non-rubber athletic shoes are largely made of leather, relatively high-priced, designed for specific athletic events, imported from Germany and France and sold exclusively in sporting goods stores. Most imported athletic footwear are high-quality,

uniquely designed specialty shoes which for the most part are not duplicated by domestic manufacturers.

In 1970 the United States Tariff Commission undertook a broad investigation of the non-rubber footwear industry, and specifically found that the imported specialty athletic shoe was non-injurious to the domestic footwear industry. In their report to the President, the four sitting Tariff Commissioners concluded that "there is no evidence that the (domestic) slipper or athletic shoe industries are being injured or threatened with serious injury . . . (I)n the case of athletic shoes, although imports have increased significantly in recent years, domestic production is holding up well, and there is no sign of substantial distress among he firms making up the domestic industry." [3]

2. The proposed "trade act of 1970" contained an exemption procedure.—Both the House Ways and Means Committee and the Senate Finance Committee in their consideration of trade legislation in 1970 recognized the need for a procedure to exclude non-injurious imported articles from quota provisions otherwise affecting an entire injured industry.

As the Committee may recall, the legislation then under consideration authorized the President to exempt from inclusion within a proposed quota an "article produced in any foreign country if he determines that imports of such article produced in such country are not contributing to, causing, or threatening to cause market disruption in the United States." [4]

In this connection, the Committee specifically recognized the non-injurious nature of high-quality, specialized imported athletic shoes when it stated in its report on H.R. 18970 that:

"It was brought to the committee's attention that certain articles of athletic footwear imports are selected by athletes because they feel that the design of the shoes, including a close fit and light weight, are particularly suited to their needs as a professional or amateur performer. The shoe is selected by the athlete for its suitability for the particular athletic event involved, and the price is generally higher than that charged for domestically produced athletic shoes of the same type. It is expected that the President would exercise his authority (to exempt specific articles of footwear) in this kind of situation."

IV. CONCLUSION

The Adidas importers submit that import relief should be granted to an allegedly injured domestic industry only if there is demonstrable evidence of injury and a finding of fact by the Tariff Commission that increased imports are the direct cause of such injury; and then, the relief granted should affect only those imports directly responsible for the injury. Moreover, this Committee should impose a limit beyond which the President cannot raise duties.

The Adidas importers oppose quotas and urge this Committee to delete from any proposed trade legislation authorization for the President to impose quotas. The impact of quotas is often arbitrary and their imposition frequently reflects the self-interest of a non-competitive domestic industry. If the Committee decides, however, that the national interest requires a provision authorizing the imposition of quotas, the legislation should also contain a provision which permits the exemption of non-injurious imported articles from the order imposing such quotas.

[Whereupon, at 4:50 p.m. the committee adjourned to reconvene at 10 a.m., Wednesday, June 13, 1973.]

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[3] U.S. Tariff Commission Report to the President Investigation No. TEA-1-18 under section 301(b)(1) of The Trade Expansion Act of 1962, TC Publication 359, January 1971.

[4] Section 201(d)(1) of H.R. 18970, Trade Act of 1970.

TRADE REFORM

WEDNESDAY, JUNE 13, 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 witness this morning is Mr. Frank M. Dailey.

Please come to the desk if you will, Mr. Dailey. If you will identify yourself for the record, we will be glad to recognize you, sir.

STATEMENT OF FRANK M. DAILEY, PRESIDENT, KENTUCKY DISTILLERS' ASSOCIATION, FRANKFORT, KY.

SUMMARY

(1) The Kentucky Distillers' Association strongly objects to the inference and interpretation of Section 103(c) of the Trade Reform Act of 1973 which indicates that the President has the prospective power, without limitation, to change or modify the application of a domestic excise tax as provided in 26 U.S.C. 5001(a)(1), and, more specifically, by taxing under proof distilled spirits on the basis of proof gallon.

(2) Section 103, Nontariff Barriers to Trade, is not in consonance with the purpose of the Act as set out in paragraph 2, Section 101, which provides for the "modification or continuation of an existing duty." The Section by Section Analysis, on page 68 of the Committee Print, indicates the President has the right and authority to change a domestic excise tax.

(3) In the alternative, if Section 103(c) of the Act is deemed to grant the President the power described above, such a grant by the Congress is and constitutes an improper delegation of legislative powers in violation of the Constitution of the United States.

(4) The many and varied legal attacks on the method of taxing imported under proof bottled distilled spirits as provided by Section 5001(a)(1), Internal Revenue Code, have been turned aside, and the method of taxation provided for has been upheld and approved as not violating any existing trade or treaty agreements and not being discriminatory, either directly or indirectly, against such imports.

(5) There is not and cannot be any basis for contending that the present method of taxing distilled spirits is a "burden on trade resulting from methods of customs valuations" when all statistics show the tremendous growth of imported distilled spirits in the domestic market in the last few years—a growth that has curtailed the sale and production of domestic distilled spirits, contributed to the deficit in the balance of payment problems, and has resulted in higher consumer prices for such imported products to Americans despite the virtual elimination of duty on such products.

Mr. DAILEY. Very well, sir. I am Frank Dailey, president of the Kentucky Distillers' Association.

The CHAIRMAN. Thank you, sir. We are glad to have you with us, Mr. Dailey, and you are recognized.

Mr. DAILEY. Thank you, Mr. Chairman.

The Kentucky Distillers' Association, Mr. Chairman, is a trade association composed of 17 distilling companies, operating 38 distilleries in Kentucky, who are the primary producers of bourbon in the United States.

I have previously submitted to the committee a written statement in detail outlining the association's position regarding section 103(c) of the Trade Reform Act of 1973.

I would like at this time to briefly summarize the written statement that has previously been distributed to you.

The CHAIRMAN. Do you want your full statement in the record?

Mr. DAILEY. Yes, Mr. Chairman. I would appreciate that.

The CHAIRMAN. We will put it in the record, without objection.

Mr. DAILEY. First, the association is opposed to the interpretation that section 103(c) of the Trade Reform Act gives the President the power to amend or change a domestic tax law. The vehicle which would effect this change is contained in the clause relating to customs valuations.

The definition of customs valuations is interpreted in the section by section analysis, page 68 of the committee print of the act. This interpretation gives the President the prospective power, without limitation, to change the method of taxing imported bottled distilled spirits in contravention of the provisions of the Internal Revenue Code, section 5001(a)(1) which provides for an excise tax on distilled spirits at the rate of $10.50 on each proof gallon or wine gallon when below proof.

In other words, below-proof imported bottled distilled spirits could be taxed on a proof gallon rather than a wine gallon basis as now provided by law. This would result in a loss of some $100 million in annual tax revenues to the U.S. Treasury based on bottled distilled spirits imported underproof entering domestic trade channels in 1972.

Domestic spirits are subject to the same wine gallon tax of $10.50 if withdrawn from bond underproof.

It is the further contention of the association that the interpretation placed on section 103, and particularly 103(c), is not in consonance with the provisions of the act as set out in section 101, paragraph 2, which provides for "modification or continuation of an existing duty."

Section 103(c) does not deal with duties, but instead apparently gives the President the authority to change a domestic tax law by a procedure outlined in section 103 (d) and (e). If these sections apply, the President would in effect change the domestic law with the right of the Congress to veto it by a majority vote in either House within 90 days after the President has entered into a trade agreement.

This delegation of lawmaking power to the President is, we feel, an improper delegation of legislative power to the Executive. It is the same kind of delegation of power that was delared unconstitutional by the Supreme Court in reviewing sections of the National Industrial Recovery Act in the early 1930's.

Yet this power is justified in the President's message to Congress on the basis of expediency when on page 9 of the committee print of the Trade Reform Act of 1973 the President is quoted as saying:

> Currently both Houses of Congress must take positive action before any agreement requiring changes in domestic law becomes effective—a provision which makes it difficult to achieve agreements since our trading partners know it is subject to much uncertainty and delay.

Such a statement, in our opinion, is an admission that this is an improper delegation of legislative power for the purpose of expediency irrespective of the provisions of our Constitution.

There is not and cannot be any question about the application and administration of the present provision of Internal Revenue Code section 5001(a)(1) from a legal standpoint. Importers over the years have made attacks on the wine gallon method of taxing underproof bottled distilled spirits from almost every conceivable legal position.

Without exception, the courts have upheld this wine gallon method of taxation, which was first enacted by the Congress in 1868, as not violating any existing trade or treaty agreement and not discriminating, either directly or indirectly, against such products.

There is no evidence that the present method of taxing underproof bottled imported distilled spirits constitutes a "burden on trade resulting from methods of customs valuations." The exhibits filed with our statement clearly show the tremendous growth of imported distilled spirits in the domestic market over the past few years. This growth has obviously curtailed the sale and production of domestic distilled spirits. It has contributed substantially to the deficit in our balance of trade problem, and the duty reductions, as outlined in the exhibits, have resulted in higher, rather than lower, prices to the American consumer.

Therefore, the Kentucky Distillers' Association strongly urges:

1. That section 103(c) of the Trade Reform Act of 1973 be redrafted to eliminate the possibility of changing the present method of tax determination on distilled spirits, as now provided in the Internal Revenue Code section 5001(a)(1).

2. If in the opinion of the committee section 103(c) cannot be rewritten to eliminate such delegation of authority, that the entire nontariff barriers to trade section of the act be eliminated as an unconstitutional delegation of legislative power to the Executive.

That is my statement, Mr. Chairman. I thank you.

[The prepared statement of Frank M. Dailey follows:]

STATEMENT OF FRANK M. DAILEY, PRESIDENT, KENTUCKY DISTILLERS' ASSOCIATION

I. STATEMENT OF OBJECTION TO SECTION 103(C) TRADE REFORM ACT OF 1973

Recognizing the importance of foreign and international trade, the Kentucky Distillers' Association must, nevertheless, strongly object to the terms an interpretation of Section 103(c) of the Trade Reform Act of 1973 which reads as follows:

"The President, whenever he finds that it will be of substantial benefit to the United States, is hereby authorized to take any action required or appropriate to carry out any trade agreement negotiated pursuant to Subsection (b), *to the extent that such implementation is limited to a reduction of 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." [Emphasis added.]

The Kentucky Distillers' Association, a long established trade association whose seventeen member companies are the primary producers of Bourbon in the United States, objects to the inference contained in the above quoted section of the Trade Reform Act of 1973 which implies that the President would have the authority under this section of the Act to change the 1954 Internal Revenue Laws of the United States by modifying or limiting the application of 26 U.S.C. 5001 (a) (1) which states:

"(a) Rate of Tax

1. General. It is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon."[1]

From the text of Section 103, and particularly paragraph (c) thereof, dealing with nontariff barriers to trade, it is not entirely clear what authority is delegated to the President in connection with the authority to change Internal Revenue Laws. However, on page 68 of the committee print of the Act, the Section by Section Analysis indicates that under Subsection (c) of Section 103 that the "simplification of the methods of valuation and the wine gallon/proof gallon basis for assessment, for example, could be implemented under this authority "by the President or his negotiators without any prescribed legislative standards or limitations for implementing this authority. If such an interpretation is correct, Section 103 (c) of the Act would give power to the President on a prospective basis to temporarily change a statutory law of the United States by reducing or eliminating a tax in violation of Article I, Section I and Section VIII of the Cosntitution of the United States which gives the Congress the exclusive power by legislation to "lay and collect taxes . . . ." Not only does such purported authority violate the letter and spirit of the Constitution, it is also contradictory to the very purpose of the Act itself. Under Chapter I, Section 101, Basic Authority for Trade Agreements, the first paragraph provides for a limitation of five years for any agreement entered into under the Act, but paragraph 2 states:

"2. *Provide for such modification or continuation of any existing duty,* such continuation or existing *duty-free* or excise treatment, or such additional *duties,* as he (the President) deems to be required or appropriate to carry out any such trade agreements."

It should be noted with emphasis that Section 101 (2) of the Act grants the President authority to modify or continue a *duty.* Nowhere in the Act is there any language authorizing the President to change the method of application of a domestic excise tax fixed by statute as distinguished from a *duty.*

To support this statement we refer to *duties* imposed on alcoholic beverages in the Tariff Schedule, Part 12, Beverages, Item 168.35, et seq, which prescribes the duty on such beverages. Headnote 3 under Part 12 states:

"The *duties* prescribed on products covered by his part are in addition to the internal revenue *taxes* imposed under existing law or any subsequent Act . . ."

The nontariff trade barriers referred to in Section 103 of the Act require not a change in duty but a change in the internal revenue tax law, which only the Congress and not the President can accomplish.

If it can be assumed that under the Act, by virtue of the review procedure contained in Section 103 (d) and (e), the President may change an internal revenue law [Section 5001 (a) (1)] by submitting his intention of such change to the Senate and House of Representatives, said intended change becoming "law" in 90 days after the agreement and implementing orders are submitted to the Congress, unless one house by majority vote "voters" such proposal, then this delegation of power does such violence to the constitutional procedures that it is unconscionable. Heretofore, it has always been the basic concept of this republic that the Congress makes the laws with the President having the power of veto. In this instance, if Section 103 (d) and (e) apply to Section 103 (c), we are reaching an opposite result. The President is making a law (changing a domestic tax) which will become effective by executive order, unless "vetoed" by either house of the Congress by a majority vote.

II. 26 U.S.C. 5001 (A) (1) HAS BEEN COURT TESTED AND UPHELD IN ITS APPLICATION TO UNDER PROOF BOTTLED IMPORTED DISTILLED SPIRITS[2] AS NON DISCRIMINATORY AND NOT IN VIOLATION OF U.S. TREATIES OR AGREEMENTS

In past years it has been a practice for importers of Scotch, Canadian, and Irish whiskies, the preponderance of imported distilled spirits products, to import bottled distilled spirits under proof, generally at 86 proof. When such bottled distilled spirits are withdrawn from customs bond, they are taxed on a

[1] Proof Gallon: A proof gallon is a standard United States gallon of 231 cubic inches containing 50 percent of ethyl alcohol by volume. Thus a whisky of 100 proof is 50 percent alcohol. Wine Gallon: A physical measure of actual liquid volume containing 231 cubic inches.

[2] Bulk spirits are imported at proof or over proof and are treated like domestic spirits in application of tax, except blended or rectified imported spirits do not pay the 30-cent-per-gallon rectification tax that is imposed on domestic producers for like products.

wine gallon basis at the rate of $10.50 per gallon as provided in the Internal Revenue Code, Section 5001(a)(1). Because of the imposition of the tax on a wine gallon basis for under proof imported bottled distilled spirits into the United States, there have been many attempts in both the Congress and the courts to change the clear mandate of the Congress in effect since 1868 (Act of July 20, 1868, 15 Stat. 125) for assessing the tax on spirits.

Importers have challenged the taxation of under proof bottled imported distilled spirits in many court actions asserting discrimination, treaty violations, trade agreement violations, and improper application of the law over a period of many years. However, our judiciary has consistently upheld the validity of the pertinent statutory sections as well as their administration and enforcement.

The first court test was in *Bohemian Distributing Company vs. United States 15 Cust. Ct. 121, C.D. 957 (1945)*. Here the Customs Court upheld the taxation of under proof imported bottled spirits on a wine gallon basis, and held that this method of taxation did not violate the trade agreements then in existence with Canada and the United Kingdom.

In *United States vs. Westco Liquor Products Company, 38 CCPA 101, C.A.D. 446 (1951)* the Court held that the taxation by custom authorities of wine imported from Spain on the wine gallon basis was a proper method of taxation of such product under Section 2800 of the 1939 Internal Revenue Code, which is similar except for the rate of tax as the present code, Section 5001(a)(1). Again in *Vernon Distributing Company vs. United States, 39 CCPA 205 C.A.D. 463 (1951)* the Court upheld the wine gallon method of taxation applied to under proof imported Cuban rum.

In *Vernon Distributing Company vs. United States, supra*, strong argument was made that the wine gallon method of taxing under proof imported distilled spirits either in bulk or bottles was a discrimination against such imported products under Section 2800, now 5001, Internal Revenue Code. In denying the discrimination argument the Court stated:

". . . an analysis of the taxing statute here involved will disclose that no discrimination exists in the rates fixed as between imported distilled spirits and domestic spirits. A single rate of tax is provided for but is made applicable to two distinct products, i.e. (1) distilled spirits over proof, and (2) distilled spirits below proof. The tax becomes effective when such spirits are produced in the United States or imported into the United States. Under the law no discrimination exists. When distilled spirits are produced in this country over proof or are imported over proof, the tax is to be based on the proof gallon. In view of the wording of the taxing statute which distinguishes between the two kinds of distilled spirits, viz, those that are over proof and those that are under proof, the contention of the plaintiff that they are similar for purposes of taxation cannot be successfully maintained."

Again in *Bercut-Vandervoort & Company vs. United States, 46 CCPA 28, C.A.D. 691 (1958), cert. den. 359 U.S. 953, 79 S. Ct. 739, 3 L Ed 2d 760 the Court* sustained the taxation by the wine gallon method of taxation on London Dry Gin imported from Holland at 90 proof. Here again the Court reiterated that there was no discrimination between imported and domestic products within the meaning of Article II and III of the General Agreement on Tariffs and Trade [3] but provided for two distinct classifications of distilled spirits—proof gallon and below proof. In *Bercut* it was strongly contended that the wine gallon taxation of under proof distilled spirits subjected the imported product to "internal taxes in excess of those applied indirectly to like "products" in contravention of Article III, Section II of GATT, since domestic under proof distilled spirits

[3] Article II—2. Nothing in this Article shall prevent any contracting party from importing at any time on the importation of any products (a) a charge equal to an internal tax imposed consistently with the provisions of paragraph 2 of Article III in respect of the like domestic product or in respect of an article from which the imported product has been manufactured or produced in whole or in part. . . .

Article III—1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.

had allegedly "indirectly" received a tax advantage because the domestic under proof merchandise is taxed directly on the basis of proof gallon. In striking down this argument the Court held that Section 2800(a)(1) did not discriminate between imported and domestic products within the meaning of Article III of GATT, but merely laid a different rate of tax on two distinct classes of merchandise, viz, (1) proof or over proof sprits, (2) under proof spirits, *in either of which class the importer was free to enter its product.*

An unusual argument was made in *China Liquor Distributing Company vs. United States 343 F. 2d 1005 (1964)* when it was argued that the wine gallon tax on under proof bottled imported distilled spirits should be only $9.00 per wine gallon under the provisions of the 1939 Internal Revenue Code rather than $10.50 per gallon under the 1954 Internal Revenue Act because the provisions of GATT were adopted prior to the adoption of the 1954 Internal Revenue Code and thus the treaty provisions superseded the $10.50 tax rate. Here again the Court upheld the method of taxation of under proof imported bottled distilled spirits under the provisions of the 1954 Internal Revenue Code and again affirmed that this method of taxation in no way violated any of the contracts or trade agreements between the United States and foreign countries, particularly Article III of GATT.

As recently as 1970 the Supreme Court denied a writ of certiorari to certain importers who unsuccessfully had challenged the wine gallon/proof gallon method of tax assessment in *Schiefflin & Co. et al. v. United States, 61 Cust Ct. 397, C.D. 3640; 57 CCPA 66; 424 F. 2d 1936 (1970)*; *cert. den., 400 U.S. 869, 27 L. Ed. 2d 109; reh. den. 400 U.S. 1002, 27 L. Ed. 453.*

The United States Court of Customs and Patent Appeals, in reviewing *Schieffelin, supra,* affirmed the judgment of the customs court, which had ruled again that the wine gallon/proof gallon method of determination did not discriminate against bottled below proof imported spirits. Here, Schieffelin, attacking Section 5001(a)(1) asserted that the wine gallon method of taxation on under proof bottled distilled spirits violated the treaty agreement between Great Britain and the United States entered into on July 3, 1815, and violated Article VI and XXI of the Irish Treaty. Referring to, and quoting, the Customs Court, the Court of Customs and Patent Appeals pertinently stated.

"It [the Customs Court] observed that the time at which the tax is determined fixes the basis of the assessment and found that the 'issue turns on whether the stipulated circumstances involve "like situations" at the time of tax determination'."

In disposing of that question, the [Customs] court concluded that the *bottling of the spirits has no bearing on the 'taxing event' to which both the domestic and imported products are subject, observing that sections 5001(a)(1) and 5006 (a)(1) are addressed to the spirits and not the containers which house them.* It [the Customs Court] stated;

'* * * The criterion on which the taxing event takes place is with respect to the domestic spirits, the withdrawal of the spirits from bond. Under the stipulated facts at bar the imported spirits are under proof at the time of tax determination, while the domestic spirits are at or over proof at such time. It is this difference in the nature of the taxed commodity which, in our view, militates against plaintiff's claim of discrimination. . . .

* * * Underproof imported spirits (bottled) and proof or overproof domestic spirits (bulk) at the time of the tax determination do not involve "like

Schieffelin, supra, at 1399–1400

In *Schieffelin,* the Congress should note that, in an unprecedented step, the Department of Justice at the insistence of the Department of State, permitted the governments of Northern Ireland and Great Britain to intervene by filing briefs.

From the above cited cases, it is abundantly clear that the courts have turned aside every argument, no matter how serious or spurious, in upholding the method of taxation of domestic and imported spirits as prescribed by Congress.

III. WHAT IS THE ECONOMIC IMPACT ON TAXING IMPORTED BOTTLED UNDERPROOFED DISTILLED SPIRITS ON A WINE GALLON BASIS AS PRESENTLY PROVIDED BY THE CONGRESS?

Under Section 103(c) of the Trade Reform Act of 1973 the President seeks the power to modify or change the method of taxation in order to reduce "*the burden on trade resulting from methods of customs valuations. . . .*"

Can the importers of distilled spirits, particularly from Scotland, Canada and Ireland, complain that the imposition of the $10.50 per gallon revenue tax on

underproof imported bottled distilled spirits has created a burden on trade, "impeding the sale of their products in the United States"? A look at the facts makes the answer a resounding "No." In 1955 the United States accounted for 85.5 percent of all whiskies entering trade channels. In 1972 it supplied only 62 percent of such whiskies. (See chart, Appendix I.)

A comparison of whiskey entering trade channels in 1955 compared to 1972 indicates that United States distilled spirits has shown a gain of only 9.3 percent for the period while total imports of distilled spirits have gained 339 percent. (See chart, Appendix II.)

Has the balance of payment problem been aided by the imposition of the wine gallon tax on underproof bottled distilled spirits? No. In 1972 imported distilled spirits into the United States amounted to $454,100,000.00, while domestic producers sold only $15,900,000.00 of distilled spirits in export trade, a dollar deficit of $438,200,000.00. On all alcoholic beverages the sad fact is that the United States staggers under a trade deficit of $757 million. That amounts to approximately ten percent of the entire $6.8 billion trade deficit. Americans drink more Scotch than the British—50 million gallons last year versus the United Kingdom's 13 million, and almost as much cognac as the French. Yet because of foreign restrictions, taxes and trade policies a mere four million gallons of Bourbon was exported to our trading partners. (See chart, Appendix III.)

Naturally one would assume that a reduction either in taxes or duty charges would be reflected in the reduction of the price to the consumer. However, a study of the average price of the ten leading Scotches imported into the United States versus the duty reduction from 1955 to 1972 indicates that in 1955 the duty on a one-fifth bottle of Scotch was 30 cents, with an average selling price of $6.18. In 1972 with a 10-cent duty per bottled fifth the average price was $7.80. (See table, Appendix IV and V.)

For a further comparison of reduced duties and high prices we have prepared a table indicating that importers have fared extremely well in the reduction of duty since the repeal of prohibition in 1933. For example, two years later, in 1935, the duty on Scotch whisky was $5.00 per proof gallon. In progressive downward steps it is now 51 cents per proof gallon. Since imported blended distilled spirits such as Scotch, Irish and Canadian whiskies do not pay the 30-cent-per-proof-gallon rectification tax required of U.S. distillers for like mixing and blending, the present duty structure is actually 21 cents per proof gallon. (See table, Appendix VI.)

From these economic statistics no valid argument can be asserted that any purpose would be served by reducing underproof bottled imported distilled spirits taxes from a wine gallon to a proof gallon method. The most telling effect would be a loss of at least $100,000,000.00 in tax dollars to the U.S. Treasury if such taxing method is applied to underproof imported bottle distilled spirits based on the 1972 imports of distilled spirits into the United States. How such a loss could, by even the wildest exaggeration, "substantially benefit the United States" is beyond recognition. Possibly the importers will attempt to utilize the same sophistries in arguing that a 100 million dollar loss will substantially benefit the United States as they have utilized in their arguments that the wine gallon/proof gallon method is discriminatory against them, despite the fact that it is their own unfettered decision to import in bottles which results in taxation on the wine-gallon basis.

IV. CONCLUSION

In conclusion, the Kentucky Distillers' Association summarizes its statement as follows:

1. Section 103(c) of the Trade Reform Act of 1973 should be eliminated or revised in keeping with the purposes of the Act or should be so redrafted that it would deny the President the authority to change the provisions of 26 U.S.C. 5001(a)(1).

2. The Act constitutes an unconstitutional delegation of congressional authority from the legislative to the executive branch.

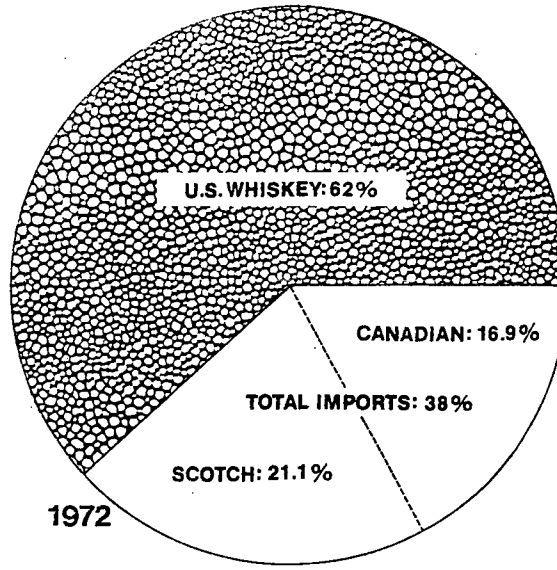
3. Over the years the courts have consistently upheld the wine gallon method of taxing underproof imported bottled distilled spirits under Section 5001(a)(1), Internal Revenue Code. The opinions cited herein indicate the method and administration of the tax as applied is correct; that this method of taxation does not violate any existing treaty or trade agreements; that it is no discriminatory, either directly or indirectly, against such importers.

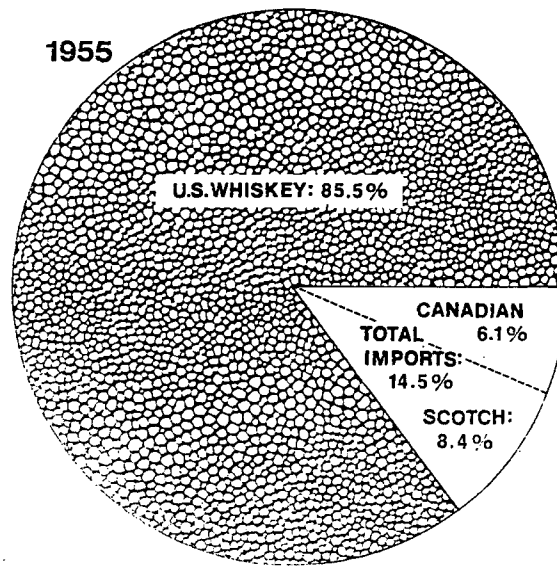
4. There is no factual evidence that would justify the conclusion that the present method of taxing below proof bottled imported distilled spirits is creating any economic burden on such importers or their products.

IMPORTS HAVE CAPTURED 38% OF THE TOTAL U.S. MARKET

(Whiskies entering U.S. trade channels)

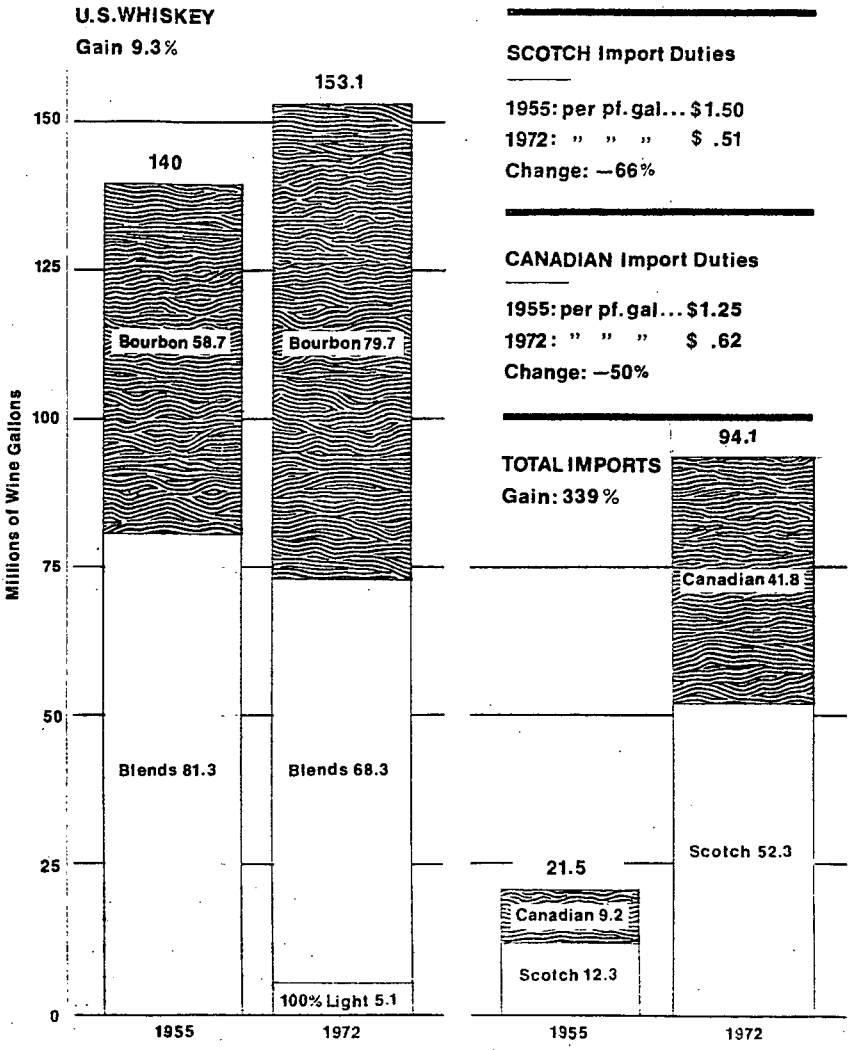
Source:
The Liquor Handbook
1973





APPENDIX II

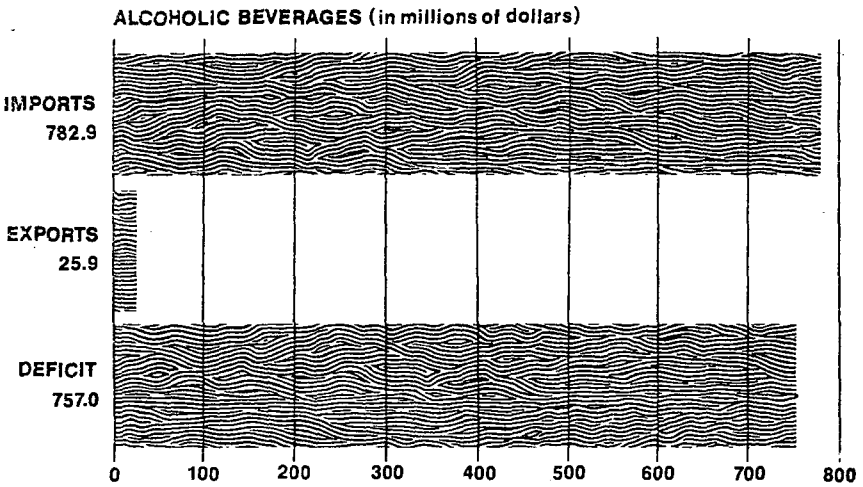
WHISKIES ENTERING TRADE CHANNELS - 1955 vs. 1972

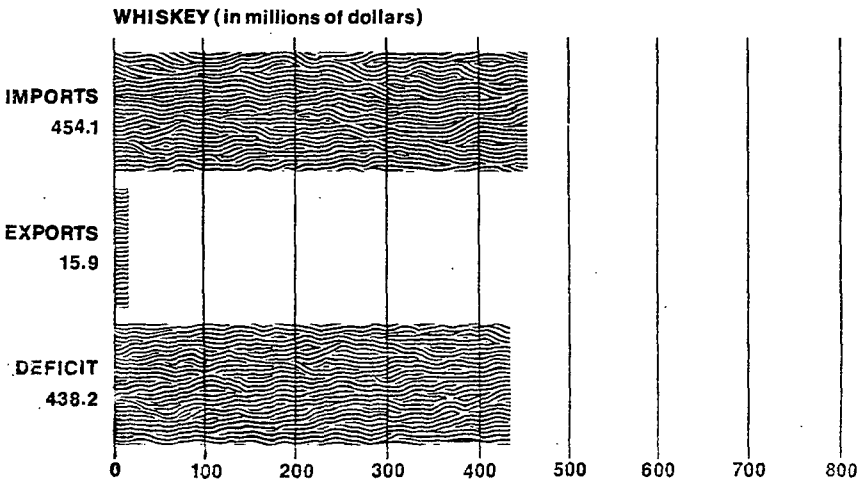


Source: U.S. Department of Commerce - 1972

APPENDIX III

1972: THE BALANCE OF PAYMENTS PROBLEM





Source: U.S. Department of Commerce

APPENDIX IV

AVERAGE PRICE OF 10 LEADING SCOTCHES VERSUS DUTY 1955–72

Month and year	Average New York State prices for 10 leading scotches (fifths)	Duty (per fifth)	Month and year	Average New York State prices for 10 leading scotches (fifths)	Duty (per fifth)
December:			December:		
1955	$6.18	$0.30	1961	$6.53	$0.25
1956	6.25	.28	1962	6.64	.22
1957	6.47	.27	1963	6.98	.20
1958	6.49	.25	1971	7.25	.12
1959	6.51	.25	1972	7.80	.10
1960	6.51	.25			

Source: The Bourbon Institute.

APPENDIX V

AVERAGE PRICE OF LEADING CANADIANS VERSUS DUTY 1955–72

Month and year	Average New York State prices for leading Canadians (fifths)	Duty (per fifth)	Month and year	Average New York State prices for leading Canadians (fifths)	Duty (per fifth)
December:			December:		
1955	$6.16	$0.25	1964	$6.60	$0.25
1956	6.16	.25	1965	6.60	.25
1957	6.37	.25	1966	6.72	.25
1958	6.35	.25	1967	6.72	.25
1959	6.35	.25	1968	6.72	.22
1960	6.35	.25	1969	6.87	.20
1961	6.35	.25	1970	7.10	.17
1962	6.35	.25	1971	7.10	.15
1963	6.60	.25	1972	7.40	.12

Source: The Bourbon Institute.

APPENDIX VI

U.S. LIQUOR DUTIES 1935–72

[In dollars per proof gallon]

	Scotch	Canadian	Brandy	Gin		Scotch	Canadian	Brandy	Gin
1935	$5.00	$5.00	$5.00	$5.00	1962	$1.14	$1.25	$1.25	$1.25
1936	2.50	2.50	2.50	2.50	1963	1.02	1.25	1.25	1.25
1948	1.50	1.50	1.25	1.25	1967	1.02	1.25	1.25	1.00
1951	1.50	1.25	1.25	1.25	1968	.91	1.12	1.12	.90
1955	1.50	1.25	1.25	1.25	1969	.81	1.00	1.00	.80
1956	1.42	1.25	1.25	1.25	1970	.71	.87	.87	.70
1957	1.35	1.25	1.25	1.25	1971	.61	.75	.75	.60
1958	1.27	1.25	1.25	1.25	1972	.51	.62	.62	.50

Source: The Bourbon Institute.

KENTUCKY DISTILLERS' ASSOCIATION MEM. 'R COMPANIES

Austin, Nichols & Co.
Barton Brands, Ltd.
James B. Beam Distilling Co.
Brown-Forman Distillers Corp.
Double Springs Distillers, Inc.
The Fleischmann Distilling Corp.
Glenmore Distilleries Co., Inc.
Medley Distilling Co.
National Distillers Products Co.
Old Boone Distillery Co.
Old Fitzgerald Distillery, Inc.
T. W. Samuels Distillery
Schenley Industries, Inc.
Joseph E. Seagram & Sons, Inc.
Star Hill Distilling Co.
"21" Brands, Inc.
The Willett Distilling Co.

The CHAIRMAN. We thank you, Mr. Dailey, for your statement and we appreciate your summarizing it for us.

Are there any questions of Mr. Dailey?

Mr. LANDRUM. Mr. Chairman.

The CHAIRMAN. Mr. Landrum.

Mr. LANDRUM. First, Mr. Chairman, I would like to direct my question at Mr. Dailey:

Can you hear all right?

Mr. DAILEY. Yes, Mr. Landrum.

Mr. LANDRUM. If we had a change such as is proposed here on the wine gallon/proof gallon, how many jobs do you think this change would cost the United States?

Mr. DAILEY. Mr. Landrum, this is a matter of speculation, but I suspect it would cost the industry some 10,000 jobs.

Mr. LANDRUM. Where would these jobs go?

Mr. DAILEY. Well, these jobs would go to the foreign countries such as Scotland and particularly Canada. I happen to have a clipping here from the Glasgow Herald dated Wednesday, April 11, 1973. The headline states, "Campaign To Create 6,000 More Scotch Whisky Jobs"; This article dealing with the fact that the Congress may change the wine gallon/proof gallon method so that underproof bottle distilled spirits can be taxed on a proof gallon basis.

Mr. LANDRUM. Could you speculate on how much the savings would amount to to the foreign bottlers and what you think the prospective use of those savings would be?

Mr. DAILEY. Sir, the statistics show that now this would cut back our revenues some $100 million per annum and, as trade expands, it would even be more than that. That money, of course, could be used for many things. For example, in my prepared statement I have a chart or charts which show the reduction in duty on Scotch, Canadian, and other imported distilled spirits products.

You will note from that chart and the chart showing the price of the products that as the duty goes down, the price goes up. So I assume that, if a change is made, this $100 million-plus would be used for advertising and other purposes to make that product more competitive with the American product and cost Americans jobs.

Mr. LANDRUM. Would this change have any effect on the small, I believe you call them rectifiers, or the cordial bottler?

Mr. DAILEY. Mr. Landrum, I am not sure about that, but I know that there are some rectified cordial products made in this country and also in Europe but it is a small portion of the market.

Mr. LANDRUM. If the proof gallon/wine gallon section of the code is changed, could you make any estimate on what this would cost the Treasury annually?

Mr. DAILEY. Yes, sir. I think there is no question but what it would cost over $100 million a year.

Mr. LANDRUM. You said that a moment ago. How do you arrive at that $100 million?

Mr. DAILEY. We arrive at it simply by taking the amount of cased bottled distilled spirits entering trade channels, and that amount is some 70 million tax gallons per year. So we arrive at the figure from that angle.

Mr. LANDRUM. Let's assume that the change is made and all Scotch whiskey would be bottled in the country where it was manufactured—Scotland.

Mr. DAILEY. Yes, sir.

Mr. LANDRUM. Would they then pay the same Federal excise taxes as the bourbon distillers?

Mr. DAILEY. Mr. Landrum, I would say that if the amendment went through they would pay on a proof gallon basis rather than a wine gallon basis. Now, the American distillers would have to continue to pay on a wine gallon basis if spirits are withdrawn from bond under proof.

For example, if one of the companies were to ship underproof case gallons to England and when they arrived at the port in New York there was a change in the shipment where they would be sold to a retailer or wholesaler in New York, then they would be withdrawn from customs bond and the United States producer would have to pay on a wine gallon basis rather than a proof gallon basis.

Mr. LANDRUM. Is there a trade deficit caused by the distilling industry? Does the distilling industry have any impact on this trade deficit which we talked about?

Mr. DAILEY. Yes, sir.

Mr. LANDRUM. What is it?

Mr. DAILEY. The imports generally constitute about 10 percent of our deficit in our balance of trade and, oddly enough, on exhibit No. 2 filed with our brief it shows that from the period 1955 through 1972 domestic spirits have gained only 9.3 percent and imported spirits have increased 339 percent, which is a substantial amount.

Mr. LANDRUM. In other words, we imported and drank more Scotch over here than we shipped bourbon for them to drink over there?

Mr. DAILEY. Yes, sir. If I may refer to this, sir, we ship bourbon valued at $15.9 million and they import Scotch, Canadian, and other products at $454 million. So I think we drink as much Scotch in this country, perhaps, as the British do.

Mr. LANDRUM. Thank you, Mr. Chairman. My 5 minutes have more than expired.

Our colleague, Dan Rostenkowski, is not able to be with us this morning. He is representing the President at the World Trade Fair in Poznan, Poland. The Congressman has a few questions which he would have liked to ask this witness. In his absence, he has requested me to secure permission for him to insert a statement in the record at this point and to submit to Mr. Dailey a list of questions, the responses to which can be supplied later.

The CHAIRMAN. With the answers to be supplied by this witness?

Mr. LANDRUM. Yes.

The CHAIRMAN. Without objection.

[Mr. Rostenkowski's statement follows:]

STATEMENT OF HON. DAN ROSTENKOWSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

As I understand it, Section 103 C of the proposed Act would authorize the President, among other things, to make changes in the method of assessing the distilled spirits tax on imported distilled spirits. Thus, the President could, in effect, alter the provisions of Section 5001(a) of the Internal Revenue Code which prescribes the method of taxing distilled spirits as follows:

"There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof . . ."

This method of taxing distilled spirits has been continuously in effect since 1868 but the same concept was applied to the taxation of domestic whisky as early as 1792. Although the rule applies equally to domestic and foreign goods withdrawn from bond, the impact on foreign goods is greater because much of it is imported in bottles at 86 proof and is thus required to pay the distilled spirits tax as if it were 100 proof.

Virtually all American distillers (with the possible exception of those owned by Canadian companies) are opposed to the change for various reasons:

(a) This method of taxation has not adversely affected sales of Scotch or Canadian whiskies in the United States. Indeed, sales of foreign whiskies in the United States are increasing at astronomical rates. Scotch Whisky sales rose between 1955 and 1972 from 12 million gallons to 56 million gallons, and Canadian whisky sales from 9 million to 38 million gallons. In the same period, sales of domestic whiskies increased from 151 million to only 161 million gallons but now are currently declining.

(b) The proposed change in the method of taxing distilled spirits could well cost the United States millions of dollars in taxes and duties.

(c) Since 1935, the United States had steadily reduced the duties on foreign whiskies (from $5 a gallon to 52¢–62¢ a gallon) but none of the reductions have been passed on to the American consumer. Instead, the savings have been retained as profits or used to increase advertising and promotion of foreign whiskies. The millions of dollars lost to the United States by the proposed change would most certainly be retained or used to increase advertising to the further detriment of American distillers.

(d) A number of American distillers now import Scotch and Canadian whiskies in barrels at over 100 proof (thereby avoiding the wine gallon penalty on bottled imports) and bottle the whiskies themselves. They have invested millions of dollars in establishing Scotch and Canadian whisky brands which are now being sold to American consumers at relatively modest prices. The change in the wine gallon method of taxation would seriously damage or destroy these American-owned brands.

(e) Since some Scotch and Canadian distillers have built up a good bulk whisky business with American distillers, which would be adversely affected if the tax method were changed, it could be said that the fight over the wine gallon/proof gallon issue is also a contest between those foreign distillers who ship to the United States in barrels and those who ship in bottles.

(f) The United Kingdom itself prescribes different tax rates for wines imported into the United Kingdom in bottles and those imported in barrels (very little whisky is imported into the United Kingdom).

I referred earlier to the loss of jobs in American bottling plants which would be precipitated by such a change in the whisky taxation regulations. On April 11, 1973, Ian Imrie, the industrial editor for the Glasgow Herald (Scotland) stated an "action must be taken to change an American law which means that whisky imported in a bottle has a 15% higher tax than the same Scottish product imported to the United States in bulk and bottled there. This new campaign if successful could bring more than 6000 jobs to Scotland." These, Mr. Chairman, are 6000 jobs which we cannot afford to lose. I would therefore request that in the committee's consideration of this proposal, it recognize the damaging repercussions that such legislation could inflict upon the domestic employment market.

QUESTIONS SUBMITTED TO FRANK M. DAILEY, PRESIDENT KENTUCKY DISTILLERS' ASSOCIATION, AND ANSWERS SUBSEQUENTLY PROVIDED

1. What would be your recommendation for a change in Section 103(c) to satisfy your objection?

Insert at the end of Section 103(c), ". . . provided, however, that the foregoing authority shall not be exercised so as to modify or in any way affect any provision of the Internal Revenue Code of the United States (United States Code Title 26).

2. In your statement you say that there would be a loss of at least $100,000,000 in tax dollars annually to the U.S. Treasury if all imports are taxed on a proof gallon basis. What could this savings be used for by importers?

Since our past experience of reducing duties has not resulted in a reduction of price to the American consumer, we can only assume that the annual loss of

$100,000,000. in tax dollars would be a windfall to the foreign importer and producer. It would contribute to our balance of payment problem and could be used for more concerted effort toward advertising and merchandising imported bottled distilled spirits in this country. This windfall, which would give foreign importers and producers an additional competitive advantage, would have a direct adverse result on workers in all segments of the distilling industry, including those in distilling, bottling, labeling, packaging, cooperage and advertising.

3. What has been the growth of imported distilled spirits in the U.S. market in the past few years?

In 1955 total imports entering U.S. trade channels amounted to 14.5% of all whiskies entering U.S. trade channels. In 1972 imports totaled 38% of the total U.S. market, all as shown by Appendix I in our written statement.

4. What impact would changing the wine-gallon/proof gallon method of taxation have on industry labor forces?

Apparently foreign producers are banking heavily on the passage of the Trade Reform Act of 1973 as submitted to the Committee. An example is the attached clipping from the Glasgow Herald of Wednesday, April 11, 1973, which indicates that if the bill is passed as presently written, it would create 6,000 new Scotch whisky jobs. If such impact is made on the Scotch labor market, it must also be assumed that at least a comparable number of jobs will be created in Canada. This means that there will be a decrease of at least this many jobs in the American distilling industry if the bill is passed in its present form.

[From the Glasgow (Scotland) Herald, Wednesday, Apr. 11, 1973]

CAMPAIGN TO CREATE 6,000 MORE SCOTCH WHISKY JOBS

(By Ian Imrie, Our Industrial Editor)

A new campaign, which if successful could bring 6000 more jobs to Scotland, is being mounted by the Scotch whisky industry and the General Municipal Worker's Union.

While they appear to be working independently of each other, both groups are exerting strong pressure to try to persuade the Government that action must be taken to change an American law which means that whisky imported in a bottle has a 15% higher tax than the same Scotish product imported to the United States in bulk and bottled there.

The GMWU are raising the question with Scottish MPs and at next week's annual conference of the Scottish Trades Union Congress. The Scotch Whisky Association have been trying to have the position changed for years and are now having talks with the Department of Trade and Industry.

DISCRIMINATION

An official of the association said last night: "The Department are currently looking into this matter to see if they can assist us. The discrimination is not against Scotch but against whisky imported in a bottle."

Mr. George Robertson, Scottish organiser of the GMWU for the drink and catering industries, told whisky industry delegates of the union in Glasgow yesterday that it was becoming intolerable to note the continuing trend in exports of Scotch in bulk for bottling abroad.

He continued: "This nation may be renowned for its generosity, but for us to stand back in near silence as we continue to export increasingly valuable jobs in the bottling of whisky to distant parts of the world is becoming a scandal."

The whisky industry attracted not only £230m. worth of exports for Britain, but a further £200m. in duty to the United Kingdom Government.

While it was Britain's biggest dollar earner and annual production was nearly 170 million proof gallons, only 23,000 out of two million Scottish workers were engaged in producing, distilling, and packaging whisky, which made it only fifth in the Scottish industry employment league.

About 11 million proof gallons are exported to the United States each year in bulk, compared to about 21 million proof gallons in bottles.

Mr. Robertson said: "Although output of whisky is continuing to grow at a considerable rate, only one new major bottling hall complex has been built in the past five years meaning, at best, that employment in the industry has stayed static.

"More and more of our most famous national product is being sent to the U.S. and elsewhere in anonymous tankers of bulk blended whisky to boost

foreign bottling interests. It should be remembered that employment in the whisky industry is not concentrated in the distilling side but in the bottling process.

"This union calculate that by exporting bulk blends of whisky to the U.S. in present quantities it costs Scotland between 5000 and 6000 jobs."

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. Mr. Dailey, I am sorry I was unable to be here when you began your statement. However, I intend to read and study it in its entirety because I am very much concerned about the effects of this legislation on your industry.

My congressional district is not considered an industrial district, but it does include at least one manufacturing industry, the Sunset Hills Distillery that makes Virginia Gentleman whiskey.

Mr. DAILEY. I know it well.

Mr. BROYHILL. I have been told jestingly by some of my mountaineer friends down in the southwest part of Virginia that we have the only legitimate still in the State.

Mr. DAILEY. I would certainly hope that to be true.

Mr. BROYHILL. Like my friend, Jim Burke of Massachusetts, I am concerned about the effect of trade legislation on the economy of my district; and according to your presentation, H.R. 6767 as written would have an impact on the distillery in my district as well as on the Kentucky distilleries.

Mr. DAILEY. That is correct, sir. These are national figures. These figures were taken from the Department of Commerce and from the Bureau of Alcohol, Tobacco and Firearms.

Mr. BROYHILL. In answer to Mr. Landrum's questions, you were giving the effect of the loss of jobs on the industry as a whole?

Mr. DAILEY. Yes, sir.

Mr. BROYHILL. I will ask the Sunset Hills people the effect it might have on their particular operation.

Mr. DAILEY. I think the statistics are very clear, Mr. Broyhill, that the domestic distilling industry is having a decline in production because of the great influx of imported products. Despite the fact that Congress has been very kind in changing the duties, the price is still going up, as you will see from the exhibit.

Mr. BROYHILL. Maybe your industry can encourage people to buy more American-made whisky. Shouldn't we do that?

Mr. DAILEY. I would certainly hope so, sir.

Mr. BROYHILL. Thank you.

The CHAIRMAN. Are there any other questions?

Mr. Duncan.

Mr. DUNCAN. What percent of imports does the domestic market have now?

Mr. DAILEY. What percent?

Mr. DUNCAN. Yes, sir.

Mr. DAILEY. At the present time, total imports account for 38 percent of the marketing of distilled spirits in the United States.

Mr. DUNCAN. How does that compare with about 2 years ago when we had the trade expansion hearings at that time?

Mr. DAILEY. Sir, I could only say that I have figures, which are shown on appendix 1 of my statement, showing that in 1955 the total imports accounted for 14.5 percent of the market and in 1972 they have accounted for 38 percent. Obviously, since the Kennedy round and the reduction of duties on imports, this has encouraged them.

Mr. DUNCAN. I think in the hearings of 1970 that you people at that time testified that the imports had 32 percent of the market. It has grown in those 2 years.

Mr. DAILEY. It is rapidly expanding.

Mr. DUNCAN. It has grown about 6 percent in 2 years.

Do most of the imports come in bulk or bottle?

Mr. DAILEY. No, sir. According to the statistics, there are about 90 million tax gallons that are imported into the United States, and about 70 million of those tax gallons come in cases and bottles; the rest is in bulk.

Mr. DUNCAN. Is Canada the major exporting country to the United States?

Mr. DAILEY. Canada is becoming a major exporting country, as well as Scotland.

Mr. DUNCAN. How much spirits do we export into other countries?

Mr. DAILEY. Well, sir, in dollar amounts it is $15.9 million in exports, compared to $454 million in imports, but in the total overall alcoholic beverage picture we export $25.9 million as opposed to imports of $782.9 million.

Mr. DUNCAN. Do you run into trade barriers in other countries in trying to export?

Mr. DAILEY. Yes, sir; there have been. I am not an expert in this field, but what I have learned is that we are having a great deal of difficulty or have had some difficulty getting import licenses into Mexico, for example.

In France, we cannot advertise bourbon at all. There is a prohibition in the French law against advertising any kind of product that is not made from grapes. In England, the transportation costs used to be considerably higher for bourbon going to England than for Scotch coming to the United States.

Mr. DUNCAN. You don't consider that fair trade then, do you, or free trade?

Mr. DAILEY. We wouldn't think so back in Kentucky.

Mr. DUNCAN. Do you pay a duty on your alcoholic beverages going into Canada?

Mr. DAILEY. Do we pay a duty?

Mr. DUNCAN. Yes, sir.

Mr. DAILEY. Sir, I am not sure. I don't know the answer to that. I would be happy to supply the answer.

Mr. DUNCAN. Also, do they pay one coming into the United States?

Mr. DAILEY. Yes, sir.

Mr. DUNCAN. I would like, if you would, to have you put that into the record, supply it for the record.

Mr. DAILEY. The duty?

Mr. DUNCAN. Each way.

Mr. DAILEY. I have the Canadian duty in the exhibit filed with the brief, I believe, on exhibit 6. We show the Canadian duty to be 62 cents, having been reduced from $5 in 1935.

Mr. DUNCAN. Is there a comparable duty going both ways?

Mr. DAILEY. Sir, I am not sure.

Mr. DUNCAN. Thank you very much, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Burke.

Mr. BURKE. I notice on appendix 4 you have the duty per fifth on the Scotch coming into the country, and they average from 10 cents up to 30 cents per fifth. Could you provide the committee with what duties you have to pay to ship alcoholic beverages to our trading partners in Europe?

Mr. DAILEY. As I understand your question, Mr. Burke, you would like to supply the committee with the duties that are imposed upon our products to the various countries?

Mr. BURKE. Yes, I would like to have another appendix to your statement so that we can kind of compare the duties that they are paying to get their goods into our country and what duties our exporters have to pay.

Mr. DAILEY. I would be very happy to do that, sir.

Mr. BURKE. Thank you.

[The information follows:]

Import duties on a U.S. proof gallon of bourbon

Argentina (If c.i.f.=$4 per gallon)	$5.60
Australia	9.60
Belgium	1.54
Brazil (If c.i.f.=$4 gallon)	8.20
Canada	12.28
Denmark (If c.i.f.=$4 per gallon)	.72
France	1.54
West Germany	1.54
Hong Kong	10.28
Italy	1.54
Japan (depending on landed cost)	19.72–30.00
Mexico	6.66
Netherlands	1.54
New Zealand	9.53
Norway	(1)
Okinawa (If c.i.f.=$4 per gallon)	7.40
Panama:	
Bottled	13.23
Bulk	14.74
Singapore	16.80
Union of South Africa	7.56
Spain	2.32
Sweden:	
Bottled	.61
Bulk	.16
United Kingdom	30.98
U.S.S.R.	-----
Venezuela	3.30

[1] No customs duties levied on spirits.

The CHAIRMAN. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Mr. Dailey, you say the Treasury would lose about $100 million in excise tax revenue as a result of this possible action?

Mr. DAILEY. Yes, sir.

Mr. SCHNEEBELI. Would that mean a reduction in the retail price of $100 million over here?

Mr. DAILEY. Well, it never has been.

Mr. SCHNEEBELI. To whom does this accrue, then?

Mr. DAILEY. This accrues to the benefit of the importer, in all likelihood.

Mr. SCHNEEBELI. Or the foreign producer?

Mr. DAILEY. Yes, sir.

Mr. SCHNEEBELI. In past instances, has the price been reduced as a result of the duty reduction?

Mr. DAILEY. We had a study made, and on appendix 5 it shows that when the duty was 25 cents a fifth, the retail price of the 10 leading Scotches, the average retail price December 1955 was $6.16; now, the duty has been reduced to 12 cents a fifth and the average retail price is $7.40 a fifth.

Mr. SCHNEEBELI. From past history we can't conclude, then, that this reduction in excise tax would lead to a reduction in the retail price of the product.

Mr. DAILEY. Yes, sir. I don't believe it will, because it has not in the past.

In addition, I would like to bring out the point here that while it is 51 cents per gallon on Scotch, per tax gallon, they do not have to pay a rectifying tax. Scotch is a blended whiskey, which actually makes it 21 cents.

Mr. SCHNEEBELI. In your summary, you say your association "strongly objects to the inference and interpretation of section 103(c) * * * which indicates that the President has the prospective power, without limitation, to change or modify the application of a domestic excise tax," et cetera. To whose inference and interpretation do you refer?

Mr. DAILEY. Sir, I am referring to the interpretation on page 68 of the section by section analysis. From the reading of the act, section 103(c), I could not determine what the term "customs valuations" meant, but on page 68 of the act in the analysis they say it means that the negotiators or the President would have the authority to change the method of taxing wine gallon/proof gallon.

Mr. SCHNEEBELI. This is your interpretation of what the possibilities might be?

Mr. DAILEY. Well, sir, I would never interpret it that way, but that is the way the section by section analysis interprets it, and I would assume that to be correct.

Mr. SCHNEEBELI. Thank you very much.

The CHAIRMAN. Are there any further questions?

If not, we thank you again, Mr. Dailey, for bringing your testimony to the committee.

Mr. DAILEY. Thank you, Mr. Chairman, and members of the committee.

The CHAIRMAN. Mr. Brandenburg, if you will come to the table and identify yourself for our record, we will be glad to recognize you, sir.

STATEMENT OF MORT BRANDENBURG, GENERAL PRESIDENT, AS PRESENTED BY ABRAHAM S. WEISS, DIRECTOR OF RESEARCH, DISTILLERY, RECTIFYING, WINE & ALLIED WORKERS' INTERNATIONAL UNION OF AMERICA, AFL–CIO

Mr. WEISS. My name is Abraham S. Weiss. I am appearing in behalf of President Mort Brandenburg, the general president of Distillery, Rectifying, Wine and Allied Workers' Union of America, an AFL–CIO affiliate.

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

Mr. WEISS. Thank you.

I would also like to point out that Mr. Brandenburg has prepared a statement and I would assume that that statement will be incorporated into the record.

The CHAIRMAN. Without objection, it will appear in the record.

Mr. WEISS. My own statement will be brief, but I would like to concentrate on one or two points.

In the first place, I would like to go on record in behalf of our union completely and categorically in favor of a statement made by the preceding speaker. Our union represents salesmen as well as production workers, but the overwhelming section of our union consists of production workers.

In the course of a decade we have lost a substantial portion of our membership, and if there is going to be any change which would effectively disadvantage our people and occasion further unemployment we certainly would be categorically opposed to that kind of change.

The second point I want to make is that I was at a session of this committee yesterday when Mr. Burke was in the chair and at that time I was speaking in behalf of two unions, the Doll and Toy Workers' Union and the Leather Goods Union, which faced a completely different problem than that which is now before us in the liquor industry.

Their problem is that the overwhelming bulk of products has come overseas owing largely to the coolie wages which exist from countries competitive to these particular industries.

We have a similar wage differential between distillery workers in the United States and Canada—incidentally, which have roughly the same wages as we have in the United States—and the wages that exist in Germany, Britain, Italy, Spain, and so forth.

Our members in the Distillery Workers' Union receive approximately $3.50 an hour plus fringe benefits, and we are compelled to compete with, say, a British worker who receives $1.20 an hour plus scarcely any fringe benefits whatsoever.

That kind of competition is hard to meet and, if superimposed upon that we were to have any changes such as indicated in the wine proof controversy that is now before this committee, it is going to really hurt us.

The second major point I would like to make is that we really would want reciprocity. We find that, whereas the American market is a comparatively free market, Scotch and Canadian whiskies can come in, French and Italian, Spanish and Portuguese wines can come in, subject to normal rates of duty, overseas there are barriers, tremendous barriers, to our products. And when the negotiations, the GATT negotiations, commence I think that something should be done with respect to the elimination of these barriers to trade.

One such barrier was instanced by the preceding speaker. In France you cannot advertise bourbon. You are only allowed to advertise brandy, which of course is a French product.

We find that there are quotas imposed by countries, there are license obstacles. There is a whole panoply of obstacles and it seems to me that, when the negotiations commence, this should be an item that should seriously be a point of consideration by our American negotiators.

That is briefly the statement which our union would like to present to this committee.

[Mr. Brandenburg's prepared statement follows:]

STATEMENT OF MORT BRANDENBURG, GENERAL PRESIDENT, DISTILLERY, RECTIFYING, WINE & ALLIED WORKERS' INTERNATIONAL UNION OF AMERICA, AFL-CIO

I. INTRODUCTION

"We need basic trade reform, and we need it now." With these words President Nixon sent Congress last month a bill, entitled "Trade Reform Act of 1973" which would give him sweeping new authority to raise and lower tariffs and other trade barriers—proposals whose ostensible aim is to strengthen the President's hand in major international trade negotiations scheduled to be held later this year.

It is our considered judgment, as has been set forth at length by the AFL-CIO of which our International Union is an integral part, that the President's proposed legislation does not meet the grave problems of trade, particularly those problems which have had such a marked impact upon the industries where our members are employed— or, to put it more precisely, where they have lost jobs in ever-increasing numbers and are underemployed.

The Administration's proposals do not deal at all with such important causes as the export of American technology and capital. The proposal on taxation of profits of foreign subsidiaries, while finally recognizing this as a problem, does virtually nothing to close lucrative tax loopholes for American-based multinational companies. The proposals provide no specific machinery to regulate the flood of imports and, indeed, some would increase the amount of damage to American employment and industrial production in general and that relating to the industries within our jurisdiction in particular. In sum, the proposals would open the door to further deterioration of America's position in the world economy and to the further export of American jobs.

We, as trade unionists. understand why the President wants flexibility when he goes to the bargaining table. This is a strategy which is basic to the negotiating process, although our International Union would have liked to see it coupled with an indication that the low-wave structure of exporting countries—whose products have flooded the American market—be an item on the bargaining agenda. But even if the approach on this score was along the lines submitted later in this brief, we submit that in a democracy no President can have unlimited, unccountable power to regulate the lives of the people. And the Burke-Hartke bill—which our International Union supports and maintains is a more realistic and viable approach to the problems of foreign trade than is the Administration's proposals—would provide responsible, albeit somewhat more limited, flexibility for the President and his representatives when the GATT and other trade discussions commence.

II. BACKGROUND

Behind President Nixon's move is the drastic deterioration of the American trade balance in recent years, from a surplus of $6.5 billion in 1964 to a deficit of $6.4 billion in 1972—a deterioration of vital importance for many segments of the American economy, including our own, and for America's relations with the nations of the world. Neither changes in dollar valuation (the international monetary agreement in December, 1971 and the dollar devaluation in February, 1973) nor other piecemeal attempts to attack the problem of the deteriorating U.S. position in the world economy have worked. That deterioration continues and it may get worse unless a comprehensive policy is adopted and pursued vigorously to meet the realities of the changing American trade position.

That position has been altered as a consequence of the following major economic developments during the past decade:

(1) The spread of managed national economies, together with the emergence of trading blocks such as the European Economic Community, which place emphasis on exports while protecting their own markets.

(2) The rise of the multinational corporation, featuring particularly the export of American technology and capital—a major factor in reducing and in most instances even eliminating the former U.S. productivity-lead in industry.

(3) The continuing disparity between the wage standards and working conditions and benefits of American labor and those of labor in other countries, especially those countries where this differential serves to create a significant competitive edge.

These three factors have a significant bearing, as we shall document below, on the problems confronting the alcoholic beverage industry in the U.S. and by that token upon the members of our International Union who are employed in the industry.

III. GENERAL TRENDS IN THE ALCOHOLIC BEVERAGE INDUSTRY

An overall statistical view of the alcoholic beverage, derived from official sources, is appended as Table I.

Production of distilled liquors was approximately $1.9 billion in 1972, nearly 5% over the 1971 level of $1.8 billion. Per capita consumption of distilled spirits has risen, steadily but not dramatically—from 1.69 gallons in 1967 to 1.91 gallons in 1972. Over the past decade, as was pointed out in the *U.S. Industrial Outlook—1973*, the official publication of the Department of Commerce, "U.S. drinkers' taste has shifted from domestic whiskeys to Scotch and Canadian whiskies" (p. 95). There is no evidence that light whiskey, which became legal in July, 1972, will stem the flow of imports. Thus far, promotional costs for the 50 brand names in the light whiskey category are high, market competition intense and the consensus is that it will be some time before light whiskey will permeate the American market, if indeed it ever will.

The wine industry continued to prosper in 1972, with shipments soaring to $873 million. But in all fairness it should be noted that the wine industry was, historically, a depressed industry, suffering numerous and substantial surpluses. It has been only during the past decade that growth has been shown in the industry, with California leading the way. During this period the annual growth rate has been 5.9%—a figure which must be contrasted with the doubling of the market share held by imports since 1960.

We must bear in mind that the alcoholic beverage industry in the United States receives no governmental aid or subsidy. It competes in the American market with Scotch and Canadian whiskeys and foreign wines from all over the world. These products move freely in the American market, subject only to the payment of a low import duty (such as 14% for bottled table wine, or less than four cents per gallon) and payment of excise taxes at the same rate paid by American produced liquor and wine.

As a consequence, there has been an escalation of imports during the past decade. Whiskey imports burgeoned upwards of 89 million gallons—an increase of approximately 100%. In the past five years alone, wine volume of imports has increased by 103%. *Beverage Media* for October, 1972 in an article entitled "Imports Outpace Overall Sales" reported: "The advance of the imports continue to outpace the overall American alcoholic beverage market with distilled spirits and wines showing impressive gains." (For specific breakdown, including product and county, see Table II.)

IV. RESTRICTIONS ON TRADE

Our international union believes in fair trade—neither protectionism nor free trade. We would like to see an expansion in trade, for imports have helped our members—salesmen, for example, and those who are bottling bulk shipments of Scotch and Canadian whiskey, for another example. This is all to the good.

But we object strenously to the panoply of tariff and non-tariff trade barriers imposed upon American liquor and wine which have resulted in limited exports. Thus, the United States last year exported a total of $377,845 gallons of wine (more than half of which went to Canada)—as compared to the 38,000,000 gallons of wine which was imported into the United States.

Particularly burdensome are the following Common Market restrictions:

(1) In the European Economic Community there has been established a so-called "reference" price which sets a high level price at which imported wines must be sold and has no relation to the actual price at which French, German, and Italian wines are sold. Imported wines which do not meet the reference price must pay a substantial additional countervailing duty.

(2) If American producers of distilled spirits and wines are to be able to sell their products abroad, they must develop foreign consumer acceptance. But there are many restrictions imposed by countries with regard to advertising American products. France, to this day, has a blanket prohibition against the advertis-

ing of spirits produced from grain (bourbon) as opposed to advertising of spirits produced from grapes (brandy).

(3) The classic form of protectionism is the outright ban of imports. More covert, but quite effective nevertheless, is the nomenclature process whereby certain wines are declared endemic to a particular region and the country decrees that no other wine bearing that label can enter. Import quotas are another means of frustrating attempts to ship American spirits and wines aboard. France generally allocates import quotas to the North African countries, permitting foreign imports from other sources only if the import quotas imposed are not likely to meet demand.

(4) The Eurpean Economic Community has a system of storage, distilling and export subsidies when the Common Market selling price of wine falls below a prescribed limited. Furthermore, licenses, deposits and permits and required in order to import into the Common Market countries—but if any of its nine members feels that it is threatened by importation, the import licenses and certificates may be withdrawn.

In sum, the thrust of the non-tariff restraints on trade, so far as the alcoholic beverage industry is concerned, has been to discourage American exports, while opening the sluice gates for imports.

V. LABOR DIFFERENTIALS

Over and above the problems created by these discriminatory practices, there is the added consideration that wage standards in other countries do not measure up to those in our country (with the exception of Canada, the overwhelming majority of whose distillery workers enjoy the benefit of DWU contracts.) In England, for example, the distillery workers average $1.11 an hour, 15 cents less than that prevailing in West Germany but still considerably higher than the wage level in France, Italy, Spain and Portugal.

While the alcoholic beverage industry is not an industry where wage rates loom as decisively as in industries where the pace is determined by workers rather than machines, as in the so-called soft-goods sector, wage rates are nonetheless a consequential factor, as our International Union and its affiliates can vouchsafe from years of collective bargaining experience. Every cent-per-hour increase is accompanied in negotiations by loud and anguished cries from distillers and the other producers in the industry. And these cries become all the more pronounced as a consequence of the increasing preemption of the American market by foreign products. This process of getting an increasing share of the American market is facilitated in large measure by the abysmally low wage structure, by American standards at least, existing abroad.

We cannot ignore the fact that the increase in imports has disrupted the domestic market and has resulted in adverse impact upon the American alcoholic beverage industry. Nor can we ignore the fact that broadened trade opportunities for countries shipping wines and liquors to the U.S. have not been reflected in a significant degree in improved wages and working conditions for the workers in such countries.

It is this factor which has prompted our International Union as well as our parent body, the AFL–CIO, to set forth the concept that in the International tariff and trade negotiations, efforts must be made to raise wages and improve labor standards in exporting countries. This would help, in our estimation, to eliminate unfair labor standards in exporting countries as either a competitive cost advantage or as a basis for increased trade restrictions by the importing country.

It is our view that wages of workers in the alcoholic beverage industry in any country involved in GATT and other trade and tariff deliberations should be raised when unit labor costs of such industries are substantially below those of other competitors. Raising wages in this circumstance would not only lessen the threat of employment opportunities of, let us say, the California winery workers, but would also assure that the employer in the exporting country would not reap the sole gains from expanded markets.

With regard to procedure, we renew a recommendation suggested by our union almost seven years ago before the Trade Information Committee, that our tariff negotiators should make clear that there can be no concession made on products processed by workers receiving wages which are sub-standard in the receiving country—and that, indeed, quotas on imports will be imposed if there is no improvement in such standards. And if there were disagreement as to the actual

situation with respect to wage and labor standards, the office of the ILO could be called upon to make an objective review.

Coterminous with this review there should be formalized in our estimate, complaint machinery both in GATT and in multi-lateral tariff negotiations generally on the issue of whether disparate labor standards contribute to an unfair competitive posture. If an affirmative finding on this score is made by the ILO or any other acceptable agency, provision could be made for such mechanism as voluntary quotas or an export tax, pending the long-range solution of an upward adjustment in wages and working conditions.

VI. ADJUSTMENT ASSISTANCE

Title II of the Trade Reform Act of 1973 provides new adjustment assistance provisions for workers displaced by import competition. It has only been during the past two years that the U.S. Tariff Commission has taken affirmative action in this area, along lines stipulated by the Trade Expansion Act of 1962. Nevertheless, the position of the U.S. Tariff Commission still leaves much to be desired—and anything that would ameliorate the conditions of workers who have been adversely affected by the flood of imports would therefore be a consequential improvement upon past practice.

But one should not be sanguine, however, about the effect of liberalizing guidelines for adjustment assistance. Those who are seriously looking to retraining of workers as a solution to the problems created by imports must face up to the reality, for example, that shutdowns of plants and/or departments usually result in the loss of workers of seniority and seniority-related benefits. Unless the worker involved would transfer within his own Union—a situation which would be desirable but not always feasible—he could be deprived of many benefits including retirement benefits which are always linked to length of service and in many instances to length of service in either a particular plant or a particular sector of an industry. Unless legislation is promulgated with respect to portability of benefits, this worker would forfeit such benefits—and nothing in the law as it now stands or as it would be amended would alter this situation.

Another consideration is that there is a marked limitation upon retraining, for example, an unskilled worker in a factory would hardly be a fit candidate for employment as a computer expert. Loss of a job means that special work-skills, developed and refined in a specific plant or industry, cannot be readily and automatically applied elsewhere. Even the assumption of an effective program of retraining does not carry with it a guarantee that there would be a job available for the worker in a new plant or industry in the locality in which he has lived.

Accordingly, one consequence of job loss that is tempered by a program of retraining is that workers and their families may be required to move from one community to another. Even if the expenses of such a move were to be absorbed by the program of retraining and other adjustment assistance, nothing can be done about the loss of friends, schools, church and social relationships that have developed over many years. In the impact of imports there is a social as well as an economic factor that cannot be ignored. Or it can be ignored only at the pain of frustration and resentment, the kind of psychological qualities hardly attuned to the process of readjustment.

What workers really need—whether they are employed in a distillery or a winery or, for that matter, any other kind of enterprise—is job security. Assistance can help, especially if provisions for liberalization are effectuated, but it is only of limited value.

VII. RECOMMENDATIONS

With respect to the proposed Trade Reform Act of 1973, and bearing in mind the pending trade negotiations, our International Union strongly urges that:

(1) There be no inclusion on the agenda of tariff reductions or any change in the basis of calculating or determining duty rates unless this discussion is coupled with the consideration of fair international labor standards to which we have already made reference.

(2) Priority be established in these negotiations on the elimination of the non-tariff trade barriers which have inured to the disadvantage of the American alcoholic bevrage industry's capacity to export.

(3) Authority be accorded to establish selective quotas against countries which flagrantly discriminate against American products or whose export practices threaten to undermine the ecoonmic stability of any sector of the American alcoholic beverage industry.

(4) Despite the inherent limitations of adjustment assistance, support be accorded to provisions for liberalization of the existing guidelines and standards.

TABLE I.—ALCOHOLIC BEVERAGE INDUSTRY TRENDS AND PROJECTIONS, 1967–73

[In millions of dollars except as noted]

	1967	1969	1970	1971 [1]	1972 [2]	Percent increase 1971–72	1973 [2]	Percent increase 1972–73
Value of shipments,[3] total	8,886	10,819	11,950	13,004	14,177	9	15,462	9
Wines and brandy	410	493	583	753	873	16	1,013	16
Distilled liquor [4]	1,364	1,669	1,758	1,833	1,925	5	2,021	5
Flavorings	1,009	1,174	1,319	1,323	1,416	7	1,515	5
Malt liquor	2,930	3,419	3,685	4,140	4,512	9	4,918	9
Bottled and canned soft drinks	3,173	4,064	4,605	4,955	5,451	10	5,995	10
Value of exports, total	49.1	62.4	71.4	78.3	89.9	15	102.2	14
Wines and brandy	1.0	1.3	1.4	1.3	1.6	24	2.0	24
Distilled liquor	8.9	12.9	16.1	20.1	24.5	22	29.9	22
Flavorings	36.7	45.2	49.9	53.5	58.9	10	64.8	10
Malt liquor	1.1	1.2	1.3	1.2	2.2	83	2.5	15
Bottled and canned soft drinks	1.4	1.8	2.7	2.2	2.7	23	3.0	11
Value of imports, total	524.4	652.7	709.3	765.1	659.0	−14	707.1	7
Wines and brandy	98.0	128.0	158.6	180.5	191.3	6	202.8	6
Distilled liquor	395.5	486.0	508.9	541.1	424.0	−22	457.9	8
Flavorings	7.7	9.6	8.4	8.7	9.0	3	9.3	3
Malt liquor	22.8	27.4	32.2	33.7	33.4	−1	35.4	6
Bottled and canned soft drinks	.4	.8	1.2	1.1	1.4	27	1.7	21
Total employment (thousands)	218.8	223.4	227.8	215.9	212.7	−1		

[1] Preliminary.
[2] Estimated by Bureau of Domestic Commerce.
[3] Includes value of all products and services sold by malt liquor, wines and brandy, distilled spirits, bottled and canned soft drinks, and flavoring industries (SIC 2082, 2084, 2085, 2086, 2087).
[4] Value of production.

Source: Bureau of the Census, Bureau of Labor Statistics, Bureau of Domewtic Commerce.

TABLE II - IMPORTS OF ALCOHOLIC BEVERAGES INTO THE U.S. - 1972
(000 figures omitted)

1684020	RUM, IN CONTAINERS, EACH HOLDING 1 GALLON OR LESS						- PFG	112D --CONTINUED			IM 146 MTH 12	1972000169	
301	COLOMB							1200	1800	1800	2100	116.7	12
312	GUYANA	2989	10740	10740	5231	48.7		34543	102477	102477	60459	59.0	12
351	BRAZIL							60	306			FREE	12
412	U KING							317	1279	1279	555	43.4	12
	49	404	16096	67342	57284	25194	44.0	148736	548559	519375	250951	48.3	
1684040	RUM IN CONTAINERS EACH OVER 1 GALLON						PFG	112D					
242	JAMAICA		19906	36907	36907	34836	94.4	211303	386320	386320	369785	95.7	12
283	F W IND		143	438	438	250	57.1	2909	8862	8862	5092	57.5	12
312	GUYANA		139	354	354	243	68.6	36440	64572	64572	63770	98.8	12
	52	436	20183	37699	37699	35329	93.7	250652	459754	459754	438647	95.4	
1684520	WHISKEY,SCOTCH AND IRISH IN CONTAINERS 1 GALLON OR LESS						PFG	112D					
412	U KING		4553953	30782127	30698364	2312016	7.5	33414634	224533817	223259562	16949740	7.6	12
412	2 U KING							2595	14817	14817	1323	8.9	12
41[illegible]	IRELAN[illegible]		11[illegible]69	[illegible]	6[illegible]89	5656	9.1	106536	684001	683726	54319	7.9	12
	4904	44301	45550[illegible]2	30844016	30760253	2317672	7.5	33523745	225237635	223958105	17069382	7.6	
1684540	WHISKEY,SCOTCH AND IRISH IN CONTAINERS OVER 1 GALLON EA						PFG	112D					
412	U KING		1549196	3658338	3658338	790089	21.6	15575459	36905474	36905049	7943441	21.5	12
419	IRELAND		11319	36151	36151	5772	16.0	88438	303823	303823	45103	14.6	12
	273	2847	1560515	3694489	3694489	795861	21.5	15663897	37214297	37213872	7988544	21.5	
1684620	WHISKY, EXC IRISH AND SCOTCH IN CONTAINERS, 1 GALLON OR LESS						PFG	112D					
122	CANADA		3347559	23825060	23816760	2078650	8.7	22303692	150128679	149939886	13861290	9.2	12
423	BELGIUM							595	4038			FREE	12
588	JAPAN		2831	20291	20291	1755	8.6	9753	75555	75555	6048	8.0	12
602	AUSTRAL							590	3192	3192	365	11.4	12
	928	7132	3350390	23846151	23837051	2076405	8.7	22394628	150211464	150018633	13867703	9.2	
1684640	WHISKEY, EXC IRISH A SCOTCH IN CONTAINERS OV 1 GALLON LA						PFG	112D					
122	CANADA		1656372	4591172	4591172	1150951	25.1	16094227	41392802	41392109	9978145	24.1	12
588	JAPAN							9626	19080	19080	5968	31.3	12
	252	2406	1656372	4591172	4591172	1150951	25.1	16103853	41411882	41411189	9984113	24.1	
1685000	SPIRITS, FOR BEVERAGES			NSPF			PFG	112D					
122	CANADA		234	945			FREE	9565	25191	24666	8931	60.9	12
201	MEXICO		166291	406160	406160	207866	51.2	1641024	3772163	3772163	2051302	54.4	12
236	BAHAMAS							1676	6936	11125	225	20.0	12
333	PERU							120	800	800	150	18.8	12
405	FINLAND		510	1860	1860	638	34.3	17033	48528	48528	21295	43.9	12
409	DENMARK							72	284			FREE	12
412	U KING		3282	25323	25058	4008	16.0	28075	215644	209446	33649	16.1	12
421	NETHLDS							510	1613	1613	638	39.6	12
427	FRANCE							183	4780	2929	166	5.7	12
428	W GERM							239	2495	2495	299	12.0	12
433	AUSTRIA							298	1300	1300	373	28.7	12
455	POLAND		2977	11900	11900	3697	31.1	24887	107349	106161	30863	29.1	12
461	USSR		11388	44501	44501	56940	128.0	34012	12[illegible]404	129120	169700	131.4	12
489	TURKEY							2220	7909	7909	2775	35.1	12
508	ISRAEL							684	2245	2245	830	37.0	12
582	HG KONG							2257	20012	20012	2822	14.1	12
583	CHINA T							305	1204	1204	382	31.7	12
588	JAPAN		170	641	641	213	33.2	1067	4188	4188	1335	31.9	12
	98	1006	184832	491330	490120	273362	55.8	1764007	4351545	4325904	2325735	53.8	
1685500	PREPARATIONS IN CHIEF VALUE OF SPIRITS FOR BEVERAGES						PFG	112D					
201	MEXICO		230	1200	1200	288	24.0	14674	30878	30878	18384	59.4	12
405	FINLAND							426	1200	1200	533	44.4	12
412	U KING		2657	23518	23518	3321	14.1	26494	236612	228484	32132	14.1	12
421	NETHLDS							2140	7673	7673	2675	34.9	12
427	FRANCE							270	1005	1005	338	33.6	12

582	HG KONG	361	4931	4931	181	3.7	6445	84801	84801	3221	3.8	12
583	CHINA T	225	650	650	113	17.4	495	2356	2356	249	10.6	12
588	JAPAN	74	741	741	37	5.0	3674	33387	33387	1841	5.5	12
747	SIER LN						3635	35146	35146	1818	5.2	12
758	BR W AF						225	2180	2180	113	5.2	12
	1022 6080	337068	4682507	4679619	168448	3.6	2504266	33064039	33029552	1257590	3.8	

1682540 CORDIALS,LIQUEURS,KIRSHWSSR ETC IN CONT OV 1 GAL EA PFG 112D

122	CANADA	3620	14435	14435	1810	12.5	7233	24727	24727	3617	14.6	12
201	MEXICO	18477	69240	69240	9239	13.3	356297	1346238	1346238	178154	13.2	12
242	JAMAICA	10933	100846	100846	5467	5.4	128851	1123771	1123771	62429	5.6	12
412	U KING						4305	46709	46709	2153	4.6	12
421	NETHLDS	4197	24847	24847	2099	8.4	26628	159738	159738	13316	8.3	12
42[illegible]	FRANCE	20[illegible]	3649	3649	102	2.7	19474	71468	71468	4742	13.6	12
428	W GERM						1240	15510	15510	622	4.0	12
441	SWITZLD	2344	13605	13605	1172	8.6	7930	45947	45947	3966	8.6	12
469	SPAIN						5423	40058	40058	2712	6.8	12
475	ITALY	8735	17461	17461	4368	25.0	66904	116507	116507	33455	28.7	12
479	YUGOSLV						1596	4414	4414	798	18.1	12
484	GREECE	873	12693	12693	437	3.4	4214	53009	53009	2108	4.0	12
489	TURKEY	537	1509	1509	269	17.8	2084	5660	5660	1044	18.4	12
491	CYPRUS						115	571	571	58	10.2	12
508	ISRAEL	1002	5519	5519	501	9.1	12562	69349	69349	6282	9.1	12
	21 215	50922	264004	264004	25464	9.6	640656	3123676	3123676	320456	10.3	

1683000 ETHYL ALCOHOL FOR BEVERAGE PURPOSES PFG 112D

427	FRANCE						333	3310	3310	373	11.3	12
455	POLAND						2126	6790	6790	2380	35.1	12
	10						2459	10100	10100	2753	27.3	

1683520 GIN, IN CONTAINERS EACH HOLDING ONE GALLON OR LESS PFG 112D

122	CANADA						2092	7439	2021	197	9.7	12
201	MEXICO						180	780	780	90	11.5	12
409	DENMARK						480	2800			FREE	12
412	U KING	363043	1865454	1864454	181452	9.7	3999746	19667014	19618637	1995286	10.2	12
419	IRELAND						2907	22855	22655	1455	6.4	12
42[illegible]	NETHLDS	120	376	376	60	16.0	5769	18114	16348	2534	15.5	12
423	BELGIUM						480	2339			FREE	12
427	FRANCE	524	3289	3289	262	8.0	1689	16519	16519	846	5.1	12
428	W GERM	635	3345	3345	318	9.5	9104	49746	49746	4555	9.2	12
455	POLAND	507	2385	2385	254	10.6	507	2385	2385	254	10.6	12
469	SPAIN	1035	18248	18248	518	2.8	8703	81226	81226	4354	5.4	12
471	PORTUGL						1139	17000	17000	570	3.4	12
475	ITALY	84	271	271	42	15.5	1670	11411	11411	836	7.3	12
484	GREECE						72	1238	1238	36	2.9	12
778	UGANDA						180	975	975	90	9.2	12
	609 5916	365948	1893368	1892368	182906	9.7	4034718	19901841	19841141	2011103	10.1	

1683540 GIN, IN CONTAINERS EACH HOLDING OVER 1 GALLON PFG 112D

412	U KING	5003	11321	11321	2502	22.1	166535	435587	435587	83277	19.1	12
	5 61	5003	11321	11321	2502	22.1	166535	435587	435587	83277	19.1	

1684020 RUM, IN CONTAINERS, EACH HOLDING 1 GALLON OR LESS PFG 112D

122	CANADA	74	724	464	63	13.6	5201	30479	30219	9036	29.9	12
201	MEXICO						2960	15085	9539	3072	32.2	12
236	BAHAMAS	2323	13227	3429	1155	33.7	4121	22788	3969	1785	45.0	12
242	JAMAICA	8452	29440	29440	14793	50.2	82203	278850	274397	142211	51.8	12
245	HAITI	408	2207	2207	714	32.4	3228	17219	17219	5649	32.8	12
248	LW WW I						498	1461	1461	872	59.7	12
272	BARBADO	410	2184	2184	718	32.9	7952	45477	45477	13917	30.6	12
274	TRINID	240	840	840	420	50.0	2109	8284	8284	3691	44.6	12
283	F W IND	1200	7980	7980	2100	26.3	4344	23254	23254	7604	32.7	12

1681900 BRANDY IN CONTAINERS NOT OVER 1 GAL, NOT OVER 9 DOLLARS PFG 112D --CONTINUED IM 146 MTH 12 1972000167

175	1882	41810	252722	252722	25922	10.3	588412	3947445	3939483	371979	9.4		
1682000	BRANDY, VALUED OV 9 DOLLARS, IN CNTNRS HOLDING 1 GAL OR LESS PFG 112D												
333	PERU	270	3228	3228	2350	41.8	1594	17917	17917	7970	44.5	12	
412	U KING	2953	32224	32224	14765	45.8	10176	136876	133466	49980	37.4	12	
421	NETHLDS						120	2926	2926	600	20.5	12	
423	BELGIUM						213	2266	1750	960	54.9	12	
427	FRANCE	145163	1873781	1869256	724550	38.8	1057361	13098267	13001310	5259515	40.5	12	
428	W GERM	442	5641	5641	2210	39.2	2594	33000	33000	12970	39.3	12	
441	SWITZLD	60	1418	1418	300	21.2	1460	27624	27624	7300	26.4	12	
469	SPAIN	505	17739	17739	2925	16.5	7697	175921	175921	38485	21.9	12	
471	PORTUGL	47	800	800	235	29.4	407	5000	5000	2035	40.7	12	
475	ITALY						297	3120	3120	1485	47.6	12	
484	GREECE						1420	20890	20890	7100	34.0	12	
392	2533	149520	1934831	1930306	746335	38.7	1083839	13523807	13422924	5388400	40.1		
1682100	BRANDY, IN CONTAINERS HOLDING OVER 1 GALLON, NOT OV 9 DOLLARS PFG 112D												
337	CHILE						740	2435	2435	370	15.2	12	
412	U KING	9932	17048	17048	4991	29.3	16380	29483	29483	8190	27.8	12	
421	NETHLDS						831	3319	3319	417	12.6	12	
427	FRANCE	37307	111062	111062	18654	16.8	537058	1645460	1645460	268554	16.3	12	
428	W GERM	121	321	321	61	19.0	2727	6368	6368	1365	21.4	12	
469	SPAIN	30969	96056	96056	15486	16.1	115879	299223	299223	57946	19.4	12	
471	PORTUGL	3674	11777	11777	1837	15.6	73878	228396	228396	39453	17.3	12	
475	ITALY	39667	78892	78892	19834	25.1	249095	447861	447861	124552	27.8	12	
479	YUGOSLV	254	1128	1128	127	11.3	7907	24498	24498	3956	16.1	12	
46	487	121974	316264	316264	60990	19.3	1009495	2687043	2687043	504603	18.8		
1682200	BRANDY, VALUED OV 9 DOLLARS, IN CNTNRS HOLDING OVER 1 GALLON PFG 112D												
427	FRANCE	1923	23808	23808	9615	40.4	12613	148642	147762	62805	42.5	12	
7	25	1923	23808	23808	9615	40.4	12613	148642	147762	62805	42.5		
1682520	CORDIALS, LIQUERS, KIRSHWSSR ETC IN CONT NOV 1 GAL PFG 112D												
122	CANADA	5155	39952	39952	2579	6.5	39452	309131	308186	19616	6.4	12	
201	MEXICO	146	1600	1600	73	4.6	3621	52894	52894	1814	3.4	12	
219	NICARAG	340	6590	6590	170	2.6	340	6590	6590	170	2.6	12	
236	BAHAMAS						15487	115720	115720	7753	6.7	12	
242	JAMAICA						2533	22957	21948	1184	5.4	12	
301	COLOMB						240	780	780	120	15.4	12	
401	SWEDEN						2054	17056	17056	1027	6.0	12	
405	FINLAND						340	2625	2625	171	6.5	12	
409	DENMARK	22434	263033	262487	11192	4.3	117504	1412194	1403059	56553	4.2	12	
412	U KING	92173	1269625	1263648	46060	3.6	666522	9021093	9010245	332838	3.7	12	
419	IRELAND	5369	81223	81223	2686	3.3	42340	611178	611178	21189	3.5	12	
421	NETHLDS	1431	21035	20699	722	3.5	15783	216409	214503	7727	3.6	12	
423	BELGIUM	50	435	435	25	5.7	1539	13456	13117	740	5.6	12	
427	FRANCE	105316	1369078	1368049	52627	3.8	663371	8119481	8105739	331533	4.1	12	
428	W GERM	2410	17666	17666	1206	6.8	19589	167540	167540	9807	5.9	12	
433	AUSTRIA	490	10000	10000	240	2.4	2263	18105	12305	1132	6.2	12	
435	CZECHO						1186	4095	4099	5920	144.7	12	
437	HUNGARY						324	1650	1620	98.2		12	
441	SWITZLD	890	13801	13801	446	3.2	6262	99236	99236	3136	3.2	12	
455	POLAND	1419	7654	7654	710	9.3	9485	54838	54838	4746	8.7	12	
469	SPAIN	206	1232	1232	103	8.4	6163	30429	30429	3086	10.1	12	
471	PORTUGL	270	1495	1495	135	9.0	1385	6869	6869	695	10.1	12	
475	ITALY	82968	1409910	1409910	41490	2.9	710833	11102836	11101273	355308	3.2	12	
479	YUGOSLV	668	2334	2334	324	13.9	4909	14813	14813	2205	14.9	12	
484	GREECE	14593	159269	159269	7299	4.6	145200	1376381	1376381	72622	5.3	12	
489	TURKEY						4848	50429	50429	2426	4.8	12	
491	CYPRUS	60	253	253	30	11.9	309	1583	1583	155	9.8	12	
508	ISRAEL						5862	55117	55117	2931	5.3	12	
580	KOR REP						48	480	480	24	5.0	12	

427	FRANCE	345	2948	2948	86	2.9	7826	52748	52748	1960	3.7	12
428	W GERM						10338	42969	42969	2587	6.0	12
435	CZECHO	1680	3256	3256	2100	64.5	9847	19215	19215	12309	64.1	12
455	POLAND	4999	23195	23195	1251	5.4	43115	172247	172247	10784	6.3	12
469	SPAIN						4354	7164	7164	1089	15.2	12
475	ITALY	1070	6904	6904	268	3.9	5365	26533	26533	1343	5.1	12
479	YUGOSLV	480	1440	1440	120	8.3	480	1440	1440	120	8.3	12
508	ISRAEL	1174	3248	3248	294	9.1	11603	24439	24439	2902	11.9	12
565	PHIL R						2400	10000	10000	480	4.8	12
583	CHINA T						889	1957	1957	223	11.4	12
588	JAPAN	17657	82981	82981	4916	5.3	263305	1108472	1108472	65846	5.9	12
	90 1021	60993	309455	309455	16934	5.5	822858	4034987	4034987	215508	5.3	
	4 PART 112C		26667304	26586562	2304585	8.7		245831761	245082297	21173397	8.6	

1680500 AQUAVIT PFG 112D

401	SWEDEN						1882	7929	7929	790	10.0	12
403	NORWAY	84	325	325	35	10.8	783	2733	2733	328	12.0	12
409	DENMARK	1912	3442	3442	803	23.3	16773	33909	28138	6549	23.3	12
421	NETHLDS	228	950	950	96	10.1	228	950	950	96	10.1	12
	3 31	2224	4717	4717	934	19.8	19666	45521	39750	7763	19.5	

1681000 ARRACK PFG 112D

427	FRANCE						264	2093	2093	264	12.6	12
504	LEBANON	469	2625	2625	469	17.9	2266	13235	13235	2266	17.1	12
508	ISRAEL						703	2451	2451	703	28.7	12
511	JORDAN						192	1104	1104	192	17.4	12
791	REP SAF						290	2147	2147	290	13.5	12
	1 22	469	2625	2625	469	17.9	3715	21030	21030	3715	17.7	

1681500 BITTERS, CONTAINING SPIRITS, UNFIT FOR BEVERAGE USE PFG 112D

274	TRINID	9699	56820	56820	9117	16.0	117447	677280	677280	110399	16.3	12
428	W GERM						1637	49627	49627	1539	3.1	12
475	ITALY						1175	4887	4887	1104	22.6	12
	2 27	9699	56820	56820	9117	16.0	120259	731794	731794	113042	15.4	

1681700 BITTERS, CONTAINING SPIRITS, FIT FOR BEVERAGE USE PFG 112D

427	FRANCE						96	855	855	48	5.6	12
428	W GERM	45	404	404	23	5.7	383	2507	2507	193	7.7	12
441	SWITZLD	48	467	467	24	5.1	6[illegible]	6452	6452	348	5.4	12
475	ITALY	4764	20360	19800	2344	11.8	70169	298002	297442	35049	11.8	12
583	CHINA T						56	520	520	28	5.4	12
	5 48	4857	21231	20671	2391	11.6	71400	308336	307776	35666	11.6	

1681900 BRANDY IN CONTAINERS NOT OVER 1 GAL, NOT OVER 9 DOLLARS PFG 112D

201	MEXICO	180	975	975	112	11.5	790	4141	4141	490	11.8	12
333	PERU	300	2668	2668	186	7.0	660	5844	5844	409	7.0	12
412	U KING	48	338	338	30	8.9	1808	15490	15490	1120	7.2	12
421	NETHLDS						36	300	300	22	7.3	12
427	FRANCE	22581	153461	153461	14000	9.1	404035	3041823	3034977	249948	8.2	12
428	W GERM	3491	27780	27780	2164	7.8	32251	218525	218525	19994	9.1	12
433	AUSTRIA						120	500	500	74	14.8	12
435	CZECHO						1800	7059	7059	9000	127.5	12
441	SWITZLD						92	1070	1070	57	5.3	12
469	SPAIN	13717	60769	60769	8505	14.0	105147	443529	442707	65057	14.7	12
471	PORTUGL	132	664	664	82	12.3	9214	39891	39891	5710	14.3	12
475	ITALY	77	345	345	48	13.9	1616	8038	8038	1001	12.5	12
479	YUGOSLV	744	3173	3173	461	14.5	16615	82628	82628	10299	12.5	12
484	GREECE	480	2286	2286	297	13.0	4285	31323	31323	2656	8.5	12
491	CYPRUS						367	2213	2213	227	10.3	12
508	ISRAEL	60	263	263	37	14.1	9576	45071	44783	5915	13.2	12

1673520 SHERRY, IN CONTAINERS EACH HOLDING 1 GALLON OR LESS GAL 112C --CONTINUED IM 146 MTH 12 1972000165

233	2048	183025	1782355	1782002	182990	10.3	1276037	12257564	12253699	1275595	10.4	

1673540 SHERRY WINE, IN CONTAINERS EACH HOLDING MORE THAN 1 GALLON GAL 112C

469	SPAIN	104	637	637	104	16.3	24942	119715	118760	24679	20.8	12
1	23	104	637	637	104	16.3	24942	119715	118760	24679	20.8	

1673720 WINE,GRAPE,OV 14% ALCOHL NSPF IN CONT NOV 1 CAL EACH GAL 112C

122	CANADA	561	2279	2279	561	24.6	619	2614	2614	619	23.7	12
409	DENMARK						2398	15561	15561	2398	15.4	12
423	BELGIUM						97	1568	1568	97	6.2	12
427	FRANCE	2248	12605	11944	2214	18.5	42517	200722	196857	42364	21.5	12
428	W GERM	67	302			FREE	1987	5191	4889	1920	39.3	12
469	SPAIN	13344	74387	74387	13344	17.9	69347	338976	338976	69347	20.5	12
471	PORTUGL	15270	114496	114496	15270	13.3	182324	1139170	1138103	182012	16.0	12
475	ITALY	1797	7527	7527	1797	23.9	10879	55728	55728	10879	19.5	12
479	YUGOSLV						230	900	900	230	25.6	12
484	GREECE	5475	14049	14049	4475	31.9	35363	114324	114324	35363	30.9	12
491	CYPRUS						133	596	596	133	22.3	12
508	ISRAEL	70	704	704	70	9.9	4272	10529	10529	4272	40.6	12
588	JAPAN						288	1250	1250	288	23.0	12
602	AUSTRAL	163	1163	1163	163	14.0	1496	7947	7947	1496	18.2	12
759	MADEIRA	4453	20730	20730	4453	21.5	41659	200452	200452	41659	20.8	12
133	1251	42448	248242	247279	42347	17.1	393559	2095537	2090294	393027	18.8	

1673740 GRAPE WINE OVR 14% ALHL NSPF IN CONTAINERS OVER 1 GAL GAL 112C

427	FRANCE						3085	40192	40192	3085	7.7	12
471	PORTUGL						1725	8282	8282	1725	20.8	12
475	ITALY						144	1080	1080	144	13.3	12
484	GREECE						809	5119	5119	809	15.8	12
13							5763	54673	54673	5763	10.5	

1674000 VERMOUTH, IN CONTAINERS EACH HOLDING 1 GALLON OR LESS GAL 112C

122	CANADA						299	975	975	63	6.5	12
236	BAHAMAS						283	1770			FREE	12
272	BARBADO						192	1200	1200	40	3.3	12
312	GUYANA						106	424	424	22	5.2	12
409	DENMARK						4877	33980	33980	1024	3.0	12
412	U KING	212	2718	2718	45	1.7	1650	12252	12252	347	2.8	12
421	NETHLDS						163	718	718	34	4.7	12
427	FRANCE	94160	269326	269326	19837	7.4	1071963	3072833	3071324	225030	7.3	12
469	SPAIN	101	435	435	21	4.8	12551	45042	45042	2637	5.9	12
471	PORTUGL						333	1381	1381	70	5.1	12
473	MALTA						240	600	600	50	8.3	12
475	ITALY	340111	1077086	1076431	71376	6.6	3802212	10591961	10577654	797642	7.5	12
484	GREECE						150	500	500	31	6.2	12
508	ISRAEL						539	1384	1384	113	8.2	12
588	JAPAN						943	5995	5995	198	3.3	12
305	3459	434884	1349565	1348910	91279	6.8	4896501	13771015	13753529	1027301	7.5	

1674200 VERMOUTH IN CONTAINERS EACH HOLDING OVER 1 GALLON GAL 112C

412	U KING						1632	3596	3596	522	14.5	12
427	FRANCE						120	325	325	38	11.7	12
469	SPAIN						20674	9700	9700	6616	68.2	12
475	ITALY	2901	8298	8298	928	11.2	8558	27425	27425	2738	10.0	12
1	12	2901	8298	8298	928	11.2	30984	41046	41046	9914	24.2	

1675000 OTHER FERMENTED ALCOHOLIC BEVERAGES, NES GAL 112C

122	CANADA						1799	6698	6698	449	6.7	12
401	SWEDEN						3738	27054	27054	935	3.5	12
409	DENMARK	28405	165598	165598	7102	4.3	412354	2360584	2360584	103104	4.4	12
412	U KING	3609	10470	10470	903	8.6	29244	80124	80124	7315	9.1	12
421	NETHLDS	1574	9415	9415	394	4.2	16241	93341	93341	4062	4.4	12

583	CHINA T	190	473	473	71	15.0	378	845	845	142	16.8	12
588	JAPAN	16908	57326	57326	6342	11.1	173365	553495	553495	65021	11.7	12
602	AUSTRAL	7078	24575	24575	2654	10.8	28709	101062	101062	10766	10.7	12
614	N ZEAL						636	2135	2135	239	11.2	12
714	MOROC						159	497	497	60	12.1	12
759	MADEIRA						805	1920	1920	302	15.7	12
791	REP SAF						7977	28055	28055	2991	10.7	12
1411	14118	2508876	6662133	6658517	949082	14.3	24382500	62880524	62864835	9219908	14.7	

1673040 WINE,GRAPE NOV 14% ALCOHOL IN CONT NOV 1 GAL OV $4 GAL GAL 112C

122	CANADA						2480	11476	11476	930	8.1	12
201	MEXICO						2100	10587	10587	788	7.4	12
337	CHILE	570	2590	2590	219	8.3	6449	20725	20725	1669	8.1	12
357	ARGENT	660	2663	2663	248	9.3	4709	21358	21358	1767	8.3	12
409	DENMARK						77	343	343	29	8.5	12
412	U KING	3360	35494	35494	1336	3.8	17880	167272	167272	6706	4.0	12
421	NETHLDS	533	4625	4625	219	4.7	45515	286152	286152	17072	6.0	12
423	BELGIUM	1842	16883	16883	691	4.1	21075	165735	165735	7909	4.8	12
427	FRANCE	759996	6355227	6341664	284284	4.5	7368707	62952524	62857045	2758535	4.4	12
427 1	FRANCE						1714	12961	12961	643	5.0	12
428	W GERM	271941	1811599	1811599	101981	5.6	2369404	14960659	14950262	830012	5.9	12
433	AUSTRIA	1930	9375	9375	725	7.7	30397	166966	166966	11591	6.9	12
435	CZECHO						120	1013	1013	150	14.8	12
437	HUNGARY	613	4250	4250	767	18.0	20471	136660	136660	25593	18.7	12
441	SWITZLD	1881	13963	13963	702	5.0	57904	433935	433935	21712	4.9	12
461	USSR						977	3145	3145	1221	38.8	12
469	SPAIN	60456	292256	292256	22674	7.8	410103	1936762	1936762	153803	7.9	12
471	PORTUGL	69996	415070	415070	26252	6.3	548063	2978636	2977551	205456	6.9	12
472	GIBRALT						748	3626	3626	281	7.7	12
475	ITALY	183037	975230	973825	68540	7.0	1558837	8235710	8233837	584453	7.1	12
479	YUGOSLV	1551	7807	7807	581	7.4	2471	11866	11866	926	7.8	12
484	GREECE	2737	14196	14196	1027	7.2	24254	115009	115009	9100	7.9	12
485	ROMANIA	111	519	519	139	26.8	1561	6993	6993	1952	27.9	12
491	CYPRUS						4198	20975	20975	1575	7.5	12
508	ISRAEL	508	4518	4518	191	4.2	1668	7998	7993	626	7.8	12
565	PHIL R						292	1699	1699	88	5.2	12
588	JAPAN	11045	64769	64769	4143	6.4	67751	312119	312119	25404	8.1	12
602	AUSTRAL	756	2953	2953	284	7.2	28472	130374	130374	10678	8.2	12
714	MOROC	1426	6448	6448	535	8.3	19986	91861	91861	7497	8.2	12
747	SIER LN						748	3059	3059	281	9.2	12
759	MADEIRA						632	3519	3519	238	6.8	12
791	REP SAF						1732	7256	7256	650	9.0	12
1849	17990	1375199	10041437	10026469	515536	5.1	12620000	93223973	93115139	4747342	5.1	

1673200 WINE, GRAPE, 14% OR LESS ALCOHOL, IN CONT., OVER 1 GAL GAL 112C

427	FRANCE	35	335	335	22	6.6	1227	10851	10851	769	7.1	12
469	SPAIN	300	590	590	188	31.9	2413	3634	3634	1508	41.5	12
475	ITALY						17482	59248	59248	10928	18.4	12
721	ALGERIA						124012	120938	120938	77508	64.1	12
2	25	335	925	925	210	22.7	145134	194721	194721	90713	46.6	

1673400 WINE,GRAPE,MARSALA OVER 14% ALCOHOL IN CONT NOV 1 GAL GAL 112C

427	FRANCE						137	520	520	43	8.3	12
469	SPAIN						1435	22930	22930	452	2.0	12
471	PORTUGL						349	2358	2358	110	4.7	12
475	ITALY	15146	89215	89215	4770	5.3	135692	691447	691447	42741	6.2	12
25	302	15146	89215	89215	4770	5.3	137613	717255	717255	43346	6.0	

1673520 SHERRY, IN CONTAINERS EACH HOLDING 1 GALLON OR LESS GAL 112C

469	SPAIN	183025	1782355	1782002	182990	10.3	1274819	12242790	12238925	1274377	10.4	12
471	PORTUGL						831	13431	13431	831	6.2	12
602	AUSTRAL						387	1342	1342	387	28.8	12

1671040 CHAMPAGNE AND OTHER SPARKLING WINES OVER 6 DOLLARS PER GAL GAL 112C --CONTINUED IM 146 MTH 12 1972000163

508	ISRAEL	209	1788	1788	239	13.4	352	7908	7908	412	5.2	12
582	HG KONG						31	624	624	95	15.2	12
602	AUSTRAL						118	1111	1111	138	12.4	12
	412 3050	155142	2540453	2513845	179725	7.1	965379	14859755	14663650	1113216	7.6	

1671500 CIDER, FERMENTED, STILL SPARKLING GAL 112C

122	CANADA						69	260	260	2	.8	12
201	MEXICO						2783	5975	5975	83	1.4	12
351	BRAZIL						563	1500	1500	17	1.1	12
357	ARGENT						4950	7810	7810	147	1.9	12
412	U KING	2378	4927	4927	71	1.4	20043	35816	35816	600	1.7	12
427	FRANCE	2520	4680	4680	76	1.6	26500	42465	42465	797	1.9	12
428	W GERM						755	1864	1864	22	1.2	12
469	SPAIN	80535	157057	157057	2417	1.5	233504	447188	447188	7003	1.6	12
	30 140	85482	166664	166664	2564	1.5	289162	542978	542978	8671	1.6	

1672000 PRUNE WINE GAL 112C

588	JAPAN	170	550	550	359	65.3	808	2613	2613	1706	65.3	12
	1 4	170	550	550	359	65.3	808	2613	2613	1706	65.3	

1672500 RICE WINE OR SAKE GAL 112C

412	U KING						278	1217	1217	70	5.8	12
580	KOR REP						1032	3294	3294	258	7.8	12
582	HG KONG	541	6681	6681	135	2.0	1533	9470	9470	383	4.0	12
583	CHINA T	563	1458	1456	141	9.7	4545	15950	15450	1138	7.4	12
588	JAPAN	36770	127057	127057	9194	7.2	323020	1148588	1148588	80784	7.0	12
	61 580	37874	135196	135196	9470	7.0	330408	1178019	1178019	82633	7.0	

1673020 WINE, GRAPE, NOV 14% ALCOHOL IN CONT NOV 1 GAL NOV $4 GAL GAL 112C

122	CANADA	4246	15814	15814	1593	10.1	34814	121905	121905	13059	10.7	12
201	MEXICO	2268	6425	6425	843	13.1	31097	66752	66752	11660	17.5	12
337	CHILE	6250	16743	16743	2384	14.0	77076	194267	194267	28905	14.9	12
351	BRAZIL	1675	2108	2108	628	29.8	10915	16048	16048	4094	25.5	12
357	ARGENT	2522	6671	6671	946	14.2	21024	55866	55866	7887	14.1	12
409	DENMARK						3578	6700	6700	1342	20.0	12
412	U KING						28735	74370	74370	10775	14.5	12
419	IRELAND						576	1687	1687	216	12.8	12
421	NETHLDS						52778	164711	164711	22043	13.4	12
423	BELGIUM	66	255	255	25	9.8	40590	115114	115114	15222	13.2	12
427	FRANCE	268302	716839	716839	99302	13.9	3021969	8296694	8296694	1133262	13.7	12
428	W GERM	204586	658782	658782	76721	11.6	2193656	6589247	6587827	822504	12.5	12
433	AUSTRIA	5269	16940	16940	1976	11.7	56132	156724	156724	21051	13.4	12
435	CZECHO	132	453	453	165	36.4	1658	5307	5307	2073	39.1	12
437	HUNGARY	8179	29922	29922	10224	34.2	70329	228004	228004	87920	38.6	12
441	SWITZLD						3030	4845	4845	1155	23.8	12
455	POLAND						971	3166	3166	364	11.5	12
461	USSR						1187	2940	2940	1484	50.5	12
467	AZORES						577	1693	1693	366	21.6	12
469	SPAIN	674256	1275869	1272990	252375	19.8	6668587	12374245	12361475	2497936	20.2	12
471	PORTUGL	631628	1921163	1921163	236866	12.3	5860900	17610074	17610074	2197728	12.5	12
473	MALTA						748	1934	1934	281	14.5	12
475	ITALY	571527	1679735	1678998	214256	12.8	4994868	13986163	13984664	1872962	13.4	12
479	YUGOSLV	20233	45657	45657	7587	16.6	122798	260531	260531	46054	17.7	12
484	GREECE	56415	116731	116731	21157	18.1	439011	1027405	1027405	163545	15.9	12
485	ROMANIA	1260	3150	3150	1575	50.0	15196	45337	45337	18998	41.9	12
487	BULGAR	460	1168	1168	575	49.2	2317	6098	6098	2896	47.5	12
489	TURKEY	230	400	400	86	21.5	4141	7402	7402	1553	21.0	12
491	CYPRUS	1030	3648	3648	387	10.6	3443	11698	11698	1292	11.0	12
504	LEBANON						408	1505	1505	153	10.2	12
507	IRAN						1620	4860	4860	608	12.5	12
508	ISRAEL	27685	61286	61286	10384	16.9	401162	743337	743337	150443	20.2	12
582	HG KONG						1750	5886	5886	656	11.1	12

000162 1670020 ALE, PORTER, STOUT AND BEER, CONTAINERS NOV ONE GAL EACH GAL 112C --CONTINUED IM 156 MTH 12 1972

602	AUSTRAL	23549	20150	20150	1412	[illegible]	66313	59014	57538	3903	6.8	12
614	N ZEAL	108	378	378	6	1.6	3320	3450	3450	199	5.8	12
579	7091	1805419	2441742	2410139	111215	4.6	24012110	31950096	31566542	1438053	4.6	

1670040 ALE, PORTER, STOUT, AND BEER IN CONTAINERS EACH OVER ONE GAL GAL 112C

122	CANADA	65479	32148	32148	3929	12.2	950982	462645	462645	57059	12.3	12
201	MEXICO	3100	1800	1800	186	10.3	83700	48600	48600	5019	10.3	12
401	SWEDEN						1647	3264	3264	99	3.0	12
403	NORWAY						9344	11608	11275	534	4.7	12
409	DENMARK	5017	3435	3435	301	8.8	52910	54311	54311	3174	5.8	12
412	U KING	32604	30340	28364	1853	6.5	421387	399601	396143	25101	6.3	12
419	IRELAND	3402	1399	1399	208	14.6	142487	67671	67671	8545	12.6	12
421	NETHLDS	44007	36040	36040	2541	7.0	997993	732711	732711	59077	8.2	12
427	FRANCE						10198	9065	9065	612	6.7	12
428	W GERM	176263	162028	162028	10574	6.5	2134468	1909277	1909277	128063	6.7	12
433	AUSTRIA	4325	2229	2229	259	11.6	20198	10330	10330	1210	11.7	12
435	CZECHO						13271	11912	11912	6637	55.7	12
479	YUGOSLV						2933	2489	2489	176	7.1	12
602	AUSTRAL						743	630	630	45	7.1	12
136	1688	334202	269419	267443	19947	7.5	4842241	3724144	3720353	296151	8.0	

1671020 CHAMPAGNE AND OTHER SPARKLING WINES, 6 DOLLARS OR LESS A GAL GAL 112C

122	CANADA						418	2230	2230	489	21.9	12
201	MEXICO						210	1096	1098	246	22.4	12
337	CHILE						2294	13353	13353	2684	20.1	12
351	BRAZIL						210	325	325	246	75.7	12
357	ARGENT						72	300	300	84	28.0	12
409	DENMARK						2325	1710	1710	2720	159.1	12
412	U KING	230	1012	1012	269	26.6	230	1012	1012	269	26.6	12
421	NETHLDS						300	1335	1335	352	26.4	12
423	BELGIUM	1896	6095	6095	2218	36.4	1971	6360	6360	2306	36.3	12
427	FRANCE	22736	88253	88253	26603	30.1	131244	516932	509325	151169	29.7	12
428	W GERM	15375	60259	60259	17991	29.9	67139	264459	264459	78559	29.7	12
433	AUSTRIA						2276	6914	6914	2663	38.5	12
435	CZECHO	120	500	500	720	144.0	120	500	500	720	144.0	12
441	SWITZLD						655	3405	3405	813	22.6	12
469	SPAIN	2931	13101	13101	3429	26.2	19598	67107	67107	22930	34.2	12
471	PORTUGL	11566	48520	48520	13532	27.9	101847	367476	367476	119161	32.4	12
475	ITALY	93016	390561	390561	108826	27.9	657754	2843871	2837506	768245	27.1	12
479	YUGOSLV	863	3857	3857	1010	26.2	3005	9157	9157	3515	38.4	12
484	GREECE						2552	9003	9003	2986	33.2	12
507	IRAN						960	4800	4800	1123	23.4	12
508	ISRAEL	2160	8860	8860	2527	28.5	12373	52354	52354	14475	27.6	12
588	JAPAN						1870	6086	6086	2188	36.0	12
602	AUSTRAL						791	2525	2525	926	36.7	12
791	REP SAF						173	684	684	202	29.5	12
295	2301	150893	621018	621018	177125	28.5	1010417	4183246	4169304	1179071	28.3	

1671040 CHAMPAGNE AND OTHER SPARKLING WINES OVER 6 DOLLARS PER GAL GAL 112C

122	CANADA						251	2144	2144	294	13.7	12
337	CHILE						220	1600	1600	257	16.1	12
357	ARGENT						146	976	976	171	17.5	12
412	U KING	403	3120	3120	472	15.1	2335	32738	32738	2731	8.3	12
423	BELGIUM						102	1100	438	68	15.5	12
427	FRANCE	130911	2360010	2333402	151376	6.5	837074	13805394	13615584	964078	7.1	12
428	W GERM	4292	33983	33983	5021	14.8	32214	265146	265146	37690	14.2	12
433	AUSTRIA						115	1050	1050	135	12.9	12
441	SWITZLD						1139	10926	10926	1333	12.2	12
469	SPAIN	333	3044	3044	395	13.0	715	5832	5832	836	14.3	12
471	PORTUGL						2958	52263	51610	3347	6.5	12
475	ITALY	17574	127337	127337	20561	16.1	86139	659772	654792	99970	15.3	12
479	YUGOSLV	1420	11171	11171	1661	14.9	1420	11171	11171	1661	14.9	12

Source: U.S. Department of Commerce.

The CHAIRMAN. We appreciate your bringing your statement to the committee, Mr. Weiss.

Are there any questions?

Mr. COLLIER. Mr. Chairman.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. I would like to make one observation with regard to the nontariff barriers. You know, as we all know, that this is not a new situation. When we passed the 1962 act it was the impression of many Members of Congress that in the process of using the authority granted to our negotiators in tariff reductions that they would in fact make nontariff barriers part of such considerations.

Obviously, they have not done this, and I have come to the conclusion after some 10½ years that, we had better write into any law that we pass some mandatory requirements to deal with nontariff barriers. Up to now in the past 10 years virtually nothing has been done, and the nontariff barriers have not only persisted but new ones have been added.

Mr. WEISS. And rather ingenious ones at that, too. May I add, Mr. Collier, that you and I both have learned, I hope, a great deal in the course of the decade.

In 1962 the American labor movement was categorically in favor of the Trade Expansion Act that was enacted that year. All of us were living under a euphoria that that kind of act would result in increased employment and that, if there was free trade, it would redound to the advantage of all.

We have learned a great deal in that decade and I hope that the committee will do something to correct that situation.

Mr. COLLIER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Burke will inquire.

Mr. BURKE. Is there any difference in the tariff duties on alcoholic beverages coming in in bulk rather than in bottles?

Mr. WEISS. I am not familiar with that aspect. I don't think that there is any difference except that when they come in in bulk they come in as, you know, Scotch undiluted, and when the come in in the bottle, water has been added.

There is that difference, but I think that the people in the industry who are directly involved can give a more authoritative response.

I might say, Mr. Burke, that we do not object to Scotch and Canadian whisky coming in in bulk. As a matter of fact, in many instances it gives work to our people on the bottling line and there are many bottling lines that we have that are manned primarily for that. In addition, we do have salesmen who sell these products.

So we have no objection to that except that, as I indicated we would want to put this on a plane of fairness and equity.

Mr. BURKE. I was wondering if there was a differential because of the tariff duty being the same on bottled goods as on bulk. This takes jobs away from Americans because they would have an opportunity to bottle the goods over here. I know some of the alcoholic beverages have to come in in bottles.

Mr. WEISS. Most of the alcoholic beverages do come in in bottles. Those that come in in bulk are bottled by our members and to that degree it gives employment to our members.

But I should add that I certainly would prefer that more work be done by our members producing American whisky. I think we will get a lot more jobs in that particular way.

Mr. BURKE. Thank you. That is all, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

If not, we thank you again, Mr. Weiss.

Mr. WEISS. Thank you.

The CHAIRMAN. Mr. Lester Abelson.

Mr. Abelson, if you will identify yourself for our record, we will be glad to recognize you, sir.

STATEMENT OF LESTER S. ABELSON, GENERAL PARTNER AND CHIEF EXECUTIVE, BARTON BRANDS, LTD.

SUMMARY

I. The passage and implementation of Section 103(c) of the Trade Reform Act of 1973 will reduce the duties and excise taxes on imported distilled spirits thereby enhancing the competitive position of such products at the expense of domestic products which are presently suffering from the impact of the imports. Such result will have disastrous affects on the domestic whiskey industry and is contrary to the stated purposes of the Act.

II. The reduction in duties and excise taxes flowing for passage of Section 103(c) will produce an immediate loss in Federal revenue of more than $100 million per year. Such revenue losses could reach a quarter of a billion dollars by the end of the current decade.

Moreover, Section 103(c) cannot help but stimulate the growth of imported distilled spirits and thereby contribute to deepening our current balance of payments deficit.

III. Employment in the U.S. will suffer as a result of Section 103(c). Thousands of jobs will be lost in the U.S. through the transfer of domestic bottling activities to foreign countries. Such transfer will be made economically attractive as a consequence of the duty and excise tax reductions flowing from the passage of Section 103(c).

Mr. ABELSON. Mr. Chairman and members of the committee, I am Lester S. Abelson. I am a general partner of Barton Brands, Ltd. Barton is a distiller, packager and marketer of bourbon whisky, light whisky, other American whiskys, Scotch whisky, and gin and vodka. We have previously submitted a written statement in detail outlining our position regarding section 103(c) of the Trade Reform Act of 1973.

The CHAIRMAN. Do you want that included in the record?

Mr. ABELSON. Yes.

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

Mr. ABELSON. Thank you. I would like, at this time of course, to briefly summarize our written statement.

We are opposed to section 103(c) of the Trade Reform Act. Section 103(c) gives the President the power, without limitations, to not only change the method of assessing duties on imported bottled distilled spirits, but also to change the method of assessing Federal excise taxes on such products as well.

It is not only the duties, but the excise taxes as well.

Section 5001(a)(1) of the Internal Revenue Code provides for an excise tax at the rate of $10.50 on each proof gallon or wine gallon when below proof. Under the authority of Section 103(c), the President would have the power to modify section 5001(a)(1) so that below-proof imported bottled distilled spirits would be taxed on a proof

gallon rather than a wine gallon basis, thereby reducing the Federal excise taxes on such products from $10.50 per wine gallon to a lesser amount.

Such action by the President under the authority of section 103(c) would be entirely contrary to the express purposes of the Trade Reform Act. It would by no means stimulate economic growth at home or enlarge foreign markets for U.S. products. Instead, it would create extremely serious domestic consequences.

One immediate serious adverse impact of changing the method of assessing duties and taxes on below-proof bottled imported distilled spirits would be the loss of more than $100 million per year in Federal revenues. This estimate is based on the volume of imports in the year 1972. These revenue losses could grow to approach $250 million per year by 1980 on the basis of current industry projections for imports in the years ahead.

If the method of taxing such imported products is changed, the cost of a case of Scotch or Canadian whisky, for example, would be reduced by approximately $4.60. This would unquestionably enhance the competitive position of these imported whiskies. This type of marketing opportunity can only increase the momentum of foreign products in capturing a greater share of the U.S. market. Since 1955 that share has grown from 14.5 percent to 38 percent with a corresponding reduction in the market share of domestic products.

In the past 5 years, duties alone on imported whiskies have been reduced by approximately 50 percent as a consequence of the Kennedy round. With this added stimulant, imports have made even more serious inroads in market share in recent years all at the expense of our domestic products. In one year, from 1970 to 1971, while total sales of domestic whiskey declined by 1 percent, sales of imports grew 11.6 percent. It should be clear to everyone that there are no existing American trade barriers to imported distilled spirits.

The passage and implementation of section 103(c) will also impact adversely on our balance-of-payments problems and could result in the loss of thousands of jobs in the distilling and related domestic industries.

In 1972, the United States exported $15.9 million in alcoholic beverages and imported a total of $782.9 million, or a ratio of 50 to 1. This trade deficit of $757 million can only be deepened by any action which affords marketing and sales advantages to imported products at the expense of domestic products.

Finally, we can anticipate the loss of thousands of American jobs related to U.S. bottle manufacturing, label manufacturing, trucking, and other fields as well as employees in our own industry. British trade unions and the organized whisky industry in Great Britain have announced their active support of section 103(c) in the expectation that its passage and implementation will result in the shift of U.S. bottling operations of imported whiskies to the country of export. We fail to understand how such loss of employment can be compatible with the purposes of the act now under consideration by this committee.

For the foregoing reasons, we urge this committee to reject section 103(c).

I would like to add just a remark. I am the only American distiller to come here personally to present the American industry's position. I suspect there is a good reason for that. Barton is primarily a distiller

of American whiskys. However, we do have two small distilleries in Scotland. We are interested in the Scotch whisky business. We ship our output from our Scotch distilleries to the United States in bulk containers. We bottle it here with American labor and bring the product to the consumer at a lower price than if we had to bottle it in Scotland.

The reason why a large number of distillers are not appearing here in my judgment, and it is only a guess, is that practically every major distiller in the United States is an agent for one of the big Scotch brands, for one of the three or four principal Scotch whisky distillers and they would be embarrassed to come here and take a position against the Scotch whisky industry.

This is the reason why they can't come here. If they did that, their supplier over there would say "Hey, what are you doing?" I am interested in every phase of the whisky business, or my company is, and I feel that the product will take care of itself on a fair arrangement such as exists today and has existed for many years, which enables us to build a little industry here which is being threatened.

As you can see, our domestic sales are going down, while the imports are going up. Duties have been going down. A drastic change such as this is going to accelerate the purchases of imported goods, and therefore, affect our balance of trade and our whole domestic industry.

That is the reason I have come here personally, because I think it is something the distillers of the United States are unable to stand up to publicly, and I happen to be in a position where I can do it. I feel that the industry needs this kind of reaction before this committee.

[The prepared statement of Lester S. Abelson follows:]

STATEMENT OF LESTER S. ABELSON, BARTON BRANDS, LTD.

May It Please the Committee:

My name is Lester S. Abelson. I am a General Partner of Barton Brands, Ltd. Barton Brands, Ltd. distills, packages and markets Kentucky bourbon whiskeys, other domestic whiskeys and Scotch whiskies and packages and markets gins and vodkas.

I am appearing today to speak in opposition to Section 103(c) of the Trade Reform Act of 1973 which reads as follows:

"The President, whenever he finds that it will be of substantial benefit to the United States, is hereby authorized to take any action required or appropriate to carry out any trade agreement negotiated pursuant to Subsection (b), *to the extent that such implementation is limited to a reduction of 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." (Emphasis added.)

We are opposed to Section 103(c) because its passage and implementation by the President would be contrary to the expressed purposes of the Act. Passage of Section 103(c) will not stimulate economic growth of the United States and enlarge foreign markets for its products. On the contrary, passage of Section 103(c) will, among other things, have a disastrous affect on the domestic whiskey industry, would result in a loss of more than $100 million a year in Federal revenues, would intensify the outflow of dollars thereby deepening this country's trade deficit and is likely to result in the loss of thousands of jobs in various domestic industries.

I. PASSAGE OF SECTION 103(C) WILL HAVE A DISASTROUS AFFECT ON THE DOMESTIC WHISKEY INDUSTRY

It is our understanding that Section 103(c) gives the President the authority to not only make changes in customs duties but, in addition, authorizes the President to change the Internal Revenue Laws; specifically, we understand the Act to give the President the authority to modify the basis for assessment of

customs duties and excise taxes on imported distilled spirits. The official analysis of Section 103 which appears on Page 68 of the Committee print of the Act states, in part, as follows:

. . . Subsection (c) grants the President advance authority to implement agreements which substantially benefit the United States with respect to methods of customs valuation, establishing the quantities on which assessments are made, and 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. This authority would not apply, however, to countervailing duty or antidumping regulations.

At the present time, the Federal excise taxes on distilled spirits are assessed in the same manner and at the exact same rate on both domestic and imported products. This tax is imposed under the provisions of 26 U.S.C. 5001(a)(1) which provides as follows:

"(a) Rate of Tax

1. General. It is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon."[1]

Under the authority of Section 103(c), the President could reduce the duties and excise taxes on imported bottled distilled spirits. For example, at the present time, a gallon of 86 proof Scotch whisky bottled in the United Kingdom is assessed for duties and excise taxes at the rate of $11.01. Implementation of Section 103(c) would work a reduction of these duties and taxes to $9.47 per gallon. Such a reduction in duties and excise taxes would have a disastrous affect on the domestic whiskey industry and is contrary to the stated purposes of the Act.

Such a reduction in excise taxes and duties on imported distilled spirits could only enhance the competitive position of such products in this country. Foreign shippers will be able to preserve their current profit levels and, at the same time, they could lower their prices or intensify their marketing efforts in this country, all at the expense of the U. S. Treasury.

The imposition of the $10.50 per gallon excise tax on underproof imported bottled distilled spirits has not created a burden on trade. It has not impeded the sale of imported products in the United States. Sales of imported distilled spirits, especially Scotch and Canadian whiskeys, have grown dramatically in the United States. In the period from 1955 to 1972 imported products have grown from 14.5% of the total U.S. market to 38% of the U.S. market. During this period, in spite of the growth in the total market for distilled spirits in the United States, domestic products have declined from 85.5% to 62% of the total market. In this period, Scotch consumption has grown 258.3% and Canadian consumption has grown 235.8%, while Bourbon consumption has grown 58.3%. The statistics for more recent years are even more dramatic. Sales of total domestic whiskeys in the United States declined 1% from 1970 to 1971. At the same time, sales of imported whiskeys increased by 11.6%. In this period, Scotch sales increased by 12.4% and Canadian whiskey increased by 4.3%.

Industry analysts have expressed the view that no changes in tariff policies in this or other nations would have in the past or will in the future have any pronounced effect on the growth in consumption of imported distilled spirits in the United States. As a matter of fact, industry projections indicate that Scotch will move ahead of Bourbon in the total annual sales in the United States before the end of this decade. Current projections for Scotch are that the United States will consume more than 32 million cases of the product in 1976 and more than 50 million cases in 1981. It should be noted that these projections have been made without taking into account the enhanced competitive position of imported distilled spirits in this country as a consequence of the passage of Section 103.

It is interesting to note that in the period between 1967 and 1972, U.S. duties on imported distilled spirits have been reduced dramatically as a consequence of the Kennedy Round. For example, the duty on Irish and Scotch whisky has been reduced in this period from $1.02 to 51 cents a gallon while the duty

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[1] Proof Gallon: A proof gallon is a standard United States gallon of 231 cubic inches containing 50 percent of ethyl alcohol by volume. Thus a whisky of 100 proof is 50 percent alcohol. Wine Gallon: A physical measure of actual liquid volume containing 231 cubic inches.

on Canadian whisky has been reduced from $1.25 to 62 cents a gallon. It should also be noted that despite an increase in the export of the United States distilled spirits to other nations in recent years, the United States only ships to the rest of the world a twentieth of the amount of distilled spirits it accepts from other nations.

It is ironic that, in effect, we are now confronted with a proposal to further reduce tariffs and taxes on imported distilled spirits at a time when domestically produced distilled whiskys are suffering from a decline in sales. Section 103 is clearly inconsistent with the stated purposes of the Act and its passage and implementation can only have disastrous effects on the economy of the United States.

PASSAGE OF SECTION 103 WILL RESULT IN AN IMPORTANT LOSS IN FEDERAL REVENUES AND DEEPEN OUR BALANCE-OF-PAYMENTS PROBLEMS

The reduction of duties and excise taxes on imported bottled distilled spirits will result in an immediate loss of Federal revenues of more than $100 million a year. This estimate is based on the volume of such imports in calendar 1972. Moreover, such tax revenue losses will be even greater in the future and could approach a quarter of a billion dollars per year by the end of this decade based on current industry projections for Scotch and Canadian imports in the years ahead.

Furthermore, our balance of payments problem can only be deepened by the passage of Section 103. According to the U.S. Department of Commerce, the United States spent $782.9 million on imported alcoholic beverages in 1972. This compares with the $15.9 million of alcoholic beverages exported by domestic producers in the same period. The trade deficit in distilled spirits therefore amounted to approximately $757 million in 1972 or more than 10% of the total of this country's trade deficit last year.

Today is hardly the time to reduce taxes and intensify our balance of payments problems.

III. PASSAGE OF SECTION 103 WILL REDUCE EMPLOYMENT IN THE UNITED STATES

We cannot be certain as to the impact of the proposed legislation on employment in the United States. We believe that foreign shippers of bulk distilled spirits will, as a consequence of the law, begin bottling their products prior to export. The British are convinced of this. And, in fact, the question of employment in the United Kingdom has been a major stimulant for a campaign in the United Kingdom seeking passage of Section 103. I quote from an article written by the Industrial Editor of the Glasgow (Scotland) Herald on April 11, 1973:

A new campaign, which if successful could bring 6000 more jobs to Scotland, is being mounted by the Scotch whisky industry and the General and Municipal Workers's Union

* * * * * * *

While they appear to be working independently of each other, both groups are exerting strong pressure to try to persuade the Government that action must be taken to change an American law which means that whisky imported in a bottle has a 15% higher tax than the same Scottish product imported to the United States in bulk and bottled there.

* * * * * * *

The GMWU are raising the question with Scottish MPs and at next week's annual conference of the Scottish Trades Union Congress. The Scotch Whisky Association have been trying to have the position changed for years and are now having talks with the Department of Trade and Industry.

We are unable to speculate as to the number of new jobs which would be created in Canada and other countries of the world that currently ship products in bulk to the United States for bottling here. But, without question, the creation of such new jobs in Scotland, Canada and other countries will mean a loss of employment in the United States will not be confined to our industry. Employees of bottle manufacturers, label manufacturers and other manufacturers who furnish bottling materials and services in connection with the bottling of these products in the United States as well as the employees in trucking industry are bound to be affected.

The stated purposes of the Act do not include furthering the export of employment in the United States.

CONCLUSION

Based on the foregoing, we respectfully urge this Committee to reject Section 103(c).

The CHAIRMAN. We thank you, Mr. Abelson, for your statement.

Are there any questions of Mr. Abelson?

Mr. Burke.

Mr. BURKE. From your testimony, I understand that you don't do any exporting.

Mr. ABELSON. We do export; yes, sir.

Mr. BURKE. You do export? I notice on page 4 that you mention the duties on Scotch whisky had been reduced from $1.02 to 51 cents a gallon, and the duty on a Canadian whiskey has been reduced from $1.25 to 62 cents a gallon. How much did they reduce their duties for ours?

Mr. ABELSON. I rather doubt that they reduced them at all. I couldn't say.

Mr. BURKE. You mean we reduced them and got nothing in return?

Mr. ABELSON. I have no knowledge about their reduction; export sales of U.S. whisky have not increased, except that Germany has increased the importation through bulk with a similar regulation that we have here.

Mr. BURKE. I wonder why our negotiators keep reducing tariffs on our side and don't get any reductions for our goods over there.

Mr. ABELSON. I can't tell you. It is a mystery to me. We have a very difficult time.

Mr. BURKE. You are a businessman. Do you think that is good business?

Mr. ABELSON. No, sir. I certainly do not.

Mr. BURKE. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Collier will inquire.

Mr. COLLIER. You relate a figure here of $782 million on imported alcoholic beverages. Looking at the table 16 in our report, it is obvious that each year the value of imports increases, while exports decrease. Hence, let me ask this. When you say alcoholic beverages, does that include everything? You spoke about Scotch, but were you talking about vodka and gin also?

Mr. ABELSON. It includes all alcoholic beverages.

Mr. COLLIER. Where is the greatest impact, in Scotch or in liquor?

Mr. ABELSON. Scotch is the biggest item. I don't know whether Scotch or Canadian, but I think Scotch is bigger than Canadian. There is some British gin brought over here. There are small amounts of other things, cordials, liquors, various specialties from various countries, and they all come under the same taxing argument.

Mr. COLLIER. So that it isn't just in the import of Scotch. There is a growing number of foreign beers and ales.

Mr. ABELSON. I am not sure about the beer and ale tax arrangements.

Mr. COLLIER. In the case of vodka, we did get a reciprocal deal with Pepsi-Cola in Russia, I understand.

Mr. ABELSON. That is going to be a new element entered into the picture.

Mr. COLLIER. I am not sure what the motives of the Soviet Union are in that kind of a trade, but nevertheless, at least we get some reciproc-

ity there. But in these other areas of nonessential products, it would just seem to me that this is one place where we could at least break even.

I just can't, for the life of me, understand why in this industry, because of its nature, there would be any problem whatsoever in getting 100 percent reciprocity.

Mr. ABELSON. That is true.

Mr. COLLIER. There could be arguments posed in other areas, valid perhaps in some specific cases. But it just seems to me that there is absolutely no justification for an imbalance in our import-export business in distilled spirits.

Mr. ABELSON. That is true, and of course, you would have to go way back into history to see why people want to consume one alcoholic product rather than another. You can go through a long historical sequence, going back to prohibition. That is when Scotch got started here.

Mr. COLLIER. I am not concerned with that, because if there was some equity or reciprocity. I have yet to see the fellow who couldn't get a particular imported brand who therefore did not have a drink at all.

Thank you, sir.

[The following was subsequently received for the record:]

BARTON BRANDS LTD.,
Chicago, Ill., June 19, 1973.

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives,
Washington, D.C.

(Attention: Mr. John M. Martin, Jr., Chief Counsel).

DEAR SIR: * * * During the course of the colloquy between Mr. Abelson and the members of the Committee, Mr. Abelson was asked two questions to which he was unable immediately to supply complete answers. Since the Committee expressed an interest in obtaining more complete information in the two areas in which they questioned Mr. Abelson, we have researched these areas and are now able to supply the following information.

Mr. Abelson was asked whether there had been any growth in the export of domestic distilled spirits. He responded that he believed that there had been some growth in this area, but was unable to supply exact information. For your information, we are enclosing herewith a table detailing total U.S. distilled spirits exports from 1934 through 1971. The table was compiled by the Distilled Spirits Council of the United States, Inc.

Mr. Abelson was also asked whether British and Canadian import duties on Bourbon whisky had been reduced in like fashion to the reduction of U.S. duties on Canadian and Scotch whiskeys during the period from 1967 to 1972. Mr. Abelson indicated that he believed that there had not been any reduction in such foreign duties on Bourbon whisky. Since Mr. Abelson's appearance before the Committee, we have confirmed through the Distilled Spirits Council of the United States, Inc. that Mr. Abelson's response to the Committee's question was correct. To the knowledge of the Distilled Spirits Council of the United States, Inc., there has been no reduction in either Canadian or British import duties on Bourbon whisky on a reciprocal basis to the reduction of U.S duties on Scotch and Canadian whiskys during the period of 1967 through 1972. For your further information, we are enclosing a copy of a table entitled "U.S. Custom Duty Reductions: 1968–1972" which appeared on Page 191 of The Liquor Handbook—1972.

Very truly yours,

FRED R. MARDELL, *Secretary.*

Enclosures.

TOTAL U.S. IMPORTS BY TYPE (INCLUDING FOREIGN AND NONCONTIGUOUS TERRITORIES)

[In tax gallons]

Year	Scotch	Canadian	Irish	Gin	Rum	Brandy	Cordials	Miscellaneous	Total imports
1971	54, 300, 790	34, 795, 117	173, 027	4, 250, 776	10, 951, 158	3, 310, 792	3, 470, 144	1, 519, 357	112, 789, 693
1970	48, 701, 183	31, 029, 925	161, 273	3, 869, 276	9, 290, 093	2, 673, 840	2, 917, 049	1, 227, 361	99, 910, 635
1969	44, 003, 788	29, 925, 912	121, 833	3, 512, 592	6, 592, 921	2, 458, 790	2, 725, 217	1, 188, 757	90, 573, 316
1968	41, 023, 056	25, 280, 834	116, 407	3, 193, 274	6, 978, 149	2, 310, 284	2, 315, 128	1, 015, 081	82, 314, 300
1967	37, 529, 439	22, 012, 772	77, 284	3, 035, 847	6, 479, 008	2, 285, 770	2, 159, 594	878, 557	74, 543, 455
1966	32, 543, 732	20, 210, 766	84, 140	2, 807, 918	5, 684, 633	2, 151, 846	1, 662, 368	701, 808	65, 931, 840
1965	31, 194, 379	18, 926, 077	91, 992	2, 498, 113	4, 886, 561	2, 004, 234	1, 514, 864	626, 428	61, 863, 988
1964	27, 422, 255	16, 764, 539	84, 367	2, 166, 724	4, 964, 963	1, 924, 884	1, 325, 591	638, 799	55, 431, 592
1963	25, 162, 373	14, 776, 111	74, 986	1, 751, 663	3, 981, 448	2, 270, 145	1, 127, 768	962, 329	50, 262, 286
1962	23, 873, 982	13, 963, 087	80, 747	1, 611, 181	4, 298, 770	1, 992, 444	998, 353	566, 926	47, 637, 327
1961	21, 559, 078	12, 711, 143	77, 668	1, 365, 407	3, 442, 185	1, 902, 983	902, 728	412, 403	42, 479, 771
1960	20, 413, 751	12, 461, 799	71, 512	1, 149, 079	3, 035, 894	1, 828, 027	812, 219	347, 067	40, 119, 420
1959	18, 332, 786	11, 786, 904	68, 591	933, 956	2, 752, 518	1, 657, 449	740, 413	201, 050	36, 473, 667
1958	16, 390, 761	10, 453, 065	48, 175	659, 632	2, 447, 794	1, 495, 866	622, 502	183, 441	32, 303, 558
1957	15, 235, 360	10, 080, 417	33, 502	538, 537	2, 521, 153	1, 490, 838	531, 905	154, 262	30, 585, 974
1956	13, 907, 935	10, 703, 823	62, 070	405, 212	2, 313, 683	1, 367, 643	519, 477	164, 429	29, 444, 398
1955	12, 557, 924	9, 222, 155	30, 317	291, 015	2, 237, 703	1, 214, 514	445, 222	154, 450	26, 153, 299
1954	11, 448, 777	8, 681, 622	24, 624	197, 058	2, 120, 384	1, 083, 859	420, 706	95, 546	24, 075, 212
1953	11, 190, 274	8, 945, 534	17, 752	167, 441	2, 102, 343	988, 237	413, 705	86, 407	23, 911, 827
1952	9, 347, 741	7, 489, 778	28, 942	117, 684	1, 975, 181	857, 302	333, 848	126, 502	20, 277, 117
1951	9, 715, 552	7, 198, 239	42, 829	129, 010	2, 210, 045	981, 011	415, 361	93, 759	20, 800, 173
1950	9, 657, 329	5, 575, 979	51, 925	107, 849	2, 188, 315	791, 002	318, 910	101, 094	18, 815, 180
1949	7, 487, 765	4, 693, 817	29, 400	64, 864	1, 684, 583	603, 298	415, 434	92, 000	15, 314, 444
1948	7, 385, 772	4, 574, 853	48, 651	51, 338	726, 696	518, 437	371, 451	204, 066	14, 180, 840
1947	6, 493, 748	4, 025, 305	27, 799	39, 114	817, 803	325, 744	166, 534	251, 085	12, 167, 154
1946	4, 372, 754	6, 096, 882	24, 195	224, 852	5, 846, 196	1, 448, 406	372, 686	5, 006, 181	23, 399, 345
1945	3, 985, 570	4, 586, 638	16, 712	333, 881	4, 818, 142	1, 433, 331	150, 965	6, 396, 840	21, 731, 965
1944	4, 530, 116	3, 133, 751	12, 855	1, 872, 017	16, 851, 828	4, 401, 381	189, 203	11, 970, 776	42, 977, 844
1943	6, 650, 460	2, 639, 451	59, 460	7, 127, 776	12, 733, 406	1, 294, 995	83, 510	2, 170, 188	32, 887, 776
1942	6, 986, 848	2, 840, 778	58, 429	98, 702	3, 966, 395	270, 968	64, 688	106, 235	14, 406, 192
1941	7, 598, 906	2, 589, 726	63, 260	57, 959	3, 643, 954	323, 581	113, 359	117, 775	14, 535, 290
1940	7, 360, 024	2, 255, 032	64, 912	56, 304	2, 235, 757	772, 457	261, 611	81, 536	13, 122, 307
1939	7, 628, 654	2, 095, 791	75, 762	71, 864	1, 494, 223	769, 625	300, 854	89, 474	12, 571, 898
1938	6, 658, 017	3, 554, 627	66, 146	60, 062	1, 129, 362	664, 761	270, 486	101, 565	12, 546, 031
1937	6, 782, 128	7, 402, 613	115, 853	66, 489	1, 391, 306	737, 614	300, 489	215, 737	17, 075, 291
1936	5, 851, 942	7, 362, 105	16, 717	62, 831	1, 000, 591	643, 929	278, 184	228, 035	15, 587, 793
1935	2, 427, 462	3, 182, 480	38, 625	58, 675	636, 182	441, 161	(1)	228, 681	7, 214, 907
1934	2, 132, 235	3, 137, 697	56, 743	139, 200	480, 678	553, 452	(1)	585, 140	7, 382, 953

Source: U.S. Department of Commerce and D.S.I.

[1] Not available.

TOTAL U.S. DISTILLED-SPIRIT EXPORTS (INCLUDING FOREIGN AND NONCONTIGUOUS TERRITORIES)

[In proof gallons]

Year	Whisky	Foreign other	Total	Noncontiguous territories			Total exports
				Whisky	Other	Total	
1971	[1] 3,861,833	1,495,098	5,356,926	67,036	457,973	525,009	5,881,935
1970	[1] 2,738,037	1,251,179	3,989,216	178,292	1,107,260	1,285,552	5,274,768
1969	[1] 2,668,802	1,304,455	3,973,257	103,445	384,805	488,250	4,461,507
1968	[1] 2,023,193	1,183,669	3,206,862	397,484	412,504	809,988	4,016,850
1967	1,682,714	607,317	2,290,031	86,475	403,077	489,552	2,779,583
1966	1,457,348	703,286	2,160,634	82,861	339,161	422,022	2,582,656
1965	1,143,325	990,816	2,134,141	62,266	345,957	408,223	2,542,364
1964	1,141,226	987,961	2,129,187	111,565	356,154	467,719	2,596,906
1963	824,617	735,359	1,559,976	562,525	297,192	859,717	2,419,693
1962	673,531	646,627	1,320,158	715,617	225,619	941,236	2,261,394
1961	736,493	781,575	1,518,068	116,712	162,565	279,277	1,797,345
1960	1,073,764	580,371	1,654,135	102,111	159,765	261,876	1,916,011
1959	1,086,942	467,172	1,554,114	39,376	166,173	205,554	1,759,668
1958	1,647,423	561,392	2,208,815	926,725	105,907	1,032,632	3,241,447
1957	1,572,786	1,016,056	2,588,842	958,491	179,561	1,138,052	3,726,894
1956	1,299,721	584,535	1,884,256	818,675	253,161	1,071,836	2,956,092
1955	1,318,328	700,536	2,018,864	783,672	397,501	1,181,173	3,200,037
1954	3,652,519	280,986	3,933,505	812,236	96,307	908,543	4,842,048
1953	2,417,084	384,236	2,801,320	794,463	65,300	859,763	3,661,083
1952	2,672,672	325,415	2,998,087	813,008	55,403	868,411	3,866,498
1951	1,165,218	252,320	1,417,538	865,063	79,756	944,819	2,362,357
1950	816,775	108,833	925,608	750,868	44,807	795,675	1,721,283
1949	1,074,347	390,603	1,464,950	665,552	70,481	735,983	2,200,933
1948	599,414	119,737	719,151	641,814	134,884	776,698	1,495,849
1947	1,447,533	471,847	1,919,380	1,083,954	162,831	1,246,785	3,166,165
1946	1,185,129	358,274	1,543,403	1,064,064	177,015	1,241,079	2,784,482
1945	939,295	127,736	1,066,031	1,286,122	175,927	1,635,976	2,702,007
1944	385,720	28,492	414,212	674,926	557,161	1,232,087	1,646,299
1943	235,661	19,789	255,450	757,669	194,692	1,030,379	1,285,829
1942	224,264	80,856	305,120	486,814	65,046	573,728	878,848
1941	76,464	73,831	150,295	1,024,433	179,099	1,256,727	1,407,022
1940	189,613	15,323	204,936	410,226	192,909	603,135	808,071
1939	220,955	35,853	256,808	406,446	94,543	500,989	757,797
1938	40,483	22,460	62,943	322,343	89,406	411,749	474,692
1937	32,596	15,007	47,603	270,211	127,665	397,876	445,479
1936	6,215	10,699	16,914	257,579	115,771	373,350	390,264
1935	36,365	(2)	36,365	223,057	(2)	223,057	259,422
1934	8,267	(2)	8,267	138,868	(2)	138,868	147,135

[1] Bourbon: 1968—1,487,248, 1969—2,152,417, 1970—2,204,011, 1971—3,294,848.
[2] Not available.

Source: D.S.I. reports.

U.S. CUSTOM DUTY REDUCTIONS: 1968-72 [1]

	Per gallon reduced rates effective Jan. 1					
	1967	1968	1969	1970	1971	1972
DISTILLED SPIRITS						
Whisky:						
Irish and Scotch	$1.02	$0.91	$0.81	$0.71	$0.61	$0.51
Canadian and other	1.25	1.12	1.00	.87	.75	.62
Gin	1.00	.90	.80	.70	.60	.50
Brandy, valued not over $9 per gallon:						
In containers not holding over 1 gal	1.25	1.12	1.00	.87	.75	.62
In containers each holding over 1 gal	1.00	.90	.80	.70	.60	.50
Cordials, liqueurs, kirschwasser, ratafia	1.00	.90	.80	.70	.60	.50
Aquavit	.85	.76	.68	.59	.51	.42
Arrack	2.00	1.80	1.60	1.40	1.20	1.00
Bitters of all kinds containing spirits:						
Not fit for use as beverages	1.88	1.69	1.50	1.31	1.12	.94
Fit for use as beverages	1.00	.90	.80	.70	.60	.50
Ethyl alcohol for beverage purposes	2.25	2.02	1.80	1.57	1.35	1.12
Other spirits, and preparations in chief value of distilled spirits, fit for use as beverages or for beverage purposes: Other than spirits	2.50	2.25	2.00	1.75	1.50	1.25
Imitations	5.00	4.50	4.00	3.50	3.00	2.50

Footnote at end of table.

U.S. CUSTOM DUTY REDUCTIONS: 1968–72 [1]—Continued

	Per gallon reduced rates effective Jan. 1					
	1967	1968	1969	1970	1971	1972
CHAMPAGNES, SPARKLING AND STILL WINES						
Champagne and other sparkling wines	$1.50	$1.43	$1.36	$1.30	$1.23	$1.17
Artificially carbonated wines	1.50	1.43	1.36	1.30	1.23	1.17
Rice wine or sake	.50	.45	.40	.35	.30	.25
Still wines produced from grapes—Containing over 14 percent alcohol by volume: Marsala or Marsala type in containers holding each not over 1 gal	.42	.39	.37	.35	.33	.315
Vermouth, in containers holding each—						
Not over 1 gal	.265	.25	.24	.23	.22	.21
Over 1 gal	.40	.38	.365	.35	.335	.32
Other fermented alcoholic beverages	.50	.45	.40	.35	.30	.25
Imitations of wines (per proof gallon)	5.00	4.75	4.50	4.25	4.00	3.75
MALTED BEVERAGES						
Beer, ale, porter, and stout	.125	.11	.10	.085	.07	.06

[1] U.S. duty reductions decreed on alcoholic beverages under the Kennedy round are taking effect in 5 annual stages, from 1968 through 1972. Table shows former rates and further reductions which took effect on Jan. 1, 1972.

The CHAIRMAN. Are there any further questions of Mr. Abelson? If not, we thank you again for coming.

Mr. ABELSON. Thank you.

[The following was submitted for the record:]

STATEMENT OF BENJAMIN H. MORRIS, PRESIDENT, DISTILLED SPIRITS COUNCIL OF THE UNITED STATES, INC.

SUMMARY SHEET

(1) The Distilled Spirits Council of the United States, Inc. (DISCUS) generally favors the avowed purposes of H.R. 6767 "The Trade Reform Act of 1973" and particularly the reduction or elimination of barriers to trade.

(2) DISCUS submits that Section 103(c) of the Act, if it confers on the President certain of the powers given as examples in the Section-by-Section Analysis, goes beyond the avowed purposes of the Act and would represent an inadvisable and perhaps unconstitutional delegation of legislative power to the executive branch.

Introduction

The Distilled Spirits Council of the United States, Inc. (DISCUS) is the national trade association of the domestic distilling industry. Its members sell approxmately 95% of the beverage spirits produced and sold in the United States and account for the majority of distilled spirits exported from the United States. I know that our member companies join me in extending our thanks to the Committee for this opportunity to make this presentation. A list of our members is attached.

DISCUS and its predecessor organizations have displayed a continuing interest in the formulation and implementation of our national trade policy. We have presented oral or written statements before a variety of national and international agencies on this subject.

Nontariff trade barriers

DISCUS is in favor of any means to decrease or eliminate barriers to trade. This has been a subject of great concern to the distilling industry for many years. Accordingly, we endorse any proposals looking toward improvement of the trade position of products of the United States.

Comments concerning section 103(c) of the act

Section 103(c) of the Act is somewhat ambiguous as to the powers to be given to the President. Among the examples of the powers conferred to implement agreements set forth in the Section-by-Section Analysis (page 68—Committee Print) is that relating to the wine-gallon/proof-gallon basis for assessment of tax on distilled spirits.

The wine-gallon/proof-gallon basis for assessment of tax is required by Section 5001(a)(1) of the Internal Revenue Code which provides:

"There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon."

Under these provisions, if distilled spirits are withdrawn from domestic bond or imported below 100 proof they are taxed as if they were 100 proof.

The tax on distilled spirits is not an import tax; it is not a customs measure, nor is it a barrier to trade. It is an internal excise tax applicable to all distilled spirits entering the channels of trade in the United States whether the spirits are of domestic production or imported. The statutory provisions now contained in Section 5001(a)(1) IRC were first enacted in 1868 and have been in force since that time. Proposals have been made to the Congress on several occasions to change the statutory basis for assessment by providing that the tax should be imposed only on a proof-gallon basis. This Committee has rejected all such proposals, the last time in its consideration of the Tariff Simplification Act of 1952.

Several challenges to this system of taxation have been made in the courts. In all cases the system has been upheld. The Supreme Court has twice refused to review or reverse decisions of lower courts that the system is not discriminatory as applied to imported distilled spirits products. *Bercut-Vandervoort & Co., Inc.* v. *U.S.* (CCPA 1955) C.A.D. 691, aff'g (Customs Court, 3D Div. 1957) C.D. 1877; Cert. Den. 359 U.S. 953 *Schieffelin & Co.* v. *U.S.* (CCPA 1970) C.A.D. 978, aff'g (Customs Court, 3D Div. 1968) C.D. 3640; Cert. Den. 400 U.S. 869 (1970), Rehearing Den. 400 U.S. 1002.

Substantial revenue is involved (approximately $100,000,000 a year) as well as other domestic economic considerations. Because of the complex fiscal and economic implications of the issue, and the diverse interests within the industry involved, it seems clear that the matter is one which should properly be considered only by the Congress with all of the attendant safeguards of that process and not by the executive implementation of a trade agreement unfettered by the requirements of hearings and industry and public participatino.

The legal grounds for objection to delegation to the President of the power to amend or modify the statutory basis for assessment of tax are clear.

Under the Constitution, Article 1, Section 8, Clause 1, only Congress has the power to modify or amend Section 5001(a)(1), a taxing statute. It is clear that any modification or amendment of Section 5001(a)(1) would have to come through legislative action. There is little doubt that any attempt to modify by trade agreement or by implementation of a trade agreement would be held to be illegal and void.

If Section 103(c) in fact gives the President the power to implement trade agreements by modifying or amending an internal excise tax statute it goes well beyond the President's message to the Congress transmitting the Trade Reform Act of 1973, wherein it is stated:

"Thirdly, I request advance authority to carry out mutually beneficial agreements concerning specific customs matters primarily involving valuation and the marking of goods by country of origin."

As discussed previously the wine-gallon/proof-gallon basis for assessment of tax is not a customs matter, it does not involve valuation and has nothing to do with the country of origin. It is, in short, an internal excise applicable to both domestic and imported goods.

Finally, if the powers conferred on the President by Section 103 (c) are intended to give him bargaining tools in reaching bilateral or multilateral trade agreements with other nations, authority to grant tax concessions would be to a large extent self-defeating. If, for example, the President were to make a tax concession to Nation A in return for a concession by Nation A, all other nations which enjoy "most favored nation" status or which are signatories of GATT would be entitled to the same concession made by the President to Nation A without the necessity of their making any concession at all.

Since the Section-by-Section Analysis interprets Section 103 (c) as giving the President the power to amend or modify an internal taxing statute and since we believe that this interpretation would result in inadvisable and illegal delegation of legislative authority, it is suggested that, if Section 103 (c) is to be adopted, it be amended by adding a proviso that the subsection shall not be construed as granting authority to alter or amend any internal revenue taxing provision.

Respectfully submitted.

BENJAMIN H. MORRIS, *President.*

DISCUS

Active Members

The American Distilling Co., 245 Park Avenue, New York, N.Y. 10017.
Bacardi Imports, Inc., 2100 Biscayne Boulevard, Miami, Fla. 33137.
James B. Beam Distilling Co., Inc., 500 North Michigan Avenue, Chicago, Ill. 60611.
A. Smith Bowman Distillery, Sunset Hills, Va. 22070.
Brown-Forman Distillers Corp., P.O. Box 1080, Louisville, Ky. 40201.
The Distillers Co., Ltd. (of Delaware) 620 Fifth Avenue, New York, N.Y. 10020.
Double Springs Distillers, Inc., 645 North Michigan Avenue, Chicago, Ill. 60611.
Felton & Son, Inc., 516 East Second Street, South Boston, Mass. 02127.
The Fleischmann Distilling Corp., 625 Madison Avenue, New York, N.Y. 10022.
Grain Processing Corp., 1600 Oregon Street, Muscatine, Iowa 52761.
Heublein, Inc., 330 New Park Avenue, Hartford, Conn. 06101.
Hood River Distillers, Inc., 100 Southwest Market Street, Portland, Oreg. 97201.
Laird & Co., Eatontown-Freehold Road, Scobeyville, N.J. 07724.
Medley Distilling Co., P.O. Box 386, Owensboro, Ky. 42302.
Midwest Solvents Co., Inc., 1300 Main Street, Atchison, Kans. 66002.
National Distillers & Chemical Corp., 99 Park Avenue, New York, N.Y. 10016.
S. S. Pierce Co., 10 Wildwood Street, Woburn, Mass. 01801.
T. W. Samuels Distillery, Deatsville, Nelson County, Ky. 40016.
Schenley Industries, Inc., 888 Seventh Avenue, New York, N.Y. 10019.
Joseph E. Seagram & Sons, Inc., 375 Park Avenue, New York, N.Y. 10022.
Somerset Importers, Ltd., 100 Park Avenue, New York, N.Y. 10017.
Star Hill Distilling Co., P.O. Box 389, Bardstown, Ky. 40004.
"21" Brands, Inc. 23 West 52nd Street, New York, N.Y. 10019.
Hiram Walker & Sons, Inc., P.O. Box 3382, Detroit, Mich. 48214.
Waterfill & Frazier Distillery Co., Inc., 120 South LaSalle Street, Chicago, Ill. 60603.
The Willett Distilling Co., P.O. Box 10, Bardstown, Ky. 40004.

Associate Members

Kobrand Corp., 134 East 40th Street, New York, N.Y. 10016.
Ed Phillips & Sons Co., 2345 Kennedy Street, N.E., Minneapolis, Minn. 55413.
Schieffelin and Co., 30 Cooper Square, New York, N.Y. 10003.

Affiliated Members

Sidney B. Flashman Co., 6950 N. Kendall Drive, P.O. Box 308, Kendall Branch, Miami, Fla. 33156.
Harold S. Laden & Co., 12 South 12th Street, Philadelphia, Pa. 19107.

NATIONAL DISTILLERS AND CHEMICAL CORP.,
New York, N.Y., June 8, 1973.

JOHN M. MARTIN, JR.,
Chief Counsel, Committee on Ways and Means, Longworth House Office Building, Washington, D C.

DEAR MR. MARTIN: The following comments are submitted for inclusion in the printed record of the hearings on H.R. 6767.

ADVANCE AUTHORITY OPPOSED

We are particularly concerned with the President's request for "advance authority" to implement trade agreements by abrogating or changing existing domestic law. Specifically we object to Section 103(c) of the bill which would authorize the President to take any action necessary to carry out a trade agreement where "such implementation is limited to a reduction of the burden on trade resulting from * * * establishing the quantities on which assessments are made," among others. The explanation of the bill states (on page 68 of The Committee Print) that agreements relating to "the wine-gallon/proof-gallon basis for assessment, for example, could be implemented under this authority." While the language of Section 103(c) is awkward and ambiguous, we must assume that the proffered explanation accurately reflects the drafter's intent and that the authority, if granted, would be utilized.

WINE GALLON/PROOF GALLON BASIS

The "wine-gallon/proof-gallon basis" relates to Section 5001(a)(1) of the Internal Revenue Code which provides the method by which internal revenue tax is assessed and collected on distilled spirits. That Section provides as follows:

"There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on *each proof gallon or wine gallon when below proof* and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon." (Emphasis supplied)

In this context a wine gallon is 128 fluid ounces. A proof gallon is 128 fluid ounces at 100 proof. Thus, 128 ounces at 80 proof is equal to four-fifths of a proof gallon, but since it is below proof (proof being 100) it is taxed on a wine-gallon basis at $10.50 per gallon.

Certain importers of distilled spirits have argued for years that Section 5001(a)(1) IRC results in a discriminatorily higher internal tax being imposed on imported distilled spirits than is imposed on domestic products. This is so, it is argued, because when imports are shipped to this country at less than 100 proof they are taxed on the wine-gallon basis, i.e., as if they were 100 proof. What these importers overlook is the fact that Section 5001(a)(1) applies equally to domestic as well as imported distilled spirits. Thus, if a domestic producer removed goods from his bonded warehouse at less than 100 proof, he too would be taxed on a wine-gallon basis.

Numerous attempts have been made, both in the Congress and the Courts, to change the provisions of Section 5001(a)(1). They have met with consistent failure in both forums because neither the Congress nor the courts have been persuaded that the existing assessment basis discriminates against imported distilled spirits.

WINE-GALLON/PROOF-GALLON NO BURDEN

The authority sought by the President in Section 103(c) of H.R. 6767 has as its stated objective the reduction of a burden on trade. It is painfully clear that our method of assessing internal taxes on imported distilled spirits has been no burden on such trade. Since 1955 the domestic spirits industry has shown a growth of only 68.9 percent while imported spirits have gained 366 percent. In 1955 imported spirits accounted for 11.5 percent of the total U.S. market. In 1972 that figure had grown to 26.5 percent. While this phenomenal advance was taking place the United States was gradually reducing the Customs duty on Scotch whisky from $1.50 per gallon to 51¢ per gallon and on Canadian whisky from $1.25 per gallon to 62¢ per gallon. None of these savings to the importers were passed on to the American consumer. In 1955 the duty on a one-fifth gallon bottle of Scotch whisky was 30¢, with an average selling price of $6.18. In 1972 with a 10¢ duty the average selling price of the same bottle was $7.80. The same pattern is evident with respect to the leading Canadian whiskies.

In 1972 the value of imported spirits amounted to $538 million, while domestic producers sold only $22 million worth of spirits in the export trade. The United States staggers under a $515 million trade deficit in distilled spirits alone, which

amounts to 7.5 percent of the entire $7 billion trade deficit. Clearly the imported distilled spirits industry is not "burdened" by our tax laws.

At the present time some 36 percent of all imported distilled spirits enter the United States in bulk containers and are bottled here. These spirits are imported at above 100 proof and are thus taxed on a proof-gallon basis rather than on a wine-gallon basis as they would be if imported in bottles at 80 or 86 proof. This amounts to 35.8 million gallons annually. The bottling of this quantity of distilled spirits creates hundreds of jobs for American labor and utilizes 15.9 million cartons and 258 million bottles and labels produced by American labor. The importation of spirits in bulk containers is increasing at the rate of 15 percent a year and will continue to utilize increasing numbers of American workers and American produced bottling supplies. A change in existing domestic taxing procedures would eliminate the advantages of bulk shipments and almost surely result in a decrease in such shipments, causing a loss of jobs in the domestic bottling industry.

$100 MILLION LOSS TO TREASURY

The most immediate and most certain impact, however, will be a loss to the U.S. Treasury of approximately $100 million annually based on 1972 trade statistics, with inevitably larger Treasury losses as the importers' share of market increases. While the Treasury is losing $100 million per year, the labor market is losing jobs and the trade deficit increasing, two Canadian-owned companies will be the beneficiary of almost 40 percent of the Treasury's $100 million loss. Another 30 percent would go to the importers of J & B, Cutty Sark and Dewar's Scotch whisky and Beefeater Gin.

UNLAWFUL DELEGATION

If our present system of tax assessment could, by any definition, be classed as a trade barrier or a "burden" on foreign trade, or if a change in the existing system could in any way benefit the domestic economy through increased "fair and open" trade or increased revenues, or if the tax on distilled spirits were a Customs imposition, there might be some validity for the proposal that our trade negotiators have authority to bargain it away. The fact is, however, that we are dealing here with a domestic taxing statute which is not, and never has been since it was enacted in 1868, intended as a trade barrier or a "burden" or an import imposition. Under Article I, Section I and Section VIII of the Constitution the Congress is given the exclusive power to lay and collect taxes, and what we are discussing here is an internal tax, imposed for the purpose of raising revenue, not a protective trade barrier. The President has never been granted the power to change domestic taxing statutes in implementation of trade agreements, and we do not believe that he needs such power now, or that it should be delegated to him even if he thinks he needs it.

The President and his advisers have contended that this delegation of authority is needed to match the authority negotiators from other countries will bring to the bargaining table, and for the further reason that changes in domestic law require positive action by both Houses of Congress—a difficult and time-consuming process. Whatever authority negotiators from other countries may or may not bring to the bargaining table cannot alter our country's Constitutional mandate that all legislative powers shall be vested in the Congress. Even the Congress cannot change the Constitution, and it cannot delegate to the President its power to legislate. With respect to the contention that securing positive action on the part of Congress is time consuming, it may be conceded that the Congress is not the most expeditious legislative body known to modern civilization, but again its existence and its functions are fundamental to our Constitutional system of separation of powers. If there is any validity to the Executive Branch's argument that any part of the lawmaking function may be delegated to the President because of his impatience with the Congress, we may as well dispense with the Congress altogether.

SUMMARY

In summary, the imported distilled spirits industry does not need the relief contemplated by Section 103(c) of H.R. 6767; the United States distilling industry is suffering on its home grounds as well as abroad because of previous concessions made by the United States and the lack of concessions by our trading partners; the implementation of the authority sought would cost the United States Treasury $100 million with no attendant benefit to the Government or the domestic spirits

industry, and the delegation of the authority sought by the President would be of highly doubtful Constitutional validity.

We urge that Section 103(c) be deleted from H.R. 6767, or that it be amended so as to make clear that it shall not be construed as granting the President the authority to amend any internal revenue taxing provision.

Yours very truly,

JOHN E. BIERWIRTH,
Chairman of the Board.

Enclosure.

NATIONAL DISTILLERS AND CHEMICAL CORP.,
New York, N.Y., June 8, 1973

SUMMARY OF STATEMENT TO THE COMMITTEE ON WAYS AND MEANS OF THE U.S. HOUSE OF REPRESENTATIVES WITH REGARD TO H.R. 6767, THE PROPOSED TRADE REFORM ACT OF 1973

1. National Distillers opposes the grant of "advance authority" to the President to abrogate existing domestic taxing statutes as contained in Section 103(c) of H.R. 6767, insofar as such grant would include authority to amend the present statutory method of assessing internal excise taxes on distilled spirits.

2. The present excise tax on distilled spirits is not a burden on trade, nor is it an import restriction. It applies equally and uniformly to both imported and domestic spirits.

3. Imported distilled spirits currently enjoy 26.5 percent of the total U.S. distilled spirits market and are growing at the rate of 9.47 percent per year. The relief sought in H.R. 6767 is not needed.

4. Implementation of the authority sought would cost the U.S. Treasury $100 mililon annually with no commensurate benefit to American labor or industry.

5. The grant of power sought by Section 103(c) of H.R. 6767 would very likely be held an unconstitutional delegation.

June 8, 1973.

BRIEF ON BEHALF OF SCHIEFFELIN & CO.

This brief is submitted on behalf of Schieffelin & Co., New York City, in support of the purposes and scope of H.R. 6767, and in particular, to register strong support for the provisions contained in Section 103(a)-(e) thereof. Schieffelin believes that the authority to reduce unrealistic burdens on trade in certain imported distilled spirits is in the national interest. Of particular concern is the so-called wine gallon/proof gallon assessment of certain distilled spirits.

Domestic and imported distilled beverages are subject to the U.S. internal revenue tax of $10.50 on each proof gallon, or wine gallon, when below proof.[1] Both the internal revenue tax and the duty are calculated on a proof gallon basis if the product imported for consumption is 100 proof or above. A proportionate amount of the base tax and duty is added when the product is above proof—100 proof. Each gallon (wine gallon) imported below 100 proof is subject to the internal revenue tax of $10.50 and is also dutiable at the rate specified "per gallon" in the TSUSA.[2]

The dual basis of taxation recognized in Section 5001(1), i.e., wine gallon/proof gallon, operates inequitably as between bottled domestic and bottled imported spirits. The burden imposed upon imported bottled spirits is readily apparent when one considers the practice of the domestic industry and the times at which the tax attaches to domestic imported spirits.

The tax on domestically produced spirits is levied at the time of their withdrawal from bond; on the other hand the tax and duty on imported spirits are levied at the time of importation. Since it is a universal practice in the U.S. distilling industry to withdraw spirits from bond in proof or over proof condi-

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[1] 26 USCA 5001(A)(1)—"There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon."

[2] The term "proof" refers to ethyl alcohol content of a liquid at 60 degrees Fahrenheit stated as twice the percent of ethyl alcohol by volume, e.g., a gallon of pure ethyl alcohol is 200 proof and is equivalent to 2 proof gallons. A "proof gallon" is the equivalent of a U.S. gallon containing 50% of ethyl alcohol by volume, i.e., 100 proof. A "wine gallon" is a standard U.S. gallon of liquid measure equivalent to a volume of 231 cubic inches. The term is normally applied to spirits that are less than 100 proof, i.e., less than 50% alcohol by volume.

tion and thereafter to dilute the spirits to below proof for bottling and sale, the domestic distiller always pays the tax on a proof gallon basis. Thus, the tax of $10.50 per proof gallon paid by the domestic distiller is reflected in the cost of the domestic spirits thereafter diluted and bottled at, for example, 86 proof to the extent of only 86% of $10.50, or $9.03 per wine gallon. Imported bottled spirits are necessarily below proof at time of importation and, therefore, the tax and duty are assessed on a wine gallon basis. The resulting tax amounts to $10.50 per bottled gallon, or $1.47 more per gallon than the actual tax paid by the domestic distiller, plus, of course, customs duties.

The tax treatment of distilled spirits, whether imported or domestic, should be equalized by providing that the tax be assessed on a proof gallon basis in all cases. Similar provision should be made in the case of the customs duty. Such equalization would remove a clear barrier to import trade and would, in effect, foster competition between imported and domestic spirits on an equal basis.

The equalization to tax, as urged above, has been frequently considered and discussed for a number of years. As early as 1951, the U.S. Treasury Department recommended to the Congress that such action be taken, but the Congress failed to act at that time.[3]

Importers have sought to overcome the inequity of tax treatment on imported bottled spirits by extended litigation in the courts. Such litigation has proceeded on the theory that application of the wine gallon/proof gallon standard constituted a discrimination against imported bottled spirits and was, therefore, contrary to treaty obligations of the U.S. The issue has been presented in varying forms, but consistently rejected by the courts.[4]

The only avenue of possible relief from this unequal situation, accordingly, would seem to rest on either legislation by the Congress directly, or through trade agreement negotiations with subsequent approval and confirmation by the Congress. H.R. 6767 would, it is believed, provide the initial authority to eliminate this trade-distorting nontariff barrier.

The question of equalization of internal taxes and nontariff barriers, including the wine/proof gallon method of assessment, was the subject of considerable study during the course of the Kennedy Round of Trade Agreement Negotiations. The participating countries clearly understood the importance of negotiations on nontariff barriers as well as tariff cuts, as failure to take action on the former could greatly lessen any benefit to be derived from duty reduction. In the view of the participating nations, it was important to study these two topics together and, to this end, working groups were established to consider nontariff barriers. Bilateral talks were conducted between some of the contracting parties directly concerned but there was a failure to reach agreement in this area at the conclusion of the negotiations.[5]

Prior to introduction of H.R. 6767 this question came to the forefront in the report of The Commission on International Trade and Investment Policy, dated July 1971. Included in this report is a statement submitted by the U.S. Department of State, under the heading United States Nontariff Barriers, which deals specifically with the wine gallon/proof gallon problem. At page 719 of the Report, it is stated:

"Wine/Proof Gallon Method of Agreement (sic)

The wine/proof gallon method of assessment of alcoholic beverage excise taxes have been in effect since 1868 and is applied on $1.2 billion worth of imports as well as on domestic producers. The taxes are based on alcohol content of the beverage, if the spirits are 100 proof or more. But the rate applied on 100 proof spirits is applied on all spirits less than 100 proof. Thus 86 proof rum, for example, is taxed as though it were 100 proof. Domestic producers arrange their production so that assessment takes place before the alcohol is cut and bottled. Foreign suppliers must ship the uncut beverage for further processing and bottling in the U.S. in order to avoid the relatively heavy tax incidence. A number of exporting countries have complained that this method of tax assessment discriminates against their exporters of bottled beverages."

Within the last few months, the United States, subject to enactment of appropriate legislation, announced tentative agreement with a number of its principal trading partners, including the EEC, the United Kingdom and Japan, to enter

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[3] See Hearings on Simplification of Customs Administration, Committee on Ways and Means, House of Representatives, 82nd Congress 1st Sess., on H.R. 1535, pages 15, 29, 208–210.

[4] *Schieffelin & Co., et al. v. United States*, 57 CCPA 66, C.A.D. 978 (1970); *Bercut-Vandervoot & Co., Inc. v. United States*, 46 CCPA 28, C.A.D. 691 (1958).

[5] See, U.S. Tariff Commission Report on Operations of Trade Agreement Program, 17th Report, July 1964–Dec. 1965, page 40.

into a new round of broad tariff negotiations beginning in the Fall of 1973. In the announcements thus far, particular emphasis has been placed on the subject of nontariff barriers. Preliminary discussions already have been held by representatives of the scheduled participating countries, and a formal announcement may be expected in the near future outlining the scope and intent of the negotiations to be undertaken. In preparation therefor the U.S. Tariff Commission undertook an investigation of Tariff and Nontariff Barriers Among Principal Trading Nations (Inv. No. 332-66); the Commission's report is expected in the near future.

The wine gallon/proof gallon method of assessment of tax is an outstanding example of a burden upon international trade which operates unfairly to increase the cost of bottled spirits. If Section 103 of H.R. 6767 is enacted, this issue can be included on the agenda of the tariff negotiations.

For the foregoing reasons, we strongly support passage of H.R. 6767 and further urge that Section 103 be enacted without reservation or modification.

Respectfully submitted.

SCHIEFFELIN & CO.,
By JAMES H. LUNDQUIST,
Attorney for Schieffelin & Co.

HIRAM WALKER & SONS, INC.,
Detroit, Mich., June 8, 1973.

Hon. JOHN M. MARTIN, Jr.,
Chief Counsel, Ways and Means Committee, Longworth Building, Washington, D.C.

DEAR SIR: Hiram Walker & Sons, Inc. is a Michigan corporation doing business in the United States as a producer, exporter, importer and distributor of distilled spirits, having been in such business since Repeal in the United States in 1933. As a member of the distilling and beverage importing business, we have a direct and continuing interest in government policies applicable both to the operation of the industry domestically, and the national trade policy affecting commerce and trade in the export market and the importation of distilled beverages into the United States.

Hiram Walker & Sons, Inc. favours the stated purposes of H.R. 6767, "The Trade Reform Act of 1973" and, particularly, a reduction or elimination of barriers to trade.

We applaud the provisions in H.R. 6767 seeking to extend the President's powers to negotiate with foreign countries for the reduction, elimination or harmonizing of non-tariff barriers.

Among the non-tariff trade barriers existing in the United States, is the wine-gallon/proof-gallon basis of assessment for duty and the internal excise tax on distilled spirits. The term "non tariff" barriers include all barriers to trade including those which stem from methods of application of a duty other than the date of duty and the methods of application of an internal excise tax applicable alike to imports which affects the amount of duty or tax assessed against the import.

The wine-gallon/proof-gallon basis for assessment of tax is required by Section 5001(a)(1) of the Internal Revenue Code which provides:

"There is hereby imposed on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon."

Under this provision and under the import tariff, if distilled spirits are withdrawn from domestic bond or imported below 100° proof, they are taxed and duty is imposed as if they were 100° proof.

These provisions result in discrimination against distilled spirits tax paid or imported at less than 100° proof.

We would hope that the power granted by H.R. 6767 would result in the elimination of this discrimination.

Sincerely yours,

R. T. MCKEE,
Vice-President.

P.S.—These comments in connection with H.R. 6767 are offered for the record and we would ask that they be included in the record of the hearing.

R. T. M.

The CHAIRMAN. Our next two witnesses, Mr. Kornegay and Mr. Snodgrass, desire to appear together. Will you identify yourselves for the record before we recognize you?

We are also pleased to welcome our former very distinguished colleague from North Carolina back to the Hill, and particularly to the committee room.

Mr. Kornegay, you and Mr. Snodgrass will, of course, identify yourselves for the record, and we will then recognize you.

STATEMENTS OF HON. HORACE R. KORNEGAY, PRESIDENT AND EXECUTIVE DIRECTOR, TOBACCO INSTITUTE, INC. AND FRANK B. SNODGRASS, VICE PRESIDENT, BURLEY & DARK LEAF TOBACCO EXPORT ASSOCIATION, INC. AND ALSO ON BEHALF OF TOBACCO ASSOCIATES, INC. AND LEAF TOBACCO EXPORTERS ASSOCIATION, INC.

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

Let me say at the outset that it is a genuine privilege and pleasure for me to be back and have the opportunity to see some old friends again. With your permission, as you have already stated, Mr. Chairman, Mr. Snodgrass and I will give our individual statements, and then submit ourselves to any questions which the committee might have.

My name is Horace R. Kornegay. I am president and executive director of the Tobacco Institute, Inc., an association of the following U.S. tobacco product manufacturers:

Brown & Williamson Tobacco Corp.; Liggett & Myers, Inc.; Lorillard, a division of Loews Corp.; Philip Morris, Inc.; R. J. Reynolds Industries, Inc.; United States Tobacco Co.; the Bloch Brothers Tobacco Co.; Conwood Corp.; G. A. Georgopulo & Co., Inc.; Helme Products, Inc.; Larus & Brother Co., Inc.; and Scotten, Dillon Co.

As the spokesman for the domestic cigarette manufacturers, Mr. Chairman, I welcome this opportunity to testify before this distinguished committee of the U.S. House of Representatives and express my appreciation to you and the other members of the committee for this opportunity to set forth our views on the legislation under consideration and its importance to the future of tobacco and tobacco products.

Although our companies are engaged in the manufacture of tobacco products, principally cigarettes, we share a common interest in the export of U.S. leaf tobacco with the growers, processors and exporters. The vitality of that segment of the total industry is critical to the vitality of the manufacturers. We are proud of the record exports of leaf tobacco in recent years, and we note that it is the exceptional quality of U.S. tobacco which makes it so popular abroad despite its noncompetitive status in world markets on a price per pound basis. We are pleased to point out that the United States is the world's leading tobacco exporter. In fact, since earliest colonial days tobacco has been one of the United States most important agricultural export commodities. In calendar 1972 the exports of unmanufactured tobacco and leaf tobacco were 606 million pounds in export weight valued at $638.7 million. In the same period of time the United States also exported about $225 million worth of cigarettes and other tobacco prod-

ucts. To the point, tobacco, is unmanufactured and in product form, has been a growing factor in U.S. export trade and has been a positive force to our balance of payments.

All of the foregoing is by way of saying the tobacco industry in the United States is a viable and growing industry despite the trials and tribulations which have beset it over the past decade and continue today. Although we have had the proverbial book thrown at us over these past 10 years, we are undismayed, our heads are high and we are indeed proud of our industry, its record of responsibility and the tremendous contribution it has made and is making to the American economy. In 1972 tobacco was the fifth largest cash crop in the United States, producing a cash income to over 600,000 farm families in the amount of about $1.4 billion dollars. Concurrently, in 1972, U.S. expenditures for tobacco products totaled an estimated $13.1 billion, an increase of about $827 million over 1971. What did this mean to the Federal, State and local governments? In the comparable period the yield from tobacco excise taxes totaled about $5,333,163,000, with about 98 percent of that representing taxes on cigarettes. Approximately $2.2 billion went into the Federal Treasury.

However, the clouds of uncertainty for the future of our tobacco export trade loom ominously before us and we can only encourage this committee to design legislation which will enable our Government to seek out reciprocity in market access. I cannot overemphasize the point that if severe damage is done to the vitality of our export tobacco trade, the domestic segments of the industry will suffer greatly. Expanding on a statement made before this committee in 1962 by one of my predecessors at the institute, the Hon. George E. Allen, I would say that if our foreign competitors granted to American tobacco and tobacco products the same competitive opportunity that the United States grants to Datsun, Toyota, Volkswagen, Renault and other products imported from around the world, American tobacco and tobacco product exports would increase dramatically.

The large U.S. manufacturers are all involved in the export of cigarette products and those with licensees and affiliates abroad export or cause to be exported U.S. leaf tobacco for the manufacture of their brands abroad. The U.S. manufacturers have, of necessity, entered into manufacturing arrangements abroad as tariff and nontariff barriers either kept their export products out of the market or had stopped brand growth in these countries.

Objectively, the result of this developing international business over the past several years has been to create more jobs in the United States; on farms to produce tobacco, in factories to produce larger quantities of exported products; and in offices, laboratories, and so forth. To support this international business, additional jobs have been created in service industries such as transport, storage and forwarding. The increased presence of U.S. cigarettes abroad manufactured by these licensees and affiliates has created consumer awareness of these brands and the popular American blend of cigarettes resulting in increased sales of exported U.S. tobacco products around the world. This in turn has influenced foreign manufacturers to produce competitive products, under their own brand names, resulting in increased demand for U.S.-origin leaf tobacco.

However, if we are to further expand U.S. exports of tobacco, discriminatory tariffs and nontariff barriers must be removed. For example, the EEC maintains within its common external tariff, the common external tariff category 2401A, which is a specific provision to apply higher duty rates on imported tobaccos when the price of those tobaccos exceed a specified value (currently $1.53535 per lb.). As only two nations in the world, the United States and Canada, presently export certain grades of cigarette tobaccos of this value or higher to EEC members, the category 2401A is purely discriminatory against these exports.

Further, in one country we have access to less than 1 percent of the retail outlets for the promotion and sale of U.S. cigarettes, and in connection with this, a special license is required with resultant delays and redtape.

Other instances include limitations on monthly deliveries, advertising, and the exclusive use of local agents. U.S. cigarettes are sold in retail outlets at substantially higher prices than local brands by government edict and in several countries the local brands retail at 50 to 100 percent lower in price than U.S. brands.

Mr. Chairman, I could cite many other examples of discriminatory treatment, but the foregoing should serve as a dramatic illustration of what the American industry from farmer to exporter faces today. With the increased protectionism contemplated in the next few years by the European Economic Community, our access to these long-time large markets will be put in grave jeopardy.

I repeat that I represent the major cigarette manufacturers whose interest and concern embrace all segments of the industry. But, I may be forgiven, I hope, Mr. Chairman, if I speak also as a North Carolinian whose roots are deep in tobacco land, whose forebearers survived, as thousands upon thousands still survive by cultivating the "golden leaf." They, and their fellow farmers, in other growing areas, cannot have much hope for the future if the export arm of their trade is lopped off or crippled.

In summary, Mr. Chairman, we believe it is timely for the United States to enter into significant negotiations with other countries and groups of countries to enhance U.S. trade and we support a trade reform act giving U.S. negotiators a clear mandate and the flexibility to conduct such negotiations. At the same time, we believe that specific U.S. industries which may undergo significant harm from imports be afforded means of relief; that U.S. workers who may suffer job displacement as the result of competition from imports into the U.S. market be afforded assistance; that the United States should continually be watchful of newly imposed import restrictions and subsidies provided by other countries, and have the means to counteract those measures which are unreasonable; that the United States should constantly be watchful of the possibilities of "dumping" and have the means to react to such practices; and that the United States should be constantly concerned with the Nation's balance of payments and be able to take such action as required to deal with serious deficits.

Mr. Chairman, to repeat, the manufacturers believe U.S. tobacco growers produce the finest quality tobacco to be found in the world and our tobacco products can, under equitable conditions, successfully compete with those products manufactured abroad. We hope this committee will, in its wisdom, design legislation which will grant to our

negotiators the necessary leverage to eliminate these artificial and other nontariff barriers which limit the growth of the American tobacco industry today. Given such support, we are confident our industry can and will favorably compete in foreign markets around the world.

Thank you very much.

The CHAIRMAN. Mr. Snodgrass.

STATEMENT OF FRANK B. SNODGRASS

Mr. SNODGRASS. Thank you, Mr. Chairman. For the record, my name is Frank B. Snodgrass. I am vice president and managing director of the Burley & Dark Leaf Tobacco Export Association, Inc., and executive director of the National Cigar Leaf Tobacco Association, Inc., with offices in Washington, D.C.

In the conservation of time and in order to avoid repetition of testimony, this statement is also presented on behalf of Tobacco Associates, Inc., of Washington, D.C., the Leaf Tobacco Exporters Association, Inc., and Tobacco Association of United States, Raleigh, N.C.

This joint presentation is being offered by the aforementioned associations representing the producers and exporters of the major portion of U.S. leaf tobacco sold in international trade. Tobacco is produced in a 22-State area by more than 700,000 growers. Both our producers and exporters have long been the strongest advocates of free international trade, however, in recent years through the introduction of tariff and nontariff barriers by some of our trading partners we have fared badly in maintaining and expanding our world markets for U.S.-produced tobacco.

Tobacco is the original U.S. export. Since Colonial days, the United States has been the world's largest producer and exporter of tobacco. In fiscal year 1972, tobacco contributed $597 million net to the U.S. balance of payments. Notwithstanding this outstanding record, the U.S. share of tobacco in international trade has consistently dropped since the end of World War II.

Tobacco is unique among the agricultural commodities produced in the United States. Unlike other commodities, the producers maintain a strict quantitative control of their production to justify mandatory price supports under law. Price supports are established on a fixed formula based essentially on the cost of production which has been increasing at a rapid rate in recent years.

The economic welfare of the tobacco-producing States is absolutely dependent upon a minimum of 600 million pounds of tobacco being exported annually. In the absence of compensatory or diversionary payments, the increased cost of U.S. production must be passed on to our foreign customers. Although American tobacco is recognized worldwide as the hallmark of quality, it is becoming increasingly difficult to compete pricewise in the world market.

In this period when we are faced with a serious trade deficit, it is more important than ever that we maintain free access to our export markets for tobacco. During fiscal year 1972, U.S. foreign trade in tobacco and products resulted in a net favorable balance of nearly $600 million. Continued access for foreign markets is essential if we are to maintain this net favorable balance.

During fiscal year 1972, U.S. exports of unmaunfactured tobacco to the enlarged European Community totaled about $278 million; this total consisted of exports of about $149 million to the original six members and about $129 million to the three new members.

The European Community tobacco market is an integral part of the total marketing opportunity available to U.S. tobacco exporters and the loss or significant curtailment of the export market opportunities would be a serious blow to this industry.

Although our statement will recommend acceptance of the broad objectives in the administration bill, our major emphasis will be on the following sections of the proposed legislation.

TITLE I. AUTHORITY FOR NEW NEGOTIATIONS

It is urgent that our negotiators enter the forthcoming round of trade negotiations wih broad authority to alter both tariff and nontariff barriers. Currently, the President does not have such authority and our entry into trade negotiations with countries having delegated authority and instructions would greatly handicap our representatives and make our participation virtually meaningless.

The enlarged European Community represents an outlet for about 60 percent of our total tobacco exports. Maintaining this foreign market for U.S. leaf is vital to the economic well-being of our tobacco producing States. A decline in U.S. tobacco exports and productions would adversely affect a large number of related industries.

The restrictive tobacco policies of the European Community are a matter of record. We feel that our tobacco sales to the three new members will be curtailed unless needed changes are made in the EC tobacco policies.

In Denmark and Ireland the duties are now zero; however, Ireland levies a fiscal charge but no duty or preference. The United Kingdom levies a revenue duty and we understand that the United Kingdom and EC consider the Commonwealth preference of about 20 cents per pound as the protective element of the revenue duty. The Common External Tariff (CXT) of the EC will be phased in by these three countries by July 1, 1977.

In addition to discriminatory tariffs the EC has set up duty-free preferences for a number of countries and they are moving toward an excise tax harmonization which will work to the disadvantage of U.S. produced leaf. Other tobacco policies of the EC which concern us are the continuation of monopolies in Italy and France and the raw tobacco common agricultural policy which provides for high price supports, a buyer's premium and no effective production controls. These policies insure that EC produced tobacco leaf will be sold in preference to U.S. leaf either in the Community or on world markets.

Similar tariff and nontariff barriers to the use of our tobacco exist in other areas of the world and it is hoped that new authority for negotiations will permit the elimination of these barriers.

To be successful, these negotiations must be far reaching and go beyond the goal of a mere reciprocal reduction of existing tariffs. Negotiations must encompass the entire range of trade restrictions, including both tariff and nontariff barriers and domestic policies where such policies affect international trade. Greater harmonization of the

agricultural policies of the major trading countries is required if we are to succeed in liberalizing international trade in agricultural products.

TITLE III. RELIEF FROM UNFAIR TRADE PRACTICES

The President must have broad authority to deal with the unfair trade practices against U.S. tobacco currently being administered by the European Community through their common agricultural policy. In addition, the whole of Central and South America maintains a virtual embargo on U.S. leaf tobacco and tobacco products. The Philippines and Australia, through mixing regulations and other import devices, exchange controls or quotas, are discriminating against U.S. tobacco. Many other countries either through import quotas, import licenses, or excessive tariffs are impeding U.S. exports.

In order to correct these discriminatory practices, the President must have authority to withhold benefits of trade agreement concessions and impose duties or other restrictions on the products of such foreign country or instrumentality, on a most favored nation basis or otherwise, and for such time as he deems appropriate.

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

We respectfully urge that the President, with the approval of Congress, be granted authority to grant most-favored-nation treatment to Russia and most countries of Eastern Europe and Asia. If we are realistic, we will quickly follow the lead of Western Europe in resuming full economic ties with this vast trading area to the mutual benefit of all trading partners.

We are entering into a period when tariff and nontariff walls between the imaginery lines of east, west, north, and south should start tumbling down. The United States should move to reestablish full economic and political relationships in these areas of the world.

I thank you.

The CHAIRMAN. We thank you too, Mr. Snodgrass.

We thank both of you for bringing your very fine statements to the committee.

Are there any questions of these two witnesses?

Mr. Ullman.

Mr. ULLMAN. Mr. Chairman, I just want to join in welcoming our former colleague back to the Hill. We appreciate your statement and also that of Mr. Snodgrass.

Mr. KORNEGAY. Thank you, Mr. Ullman.

The CHAIRMAN. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman.

I take it that you think we should give our negotiators authority with some teeth in it so that they can negotiate with some of these countries with which we are having problems.

Mr. KORNEGAY. Yes, sir. In order to be effective in any negotiation, the negotiators should have authority.

Mr. DUNCAN. I take it that about all your industry is asking is that the free trade should be also fair trade. That is all your industry is asking?

Mr. KORNEGAY. Yes.

96-006 O—73—pt. 14——14

Mr. DUNCAN. You don't think we have free trade, because it is not fair trade. How much tax is paid from tobacco into the Federal Treasury today?

Mr. KORNEGAY. The excise taxes from tobacco are approximately $2.2 million to the Federal Treasury alone. The total Federal, State, and local excise taxes will run over $5,300 million.

Mr. DUNCAN. How many people are employed in the industry today?

Mr. KORNEGAY. To start with producers, there are, I think a little over 600,000 farm families growing tobacco. Mr. Snodgrass referred to the 700,000 growers which means there is more than one grower in some families. In the manufacturing end of it, that is, just with the manufacturing companies, you would probably have close to 100,000 employees, and then of course, in addition to that, there are many thousands employed in other aspects of the industry such as the leaf dealers, the exporters, et cetera.

Mr. DUNCAN. I know there are a tremendous number of Americans involved.

Mr. KORNEGAY. Yes, sir. Excuse me, Mr. Duncan. I could furnish for the record the precise figures if you are interested.

Mr. DUNCAN. Would you do that, please?

Mr. KORNEGAY. All right, sir.

[The material referred to follows:]

FROM: The Tobacco Institute, 1776 K St., N.W., Washington, D. C. 20006
Telephone: 202/296-8434

1973

FOR BACKGROUND INFORMATION

Some Facts About Tobacco

In 1972, total U.S. consumption including overseas armed forces was:

- over 565 billion cigarettes
- about 7.3 billion domestic and imported cigars and cigarillos
- about 67 million pounds of smoking tobacco
- about 73 million pounds of chewing tobacco
- about 25.4 million pounds of snuff

The 1972 output of cigarettes from U.S. factories was 599.1 billion.

Of the total output, 10.5 billion cigarettes were shipped to overseas forces, 2.1 billion to Puerto Rico and U.S. Islands and 34.6 billion to other countries.

Here are some more facts about the agriculture, manufacturing, distribution, taxation, costs and services of the tobacco industry. In the following, all figures are estimates for 1972 unless otherwise stated. Sources are noted on the last page.

Tobacco Product Expenditures

In 1972, U.S. expenditures for tobacco products totaled an estimated $13.15 billion, an increase of about $827 million over 1971.

About $12 billion of the total expenditures was for cigarettes, $715 million for cigars and $425 million for smoking and chewing tobacco and snuff.

World Tobacco Production

Total world production of tobacco in 1972 is estimated at about 10.0 billion pounds, down 3 percent from the record high in 1967, but over 1.5 percent above the 5-year average 1965-69 production, and up about one percent from 1971.

Major tobacco producing nations, other than the U.S., were: Mainland China (1,700,000,000 pounds), India (902,122,000 pounds), Brazil (421,080,000 pounds), Turkey (386,907,000 pounds), Pakistan (333,760,000 pounds) and Japan (313,199,008 pounds).

United States Tobacco Production

TOBACCO GROWERS

The United States produced 1,748,759,000 pounds of tobacco in 1972. Tobacco is grown in 25 of the nation's states on 515,000 farms (1972 estimate).* There were 530,620 allotments issued to grow tobacco in the U.S. in 1972. The total tobacco acreage harvested was about 843,260 with an average yield of 2,074 pounds per acre.

Tobacco growing requires a great deal of labor. A farmer and his family, with the aid of hired help, must put in about 450 man-hours of labor to raise one acre of tobacco. It takes about 8 man-hours to raise an acre of wheat.

AUCTIONS

About 95 percent of the nation's tobacco is sold at auction in 176 markets in 12 states. About five percent of the nation's tobacco, largely cigar leaf, is sold directly from the farms or by farmer's cooperatives.

In 1972 there were 894 warehouses at the markets in Virginia, North Carolina, South Carolina, Georgia, Florida, Maryland, Kentucky, Tennessee, West Virginia, Ohio, Indiana, and Missouri. They handled 13 types of tobacco leaf.

CROP INCOME

In 1972, tobacco was the fifth largest cash crop in the United States, behind corn, soybeans, wheat and cotton. Farmers produced a tobacco crop worth about $1.4 billion, representing about 2.5 percent of the total for all agricultural commodities in the United States. The value of the 1972 tobacco crop in 16 major tobacco states was:

North Carolina	$579,816,000	Connecticut	$16,280,000
Kentucky	$340,934,000	Ohio	$16,278,000
South Carolina	$111,854,000	Wisconsin	$12,728,000
Georgia	$99,582,000	Indiana	$11,775,000
Virginia	$92,090,000	Pennsylvania	$8,064,000
Tennessee	$91,867,000	Massachusetts	$6,020,000
Florida	$26,433,000	Missouri	$4,664,000
Maryland	$21,294,000	West Virginia	$2,246,100

To a lesser extent, tobacco is also grown in Alabama, Arkansas, Delaware, Illinois, Iowa, Kansas, Louisiana, Minnesota and New York.

* The number of farms is a USDA estimate based on the 1964 Census of Agriculture. The allotment total is larger than the number of farms because of farms having more than one type of allotment, farms not growing tobacco in a given year and definitional differences.

Manufacturing

FACTORIES In 1972 there were about 210 tobacco products factories, large and small, in 25 states. They held federal permits to manufacture cigarettes, cigars, chewing tobacco, smoking tobacco and snuff.

North Carolina leads in cigarette production. Other large producers are Virginia and Kentucky.

EMPLOYMENT Tobacco manufacturers employ about 72,100 men and women.

EMPLOYEES	1972
Cigarette	36,600
Cigar	19,000
Chewing, smoking, snuff	3,600
Stemming, redrying	15,900
	75,100

Exports and Imports

The United States is the leading tobacco exporter and the third largest tobacco importer. In recent years about one-third of the U.S. tobacco crop has been exported. In calendar 1972, U.S. exports of leaf tobacco and manufactured products totaled some $879 million. Imports of leaf and manufactured products came to approximately $182 million.

LEAF Exports of unmanufactured tobacco and leaf tobacco in calendar 1972 were 606 million pounds in export weight. This represents a 28 percent increase compared with 1971 when dock strikes limited fourth quarter shipments. Value of the 1972 leaf export was $638.7 million, compared with $462 million in 1971.

CIGARETTES The United States also exported about $225 million worth of cigarettes and other tobacco products in calendar 1972. There were 200 warehouses which stored these products before shipment overseas.

About 34.6 billion cigarettes valued at $202 million went to well over 100 foreign countries in 1972. Among the leading importers were Hong Kong, Belgium-Luxemburg, Spain, Netherlands Antilles, Lebanon, Saudi Arabia, Panama, Ecuador, Kuwait, Switzerland and Japan.

OTHER PRODUCTS

Also exported in 1972 were 76 million cigars.

Exports of smoking tobacco in bulk have increased steadily in recent years, but declined slightly in 1972; the quantity for calendar 1972 was 29.1 million pounds. In addition, the United States exported 1.4 million pounds of packaged smoking tobacco and 42,000 pounds of snuff and chewing tobacco.

Taxes

TOTAL EXCISES

Tobacco taxes for fiscal 1972 total about $5,333,163,000 for federal, state and local governments. About 98 percent of that represented taxes on cigarettes—some $5,244,468,000. Taxes on other tobacco products totaled about $88,695,000.

FEDERAL

The federal government's share was $2,207,273,000, with cigarette taxes representing 97.5 percent or $2,151,158,000.

STATE AND LOCAL

State taxes on all tobacco products totaled an estimated $3,015,862,000. Local government tobacco taxes totaled $110,028,000.

In 1972, because of increased cigarette taxes in many states, smokers paid 11.9 percent more in state cigarette taxes than in 1971. More than 50 percent of the retail cost of cigarettes went to federal, state, and local government treasuries in the form of cigarette excises.

SOURCES: U.S. Department of Agriculture: *Annual Report on Tobacco Statistics; The Tobacco Situation*, issued quarterly by the Economic Research Service; *Foreign Agriculture Circular.*

U.S. Department of Labor, *Employment and Earnings Statistics for the United States.*

U.S. Department of Treasury, Bureau of Alcohol, Tobacco and Firearms, *Alcohol and Tobacco Summary Statistics.*

Tobacco Tax Council, *The Tax Burden on Tobacco.* 5407 Patterson Avenue, Richmond, Va. 23226.

Mr. DUNCAN. What percentage of the domestic market does imports take today. What percentage of the domestic consumption does the imports take?

Mr. SNODGRASS. We import about $182 billion worth of tobacco to be manufactured here.

Mr. DUNCAN. What percentage is that?

Mr. SNODGRASS. Roughly, 15 percent.

Mr. DUNCAN. What are some of the nontariff barriers we are running into, let's say in the Economic Community?

Mr. SNODGRASS. One comes to my mind. In Australia, they have a mixing regulation whereby 51 percent of all the tobacco manufactured in that country must be native to that country. That is a nontariff barrier. In the Common Market, they have preferential treatment given to associated overseas territories in Africa, some of the emerging countries. That is a nontariff barrier.

Mr. DUNCAN. How do you think we are going to get these countries to change their attitude on these trade barriers?

Mr. SNODGRASS. First we have to have some authority to do a little swapping. Unfortunately, for agriculture in the former negotiations going back to the Kennedy and Dillon rounds, agriculture was sold down the river at times for industrial products. I think we need to keep in mind to have some reciprocity for the products and not pay for the concessions with other items.

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

The CHAIRMAN. Mr. Karth, are you seeking recognition?

Mr. KARTH. Yes.

The CHAIRMAN. Mr. Karth.

Mr. KARTH. Thank you, Mr. Chairman.

Mr. Kornegay, on page 6, the second paragraph of your testimony, you refer to a country where we have access to less than 1 percent the retail outlets. I wonder if you would identify that country for the record.

Mr. KORNEGAY. Yes, sir. It is Japan. In that connection, Mr. Karth and Mr. Chairman, I have a letter which I just received this morning from one of the most knowledgeable people in one of our companies that sheds some light on some of the questions that have been raised with reference to the nontariff barriers.

I would like to request permission of the chairman and the committee to have this letter included in the record.

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

Mr. KORNEGAY. This is a letter from the Lorillard Corp.

[The letter referred to follows:]

LORILLARD,
A DIVISION OF LOEWS THEATRES, INC.,
New York, N.Y., June 8, 1973.

MR. HORACE KORNEGAY,
The Tobacco Institute, 1776 K Street,
Washington, D.C. 20006

DEAR MR. KORNEGAY: Following our brief discussion yesterday, we reviewed a number of situations that would appear to be affected by the administration's trade bill (HR6767). I believe that it would be only fair to begin by saying that the greatest discrimination against US made cigarettes comes in the form of duties and/or taxes.

We are particularly aware of this fact this week since the government of Greece just published a new tax law which will come into effect later this

month. This will price U.S. cigarettes at *about $1.50.* In contrast, the highest priced local cigarettes are 50¢ while the leading brands sell for 25¢ to 30¢. Other countries which have extremely high taxes and/or duties directed at imported cigarettes include *Brazil,* the *Philippines* and *Sweden.*

In any discussion of discrimination against U.S. cigarettes there should be mention made of the difficulties faced by private U.S. companies when confronted with the force and control of government controlled monopolies. There is obviously little possibility of "equal bargaining" when an individual U.S. manufacturer has to deal with government monopolies as exist in *Korea, Japan, France, Austria,* etc. This is particularly true in the area of pricing where most of the monopolies utilize the U.S. anti-trust prohibition on price discussions (among U.S. companies) to negotiate the most favorable terms and conditions with their U.S. suppliers.

Finally, we would point to the *specific* or *"unwritten" quotas* applied by many governments to arbitrarily limit sales by the U.S. cigarette companies.

These quotas are most evident in those Asian countries which have most recently had U.S. military involvement, such as Korea, Taiwan and Japan and where demand has recently been developed. Most observers are convinced that if free imports were allowed U.S. manufacturers would increase their market share manifold.

I hope the above comments are of some interest. Unfortunately we cannot be more specific nor furnish you with exact details in the limited time available. I believe though that the above comments are accurate and may be of help. If there is anything you think we could add please feel free to call Dick Orcutt or me. It was a pleasure to meet you and Dr. Welch yesterday.

Yours truly,

ROBERT H. E. HEIN,
Director, Business Development.

Mr. KARTH. The other question I have, Mr. Chairman, is also on page 6, in the following paragraph to the one that I mentioned briefly, Mr. Kornegay. Would you identify those countries that you referred to in that third paragraph, please?

Mr. KORNEGAY. You are speaking with reference to the fact that deliveries are limited to monthly deliveries, on a monthly basis. I think that is Japan. Advertising is also prohibited by American manufacturers in Japan except in the English language publications, and if my information is correct, there are only three of them in the country.

Mr. KARTH. The last sentence of that third paragraph, you talk about several countries.

Mr. KORNEGAY. About the differential in prices?

Mr. KARTH. Yes, sir.

Mr. KORNEGAY. That has reference to Japan and Thailand. Also I have the letter here which I just received and requested permission to put in the record. This letter points out that the government in Greece has just issued a new tax law, and it is my information that under that law American manufactured cigarettes would sell at approximately the price of $1.50 per pack.

The leading local brands would sell for approximately 25 to 50 cents a pack. So there you have a 300 to 600-percent price differential.

Mr. KARTH. If you would identify in the record all of those countries that you referred to in both of those paragraphs, I would appreciate it.

Mr. KORNEGAY. I would be delighted.

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. Mr. Chairman. I want to express my regret that I could not be here when Mr. Kornegay presented his statement. I had to attend a meeting of the District of Columbia Committee.

I want to join with the chairman, Mr. Kornegay, in welcoming you, a former colleague, to the committee. You were one of the distinguished Members of the House and you continue to be a very good friend of mine and of many other Members of the Congress, particularly those on this committee. I have been scanning your statement to see if you made reference to the tremendous economic contribution of the tobacco industry. Here is another important industry to the Commonwealth of Virginia. I am very much concerned about any proposal which might have an adverse effect on the economy of Virginia.

Did you refer in your statement to the amount of excise taxes produced by the tobacco industry annually, as well as its payroll and its overall contribution to the economy?

Mr. KORNEGAY. Yes, sir. I made particular reference to the amount of excise taxes that tobacco products pay. I did not go into the total economic, we would say large economic element or impact of the industry on the country with reference to payrolls.

Certain information was elicited by way of questions as to the approximate number of people involved in various functions throughout this broad industry, from the farmers through those who work in the manufacturing plants, those involved in the export trade, and that sort of thing.

I am going to get a detailed statement, Mr. Broyhill, and furnish it for the record. I have here a sheet of these precise figures with reference to taxes. In 1972, the total excise tax paid, Federal, State, and local government, was $5,333,163,000; $2.2 billion of that amount went into the Federal Treasury. That is a pretty concise statement on the taxes.

Mr. BROYHILL. As you probably know, during the hearings on tax reform, some witnesses, under the general assumption that tobacco was evil, suggested placing a much higher excise tax on tobacco to achieve two aims: Produce revenue and discourage consumption.

How can we do both? How much more can the industry stand before the law of diminishing returns will set in?

Mr. KORNEGAY. I think that is a difficult question to answer as to how much more they can stand. Speaking for the industry, we think we are presently overtaxed and overburdened. I do not know anybody in the tobacco industry who doesn't feel and sincerely believe that the industry should bear its fair share of the tax burden in this country, but there is a distinct feeling among the leadership of the industry that with reference to certain States, we are doing far more than our share in bearing the tax burdens.

You can find certain States that have been, in our view, a little too ambitious in their rates of taxation on tobacco products, and particularly cigarettes, where the law of diminishing returns has set in, Mr. Broyhill.

It is not only the fact that they probably are receiving less revenue, even though they increased the rate of tax, but it has brought about some very undesirable social problems, such as bootlegging, and the underworld has gotten into it. Any time you make illegality attractive financially, you are going to have unprincipled people flock into it.

I am certainly pleased to say that there are only a few States where that has become quite a problem.

Mr. BROYHILL. It is somewhat ironic that when we have an industry which is producing a substantial amount of needed revenue, we try

to discourage the growth and progress of that industry. This is most unusual under basic American concepts.

Mr. KORNEGAY. We see that quite frequently in the tobacco business today, as it is seen, I am sure, in other businesses where the right hand really doesn't know what the left hand is doing, so to speak, from the standpoint of certain local governments and some agencies in the Federal Government. It is not in the tax end or Treasury end of it. Some have called it a schizophrenic proposition to encourage support of tobacco on the one side and declare it a health hazard on the other.

It is a monumental problem that the tobacco industry lives with every day. As I said in my statement, we have had the proverbial book thrown at us for the last 10 years, but we continue to hold our heads high and remain undismayed and continue to have a sense of pride in the industry and the tremendously responsible position which it has taken throughout the life of this controversy.

Mr. BROYHILL. You may have covered this in your statement or in answers to other questions. It is my understanding that, with respect to trade, the tobacco industry is primarily concerned with getting a "fair shake" on your exports.

Mr. KORNEGAY. Yes.

Mr. BROYHILL. I understand that you have severe problems with nontariff barriers?

Mr. KORNEGAY. That is right.

If I can say this, I hope succinctly, we feel that the tobacco industry is one of the relatively few industries in this country that is now making and can make, under proper conditions, by removing nontariff barriers, tremendous contributions to the economy and the movement toward reversing the imbalance in payments and in trade, because we are unique in that we produce the finest quality tobacco in the world. Once the foreign nations have been exposed to it, they discontinue smoking the local brands and enjoy smoking American-blended cigarettes.

So if the American companies can compete on an equitable basis, if is our view that this area of foreign trade, which is very beneficial to the United States, could be drastically increased.

Mr. BROYHILL. Thank you, Mr. Chairman.

Mrs. GRIFFITHS [presiding]. The gentleman from Colorado, Mr. Brotzman, will inquire.

Mr. BROTZMAN. Thank your, Madam Chairman.

I just want to welcome both of these witnesses to the committee, and particularly my friend and former colleague, Mr. Kornegay, with whom I had the pleasure of serving on the Interstate and Foreign Commerce Committee.

As usual, Mr. Kornegay has the facility of getting right to the heart of the problem.

We have listened to a lot of witnesses by now as we followed and dealt with this issue of trade. There is a universal cry that we have to do something about these nontariff barriers that are placing impediments, difficulties, hardships in the way of legitimate American enterprise.

I note that you have brought that same message to the committee very forcefully, very effectively, very eloquently.

Perhaps you have had an opportunity to at least review one of the proposals before the committee, and that is the so-called administra-

tion bill, which, if my recollection is correct, provides and gives a great deal of power to the executive branch to enter agreements relative to NTB's with a reserved right in the Congress to veto this particular action.

I would merely ask you if something like this is what you think we should be doing to try to resolve this very difficult problem.

Mr. KORNEGAY. We agree with that proposal in principle, Mr. Brotzman.

I am grateful for your kind comments, of course.

I say that we approach these nontariff barriers and certain tariff barriers, unreasonable tariffs, with the idea that in order to effectively do something about them, you have to have negotiators that possess two characteristics. No. 1, they have to have some authority. You and I sit down to talk or to negotiate any kind of matter, and if I have no authority, you are wasting your time.

No. 2, we have to have negotiators who are instructed and possess the native ability and expertise to deal with the people in the other countries who do have those qualities.

I think the two elements must go hand-in-hand. I am concerned about giving an untrained person a whole lot of authority. If you can pull the two together, give a highly responsible, effective, qualified person authority, then I think that is the right approach.

There is one other element in it, and I am probably getting off the track, but I think that our Nation must recognize that things have changed considerably, and I am talking about our trade negotiations, since the days after World War II, when we assumed the responsibility of rebuilding most of the civilized world. We have done it, and we did a magnificent job of it.

And now we find that as a result of our generosity, and I have never quarreled with that or opposed it, but as a result of our great generosity in literally ladling out our resources throughout the world, we now see our dollar devalued, inflation running rampant, and other related problems, some of which could be perhaps traced to our past conduct. I think it is time that we call some people to account for it. I don't mean in a cruel or harsh manner, but sit down and say, "Look, now is the time when we need a little help," and negotiate on that basis.

Mr. BROTZMAN. I couldn't agree with you more.

Thank you very much.

Mr. KORNEGAY. Thank you, sir.

The CHAIRMAN. Mr. Waggonner will inquire.

Mr. WAGGONNER. Thank you, Mr. Chairman.

I simply want to welcome our former colleague, Mr. Kornegay, this morning, as well as Mr. Snodgrass.

I don't think that Mr. Kornegay has improved any since he left the Congress. He was good when he was here.

Today you have done a creditable job. I do share your concern about the composition of the negotiating team or body, so to speak.

I think it is going to be incumbent upon us here in this committee and in the Congress to write safeguards to be sure that we do have an input from all the people involved, all the people affected, who have expertise, to this negotiating group, whoever they are, and I just want to assure you that we are going to try to see that that happens.

I for one question the wisdom of giving to the President the authority to submit just those nontariff barrier agreements that are

negotiated that he feels he should submit to the Congress for approval, because I feel that maybe we ought to review all those agreements wherein the industry and the people involved feel that they have not had the input they should have had, or their input has been totally ignored, or in the final analysis, rejected.

We will try to write safeguards to insure that this negotiating team does consult with the people who have expertise.

Thank you, Mr. Chairman.

Mr. KORNEGAY. Thank you.

The CHAIRMAN. Are there any further questions?

Mr. LANDRUM. Mr. Chairman.

I have a personal expression, not a question.

I want to join in welcoming these gentlemen to the committee, and give a very special welcome to our old friend from North Carolina.

Mr. KORNEGAY. Thank you very much.

The CHAIRMAN. Mr. Carey.

Mr. CAREY. Thank you, Mr. Chairman.

I take particular pleasure in welcoming here my classmate who came to Congress with me in the 87th Congress, and it was a sad day indeed when the pressure of family concerns and his desire to change careers caused him to leave the Congress. We miss him very much for his aptitude and diligence and effectiveness in this body.

I have just two questions. One, there is widespread talk about normalizing trade relations, East and West, China, Russia, and so forth, and eventually it is going to get around, I believe, to that island dictatorship that is 90 miles off the coast of Florida.

Do you foresee any adverse impact with renewed United States-Cuba relations as far as trade in tobacco is concerned?

Mr. KORNEGAY. No, sir—not for the cigarette industry.

Mr. CAREY. Have they forgotten how to grow that Havana leaf over there? They have kind of messed up a lot of their other systems. Would renewed trade relations between the United States and Cuba have any adverse impact on the tobacco industry?

Mr. SNODGRASS. It would on the production of cigar leaf in this country, yes.

Mr. CAREY. Still you would maintain your position of free and fair trade on a reciprocal basis without limitation?

Mr. SNODGRASS. I would think that that would be a political item that should be cleared up first, before we consider trade.

Mr. CAREY. You haven't reached a judgment on that position yet?

Mr. KORNEGAY. I would be more concerned about other aspects of it, Mr. Carey, than I would be about the tobacco aspect.

Mr. CAREY. One way I believe that the negotiating team, whoever they are, which is going to handle the trade pact could be highly improved would be to have former Representative Horace Kornegay sitting as close to the negotiators as they could put him, and then report back to us. I would recommend that.

Mr. KORNEGAY. You are most generous.

Mr. CAREY. My State has little enough money to cope with its law enforcement problems, and one of the major ways in which we have to use policeman power is on this cigarette bootlegging referred to by our colleague from Virginia.

It has been suggested that one way we could obviate and eliminate some of this bootlegging would be the imposition of a national tax on tobacco, to be refunded to the States in proportion to their local levies. Have you reached any judgment on that kind of legislation? Have you though about it as a way of getting us out of this business of trying to catch bootleggers coming to the North from the Southern growing States?

Mr. KORNEGAY. I have no position to announce today on it, Mr. Carey. It is a matter that has been considered for many years, I am sure, by certainly the cigarette industry, and at times it has probably been talked about here in the Congress.

One of the problems at this day and time, as I would see it, is that the excise tax differential between certain States has become so great that it could present some rather substantial political problems.

Mr. CAREY. I didn't think we could work out the mathematics to solve something like that, but after passing the revenue-sharing bill, I am sure we have a slide rule that can do anything.

Mr. KORNEGAY. You have made a long stride toward that end, Mr. Carey.

Mr. CAREY. I hope it is a forward stride.

Mr. KORNEGAY. It is something, certainly, that we ought to think about.

The CHAIRMAN. Are there any further questions?

If not, we again thank you both for coming.

Mr. KORNEGAY. Thank you, Mr. Chairman, and members of the committee.

The CHAIRMAN. Our next witness is Mr. Koon.

Mr. Koon, if you will identify yourself for the record, we will be glad to recognize you, sir.

STATEMENT OF GORDON KOON ON BEHALF OF THE SOCIETY OF AMERICAN FLORISTS AND ORNAMENTAL HORTICULTURISTS, COLORADO FLOWER GROWERS ASSOCIATION, AND DENVER WHOLESALE FLORISTS AND CALIFORNIA STATE FLORIST ASSOCIATIONS; ACCOMPANIED BY ROBERT R. HALL AND GEORGE BEEMER

SUMMARY

There are 10,000 commercial cut flower growers in the U.S. These thousands of growers supply thousands of jobs, paying good wages well above the national average for agriculture employees. These employees are unskilled laborers, many, members of minority groups who through jobs in floriculture production industry are able to maintain themselves and their families by making a positive contribution to the U.S. economy rather than providing a greater drain from public assistance programs.

In conclusion, let me state that the full economic impact of imports on the U.S. floricultural producers is just starting to be felt. The U.S. producer is on a collision course with economic chaos—unless some restriction on the relatively free flow of foreign production can be developed almost immediately. The U.S. producer wants to continue to expand. He is ready to invest money to enlarge production facilities here in the U.S. if he can gain some assurance that his markets will not be destroyed by floods of foreign production. We need and urge the consideration of this Committee and the Congress of the United States to give help in this imminent problem confronting our domestic floricultural producers.

Mr. KOON. I am Gordon Koon from Denver, Colo.

The CHAIRMAN. Mr. Brotzman.

Mr. BROTZMAN. Thank you, Mr. Chairman.

I merely wanted to extend a cordial welcome to a friend from Colorado, Mr. Koon. I have known him for a period of time, and perhaps even better I know his father, Sid Koon, who is a fine citizen of our State.

We are happy to have you here to tell us about the carnation business, which is one of the large industries of our State.

The CHAIRMAN. Thank you, Mr. Brotzman.

You are recognized, Mr. Koon.

Mr. KOON. Thank you for the opportunity to present a statement on behalf of the several thousand commercial flower growers of the United States.

Our oral statement this morning is supplemented by a number of charts and statistical data which we would like your permission to submit for inclusion in the record of these hearings.

The CHAIRMAN. They will be included, without objection.

Mr. KOON. As I mentioned, I am a grower of carnations in Denver, Colo., which is the second largest carnation-producing State in the United States. Although I am speaking for commercial flower growers of the United States, I specifically represent the flower producers of Colorado.

With me today is Robert R. Hall, a producer of carnations and chrysanthemums. Mr. Hall is from California, which is the major producing State of flowers and plants here in this country. Mr. Hall represents the California flower growers.

Also here with me today is George Beemer, director of the Growers Division of the Society of American Florists. Mr. Beemer represents the grower members of the organization.

Floriculture is an important component of the U.S. agricultural economy and the economies in the communities of the 23 States which are major floriculture producing areas.

We are particularly pleased that the Committee on Ways and Means and the administration have seen fit to deal with the problems of international trade at this time. Our industry strongly supports the basics in the Trade Reform Act of 1973. However, ours is an immediate problem and we are concerned that the years, perhaps decades, involved in implementing trade reform will be too little, too late. Perhaps our Government, in its effort to assist in the forefront in the expansion of all aspects of world trade, has not paid enough attention to the No. 1 priority—that of assuring the health of U.S. industries, including the substantial investments and coinciding employment opportunities.

In brief: Under title I, U.S. flower growers support the concept of providing the President with authority for new negotiations on tariffs and trade. In particular, we would urge that the Congress of the United States give serious consideration to the current system of customs valuation with emphasis placed on a change in the valuation procedure to coincide with the Brussels definition of "value," in other words, determining customs valuation on landed value in the country of import. This is the present system under which U.S. exporters of floricultural products must do business in most of the world market.

Under title II, we would urge that particular emphasis and definition be given to the criteria of "threat, thereof" to domestic industry. Too often, under our present system, once a determination of injury has been made, any resulting action is too late to reverse an already rampant and devastating trend.

Under title III, we feel that our Nation must use its position of strength to eliminate the many unfair trade practices which confront U.S. exporters and support provisions to provide the muscle to do so under future negotiations.

Under title V, we agree that the President should also be provided with authority to adjust provisions relating to "most favored nation" policies. However, we would urge that no country be provided "most favored nation" treatment who discriminates in any way against U.S. exports.

Under title VI, we would strongly urge that any system of preferences be developed on a commodity basis, particularly in the agricultural field, as no two industries in the United States, particularly those dealing with perishable commodities, are ever alike in marketing and distribution. This is particularly important to the producer in floriculture, for although his continued existence is important to specific communities and the people employed in the industry, the total share of floriculture products is of relatively small importance in the U.S. balance of trade and hence likely to be ignored.

From this point on in my statement I will highlight some of the things we have said, rather than take too much of your time this morning.

The U.S. flower producer has done an exceptionally fine job over the last 25 years in increasing supply to meet demand. There has been an amazing stability of prices in the marketplace. This has been done without the influence of foreign imports.

Now, U.S. producers are confronted with a situation whereby the domestic market for U.S. producers is severely threatened by a dramatic and overwhelming increase in the importation of cut flowers. For the major crops of carnations, chrysanthemums, and roses, the percentages of increase in importation is staggering.

I would like to cite carnation imports from Latin America as the best example of the real threat we are facing. Carnation imports have grown from less than one-half of 1 percent of domestic production in 1970 to 5 percent in 1971; 8.33 percent in 1972; and, so far in 1973, imports are more than doubling 1972.

During the 21 weeks ending May 26, 1973, Latin American carnation imports increased from 21 million in 1972 to 50 million in 1973, a 138-percent increase.[1]

This year, according to statistics included here, we show you that they are more than doubling last year's figures and we fear that doubling cycle will continue. There is evidence that we already felt the problem during the Easter holiday period and Mother's Day period, where we ended up with a surplus of carnations in both the California and Colorado markets, and we attribute this largely to the influx of imported carnations from Latin America.

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[1] Refer to USDA Ornamental Corps National Market Trends in the prepared statement.

It is the stated goal of Colombia, South America, to have at least 25 percent of the U.S. carnation market by next year.

The competition we face is based on low-cost labor, and minimum structures on about a 10:1 cost ratio. Labor in U.S. greenhouses costs $20 to $30 per day, compared to not over $2 to $3 per day in Latin America. According to Sanford Rose of Fortune magazine (April 1970), this Latin American labor is more efficient than often purported to be in this country.

Various laws and agencies of our Government are substantially increasing our costs, but have no effect on foreign competition. EPA water control and pesticide regulations are two areas where there will be substantial impact. Many chemicals are being banned for use in the United States, but will be able to be used on the foreign imports brought into this country. OSHA requirements are causing us problems and will add to the cost of our industry and to our costs of production.

According to an article in the Wall Street Journal (see appendix B), our Government, under the auspices of the AID program, is lending money to large wealthy U.S. corporations. They, in turn, are financing growers of floriculture products in foreign lands at interest rates as low as 9 percent when prevailing commercial rates would be as high as 18 percent annually.

In summary, there are 10,000 commercial cut flower growers in the United States. These thousands of growers supply thousands of jobs paying good wages well above the national average for agriculture employees.

These employees are unskilled laborers, many of them members of minority groups, who through jobs in floriculture production industry are able to maintain themselves and their families by making a positive contribution to the U.S. economy, rather than providing a greater drain from public assistance programs.

I would like to state that the full economic impact of imports on the U.S. floricultural producers is just starting to be felt. The U.S. producer is on a collision course with economic chaos—unless some restriction on the relatively free flow of foreign production can be developed almost immediately.

The U.S. producer wants to continue to expand. He is ready to invest money to enlarge production facilities here in the United States if he can gain some assurance that his markets will not be destroyed by floods of foreign production.

We need and urge the consideration of this committee and the Congress of the United States to give help in this imminent problem confronting our domestic floricultural producers.

Thank you.

[Mr. Koon's prepared statement follows:]

STATEMENT OF GORDON KOON, ON BEHALF OF THE GROWERS DIVISION OF THE SOCIETY OF AMERICAN FLORISTS

Mr. Chairman and members of the committee, thank you for the opportunity to present a statement on behalf of the several thousand commercial flower growers of the United States. Our oral statement this morning is supplemented by a number of charts and statistical data which we would like your permission to submit for inclusion in the record of these hearings.

My name is Gordon Koon. I am a grower of carnations in Denver, Colorado which is the second largest carnation producing state in the U.S. Although I

am speaking for commercial flower growers of the U.S., I specifically represent the flower producers of Colorado. With me today is Robert R. Hall, a producer of carnations and chrysanthemums. Mr. Hall is from California which is the major producing state of flowers and plants here in this country. Mr. Hall represents the California flower growers. Also here with me today is George Beemer, Director of the Growers Division of the Society of American Florists. Mr. Beemer represents the grower members of the Society. Floriculture is an important component of the U.S. agricultural economy and the economies in the communities of the 23 states which are major floricultural producing areas.

We are particularly pleased that the Committee on Ways and Means and the Administration have seen fit to deal with the problems of international trade at this time. Our industry strongly supports the basics in the Trade Reform Act of 1973. However, ours is an immediate problem and we are concerned that the years, perhaps decades involved in implementing trade reform will be too little, too late. Perhaps our government, in its effort to assist in the forefront in the expansion of all aspects of world trade, has not paid enough attention to the number one priority—that of assuring the health of U.S. industries including the substantial investments and coinciding employment opportunities.

In brief: Under Title I, U.S. flower growers support the concept of providing the President with authority for new negotiations on tariffs and trade. In particular, we would urge that the Congress of the United States give serious consideration to the current system of customs valuation with emphasis placed on a change in the valuation procedure to coincide with the Brussel's definition of "value", in other words, determining customs valuation on landed value in the country of import. This is the present system under which U.S. exporters of floricultural products must do business in most of the world market.

Under Title II, we would urge that particular emphasis and definition be given to the criteria of "threat, thereof" to domestic industry. Too often, under our present system, once a determination of injury has been made, any resulting action is too late to reverse an already rampant and devastating trend.

Under Title III, we feel that our nation must use its position of strength to eliminate the many unfair trade practices which confront U.S. exporters and support provisions to provide the muscle to do so under future negotiations.

Under Title V, we agree that the President should also be provided with authority to adjust provisions relating to "most favored nation" policies. However, we would urge that no country be provided "most favored nation" treatment who discriminates in any way against U.S. exports.

Under Title VI, we would strongly urge that any system of preferences be developed on a commodity basis, particularly in the agricultural field, as no two industries in the U.S., particularly those dealing with perishable commodities are ever alike in marketing and distribution. This is particularly important to the producer in floriculture for although his continued existence is important to specific communities and the people employed in the industry, the total share of floriculture products is of relatively small importance in the U.S. balance of trade and hence likely to be ignored.

Currently the Farm Gate Value of U.S. florist crop production is approximately $350,000,000. We are requesting government help in preventing the destruction of an important segment of agriculture, by imports priced below U.S. cost of production. Foreign imports are able to be priced low because of cheap foreign labor, government subsidy, favorable tax arrangements, cheap transportation and use of fungicides and pesticides prohibited to the U.S. producer. The U.S. producer has done an exceptionally fine job over the last 25 years in increasing supply to meet demand. There has been an amazing stability of prices in the marketplace. This has been done without the influence of foreign imports. Now, U.S. producers are confronted with a situation whereby the domestic market for U.S. producers is severly threatened by a dramatic and overwhelming increase in the importation of cut flowers. For the major crops of carnations, chrysanthemums and roses, the percentages of increase in importation is staggering.

I would like to highlight some specifics relating to cut flower importation which, until recently, have not been of significant economic impact. However, circumstances which present an immediate threat of serious damage are rapidly occurring. I would like to cite carnation imports from Latin America as the best example of the real threat we are facing. Carnation imports have grown from less than ½ of 1% of domestic production in 1970 to 5% in 1971, 8.33% in 1972, and, so far in 1973 imports are more than doubling 1972. During the 21

weeks ending May 26, 1973, Latin American carnation imports increased from 21 million in 1972 to 50 million in 1973 (138% increase) (Refer to USDA Ornamental Crops National Market Trends below).

As a result of carnation imports, many carnation producers in the U.S. were unable to sell significant portions of their production during the Easter holiday period or during Mother's Day shipping period. The markets in the major population centers literally collapsed on Tuesday and Wednesday prior to Easter and Mother's Day. This is the first time in recent history there has not been demand exceeding supply during the Mother's Day shipping period. This demoralizing increase of foreign imports plus plans on the drawing tables, will result in production exceeding that of Colorado, the second largest producer of carnations, in the United States, by the end of this year. This will represent over 20% of the domestic carnation consumption. It is the stated goal of Colombia, South America, to have at least 25% of the U.S. carnation market by next year.

The USDA report also reveals that imports are increasing rapidly for other floriculture crops:

IMPORTS OR ORNAMENTALS[1]

Item and country	21 weeks ending May 26, 1973	21 weeks ending May 27, 1972	21 weeks ending Dec. 30, 1972	Percent increase or decrease
Carnations	50, 634, 000	21, 305, 000	56, 153, 000	+138
Colombia	44, 966, 000	17, 854, 000	47, 828, 000	
Costa Rica	647, 000	453, 000	1, 011, 000	
Ecuador	1, 694, 000	1, 483, 000	3, 867, 000	
Mexico	2, 016, 000	1, 253, 000	2, 491, 000	
Chrysanthemums	9, 572, 000	6, 936, 000	15, 866, 000	+38
Colombia	3, 458, 000	1, 962, 000	4, 945, 000	
Costa Rica	359, 000	272, 000	983, 000	
Ecuador	1, 204, 000	1, 094, 000	2, 672, 000	
Guatemala	4, 186, 000	3, 480, 000	6, 716, 000	
Netherlands	180, 000	40, 000	294, 000	
Pompons	15, 381, 000	7, 383, 000	25, 241, 000	+109
Colombia	7, 790, 000	3, 100, 000	13, 181, 000	
Costa Rica	767, 000	674, 000	2, 612, 000	
Ecuador	606, 000	529, 000	1, 197, 000	
Guatemala	6, 175, 000	2, 992, 000	8, 035, 000	
Roses	2, 077, 000	685, 000	1, 676, 000	+203
Brazil	387, 000	62, 000	114, 000	
Costa Rica	554, 000	194, 000	336, 000	
Guatemala	126, 000	90, 000	372, 000	
Netherlands	695, 000	201, 000	648, 000	
Daisies	4, 902, 000	2, 022, 000	3, 395, 000	+143
Colombia	1, 912, 000	460, 000	1, 617, 000	
Guatemala	2, 520, 000	1, 475, 000	1, 623, 000	
Mexico	391, 000	62, 000	81, 000	
Orchids	10, 000	1, 000	1, 038, 000	+900
Australia	1, 000		967, 000	
New Zealand			63, 000	
Statice	2, 763, 000	1, 967, 000	2, 542, 000	+40
Guatemala	1, 050, 000	984, 000	1, 097, 000	
Mexico	699, 000	929, 000	959, 000	
Chamaedorea	171, 744, 000	188, 704, 000	366, 038, 000	−9. 9
Guatemala	46, 712, 000	57, 861, 000	131, 546, 000	
Mexico	124, 448, 000	130, 759, 000	230, 802, 000	
Tulips	2, 289, 000	1, 765, 000	1, 856, 000	+29. 8
Netherlands	2, 272, 000	1, 764, 000	1, 854, 000	

[1] Ornamental Crops National Market Trends, vol. V, No. 21, Friday, June 1, 1973.

Note: Based on reports of inspections by plant protection and quarantine program, U.S. Department of Agriculture. Rounded to the nearest thousand stems.

The competition we face is based on low cost labor, and minimum structures on about a 10:1 cost ratio. Labor in U.S. greenhouses costs $20 to $30 per day compared to not over $2.00 to $3.00 per day in Latin America. According to Sanford Rose of *Fortune Magazine* (April 1970), this Latin American labor is more efficient than often purported to be in this country. Greenhouse labor in the U.S. often is as much as 50% of Farm Gate value of crop sales and 30% to 40% is average.

Cost of construction in Latin America is often as low at $.25 to $.30 per sq. ft. of producing area compared to $2.50 to $5.00 per sq. ft. for an environmentally controlled greenhouse which is required to provide a consistent supply of quality products for the domestic market.

Some foreign countries, we are told, are subsidizing their agricultural producers as well as industrial manufacturers. For example, Canada, in low employment areas, such as Nova Scotia, is subsidizing wages up to 50% and U.S. producers in border states are often in competition with plants and cut flowers produced under these subsidies.

Floriculture producers in the U.S. do not receive any government subsidies and have never asked for any.

Our industry makes significant tax contributions to the local and national economy due to our very high investment per acre. Construction and production costs are increasing at a regular rate in this country. The floriculture industry is prepared to accept these increases and continue expansion if threat of destruction of domestic markets by foreign imports can be eliminated.

Foreign production is presently free to exploit our markets in an erratic manner while we are expected to make up for their inadequacies. There is little reason to presume there would be loyalty to U.S. markets by foreign producers should opportunities be greater elsewhere.

The U.S. has a tariff on floriculture products coming into this country of 10% based on the domestic price in the country of origin. This tariff is far from being sufficient to offset the differences in production costs in this country vs foregn countries.

The treatment of imports of bulbs, flowers and plants by foreign governments presents an entirely different picture. Almost all, in addition to higher tariff rates than prevail in the U.S., utilize one or more non-tariff barriers.

U.S. growers are restricted in their ability to ship into many other countries. Embargos and non-tariff barriers restrict flowers produced in the U.S. from being shipped into countries such as Australia, Mexico, Colombia, Equador, Guatemala, most European countries, Canada, etc. In some of these countries, flower imports are prevented under any conditions.

In most foreign countries, value for duty is not the price paid to the exporter but includes all costs of shipping as well as turnover or sales taxes. The appraised value is inflated and results in paying taxes on taxes.

In general, rates of duty for many foreign countries are so high as to materially discourage the expansion of U.S. exports of ornamental horticultural products. We need only cite the 17% to 24% rates of EEC on cut flowers against the 10% rate of the U.S. This differential becomes much greater when we realize that included in the appraised value are the costs of shipping and the sales of turnover tax. (See Appendix A)

Plant health measures are, on occasions, used to exclude shipments. We have no objection when such action is actually based on phyto-sanitary needs, but do object when they are applied to affect the economic end of protectionism.

Various laws and agencies of our government are substantially increasing our costs but have no effect on foreign competition. E.P.A. water control and pesticide regulations are two areas in which there has been substantial impact. Many chemicals are banned for many uses here in the U.S., but are used on foreign produced imports into this country.

According to an article in the *Wall Street Journal* (Appendix B), our government, under the auspices of the AID program, is loaning money to large wealthy U.S. corporations. They in turn are financing growers of floriculture products in foreign lands at interest rates as low as 9% when prevailing commercial rates would be as high as 18% annually. Our interpretation of such a program is that our own government, in effect, is providing subsidies to create competitors to U.S. producers whose tax dollars make these very funds available.

The new OSHA requirements pose serious problems and add costs to our industry and are substantially increasing costs of production.

The previously mentioned government regulations post a serious threat to our industry themselves notwithstanding the import problem.

APPENDIX A

CUT FLOWERS AND FLOWER CUTTINGS TARIFF AND NON-TARIFF BARRIERS IN SOME FOREIGN COUNTRIES

Tariff and non-tariff barriers on cut flowers and cuttings into European countries and other countries of the world who are both producers of cut flowers and potential customers of United States growers:

Tariff	Percent		Nontariff
		EUROPEAN COUNTRIES	
June 1 to Oct. 30	24	Ireland	None.
November 1 to May 30	17	Italy	Do.
		United Kingdom	Do.
		Netherlands	Do.
		Bel-lux	Quota and seasonal restrictions on roses and carnations.
		Denmark	Licensing.
		France	Do.
		West Germany	Quotas.
		INDIVIDUAL COUNTRIES	
Australia	10	Cut flowers	Permit required.
		Cuttings	Quarantine period.
Costa Rica	20	Cut flowers	Phyto-sanitary certificate import permit.
		Cuttings	Do.
Ecuador	90	Same as Costa Rica.	
Guatemala	20	Do.	
Colombia	20	Cut flowers	Imports prohibited.
		Cuttings	Import permit.
Mexico 20 percent plus 2 pesos per kilo.		Cut flowers	Do.
		Cuttings	Import permit phyto-sanitary certificate.
Venezuela—No fresh flowers.			

APPENDIX B

[From Wall Street Journal, Feb. 12, 1973]

"SMART MONEY" FLOWS TO LATIN AMERICA, AIMING TO BOLSTER SMALL FARM BUSINESSES

(By David P. Garino)

Pssst! Here's an investment tip: The "smart money" is going into black-eyed peas in Nicaragua, African palm trees in Honduras and pompons in Guatemala.

Those things may not sound exactly like the proverbial pot of gold, but some big U.S. companies, including Bank of America, Chase Manhattan Bank, Ralston Purina, Gerber Products, Deere, Monsanto and Dow Chemical, think there's money to be made from these and other commodities grown in Central America.

The companies, 13 in all, are part of a joint venture known as Latin American Agribusiness Development Corp., or LAAD. Each has chipped in $200,000 to form the Miami-based company whose business, as the name implies, is to search out and help finance promising Latin American agricultural ventures.

Besides turning a profit on the investments, LAAD hopes its efforts will help local economies and also prompt others to invest in the region. "There's an enlightened self-interest here. We view Latin America as an important market. If it prospers, this certainly will help us," says an official of one of the companies.

LAAD is concentrating on agriculture because it figures local economies can't really prosper until food shortages are alleviated and the people are receiving proper nourishment. It also believes that farming ventures have the toughest sledding because they are small and normally can't attract the investment capital needed to grow.

"We are in a very high-risk area," says Paul Cornelsen, executive vice president of Ralston Purina, one of LAAD's holders. "In most instances, we're dealing with a one-man business. If something happens to the head man, we're in deep trouble."

Formed in 1970, LAAD recently has begun stepping up its activity. It has 12 staff members out searching for possible investments, and the number that it is

helping has jumped to 26 from only three last May. It plans to increase its commitments to between 40 and 50 by year-end. and the money it has invested is expected to about double from the present $4 million.

Anticipating this kind of growth, LAAD is taking steps to increase its funds. It won't pay any dividends, at least for five years, intending to pump profit back into operations, officials say. It has borrowed $6 million from the Agency for International Development, an arm of the State Department, and by the end of 1974, it expects to have brought in another 12 concerns as holders, mainly agriculturally oriented companies.

LAAD's financial backing of ventures usually takes the form of interest-bearing loans. It believes they are the quickest and simplest way to breathe life into a business. Another reason, important for LAAD at least in the beginning, is that interest from the loans provides almost immediate income for LAAD to pay its overhead costs whil building up its capital structure.

Typical of the loans is one it made recently for $100.000 for five years at 9% to Wernes Kohler, who raises pompons, daisies and carnations in Guatemala. Mr. Kohler will use the funds to buy plant stock, irrigation equipment and materials for greenhouses. The expansion will allow his company, Las Flores S.A., to more than quadruple sales within 2½ years, says Robert L. Ross, LAAD president.

Part of LAAD's philosophy is to help ventures that can bring outside money into Latin America. It looks for companies whose products can be exported such as Industrias Amolonca S.A., Nicaragua, which sells black-eyed peas and okra, used in soups and stews, to the U.S. Its major customers are Safeway Stores Inc., Oakland, Calif., and Southland Frozen Foods Co., Plant City, Fla.

LAAD loaned the concern $300.000 for seven years at 9% to buy freezing facilities. As a result. the company expects to quadruple its U.S. shipments in the next two years and to expand its agricultural work force to 900 from 300, LAAD officials say.

In view of the risk involved, LAAD's loan rates are low—in the 9%-to-11% range. "In some money markets these small companies would be paying up to 18% annually," says one LAAD official. LAAD purposely keep the rates low, however, to avoid strangling the embryonic ventures, he explains.

If a promising company already is heavily in debt. LAAD sometimes extends financial help by buying a portion of a concern's preferred stock rather than by lending money. LAAD pumped $250,000 into Compania Agricola Industrial Ceibena S. A. in return for a one-third equity interest in the company, which raises African palm trees in Honduras. It will use the money to buy additional trees and fertilizer.

LAAD hasn't any qualms about backing projects that compete with shareholders' international operations. It is currently considering a loan to a powdered milk company that competes with several products of Borden Inc., a LAAD holder. "If we don't go ahead, it will be for some other reason" than the competitive aspect, says Mr. Ross.

Besides providing money, LAAD also can help companies by supplying expert advice and other assistance. It recently loaned a Costa Rican meat packer $125,000 to buy trucks and other equipment. At the same time, with the help of Adela Investment Co., a LAAD holder, it saved the meat packer money by putting it directly in touch with potential customers, bypassing costly brokers through whom the company had previously marketed its meat.

Such expertise also helps LAAD keep itself out of hot water sometimes. Officials of Caterpillar Tractor Co., another LAAD backer, examined a proposal for a farm and construction equipment leasing business that would have required heavy financing and decided it couldn't succeed with the amount of money that LAAD was willing to invest. LAAD rejected the proposal.

Appendix C

Northern California Carnation Growers Association,
Burlingame, Calif., May 21, 1973.

Mr. Robert R. Hall,
Encinitas, Calif.

Dear Mr. Hall: This letter is to affirm the position the Northern California Carnation Growers Association takes concerning increasing flower imports.

Several growers in our area have reported having to dump considerable quantitles of carnations due to the fact that markets previously supplied by them in

the east are now being supplied with carnations which have been imported. In the New York area, especially, our sales have dropped to an all-time low.

It goes without saying that if the quantity of imported flowers continues to increase, growers in California will be hard pressed to sell their crops and if that situation worsens, they will be forced to lay off large numbers of employees thus contributing to the already poor unemployment situation.

Our Association will help you in every way possible to have a restriction placed on the foreign imports.

Very sincerely yours,

RICHARD GARIBALDI, *President.*

APPENDIX D

SAN DIEGO COUNTY FLOWER ASSOCIATION,
Encinitas, Calif., May 30, 1973.

SOCIETY OF AMERICAN FLORISTS,
Alexandria, Va.

GENTLEMEN: Despite the relative prosperity of the floral industry during the past year, there still exists periods of overproduction as evidenced here in San Diego County during the past Winter and Spring. During the months of March, April and early May there was considerable dumpage of standard mums, carnations, gladiolus, and several other floral commodities due to slackened demand for our product.

Our membership feels that this relative overproduction (except during peak holiday demand) is in direct conflict to reports of production shortages here in the United States. Our production facilities are planned for year-round production as well as holiday supply and thus we feel that we represent a fair idea of what actual production capacity is available.

Please be advised that this condition of overproduction of flowers did exist in San Diego, County during the past year, and that we, as a major flower producing area, are opposed to the premise that there is insufficient production available in the United States to meet demand for our product.

Sincerely,

NORMAN L. VINSON, *President.*

APPENDIX E

ROMAN J. CLAPROOD CO. OF FLORIDA,
Sun City, Fla., May 8, 1973.

Mr. GEORGE BEEMER,
Director Growers Division, Society of American Florists,
Alexandria, Va.

DEAR GEORGE: This is in reply to your letter of May 2nd in regards to imports.

During periods of ample production of pompon chrysanthemums and standard chrysanthemums we feel the effects of the imports of these flowers. More so this year, than last which reflects the increased production of these flowers outside the United States.

I feel that it is unfair competition to the domestic producer in face of much higher costs such as wages and cost of materials, and cheap air rates to this country. The government on one hand states the minimum wage we can pay—and then permits these imports.

I also understand there is a low duty being paid by double invoicing.

Hope you will be able to help us obtain some relief on these imports.

Sincerely,

(MRS.) MABEL C. MARKWOOD,
Executive Vice President.

APPENDIX F

COLORADO STATE UNIVERSITY,
DEPARTMENT OF HORTICULTURE,
Fort Collins, Colo., May 14, 1973.

Mr. GEORGE T. BEEMER,
Director, Growers Division, Society of American Florists & Ornamental Horticulturists, Alexandria, Va.

DEAR GEORGE: I have been visiting potential flower production areas in Latin America since 1965. Before that I studied the possibilities for flower export in Kenya and South Africa. I have seen the European Flower Industry suffer ex-

treme hardships from cheap imports since 1960, especially from the Mediterranean countries and more recently from Kenya, Israel and Bulgaria.

As late as 1969, very few flowers were being produced for export in the Latin American countries. This picture has changed dramatically in the past three years with an almost doubling of exports to the U.S. annually. This is all a matter of record.

I am worried about the potential for future exports from Colombia, Brazil and Mexico primarily. There is almost no limit to the flowers they can send. All of these countries have very rigid embargoes on flowers that we could send to them. Isn't it about time we obtain legislation that allows us to reciprocate?

I believe Gordon Koon has all the information he will need to testify before the House Ways and Means Committee.

Sincerely,

W. D. HOLLEY,
Professor of Horticulture.

The CHAIRMAN. We thank you very much, Mr. Koon, for your very fine statement.

Mrs. Griffiths.

Mrs. GRIFFITHS. I read your statement in full. I think it is terribly interesting and terribly significant. I happen to represent a part of Wayne County, Mich., which is certainly one of the most industrialized areas of the earth; yet the sale of farm products in that county last year was $20 million. It was largely flowers.

I agree with you. We cannot afford to have American florists put out of business.

Mr. KOON. Thank you.

Mrs. GRIFFITHS. What is the growing period for carnations? What is the growing period from seed to harvest?

Mr. KOON. Well, for instance, if we are planting now, it takes about 6 months to come into production. We plant a rooted cutting, as we call it, and it takes about 6 months to come into production.

We have quite an investment before we cut a flower. Then we keep them a total of 2 years from time of planting. We replant half every year.

Mrs. GRIFFITHS. It is 6 months before you can harvest the flower?

Mr. KOON. Then we continue to cut flowers for the rest of time.

Mrs. GRIFFITHS. That is interesting.

Could you supply now all of the carnations that are required in this country or that are asked for in this country? Could American growers supply them?

Mr. KOON. We went through a period for a couple of years here where it could be argued that we could not. We have always had our ups and downs. We have always moved to meet the demand. As I mentioned in my statement, the past couple of holidays here we have ended up with surpluses in this country.

Mrs. GRIFFITHS. I have observed that one of the really expanding industries in Michigan is the greenhouse industry. There are greenhouses going up all over the place.

One day, 15 years ago, I stopped to buy plants out in a rural area, and an elderly German farmer said to me, "Lady, this ground is worth $1,000 an acre, but put in these old pots, and it is worth $50,000."

Mr. KOON. I would like to reiterate what I said in the statement that we would like the opportunity to expand, but we have a great investment when we expand in our business, up to as much as $5 a square foot, and you don't put that type of investment in a shaky proposition.

Up to now, it has been a wonderful thing and we have been optimistic. Frankly, this is the first time we have had a real scare.

Mrs. GRIFFITHS. Why are there so few carnations at Christmas time? I think that red carnations in brass or copper bowls is about the prettiest decoration there is for Christmas. Yet I furnish the bowl and pay about $18 for a bouquet like that.

Mr. KOON. And I should tell you that, as a grower, I average 10 cents a flower year round. I am not going to comment on what happens.

Mrs. GRIFFITHS. I hope you plant a few more red ones that come into bloom around Christmas, because I have to give the order about 10 days ahead of time in a city the size of Detroit to get red carnations.

Mr. KOON. You have to plant for 6 months and have to supply the pink for Easter and so forth, so that you can't always have all your colors.

Mrs. GRIFFITHS. I am going to be looking to see what is done in the trade bill to assist you, because I think that you represent a real dollar market and a real source of employment for people who need employment.

I enjoyed your testimony.

Mr. KOON. Thank you very much, ma'am.

The CHAIRMAN. Yes, Mr. Brotzman?

Mr. BROTZMAN. I want to thank you for a very good statement, Mr. Koon. You really have spotlighted what this does mean to the laborers in this country. I know quite well from observation out there in Colorado that the flower industry provides a lot of jobs for the so-called unskilled workers.

I wanted to ask one question: Are most of these imports coming in by air transportation?

Mr. KOON. Yes, that is right. It is rather subsidized air transportation. It often costs less to ship them from Colombia than from Denver—no more, for sure.

Mr. BROTZMAN. That is an additional part of the problem, isn't it?

Mr. KOON. That is part of the problem.

Mr. BROTZMAN. Do we export very many flowers?

Mr. KOON. We export very few flowers, unfortunately—some like from Colorado to the Scandinavian countries, but they limit you so much to the times of the year when you can export into their countries and they are not willing to pay the price it would take by the time you add on the shipping costs, so that we have never really developed that too much. It is an opportunity that we should work at.

Mr. BROTZMAN. It seems if they are sending flowers here, it might not be a bad idea to try to build some markets abroad.

Mr. KOON. It is pretty difficult. Those nontariff barriers you referred to are there with regard to flowers, also.

Mr. BROTZMAN. I thank you very much for an excellent statement.

Mr. KOON. Thank you.

Mrs. GRIFFITHS [presiding]. Mr. Pettis of California.

Mr. PETTIS. Thank you, Madam Chairman.

I would like to carry on with the thought that Mr. Brotzman brought up. I think that we ought to see to it that our Government does not tolerate these international carriers bringing in flowers at a subsidized rate. Maybe they don't have a full load and they load them up with flowers and really bring them here for virtually nothing.

We have an international organization that is supposed to police that kind of hanky-panky. Maybe we ought to see to it that that is stopped. Even though it isn't under the purview of this committee,

we could ask the Interstate and Foreign Commerce Committee to look into it through the CAB and IATA and these other organizations that control that.

Mr. KOON. We have the problem that here in this country the airlines are constantly requesting rate increases, which we attempt to delay, at least, and now it seems they are operating on the philosophy that they have the right to a certain percent of profit on their investment regardless of their efficiency.

We rather protest that philosophy.

Mr. PETTIS. I wasn't thinking about our domestic carriers as much as I was the international carriers coming from these foreign countries, the Latin American countries, for example.

Mr. KOON. We are getting hit both ways.

Mr. PETTIS. Many of these are nationalized airlines, government-owned and operated, and they set the rates, and if they want to fly flowers into America for nothing, they do it.

Mrs. GRIFFITHS. Are there other questions?

Thank you again, very much. I really enjoyed hearing you.

Mr. KOON. Thank you, ma'am.

Mrs. GRIFFITHS. The committee will stand in adjournment until tomorrow morning at 10 o'clock in this room.

[The following material was received for inclusion in the record.]

DEPARTMENT OF STATE,
Washington, D.C., June 26, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives

DEAR MR. CHAIRMAN: The Embassy of Colombia has asked the Department of State to transmit to you a letter from Mr. John B. Rehm of the law firm Busby, Rivkin, Sherman, Levy and Rehm. The letter is addressed to you and is dated June 15, 1973. This law firm is counsel to the Colombian Association of Flower Grower-Exporters. Mr. Rehm requests that his letter, which is enclosed, be included in the record of the hearings of the Committee on Ways and Means on the proposed Trade Reform Act of 1973.

Sincerely yours,

MARSHALL WRIGHT,
Assistant Secretary for Congressional Relations.

Enclosure: Letter from Mr. Rehm.

BUSBY RIVKIN SHERMAN LEVY AND REHM,
COUNSELLORS AT LAW,
Washington, D.C., June 15, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: We are counsel to the Colombian Association of Flower Grower-Exporters (hereinafter "Association"). The Association consists of a number of companies in Colombia that grow and export to the United States cut flowers, and primarily carnations, standard chrysanthemums, and pompons.

On June 13, 1973, Mr. Gordon Koon presented a statement (hereinafter "Statement") to your Committee on behalf of the Growers Division of the Society of American Florists. The Association believes that many of the assertions made by the Growers Division in its Statement are either inaccurate or misleading. Accordingly, the Association submits the following comments on the Statement and requests that this letter be included in the record of the Committee's hearings immediately following the conclusion of Mr. Koon's testimony.

1. Page 1 of the Statement characterizes the Statement as one made "on behalf of the several thousand commercial flower growers of the United States."

In fact, based upon the 1959 Special Census of florist crops by the Bureau of Census, it is estimated that there are about 5,000 floricultural enterprises with annual gross sales of $10,000 or more. By "floricultural enterprises" is meant those that grow and sell either unfinished plants, like those used in propagation, or cut flowers and foliage, or potted plants. "Who's Who In Floriculture—1972–1973," which is published by the Society of American Florists, lists no more than 700 growers, that is, floricultural enterprises, who are members of the Society. Accordingly, it is clear that the Growers Division of the Society of American Florists represents a distinct minority of all the domestic commercial growers.

2. Page 3 of the Statement states that "Currently the Farm Gate Value of U.S. florist crop production is approximately $350,000,000."

In fact, the current farm gate value is more than $500,000,000. This figure was included in the testimony presented on April 11, 1973, to the Subcommittee on Agriculture, Environmental and Consumer Protection of the House Appropriations Committee on behalf of the Joint Research Advisory Committee of the Society of American Florists and Florists' Transworld Delivery Association.

3. Page 3 of the Statement characterizes imports of floricultural products as "priced below U.S. cost of production."

In fact, prices of cut flowers can be meaningfully compared only if their quality is comparable. Quality differentiations are now being used in the marketplace for carnations and standard chrysanthemums. The retail prices of imports of these flowers have equalled or exceeded the retail prices of domestic flowers of comparable quality most of the time. This is borne out by the Ornamental Crops Market News for various cities that is published by the Fruit and Vegetable Division of the Agricultural Marketing Service of the United States Department of Agriculture.

4. Page 3 of the Statement states that "The U.S. producer has done an exceptionally fine job over the last 25 years in increasing supply to meet demand."

In fact, there is increasing concern about the inadequacy of domestic production to meet demand. Just recently, Mr. Jim Leider, Chairman of the Growers Council of the Society of American Florists, was quoted in the May 26, 1973, edition of Flower News as saying:

"Over the past several years our industry has enjoyed a new prosperity and renewed vitality until this year, when all stops were pulled out. Nationwide the American public has rediscovered nature and a new desire for simple flowers and plants has exploded into bloom this spring. Demand is far outpacing the supply and it appears that it will be several years before the supply will be able to catch up."

5. Page 3 of the Statement states that "There has been an amazing stability of prices in the marketplace."

In fact, while imports have been increasing, the wholesale prices realized by domestic growers have also been increasing. The report entitled "Flowers and Foliage Plants—Production and Sales, 1971 and 1972, Intentions for 1973" and dated April 1973, published by the Crop Reporting Board of the Statistical Reporting Service of the United States Department of Agriculture reveals the following:

WHOLESALE PRICE (CENTS)

	1970	1971	1972
Carnations	7.3	7.4	[1] 8.2
Standard chrysanthemums	18.3	19.0	[1] 21.0
Pompons	82.0	85.0	[2] 88.0

[1] Per bloom.
Per bunch.

6. Page 3 of the Statement states that "For the major crops of carnations, chrysanthemums and roses, the percentages of increase in importation is staggering".

In fact, since these imports began from a very small base, the relevant consideration is the percentage of domestic production accounted for by these imports. For the year 1972, this percentage was small to moderate:

Flower	Domestic production (in millions)	Imports (in millions)	Percentage
Carnations	585	56.2	9.6
Standard chrysanthemums	140	15.9	11.4
Pompons	280	25.2	9.0
Roses	430	1.7	.4

7. Pages 3 and 4 of the Statement refer to "carnation imports from Latin America as the best example of the real threat we are facing".

In fact, the domestic industry seems optimistic about the future. In a press release dated March 6, 1973, the American Carnation Society said the following:

"The American Carnation Society is conscious of its responsibilities to all its members, and particularly its domestic growers. The Society therefore remains alert to any possibility of injurious competition from abroad. At the same time, in the light of the record sales of carnations in 1972, the American Carnation Society looks forward to another outstanding year. The demand for carnations is increasing and will be further promoted through the facilities of the Society and other organizations. The Society is confident that such demand can be satisfied by the orderly increased production of quality carnations."

Moreover, the report of the Crop Reporting Board cited above shows the following with respect to the two major carnation-producing states:

PLANTS IN PRODUCTION (1,000 PLANTS)

	1971	1972	[1] 1973
California	29,661	33,502	33,065
Colorado	12,541	12,638	14,004

[1] Intended.

8. Page 4 of the Statement states that "As a result of carnation imports, many carnation producers in the U.S. were unable to sell significant portions of their production during the Easter holiday period or during the Mother's Day shipping period".

In fact, Florists Review indicates that during both periods cut flowers, in general, and carnations, in particular, sold well, and there even were shortages, in all but a few of the ten major markets that were reported: Boston, Chicago, Cleveland, Columbus, Los Angeles, Milwaukee, New York, Philadelphia, San Francisco, and Seattle. The relevant editions of Florists Review are those of May 3, 1973, and May 31, 1973.

9. Page 4 of the Statement states that "It is the stated goal of Colombia, South America, to have at least 25% of the U.S. carnation market by next year".

In fact, neither the Government nor the cut-flower industry of Colombia has ever stated such a goal. Their only objective is to sell quality flowers in the U.S. market on a fair and responsible basis.

10. Page 7 of the Statement indicates the foreign barriers to U.S. exports of cut flowers.

In fact, without attempting here a detailed analysis of such foreign barriers, the United States exports a significant amount of cut flowers. In spite of the strong demand in this country that has prompted the increase in imports, the c.i.f. value of U.S. exports of cut flowers in 1972 is estimated at about $4 million.

11. Page 8 of the Statement states that "According to an article in the *Wall Street Journal* (Appendix C), our Government, under the auspices of the AID program, is loaning money to large wealthy U.S. corporations".

In fact, it is the policy of AID not to make loans directly to private corporations. Moreover, while AID does support the activities of a number of Latin American countries in the agricultural sector, according to AID only negligible amounts of AID funds have been used indirectly to assist flower-growing industries and then only to provide supporting services and not for capital investment.

It should be understood that, by making these comments, the Association does not necessarily imply that other portions of the Statement are factually correct.

Sincerely yours,

JOHN B. REHM.

AMERICAN BRUSH MANUFACTURERS ASSOCIATION,
Philadelphia, Pa., May 14, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways, House of Representatives,
Washington, D C.

DEAR MR. CHAIRMAN: We are writing to strongly urge your and the Committee's early consideration of the pending proposal to extend the duty suspension on certain istle fiber for a temporary period until September 5, 1975 (H.R. 2261).

As you know, the istle fiber involved is urgently needed in the brush industry which has many blind and handicapped workers. The duty on the imports from Mexico was suspended for many years, but the suspension unfortunately lapsed when a measure similar to the present bill was not acted upon by the House of Representatives at the end of the 92nd Congress. We hope that this much-needed extension of the suspension can be considered very soon because of the desperate need for the product, duties on which are now driving our Members out of business. As we understand, there is general support for this bill from all concerned, and no opposition from any group or agency. The high duty (20%) now being assessed is completely unwarranted and an unnecessary but insurmountable burden.

We recognize H.R. 2261 has a retroactive clause and hasten to emphasize the importance of this provision. In anticipation of early passage of this bill, the above-mentioned duty has not been passed on by manufacturers to their customers in any form. Because it is too late to pass on the duty, the retroactive feature will enable the industry to recoup the duty paid since September 1972.

Under these circumstances, we ask you and the Committee to give this matter the earliest possible consideration. While we are encouraged by the fact that the Committee will soon turn to trade legislation, we would urge that this bill be acted on without waiting for the developments in the "Trade Reform Act." The brush industry is in critical need of duty relief; therefore, continuation of the temporary suspension should be granted now, leaving a more permanent solution to such negotiations as the new overall trade law may provide.

We hope you and the Committee can see your way clear to assisting this industry by again favorably reporting the bill, and by bringing it to passage at the earliest possible time.

Sincerely yours,

ROBERT C. FERNLEY,
Executive Secretary.

NATURAL RUBBER THREAD COMMITTEE, INC.,
Providence, R.I., May 17, 1973.

Hon. WILBUR MILLS,
Chairman, Ways and Means Committee, House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MILLS: Congressman "Dan" Daniels, Burke and St. Germain, Congresswomen Heckler, and Congressman Conte have introduced bills HR 7134, HR 7215, HR 7470 and HR 7791. This proposed legislation seeks to increase the duty on rubber thread or filament from 10% to 21%.

As Executive Secretary of the Natural Rubber Thread Committee, Inc., representing all of the U.S. rubber thread manufacturers, I would like to make the following statement in support of this legislation.

The rubber thread manufacturers are Easthamption Rubber Thread Co., Easthampton, Mass. and Stuart, Va., Fulflex Inc, Bristol, R.I. and Scotland Neck, N.C., Globe Manufacturing Co., Fall River, Mass. and Gastonia, N.C., Lloyd Manufacturing Co., Warren, R.I., Parflex, Providence, R.I., and Jade Rubber Co., Providence, R.I.

The original duty on rubber thread was 35%. It was reduced to 20% and under the Kennedy Round of Tariff Cuts it was further reduced to its present 10% level.

The U.S. rubber thread industry is relatively small, employing some 1800 people. Annual payroll is approximately 14½ million dollars. Gross sales approximate 30 million dollars.

On February 22, U.S. Treasury Department, Bureau of Customs, published an antidumping procedure in the Federal Register against the Fillattice Co. of Italy.

This company is the largest producer of thread in the world. They have succeeded, over the last decade, in eliminating virtually all competition in Europe and United Kingdom by cutting prices. They now seek to gain access to the U.S. market by the same means.

The Fillattice Co. is presently negotiating with the Malaysian Government for a subsidy to set up a rubber thread plant in Malaya for the express purpose of exporting.

A company in Korea is currently marketing rubber thread in the U.S. at prices equal to or lower than the U.S. industries average cost.

In 1971 the U.S. imported 13 ton of rubber thread. In 1972, 99 tons were imported, an increase of 760%. In the first two months of 1973, 74 tons were imported. If this accelerated rate of import continues, the rubber thread industry in the U.S. will be seriously affected. We estimate that one U.S. job is lost for every 13,200 lbs. of thread imported.

We are quite aware that the present ratio of imports of rubber to the total U.S. production is relatively small, but the accelerated rate of imports is the real threat to our industry. We urge serious consideration be given to the facts and that the added protection be provided. We sincerely hope your Committee will report favorably on the bills in question.

As an industry we have endeavored to be far sighted enough to bring the matter to the attention of those who can help us help ourselves. A favorable report on this proposed legislation and enactment by the Congress will help to assure our continuing contributions to healthy, economic communities where our manufacturing plants are located.

Thank you for your consideration,

Very truly yours,

ESMOND W. THOMPSON,
Executive Secretary,
Natural Rubber Thread Committee, Inc.

FREDERICK-WILLYS, INC.,
Farmington, Minn., June 8, 1973.

Mr. JOHN MARTIN,
Chief Council for the Committee on Ways and Means,
Washington, D.C.

DEAR MR. MARTIN: We would appreciate your considering this letter as a Statement for Submission into the record for the hearings on the Trade Reform Act of 1973 (Bill HR 6767).

Our company is a manufacturer of recreational products including pool tables, table tennis tables and tennis racquets. In addition, we distribute certain other products manufactured by others in this same general field.

In the tennis area, we have run into several discrepancies in duty treatment to which we would like to call your attention:

About half of our manufactured tennis racquets are sold strung with nylon string. This string is imported from Japan, generally in 3300′ reels and is a twisted nylon that, so far as we know, can only be used for tennis racquets. In addition, we supply the same string to certain customers (principally tennis pro shops) in reels and in small packets for individual racquets (approximately 33′). The situation is that if we import the string in pre-packaged 33′ packets, the duty is 4% (734.88 TSUS); yet in reels to be packaged (or used in racquets) here the duty is 12.5¢ per lb. plus 15% (316.60 TSUS).

We are considering manufacturing tennis nets in Minnesota, and would like to import polyethylene netting from England. However, like the string, the raw netting has, I believe, a 12% duty (352.80 TSUS) while a complete net imported comes under the 4% duty section.

We realize that these items are of no great national significance. However, perhaps in a small way they point up the need for this important bill on trade reform.

Thank you for your consideration and interest.

Best wishes,

WILLIAM L. HOWARD,
President.

WIMER'S FURNITURE UPHOLSTERING,
Hayward, Calif., May 22, 1973.

Hon. DON EDWARDS,
House of Representatives,
Washington, D.C.

DEAR MR. EDWARDS: Please don't put me out of business!

I am a small businessman, selling and servicing sewing machines for my livelihood.

In regards to the government imposing new surcharges on imports from certain countries; I am for it, with a few items exempted.

98% of the sewing machines sold annually in the United States are imports. An independent sewing machine dealer cannot purchase, for resale, a sewing machine that is manufactured in the United States.

My business and the entire structure of the independent sewing machine industry, in the United States, is based on imports. The devaluated dollar is already working a hardship on me and if a surcharge was to be imposed on sewing machines, it could easily put me out of business.

Sincerely,

CHAS. R. WIMER.

[Whereupon, at 11:50 a.m., the committee adjourned, to reconvene at 10 a.m., Thursday, June 14, 1973.]

TRADE REFORM

THURSDAY, JUNE 14, 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. Al Ullman presiding.

Mr. ULLMAN. The committee will please be in order.

Our first witness this morning is our distinguished colleague from Florida, the Honorable Dante Fascell. We welcome you before the committee. Your views are always welcome here.

STATEMENT OF HON. DANTE B. FASCELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. FASCELL. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to appear and express my commendation to the committee for working so diligently over a long period of time to hear the great number of witnesses who have come before this committee.

I trust that your labors are near an end, so that you can start on the difficult job of marking up the bill. I know you have a long agenda of witnesses today so I will be brief. I have a prepared statement, Mr. Chairman.

Mr. ULLMAN. Without objection, your full statement will appear in the record.

Mr. FASCELL. I would like to make some additional remarks. My distinguished colleague from Pennsylvania, Mr. Dent, is going to follow me so I will be brief. I am sure he will want to expound on the details of the matter before you. I know you will enjoy interrogating him on his views.

Mr. ULLMAN. I want to say to my friend from Florida that we have saved the most important of this to the last. I think hearing the views of our colleagues is extremely important and the committee considers it such.

Mr. FASCELL. I am sure that my colleague from Pennsylvania will make a significant and important contribution.

Mr. Chairman, primarily I want to emphasize my support for the chairman's bill, H.R. 3913, with respect to the prohibition on most-favored-nation-treatment, commercial guarantees, et cetera, to countries with highly discriminatory practices on exit visas. There may be an improvement on the subject as it relates to Russia and the Soviet

Jews. But as a matter of principle I think this committee should consider it in the pending legislation.

It may be said that economic sanctions don't work. It may be said that we should not interfere in the internal politics of a nation, and I agree with those principles. But there are other principles which are of greater import and they are espoused in the chairman's bill. I think they ought to be included in the bill that comes out of this committee.

I think there is an ample way of doing it while giving ample flexibility and desirability to what we want to do with respect to trade and still maintaining our posture on a very important humanitarian principle. I think we ought not to miss this opportunity to do that.

The truth of the matter is that we have used most-favored-nation as matter of law in various respects, by direct prohibition, by discretion and otherwise. So that there is really nothing new in the way of precedent that would be set by taking a position in this legislation which would extend MFN treatment under certain conditions. It certainly seems to me that that should present no difficulty. Neither should there be any difficulty to providing the way that you can get in and out of the use of the most-favored-nation treatment. We have done that before in legislation and so should easily be applied to this great humanitarian principle, that those Jews who desire to leave Russia should be allowed to do so without unusual or harsh treatment.

I think the language of the bill is sufficient as it is if it were incorporated in the principal bill. You are considering broad general concepts anyway. The bill before you is concerned with open and nondiscriminatory trade between nations as a goal. Hopefully, we could achieve it. We have not, but it sounds like a good goal to me. I support that as a principle with a minimum of barriers and a minimum of distortion.

I support Presidential flexibility in world trade and have ever since I have been in the Congress. How much, when, and where is a judgment factor that we all have to apply. We know that in order to help provide for increased growth for markets of U.S. products and to deal with the balance of payments disequilibrium and to help developing countries in their efforts that the President is going to need a certain amount of flexibility. There is no question about that.

The other broad general concept is some way to be reasonable and sensible with respect to our own domestic industry and our own domestic workers. It is not an easy job. Nobody said it was. That is the reason we have the grand judge and jury of this outstanding committee to make the principal recommendations. So we deal in broad general concepts, gentlemen, and one of them is the humanitarian aspect of allowing people to emigrate under generally recognized and reasonable rules.

We have known too long what happens when the world turns its back. We should make absolutely sure that that never happens again at least as far as the United States is concerned.

Today we have a whole new concept in foreign policy. It is public diplomacy. There is really no secret act anywhere. Because of the speed of the media and communications and the great masses of people who have a better participation and more knowledge and information, it is very, very difficult for any government or any peoples to act in a

vacuum. Therefore, statements and actions on great moral principles are of tremendous value in the world today. I think the United States must speak and act on these moral issues.

As for additional trade assistance, I hope that we could go on a two-pronged approach with either generalized preferences together with the developed countries for the developing countries, or that, failing that, within a certain time frame and under certain conditions then the United States would be able to act with respect to specialized preferences at least for Latin America. The President has made that commitment. I think we ought to try to fulfill that commitment.

I can assure you of this, Mr. Chairman and members of the committee: It is a vital fundamental issue in the developing countries as they struggle with great problems. Eighty percent of their people are not able to participate in the economic, social and political life of their nations. They are trying to get into the 20th century all in one big broad jump. They think that improving their economics is one way if not the most important way. I am not sure that there is agreement on that but that certainly is their feeling. In Latin America it is evidenced by the consensus of Vina del Mar. For the first time all the Latin countries got together on a set of economic principles for their dealings with the United States.

The committee now has an opportunity to do something about that to carry out the U.S. national commitment.

I would like to speak about one other aspect as I conclude. That is on the question of the developing countries and their hope to participate in the markets of the United States. I have sense enough to know that you can't open all of the markets of the United States to everybody. There wouldn't be enough left for everybody. There is no way to do that, but some way, somehow, we have to make the markets of the developed countries available to the developing countries.

With regard to Latin America our Committee on Inter American Affairs held months of hearings on this issue. I am frank to admit that we could not find much evidence that there would be substantial economic benefit involved. There would be some, but there are a lot of other problems in meeting international competition, distribution, marketing, production, and amassing of sufficient capital. However, the need is a political and economic reality in Latin America's eyes. I am sure that is true for all the other developing countries with the exception maybe now of Brazil. Their interest in U.S. markets, their ability to participate, our willingness to let them, is a very vital, real issue that undergirds the whole relationship between the United States and the developing countries in Latin America.

Mr. Chairman, let me say that I don't envy you the difficult job of balancing the conflicts that exist with respect to all of these issues. Those of us who are not on the committee have a great deal of confidence in this committee. I think that has been exhibited and shown by the way legislation is treated when it comes before the House. We expect, therefore, that this major issue is one which we ought to resolve and that you will resolve it in the best interests of the country.

Thank you very much.

[Mr. Fascell's prepared statement follows:]

96-006—73—pt. 14——16

STATEMENT OF HON. DANTE B. FASCELL

Mr. Chairman, thank you for this opportunity to appear before your Committee. I urge favorable action on the Mills/Vanik proposal to deny most-favored-nation treatment and other trade preferences to any country that unduly restricts the emigration of its citizens. I was pleased to join with a majority of our colleagues in the House in cosponsoring this proposal.

Central to this issue is the commitment of the U.S. to the universally accepted right to freedom of emigration as explicitly provided for in Article 13 of the Universal Declaration of Human Rights which states: "Everyone has the right to leave any country, including his own, and to return to his country."

The question is whether the United States should extend special trade preferences to another country which pursues an arbitrary and restrictive policy in direct conflict with that principle. I feel strongly that we should not.

The issue was raised, as we all well know, by the persistence of the Soviet Union in refusing the right of its citizens, particularly its Jewish citizens, to emigrate. Reports of that country's failure to process exit visa applications filed by Soviet Jews wishing to emigrate to Israel to join their families and their cultural home have been growing in recent years. Despite official and unofficial protests from the United States, the Soviet Union continued to refuse, on an arbitrary basis, to grant exit visas to large numbers of its Jewish citizens.

This restrictive policy became completely intolerable in August of last year when the Soviet Union imposed an "education tax" on persons wishing to leave the country. The tax, ranging from $5,000 to $30,000, was totally unreasonable and in most cases far beyond the means of any Soviet citizen. It was clearly a ransom to be paid by family outside the Soviet Union and by sympathetic groups throughout the world for the release of Soviet Jews and devised solely to make emigration prohibitive.

It was that action which led to the original introduction last fall of the proposal before you today. It was also my pleasure to join as a sponsor of the bill at that time.

Subsequent to the imposition of the education tax, major trade agreements were announced between the U.S. and the U.S.S.R. These were widely acclaimed as a significant development in ongoing efforts to improve our relations with that country, and further evidence of movement toward a meaningful detente.

Central to the trade agreement with the Soviet Union was the commitment of the U.S. to extend most-favored-nation treatment to the U.S.S.R., exempting that country's exports from the higher tariff barriers of the Smoot-Hawley Act. The prohibition contained in the Trade Expansion Act of 1962 against extending MFN treatment to communist nations meant that Congressional action to approve that waiver must be taken.

With the introduction of the Mills/Vanik bill, sponsored by more than 250 Members of the House, and the Jackson amendment, sponsored by more than 70 Members of the Senate, it became clear that the Congress would not approve MFN treatment for the Soviet Union so long as it continued its restrictive emigration policy. I am convinced that this led to the announcement in March that the education tax would no longer be enforced by the Soviet government. The law was not repealed, however. The enforcement was merely suspended.

While I welcomed this action by the Soviet government, we must not be led to think that that government's restrictive emigration policy has been altered.

Proof that it has not, came in a letter made public April 12 in Moscow by a group of more than 100 Soviet Jews who had been denied exit permits. In that letter they stated:

We would like to state that there is nothing like free emigration from this country. Just as before, the fate of all applicants for exit visas is not determined by any law or even any published regulations governing emigration. Everyone's fate is determined by unknown people acting on unknown considerations in a totally arbitrary way. It is not the education tax, but this arbitrariness that remains the chief method used by the Soviet authorities in their selective emigration policy."

There are other indications that the Soviet emigration policy has not eased. Since the suspension of the education tax, the rate of emigration permitted has not increased. When a Jew applies for an exit visa, he often looses his job and is subjected to arbitrary house searches, arrests on fabricated charges and harass-

ment by the police. If the request is denied, the applicant becomes an outcast, shunned by former associates and deprived of his means of existence.

Indicative of the arbitrary manner in which emigration is handled in the Soviet Union is the case of Dr. Victor Lapidos, brought to my attention by the Greater Miami Jewish Federation. Dr. Lapidos, a doctor of technical sciences who worked in Moscow's Automobile Industry Research Institute, applied for an exit visa to Israel last August and was granted permission to leave the Soviet Union upon payment of a $30,000 exit fee. This is obviously an astronomical amount of money in the Soviet Union, and Dr. Lapidos could not hope to accumulate that much.

Suddenly, he was told he would not have to pay the fee if he left the U.S.S.R. within 10 days. He and his wife quit their jobs, his 11 year-old daughter withdrew from school and his 19 year-old daughter and her husband were expelled from the university. The family was evicted from their apartment and after the payment of approximately $1,000 for an exit visa for each member of the family, they were told it had all been a mistake and they would not be permitted to leave.

This is not an isolated incident, as we have all come to know. It is representative of the harassment inflicted on persons who indicate their desire to leave the Soviet Union and the arbitrary actions taken by Soviet officials in implementing its emigration policy. There are growing reports, as well, of more secret trials, dubious charges, and harsh sentences.

In my judgment, it is reasonable to assume that a country which espouses a policy of free emigration can be expected to make known publicly the rules and procedures for acquiring exit visas, and that persons applying for such visas should not be deprived of normal employment, dwelling, pension and related economic, social and civil rights. A free emigration policy should also be implemented uniformly throughout the country instead of regionally as now appears to be the case in the Soviet Union. I do not think it is unreasonable to expect such consideration.

The President said in his trade message to the Congress that refusal to grant MFN treatment to the Soviet Union is neither a proper nor an effective way of dealing with the problem. I strongly disagree.

Far from interfering in the internal policies of that country, we are merely stating a precondition for extending preferential tariff treatment, credit, credit guarantees or investment guarantees to a nonmarket country. We are saying that we believe the principle of a policy which does not deny its citizens the right or opportunity to emigrate and does not impose more than a nominal tax on emigration, is more important than an extra favorable or special trade relationship.

No group in history had been discriminated against as widely and as persistently as the Jews. The Soviet government has consistently pursued a policy of forced assimilation of its minorities, which has been especially severe with regard to Soviet Jews. With no future for them in the Soviet Union, many Soviet Jews see no other alternative open to them but to emigrate. And this alternative has been effectively blocked.

We should take this opportunity to express the repugnance of the American people and the American government to a practice which denies a basic human freedom. We should give weight to our declaration with economic meaning so as to demonstrate the seriousness with which we view the issue.

Mr. ULLMAN. Let me say to my friend from Florida that, as the chairman of the Latin American Subcommittee of the Foreign Affairs Committee, he brings more expertise in this area to the committee than we have had previously, and we certainly welcome your views.

You are saying that general preferences for the less developed or the developing nations are a proper goal, but would you just for my benefit recap what you think we should do that is different from what the administration recommended in order to face up to some of the Latin American problems?

Mr. FASCELL. Mr. Chairman, I am not competent to give you the answer to that. However, I can say that the technical people who have worked on this in our own Government and with the Latin govern-

ments have reviewed this matter on a point-by-point basis and it is all available for examination by the committee.

What I am saying is that there on a product-by-product basis, on a country-by-country basis, you get a better feel of which way you want to go, and how.

Mr. ULLMAN. But in writing general trade legislation certainly an extremely important part of this bill is going to be the part dealing with the developing nations and, as we write up the bill, if you have any further suggestions that are specific, we would certainly welcome them.

Mr. FASCELL. Mr. Chairman, I appreciate that. I don't have a specific language change this morning. But I appreciate the generous offer which you have made, and I will undertake to examine carefully the international meetings and the results of those meetings to see where that leads in terms of specific legislation that is now before the committee and make it available to the committee.

Mr. ULLMAN. We would appreciate it and, without objection we will hold the record open for that purpose also.

[The following was submitted for the record:]

ADDITIONAL VIEWS ON HON. DANTE B. FASCELL ON H.R. 6767

I welcome the invitation to submit additional views on the trade bill from my perspective as Chairman of the Foreign Affairs Committee's Subcommittee on Inter-American Affairs.

The foreign trade bill now before the Committee is a most complex piece of legislation. This is inevitable because the issues which it attempts to resolve are themselves immensely complicated. In general, I view the bill recommended by the President as a constructive and well thought out piece of legislation although I, as I am sure does every other Member of Congress, have reservations about various aspects of the bill. I will, however, restrict my comments to how I believe the bill should be improved to more effectively serve our own political, economic and security interests by building stronger trade relations with the developing nations, generally, and Latin America and the Caribbean, particularly.

IMPORTANCE OF TRADE TO HEMISPHERE

While trade is of great and growing importance to the United States, it is of substantially greater importance to the other nations of the Hemisphere and absolutely vital to many of the Caribbean countries. Relatively poor and, in many instances, lacking the capacity to produce the capital goods needed for sustained economic growth, most of our Hemisphere neighbors simply must import a large volume of goods if they are to have a reasonable chance to generate a sufficient rate of growth to create a better way of life for their citizens, In order to pay for these imports these countries must in turn export enough products to the developed nations to pay for the sophisticated equipment they need. Some nations, such as Brazil, have been able to obtain a high growth rate within the current world monetary and trade structures, but Brazil is a huge nation with a large internal market, vast resources and a seemingly bright economic future. In addition, it has benefited from a huge influx of foreign capital. For many other nations, however, the future is not as bright. They can and will make great sacrifices to improve their own lot but they will continue to need large doses of understanding as well as constructive assistance. In this regard, it is my hope that the trade bill approved by the Ways and Means Committee will reflect a genuine concern for the problems of the developing countries and will fully take advantage of the possibilities of greatly expanding trade with developing countries in this Hemisphere and elsewhere. In my judgment, such an expansion is of great importance to the United States and would pay substantial political and economic dividends to us while at the same time greatly benefiting the developing countries themselves.

Before addressing the specifics of Title VI dealing with trade preferences, I will make a few general comments. First, it seems to me that the bill as a whole may be weighted too heavily toward protection of the status quo in the American economy. While I believe it is vital that we protect our citizens from the unforeseen effects of changing patterns of world trade, I do not believe that we should do so at the cost of reducing the flexibility and resiliency of our own economic system. That flexibility is the key to the long term strength of our economy. In this respect, I would hope the Committee will give serious consideration to the thoughful alternative suggestions of my colleague from the Foreign Affairs Committee, Congressman John Culver, Chairman of the Subcommittee on Foreign Economic Policy.

A second general comment is that trade expansion with the developing countries is not a matter dealt with solely in Title VI of the bill. The future of trade the third countries is inextricably bound up in the kinds of agreements which may be reached among the developed countries under authority provided in other sections of the bill. In fact, some of the developing nations themselves are apt to seek specific negotiations with the United States.

A last general comment concerns the importance of equal treatment under the bill for developed and developing countries. Developing countries should not be singled out for retaliatory measures affecting trade when such measures would not apply to developed countries under similar circumstances.

HEMISPHERE INTEREST IN PREFERENCES

Of primary concern to developing countries is the section of the bill establishing general trade preferences. This is especially true of the nations of our own Hemisphere. It is fair to say that trade preferences are far and away the number one item on their agenda for U.S. cooperation in the continuing process of development initiated by the Alliance for Progress. Latin America, in fact, is the area where the concept of trade preferences first was seriously put forward and the idea has since then gained acceptance and support throughout the world. As early as May 1969, for example, the Latin countries had already jointly formalized their request for trade preferences in the Consensus of Vina del Mar which stated:

"On the basis of these statements, principles, and affirmations, the Latin American countries, on jointly proposing a dialogue with the United States, have decided to convey to it their principal aspirations with respect to international trade, transportation, financing, investments and invisible items of trade, scientific and technological development, technical cooperation, and social development, with a view to achieving, through appropriate action and negotiation, solid advancement in inter-American cooperation. In these areas they believe it necessary . . .

"To reiterate the urgency of putting into force the system of general, nonreciprocal, and nondiscriminatory preferences in favor of the exports of manufactures and semi-manufactures of developing countries within the time limits provided and with due observance of the calendar of programmed meetings. In this regard action should be considered that will enable the countries of relatively less economic development to make full use of the advantages that may result."

In his response to this request President Nixon on October 31, 1969 stated in part:

"Increasingly, however, those countries will have to turn toward manufactured and semi-manufactured products for balanced development and major export growth. Thus they need to be assured of access to the expanding markets of the industrialized world. In order to help achieve this, I have determined to take the following major steps:

First, to lead a vigorous effort to reduce the nontariff barriers to trade maintained by nearly all industrialized countries against products of particular interest to Latin American and other developing countries.

Second, to support increased technical and financial assistance to promote Latin American trade expansion.

Third, to support the establishment, within the inter-American system, of regular procedures for advance consultation on all trade matters. U.S. trade

policies often have a heavy impact on our neighbors. It seems only fair that in the more balanced relationship we seek, there should be full consultation within the Hemisphere family before decisions affecting its members are taken, not after.

Finally, in world trade forums to press for a liberal system of generalized tariff preferences for all developing countries, including Latin America. We will seek adoption by all of the industrialized countries of a scheme with broad product coverage and with no ceilings on preferential imports. We will seek equal access to industrial markets for all developing countries so as to eliminate the discrimination against Latin America that now exists in many countries. We will also urge that such a system eleminates the inequitable 'reverse preferences' that now discriminate against Western Hemisphere countries."

Since 1969 the Latin American governments have continued to urge that the United States' preference system be put into effect. The Bogotá meeting of the Inter-American Economic and Social Council in February 1973, for example, urged that in the review of the inter-American system of cooperation that special consideration be given "to seek the adoption as soon as possible of the general system of preferences by those developed countries that have not done so."

Even more recently Dr. Raul Prebish, a world famous Latin American economist, spoke out in favor of preferences at a June 1, 1973 meeting of the Inter-American Committee on the Alliance for Progress. I have included Dr. Prebish's remarks as an appendix to my own statement.

HEMISPHERE VIEWS OF TRADE BILL

Latin American and Caribbean interest in the Trade Reform Act has, of course, centered on Title VI—Generalized System of Preferences. They have been so delighted that after three years of promises the President finally sent a bill to Congress that they have been unusually reticent in offering specific criticism of the bill. In general, however, the Hemisphere countries do appear to feel the preference system proposed is too modest and restricted to stimulate exports to the extent required for more rapid and balanced development. Since it is generally confined to manufacturers and semi-manufacturers (rather than the agricultural and mineral products that make up most Latin American exports), and since important groups of manufacturers such as textiles, footwear and certain steel products would be excluded from these, preferential advantages really would extend to only a small portion of Latin American trade.

This general concern about the fairly restrictive nature of the benefits to be derived from the bill as currently written has led many Latin Americans to the conclusion that their primary concern at this point should be that no further restraints be placed on the negotiating authority requested in H.R. 6767. This is particularly important in Title VI where restraints beyond those already in the bill should be avoided. Such restraints might take the form of excluding specific products, of limiting the amount by which preferential duties could be reduced, or of limiting the countries eligible for preferential treatment. In this regard they view as especially important retention both of the President's authority to grant exceptions for reasons of national interest from the competitive need limitation in Section 605(c), and of the present discretionary nature of the criteria the President must consider in designating eligible countries in Section 604(a)(5).

A second very important effort would be to establish a clear legislative history that it is the intent of the Congress that the authority granted in the Trade Reform Act should be implemented in a manner that will stimulate the rapid and mutually beneficial growth of U.S.-Latin American trade. This is especially important in implementing Title VI, where the intent of the Congress to give particular attention to products that would assist development of Latin American countries should be established, particularly since these countries are not presently members of any preferential arrangement and have been discriminated against under certain such arrangements.

SPECIFIC RECOMMENDATIONS REGARDING TITLE VI

In response to your request, I have carefully reviewed Title VI of the bill and would like to take this opportunity to offer some specific suggestions on how I believe the bill can be improved to the mutual benefit of Latin America and the United States.

Section 602

Section 602 should, in my view, be amended by adding at the end of the section the following language: "(4) the special importance to the United States of the nations of the Western Hemisphere." The addition of this language would accomplish four objectives:

1. It would underscore continued United States recognition of our important special relationships with our neighbors without placing any other developing area on a less than fully equal footing;
2. It would specifically provide a Congressional seal of approval of the President's October 31, 1969 response to a formal Hemisphere request for trade preferences;
3. It would state specifically Congress' agreement with the President's 1969 statement that, if the general preferences by all developed countries envisioned in point (3) of section 602 are not carried out, the United States will give special consideration to our own neighbors; and
4. It would give special recognition to the role Hemisphere countries have played in obtaining preferences for all developing countries.

Section 603

With respect to subsection (a) of section 603, I would make only the general observation that it might be wise to change the wording so that the President would submit to the Tariff Commission, for its advice, lists of articles ineligible for trade preferences rather than lists of eligible articles. Aside from the psychological impact of structuring the subsection in a way consistent with the idea of opening trade opportunities, it would seem from past experiences that it would be administratively simpler and also expedite implementation of our preference scheme.

I have several comments with respect to subsection (b). First, I would hope that the report will make clear that the application of preferential treatment to articles "imported directly from a beneficiary developing country" is not intended to in any way conflict with U.S. support for the concept of economic integration in the Hemisphere. If two or more developing nations wish to share various phases of the production of a particular product, even if it passes from country to country, it should be considered as "directly imported." Likewise, it would seem unwise to arbitrarily prevent a product produced almost completely in a developing country but finished in a developed country from receiving at least some amount of tariff relief. I hope that the Committee will give this potential difficulty serious consideration. To partically deal with this problem, I suggest that as a minimum the word "country" be changed to "countries" throughout the subsection.

Further modifications to subsection (b) which I suggest are the addition of the words "and the Secretary of State" following the reference to the Secretary of the Treasury and the subsequent insertion of "jointly" before "prescribe" and the change of "Secretary" to "Secretaries" in the last sentence. These changes would assure the impact of important international political and developmental considerations on the formulation of regulations adopted by the United States as a part of our preference scheme. Too frequently in the past our relations with one or another Latin American nation have unnecessarily been adversely affected by the well intentioned but heavy handed actions of agencies not fully informed about major U.S. foreign policy considerations.

Another suggestion with respect to subsection (b) is that the word "shall" in the next to the last sentence be changed to "should." This change would provide important flexibility in administration of the Act. As written the language would appear to require the same percentage to apply equally not only to all countries but to all products. Such a requirement would be unrealistic and unnecessarily restrictive.

One final comment on subsection (b) is that consideration should be given to language either in the bill or the report to the effect that regulations adopted pursuant to the subsection should not unduly inhibit access by developing countries to the benefits envisioned under the preference system nor should the percentage set be so high as to unnecessarily restrict imports from developing countries.

With respect to subsection (c), I am in agreement with the provision that steps should not be taken to make an article eligible for preference when there is an already pending claim for relief under an existing statute. I do, however, oppose

the inflexible extension of this concept to the point where the mere seeking of relief from a trade problem automatically removes an article from the list of articles eligible for trade preferences. One can envision a host of possible abuses of this provision and one can also envision possibly serious political or economic problem arising from the "hair" trigger aspects of such U.S. action. Besides establishing a different standard for developing nations than now applies to developed countries this provision denies the President needed flexibility. I recommend that the second sentence of the subsection be amended by striking out the last nine words and inserting after the comma "the President shall consider immediate termination of the eligibility of the specific article."

Section 604

Subsection (a) should be changed by the elimination of point (2) apparently requiring some kind of direct statement by each developing country as to their desire to be called developing. Such a requirement might lead to unnecessary political complications caused by the necessity for what might be termed a humilitating statement. If the Committee feels strongly about this matter, I suggest inclusion of it in the report. The report also might refer to the Committee's intent that all Latin American and Caribbean countries are considered as eligible countries under point (3).

I feel strongly that one particular part of subsection (a) be eliminated from the bill. I refer to point (5) which for the first time, to my knowledge, makes a direct connection between investment disputes and trade policies. Not only is such a connection unusual, it seems to me to be unwise and unnecessary. If this issue is to be raised at all in connection with the trade bill, it should be in the report. We already have ample provisions in existing law to encourage proper compliance with international law with respect to investment disputes involving U.S. companies. As a practical matter many U.S. companies operating in Latin America have found this kind of provision to be counterproductive. In recent weeks, for example, the Council of the Americas whose membership represents almost all of U.S. direct investment in Latin America came out in favor of repeal of existing U.S. legislation of this kind. If the U.S. companies which would supposedly benefit from this kind of approach are opposed, I think we should heed their advice.

Subsection (b) of section 604 provides necessary encouragement for development of a fully fair and open world trading system but we should be careful that this section does not unduly injure poorer nations. In particular, I believe that an exception to the January 1, 1976 date should be considered for the Caribbean where many islands are undergoing a difficult period of adjustment due to the changing nature of their relationship with the European Economic Community. This problem can easily be handled by my recommendations with respect to section 605.

Section 605

Subsection (b) as written should be modified to provide needed flexibility for the Caribbean by restructuring the section so that the language that appears at the end of subsection (c) "unless the President determines, etc." applies to point (2).

Subsection (c) should be eliminated. It provides unnecessary and unrealistic restrictions on the amount by which a particular country can benefit from preferences. These restrictions might well operate to discourage the level of investment needed to allow beneficial use of the preference scheme and, therefore, would conflict with the overall purposes of Title VI. It has been estimated that at existing levels of world trade, the present wording of subsection (c) would alloy preferences to apply to about ½ of the articles which would otherwise be considered eligible. If this subsection is retained, it should retain the President's waiver authority and be changed by substituting "and" for "or" following the first reference to "the United States." This would permit a higher level of trade from any one country. One further difficulty with the subsection is how articles would be classified. If an article was defined broadly then the ceiling would be quickly reached; if defined narrowly any source country would rapidly reach the 50% ceiling. The Latin Americans have been especially critical of this subsection feeling that its purpose of creating competition is unnecesasry and may well conflict with specialized production schemes included in their various regional economic integration organizations. In my view, the subsection should be eliminated.

Section 606

The definition of "country" in (1) should be modified to permit developing countries to cooperate in ways much more informal than that implied by the words "association of countries."

CONCLUSION

I hope that the foregoing comments will be useful. They intend no criticism of your Committee. The bill referred to was recommended by the Executive Branch and I am confident that it will be considerably improved by your action.

One of the major purposes of this bill is to encourage an open world trading system. With respect to trade preferences, the President said he hoped that our proposals through their generous example would encourage wider preferences by other developed countries. I regret that I cannot completely agree that the bill he recommended is more generous than those of other countries. I hope you will be able to make it so because I am convinced that our interests are best served by encouraging strong, healthy and dynamic economies throughout the world and especially here in our own Hemisphere.

COMMENTS BY DR. RAUL PREBISCH AT THE CIAP REVIEW OF U.S. ECONOMIC POLICIES—JUNE 1, 1973

(*Informal Translation*)

Mr. Prebisch:

Rather than a question, Mr. Chairman, I would like to make some comments, especially on the subject of preferences. I have to say to begin that I applaud the fact that this subject has been included in the proposed [US trade] law. Nine years ago, when the first meeting of UNCTAD in Geneva was ending, in a closed meeting which we had in the last days, I heard said to the head of the U.S. Delegation—I didn't hear it said, it was said to me—"Don't insist on this subject of preferences because the U.S. will never change the commercial policy which it has had for 150 years." I said, "I have seen other things change. I hope that some time this will change." Therefore, I highly applaud this change which has come about, even though its result seems to me still to be modest because of the limitations which have been imposed. I understand very well, Mr. Chairman, that in view of the restrictive nature of the European and Japanese systems, and guided by the concept of burden sharing, the U.S. has seen itself in a somewhat limited position; but it is a disgrace, in my opinion, that it has imitated that which is undesirable because the European policy on this subject leaves much to be desired. With the expansion of the EEC, Mr. Chairman, all of the industrialists of the developed countries which belong to the EEC will have free entrance into the common market while the LDC's, which need these markets, will be limited by the preference systems established in the European countries. Even more, and as much as I admire the work of the EEC for what it signifies, the geo-political concept which is being applied to the Mediterranean Basin and in Africa worries me greatly and is going to bring, also, serious discrimination against the manufactured products and agricultural products of other countries.

Because of this, I don't believe it is a model to follow. I would have liked to have seen the U.S. adopt an attitude as audacious as that which it had in UNCTAD when it proposed new trade negotiations, but it would seem that its policy lacks symmetry. There is an audacious spirit, initiative, and imagination in everything that concerns relations with developed countries; but there is a very defensive attitude in that which concerns relations with the LDC's. This is a very unequal situation. A moment ago we heard Mr. Jackson [1] say that—and it seems to me very good and it corresponds to that level of audacious initiatives—that they are disposed to negotiate the elimination of tariffs. This would be a much more vigorous step than that which occurred in the Kennedy Round; and without any limitations, Mr. Chairman, except the unavoidable necessity of a safeguard clause. It is evident that one cannot go very far without effective safeguard clauses. But when one considers the U.S. proposal for LDC preferences—although it is true that the principle of zero tariff is applied to

[1] STR General Counsel John Jackson.

them—this is accompanied by very strict limitations, such as that of the $25 million. And one asks "Won't it have been enough to apply the safeguard clauses?" "Why special dispositions which affect the exports of the weakest companies of the world economic system?"

Let's suppose that tariffs are eliminated or reduced substantially. Perhaps the safeguard clause won't be enough? Yes, in accordance with this bill, it is enough for the big countries, but in the case of the LDC's it is considered that the danger is much greater, that is to say those which have so little competitive strength are those that need limitations like the $25 million one, while, those which have demonstrated great competitive strength only have to have the safeguard clauses. In all this I note a notorious lack of symmetry. I would have liked to see this great country, which is taking such important initiatives in the field of world politics, take a similar position. Instead, I see a very defensive attitude for dealing with countries which most need positive measures, which most need the exercise of great imagination to encourage their economic development.

On the other hand, the statistics in no way demonstrate that developing countries are a threat to the industrial stability of the large countries. Here I have figures for 1969 to 1972. The increment in industrial imports into this country has been $15 billion from all sources. Of this $15 billion, the LDC's have barely had $3 billion. The developed countries have had $12 billion.

Why, then, this great preoccupation with the LDC's? I don't say that there is no danger for certain industries, but look at the difference between the automotive industry, which is a developed world industry, and the shoe and textile industries. In the automotive industry, competition from Japan and Europe has been great. This has had to influence employment in these industries negatively. Employment in these industries cannot have increased as much as it would have if there had not been this competition. This has had to have much more effect than the closing of a shoe factory or a textile mill. Here, again, there is a lack of symmetry and inequality. I don't mean to say a voluntary, deliberate inequality, but with the facts we are again going to prove that the treatment of the LDC's has not brought forth this imaginative audacity which we have seen in other aspects of economic policy and in world policy as a whole. And I ask myself, Mr. Chairman, if in this new Nixon Round the same thing will happen that happened in the Kennedy Round, which I viewed very closely from my position at UNCTAD? Everyone recognizes that it had positive results for the developed countries, but the poorest results for the LDC's. Won't this experience be repeated? Won't the LDC's again be left out? I am not responding to this question, I am only asking it, and I ask it because I am afraid that if we go directly to the preparatory meeting in Japan even though Mexico and other countries which don't belong to GATT might go, I am afraid that if we don't use the SCCN which has been created with this objective, the position of the Latin American countries could be diluted too much in a world forum. We have seen this on other occasions. I ask whether we shouldn't utilize the SCCN in a much more effective manner, not to initiate a sterile confrontation but rather to approach each other's positions in this matter.

In summary, there is a large number of convergent interests between the U.S. and Latin America, and in preparing some of these interests, consideration in the SCCN could considerably re-enforce the position of the U.S. and Latin America. In addition, it would be very interesting also for the U.S. to be able to know the aspirations of Latin America in other areas. Because of this, I ask this question: "In light of those considerations, would it not be possible to reconsider your position on the SCCN?"

These are, Mr. Chairman, my comments, some of which I would have rather made this morning. But happily this problem of preferences was also considered this afternoon so that the problem of detouring from the subject was avoided.

Mr. ULLMAN. Are there further questions?

Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Chairman.

I would like to welcome my friend, Mr. Fascell. He, as the chairman has recognized, is an authority on Latin America, an area that is so important to us. We are very mindful that our trade policy can be of significant assistance to this area. Certainly trade is better than aid,

and if we do a good job with respect to the underdeveloped countries in trade, it is to our ultimate economic benefit.

I agree with Mr. Ullman, that if you can give us some specific ideas of how best to deal with this problem which is so important, it would be of great help.

Mr. FASCELL. That is the point I was making. I appreciate the offer and I will attempt to do that.

Mr. SCHNEEBELI. You have done a good job.

Mr. FASCELL. My distinguished colleague from Florida, Mr. Gibbons, has been also very much involved in the issue. He has been very effective.

Mr. SCHNEEBELI. I see he is stirring into action. We can expect to hear from him.

Thank you very much.

Mr. ULLMAN. Mr. Burke will inquire.

Mr. BURKE. I wish to commend our colleague from Florida. I have watched him over the years and he is an outstanding legislator. I have read his prepared statement here that is going into the record. He is dealing with a problem that concerns all of us. You are to be commended.

Mr. FASCELL. I thank the gentleman from Massachusetts. I would go into the specifics on a point-by-point basis, but I am going to leave that to your good judgment for now and reserve the right to argue about it later.

Mr. BURKE. That is why you are such a good Congressman.

That is all, Mr. Chairman.

Mr. ULLMAN. Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

I too consider the gentleman from Florida as probably the most knowledgeable man in the Congress on Latin America, and I highly respect his judgment. I appreciate what he has had to say this morning. I am encouraged by his optimism and the statement that he has made that he believes that there are great possibilities in Latin America for some trade arrangements.

I think I interpreted him correctly when he said that this includes all of Latin America. Is there any misgiving about any part of Latin America in this? You mentioned Brazil.

Mr. FASCELL. I just mentioned that because their national growth rate is excellent; something like 11 percent. Economically they may be on the road to solving their major problems, of meeting international competition; getting into the world markets and solving the production, distribution, and sales problems to compete in international trade.

You know it is one thing to have the markets and another thing to participate in it and find out that the Japanese or some other competitor has beaten you to the punch.

Mr. PETTIS. Right.

Mr. FASCELL. This is what I meant, simply that Brazil may be more in a position today because of its economic takeoff to cope with the problem as against other countries. By the way, we are now considering in the Foreign Affairs Committee an export inducement program. It goes beyond what the Export-Import Bank does, in helping U.S. business with regular commercial interest rates and terms. This

new plan would give our business people an opportunity to meet international competition on exports by more concessionary terms.

Of equal importance, if we adopt this new program, is that we would make U.S. products available to developing countries that can't meet the regular commercial terms, and thus give them the opportunity to buy the things they need when they want them from U.S. businesses. Many of these countries need and want U.S. products and technology but can't afford them on regular commercial terms.

Mr. PETTIS. In conclusion I just would like to say that I am encouraged and I am glad of the emphasis that you have brought to the committee this morning because I think sometimes we think in terms of Europe and the Far East, and that is fine, we should do that, but not ignore our own hemisphere.

Mr. FASCELL. Not when it is that close, Mr. Pettis, particularly when it seems quite obvious that one of the largest potential consumer markets in the world is right there.

Mr. PETTIS. Thank you, Mr. Chairman.

Mr. ULLMAN. Mr. Rostenkowski will inquire.

Mr. ROSTENKOWSKI. Thank you, Mr. Chairman. I would just like to welcome our colleague from Florida. His appearance here is always refreshing and informative. I appreciate the fact that he takes the time out of his busy schedule to give us the benefit of his observations.

Mr. FASCELL. I thank my colleague.

Mr. ULLMAN. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

I would also like to welcome our colleague and tell you that your position is certainly well taken.

Mr. ULLMAN. Mr. Gibbons.

Mr. GIBBONS. Mr. Chairman.

I also want to compliment Congressman Fascell and Congressman Pepper. Both are experts on the matters on which they have testified and will testify. I consider them not only close friends but valued colleagues.

Mr. ULLMAN. Mr. Brotzman.

Mr. BROTZMAN. Thank you, Mr. Chairman. The fact that I am last does not diminish my enthusiasm in welcoming you to this committee, Mr. Fascell.

Let me ask you one question. We do rely upon your expertise particularly regarding Latin America. Are there very many trade barriers that have been developed between our country and Latin America and South America over the years?

Do we have the same situation, for example, between these countries and nations as exist between our country and the European Community, and also Japan? Are there any nontariff barriers, for example, that you are aware of that militate against our free trade with these people?

Mr. FASCELL. Yes; with respect to vegetables, I am sure there is on quality standards under marketing arrangements in the United States. There are others, Mr. Brotzman, but as I responded to the chairman this morning, we have some additional details on those and I will make them available to the committee.

[The following was submitted for the record:]

Additional Views of Hon. Dante B. Fascell

LATIN AMERICAN TRADE BARRIERS TO U.S. GOODS

On the whole the developing countries, including Latin America, maintain a complex pattern of tariffs and non-tariff barriers. The level of protection is usually higher than in the developed countries. Overall comparisons are not very meaningful, however, because the pattern varies greatly for different countries and different industries.

Protectionism by the developing countries in part reflects the same forces as protectionism by the developed countries—e.g., a desire to insulate domestic industries from foreign competition. But developing nations also have special reasons for restrictive trade policies which are unique to them. For example, revenues derived from customs duties, import license fees, etc. are still an important source of government revenue in most Latin American countries (as they were during our own early history) : trading fees are an especially easy form of taxation to impose and collect. This basis for restrictionism becomes progressively less important as a country develops a greater administrative efficiency which allows it to rely on sales, income and other taxes for government revenues.

Secondly, import restrictions have been used as a device to encourage industrialization. The adoption of import substitution as a development policy is the result of both economic history and political pressures. To the extent that import restrictions allow infant industries to mature into efficient industries, trade restrictions have long been accepted by economic theorists and practitioners as fully justifiable. However, the over-zealous pursuit and application of this technique in many cases has led to economic distortions and misallocations with respect to agriculture, capital, exports and employment. In recent years Latin American leaders have begun to recognize the problems created by excessive import substitution and are increasingly conscious of the need to develop their export ability. The growing emphasis on export promotion is usually accompanied by more outward policies and a trend toward a more open economy.

Thirdly, protection against imports has been a natural response on the part of developing countries to their very prevalent balance-of-payments difficulties. Although the tendency of governments to concentrate on saving rather than on earning foreign exchange is now being reversed by many Latin American countries, trade and payments imbalances remain serious problems in development policy.

Studies of developing countries' trade have shown that the principal constraint on the volume of their imports has been their ability to earn foreign exchange via exports. Thus, our own sales of goods to these countries will be stimulated as we open our markets to their products and give them opportunities to earn the dollars with which to pay for imports.

The U.S. and other developed countries have recognized that developing countries have special trade problems. Both in Part IV of the GATT and in the official communiques announcing agreement to the 1973 round of multinational trade negotiations, the major developed countries agreed that they would give special attention to the trade needs of the developing countries and not require reciprocity for trade concessions granted to them. Although we would not expect them to make any concessions that would be inconsistent with their development needs, developing countries do, however, have a lot to gain from a careful liberalization of their own markets in terms of a stimulus to greater efficiency and better resource allocation.

I hope the multilateral trade negotiations envisioned in the bill will provide an opportunity for a really broad-based freeing of world trading patterns. For while developing countries maintain many non-tariff barriers such as quotas, import licenses, official pricing and complex administrative procedures, developed countries also have significant trade barriers. In the case of the U.S., for example, we maintain quotas on a number of agricultural items and manufactures which are important to developing countries; many of their exporters also complain that some of our product standards and administrative procedures have a protective effect and discriminate against imports. The trade talks should provide ample opportunities for serious bargaining about the tariffs and non-tariff barriers maintained by all participants, whether developed or not.

Mr. Brotzman. I think it would be helpful to the committee to have that to round out the picture. We have had a lot of testimony you know

and we are getting to the end of the line, so to speak, on our public witness, and now those of you in the Congress, and it would seem that one of the larger problems that we have to be concerned with is the so-called nontariff barrier problem.

According to some of the testimony, we have over 800 of those things which militate against free trade on the part of our country. I think if the gentleman has something like that or a little analysis as it relates to your particular sphere of expertise it would be be beneficial to the committee.

Mr. FASCELL. We have it and by "we" I mean the U.S. Government has it, because we have been in the process for several years of negotiating with the Latin American countries on a point-by-point basis.

Mr. BROTZMAN. As I said, it is always refreshing and helpful to have you here, and we thank you very much for your excellent appearance.

Mr. FASCELL. It is a privilege.

Mr. ULLMAN. Are there further questions?

Mr. Gibbons.

Mr. GIBBONS. Mr. Chairman, maybe my colleague will wish he had not come here after I get through asking him these questions, because they will be a little controversial, I am afraid. They have nothing to do with what has gone on before. They have to do with what we will begin here on Monday.

I know that you and Mr. Eckhardt are the authors of the open committee markup sessions provision and, while we have a majority of the committee here, I thought we had better run over some of the ground rules under the provision. There are a lot of the public here, and some of the press too.

As I recall from this reform that the House adopted, it was the intention of you who drafted the rule and pushed it to adoption that every business session of the committee be open.

Mr. FASCELL. That is the presumption to start with.

Mr. GIBBONS. That is the presumption to start with. In other words, the public and press and everybody doesn't have to be invited. As a matter of right they can come to any committee session, is that right?

Mr. FASCELL. Absolutely.

Mr. GIBBONS. Then the committee, if it decides it is going to close the session, must vote either that day or some day earlier that that particular meeting is going to be closed. It has to be by rollcall vote, is that right?

Mr. FASCELL. That is absolutely right. The idea of course is to let the public know at the time so that if the committee for whatever reason wants to close the meeting to go into markup, the public would have the opportunity on the record and visually to see the committee and make its own judgment on closing the session. It is not supposed to impute anything one way or the other. It is simply that it is an act which ought to be a public act, period. It doesn't detract from the right of the committee one way or the other.

I would hope that the spirit of that rule would be abided by. I think it is a good rule.

Let me say to my colleague from Florida that I recognize the predicate he is laying here and I support him on it. There were all kinds of questions raised with respect to the operation of this committee. I know that the divisions of opinion were genuine. I can only cite from

my own experience on two counts. One is in Foreign Affairs where before the new rule, we went into executive session for markups. We have not done that since the rule went into effect.

Question: Has that had any impact or has it changed any attitudes? Has there been a difference in the operation? Has there been any inhibition indicated?

Answer: Absolutely not. Maybe that doesn't satisfy you. But I can tell you that from our own experience we have had better attendance of our members. We have had wide open, free ranging discussion on all kinds of sensitive and important issues. Heretofore these and similar issues were discussed behind closed doors. Now the public has been there. The press has been there. We have marked up our bills. There has been no lessening of amendments, no lessening of the intensity of discussion, and total freedom.

I think it has made a far better climate for the consideration of the very important measures before the Foreign Affairs Committee. I think it would do the same thing here. I know the pressures are great. I don't envy you your position but we are different kinds of people or we wouldn't be here. We are problem oriented people and we are supposed to be able to deal with pressures. I know you can.

Other committees have had the experience now under the rule of marking up in open session and they have found that they have gotten the same reaction I have just related.

Mr. GIBBONS. So that if we follow the rules of the House, and I assume that we will, we have no right to close these doors and exclude anyone from the markup session that starts Monday—including all the people who are sitting here now, and anybody else who wants to come—until we vote by record vote that day to close it, is that right?

Mr. FASCELL. That is absolutely right. That is the rule.

So all I am saying is that you can go into closed session if you want to by a very simple process of meeting in open session and deciding you want to go into closed session. I would hope that you don't have to do that. I would like to sit here while you mark up your bill. I think it would be great.

Mr. GIBBONS. I think it would be helpful, frankly.

Mr. FASCELL. I know I would be better informed.

Mr. GIBBONS. About staff—when the proposal was originally drawn and amended there was a provision in there that would prohibit departmental staff from coming to closed sessions. You know we have always used departmental staff. Sometimes we have had as many as 50 or 60 from departmental staffs, although my own staff and other staffs have been excluded.

As I understood the amendment, it was your proposal, then, that the departmental staff would not be here but that we would have to develop within the Congress the kind of expertise that we have been relying upon the departments for. On the floor, it was amended to provide that departmental staff could be invited. Am I correct in that?

Mr. FASCELL. The gentleman is correct.

Mr. GIBBONS. So we have to invite any departmental staff. They have no right, as a matter of right, to come here.

I would assume that the committee controls what departmental staff could come.

Mr. FASCELL. Obviously, the committee would control it. It is a question of the spirit and the letter of the rule.

Mr. GIBBONS. If the committee decides we don't want any departmental staff, we could not invite them, is that right?

Mr. FASCELL. The gentleman, of course, is correct. The committee controls its own operation within the rules of the House.

As you know, we discussed the matter quite openly and heatedly on the floor. There are ways to do it and still stay within the spirit of the rule and still get the expert knowledge you want. But the principle, I think, is right and the principle is fair. If you are going to have an expert or any person for that matter who by his views is going to have a substantial input on the product of the committee and he is not going to be subject to cross-examination, or public scrutiny, it seems to me something is lacking there.

Mr. GIBBONS. Well, I just want to say in the way of a defense of you, that I haven't discussed this in advance with you. I apologize to you openly for having brought you into this.

Mr. FASCELL. No apology is necessary. I realize that there are great differences of opinion on the subject, Mr. Gibbons, but we are doing the best we can with certain broad concepts and that is always a difficult thing.

Mr. GIBBONS. Thank you, sir.

Mr. ULLMAN. Thank you very much.

Mr. FASCELL. Mr. Chairman, thank you very much.

Mr. ULLMAN. We appreciate your testimony.

Mr. FASCELL. Thank you.

Mr. ULLMAN. Our next witness this morning is our distinguished colleague from Pennsylvania, Mr. John H. Dent.

We have heard our colleague on many occasions. He is one of the foremost experts in the Congress in the field of trade. He has dedicated a great deal of his life to the study of foreign trade. We consider him an expert. We may not always agree with his views, but he always has a great deal to give to this committee, and we welcome him here this morning.

STATEMENT OF HON. JOHN H. DENT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. DENT. Thank you very kindly, Mr. Chairman.

Mr. SCHNEEBELI. Mr. Chairman, I would like to welcome my friend from Pennsylvania to this committee. He has a great deal of information on foreign trade, and we welcome his participation and his thoughts as an expert. We are very happy to have him.

Mr. DENT. Thank you. Thank you all for the opportunity to present a few of my observations made over the years. I might say to the chairman that an expert is just an ordinary fellow away from home.

Mr. ULLMAN. You are the unusual expert. Do you want your statement in the record in full?

Mr. DENT. Yes, I have a prepared statement. I may be jumping from one place to another on points that I think may be of pertinent interest to us.

Mr. ULLMAN. Without objection it will be in the record in full.

Mr. DENT. I appreciate that very much.

One of the things that is always brought up, and one of the hardest nuts to crack in this type of legislation, is the effort made to try to get people to look at the situation as it is today without relying so much on what was said or done yesterday. One, of course, must use yesterday's actions and events as a guide. We all know that to ignore the past is to have to relive it, and I would dread to see the next 10 years lived as these past 10 years have been, in the devastation that has been created by the so-called job economy of our Nation. Somewhere along the line we have forgotten the whole concept of what makes a Nation economically sound in peacetime, and militarily sound in wartime.

Basically, the wars that have been lost by our major opponents in the last 2 years have been lost because of production facilities, lack of trained people and lack of ability to meet the demands of the extra charge made upon it during wartime. The only thing that won wars for this Nation and our allies was the fact that we had the potential for production. We started off with the most miserable kind of a merchant marine in both world wars, but we were able to build wooden ships in the first and steel ships in the second, to take care of the logistics. We didn't expand our shipbuilding capability during the conflicts we have just been through—and in which we are still involved—and the logistics problem became one of the major causes for the long delay in arriving at some particular point where we could say that we had a cease fire. Back that up with the fact that today, one of the most strategic areas of production in any country in the world, that has an agricultural and industrial complex such as ours, is the production of specialty steels.

Nothing you see, nothing you touch, can be produced without specialty steels in our modern method of productivity. Yet, we have allowed ourselves to reach a point that, if tomorrow, the sealanes were closed to us, and we had a conflict with a major power, we would be doomed just as Germany was and just as Japan was.

There is no other solution. You cannot have an economy based only on transportation, distribution, and consumption. Production is mandatory.

In our kind of world where the wages have been high and economy has been great, we have enjoyed the greatest standard of services ever enjoyed by any group of peoples anywhere in the world.

When we have two service oriented occupations in this country to one manufacturing occupation, it means that we have a load to carry. Not much change comes in transportation or distribution or in consumption as a result of where the goods are made. The growth in those industries isn't because some multinational has created jobs, by moving overseas, they have created jobs in the United States. They have created them only to the extent that they have produced goods abroad, and sent them here for transportation and consumption, just as if we had produced them domestically. The consumption level is exactly what it would be whether the goods were made in the United States or made in Timbuctoo, because the consumption of goods moves the goods from the shelves, and distribution brings it to us. But the place of production doesn't make any difference to either one of the two elements of economic stability, consumption, and distribution.

So claims that imports create jobs is a fraud of the worst kind, perpetrated on the American people for these past 35 to 40 years. We

talk about emerging nations, but no one in this room has ever seen a piece of legislation aimed at making a change in the treatment accorded an emerging nation after it emerged.

We are still treating Japan as an emerging nation. Do many of you realize that? Do you really know it? Have you studied it? Has there been any change in our attitude toward them? Are they still an emerging nation? We also know that emerging nations will never be able to fully emerge as long as we Americans move into these nations, take advantage of the productivity produced by our aid, all toward a final result of being the one who takes the money out of the country. In the cattle business, the imports of certain nations is a case in point. There was never any import from those nations of beef but now there is a great deal and an effective amount.

Americans go to these countries, set in motion a cattle business for particular citizens of that country, secure money available from various sources of aid, and then proceed to buy cattle off the natives. What do American investors get in return? They get feed grains at a lower price than in their own feed lots in the United States. They get little or no kind of a tariff or customs cost at the borders. They produce the meat in the consumer market at a cheaper price than what domestic meat can get in the market. And yet, when it reaches the consumer, no place that I have ever been in, and I have been in thousands of them, ever marks their hamburger as imported, nor is there a corresponding cut in price.

That is the second biggest fraud that has been perpetrated on the American people, that we import so that the consumer can buy at a more reasonable price. I had that debate with Walter Reuther at one time. I think Mrs. Griffiths would be happy to know a little bit of the discussion. He was saying that his automobile workers ought to be provided with import goods so that they could buy products at a price less than what they would have to pay for American products and could buy more of the things they needed.

I only gave him one equation. I said,

> Well, Walter, your boys are now making $5.46 an hour.

That is a few years back. I said,

> The domestic shirt workers are making about 35 cents to 40 cents over the minimum wage, so that they are making about $2.10 an hour. Your automobile workers flood into these discount stores and buy shirts for 95 cents apiece from offshore production facilities. The domestic shirtmakers in New Jersey and Pennsylvania, the New England States and down South in the textile oriented communities, are put out of work and he can't buy your automobile. But, Walter, the strange fact is that neither can the offshore worker.
>
> Now, if you want that worker of yours to buy offshore products based upon price in the marketplace, you had better make sure that somebody keeps the shirtmakers alive in the United States because pretty soon you will be paying as much for import shirts, as you pay for domestic shirts.

I will take you to the best stores in town today, if you want to go with me, and I will show you the 95-cent shirt now selling for $7.50; shirts made in Taiwan, Korea, and Malaysia. That offshore workers is still only getting 8 to 15 cents an hour and he is still not able to buy an automobile from Reuther's automobile makers.

I was over in Ethiopia when the President made his great announcement of the 10 percent surcharge and the so-called devaluation to help

American trade. I would like to point out that we have had a greater negative trade balance since that day until now than any time in our history. That help wasn't forthcoming.

However, let's see what he did. Imported automobiles at that time were paying 3½ percent tariff, plus a 7-percent excise tax. Now, a lot of Americans thought that that was a 10-percent increase on present levels of tariff but it wasn't. It was just the difference between that which was under 10 percent, up to 10 percent. During all this, the 7-percent excise tax on automobiles was eliminated. In the juggle, when we reduced the so-called 10-percent surplus—we had moved it up from 3½ percent to 10 percent, or an increase of 6½ percent. When the so-called excise tax was removed it dropped from 17½ percent down to 10½ percent. Then when the President removed the 6½-percent tax that he had previously added, we find that there is now only a 3-percent tax on imported automobiles, a total loss to the American economy of 7½ percent or better than twice as much as the former tariff was.

Many of these things happen and this committee can't know it. I can't know one-millionth of the things that have happened, but I do know that in every foreign country—and I have visited every industrial nation on the face of the Earth, some many times and some just once—that anytime I sit down with any official of that government, or any producer of a product, I ask this simple question, especially on tool steels, "How much do you import from the United States?" Invariably the answer is this, simply put, "Why should we import when we make all we need?"

John MacArthur's father, throughout his life, told Al and his brothers, while developing in them the Calvinistic regard for money, "Never buy milk if you own a cow." We have a lot of cows and we are buying milk from all over the world. How can we justify closing down any production facility when the products of that facility are not in surplus in the marketplace?

I don't care what you do about your so-called nontariff barriers. There is one that you will never wipe out, one nontariff barrier that this committee, much as it might think it is helping in the international picture, will not wipe out. That is, the main nontariff barrier of nationalism. Nothing you do will ever change the concept drilled into the minds of foreigners all over the world that their own jobs and their own economy is first.

You don't have to put it on billboards. It is drilled into them and I for one admire them for it. Nations like families have to look first homeward. We are in a position of being like the philandering husband who keeps his wife at home because she hasn't a coat to go out in and buys his paramour a fur coat. That is what we are doing.

Many economies in this world, many more than we want to believe, are more stable today than we are because they will not get away from the three-legged stool of stability: production, distribution, and consumption.

In this paper that I gave you today, I trace for you the projections or the discussions in 1953. If you will do me the honor of taking time to read this particular one dealing with "Tariffs: a Case for Protectionism," you will find that from 1953 until 1973, in a period

of 20 years, everything predicted has come true. It follows like night after day that if you don't change the pattern of our trade policies in this country, a continuation of what we have now can be nothing short of disaster.

Franklin Roosevelt has often been blamed for being the father of modern free trade. Nothing can be further from the truth. Read his statement and read his papers and read everything you can about him and you will find basically and fundamentally, he was for American production and consumption and distribution.

Let me give you just two statements. First, he said we must never allow, must never allow international trade to become tangled up with the will-o'-the-wisp of foreign relations. That is No. 1. Second, on asking for the passage of the minimum wage of the Fair Labor Standards Act, he said, "No product, no matter where produced, should be allowed to pollute the channels of American commerce."

Both of these things we have completely set aside as if they were never said, and yet they were basic for establishing in this country, a floor under which no person would be asked to work. We ignored that by supporting cheap labor abroad. The second violation is that all of our foreign trade today is based upon international political considerations. The exact science of commerce is what should properly control our considerations in trade. All the other stipulations are only the window dressing, to hide the great faults that have come through the years of participating in so-called free world trade.

Free world trade has to be natural trade, not an induced trade, not trade induced by this kind of a situation if you mind. Let me read from an advertisement by the U.S. Department of Commerce.

"Would you risk 8 cents on $238 million in sales." It goes on to say that certain companies have enjoyed $238 million in export sales because of our financed U.S. trade centers all over the world and "You will discover that participation will cost you less than $300 or as low as $300." The Commerce Department provides both booth design, conditions, in-depth promotion and will see to it that the people that you are interested in will be on hand when you go to the fair.

Do we count this in the cost of our fair trade? Do we count this? Do we add this up? Do we add the thousands of junkets going on over the world? Everywhere I have traveled, and I have traveled everywhere, I have never traveled anywhere without running into people promoting at the cost of the United States.

We can not blend the exact science of commerce with the inexact science of diplomacy. If you will just take 2 weeks' newspapers and read the statements and headlines from our top negotiator in international diplomacy today, you will find that our policy has changed at least seven times.

In other words, the inexactness of the international scene itself prohibits the kind of action we take on trade. The trouble is most of us seem to think it is such deep water that we can't sustain ourselves in it and we are going to drown if we try to look into it.

Let me assure you that if one with an eighth grade education can learn the depths of it, I see no reason why this very intelligent and well-trained committee can't scratch away the very fine veneer and the flakery and quackery of the so-called international trade promoters.

If international trade was natural, we would be buying the things

that we need from nations and they would be buying from us. But that isn't the basic concept of trade today. Do you know what trade is today? Trade is an exchange for money purposes only, not for need or use of peoples. You tell me why 20 percent of the automobiles used in this country need be imported. Tell me why.

It isn't size. It isn't gas consumption. We compete in that field. It isn't design. They look pretty much like our own cars. I knew that whatever came out would look something like our American automobiles because they took and made them look like all of them a little wee bit so that they would appeal to all. We don't need that stuff. We are losing sight of what we do need. We are shipping minerals out of this country that ought never to leave this country. We are shipping foodstuffs out of this country to needy nations. Yes, that is the kind of trade we should have. If I were giving any aid, that is what I would give. But, you can't take a deal like the Russian wheat deal and call that international trade. The so-called $8 to $10 billion deal that Occidental Oil has just consummated with Russia is an international fraud as far as being a trade deal. Four hundred million dollars were spent initially by Occidental, and $100 million came from the Export-Import Bank, or your pocket and mine. That $400 million will never come back to the United States except in products produced in that plant. For the next 10 years, Occidental is going to given Russia $400 million worth of this and Russia is going to give Occidental $400 million worth of that. No currency will be exchanged, but the $8 billion of $10 billion will be calculated as trade in this year's balance in the same manner as the $700 million worth of wheat grains that we are selling to Taiwan on a 3-year sale. It will show up as an export in this year's balance.

Those of you who have been on the committee know that this year you will find that the balance will shift in favor of the United States because this is the year of decision. Gentlemen, I know that philosophical meandering isn't what you wanted but it so happens that this isn't philosophical. It happens to be downright everyday truth contained in all of the documents that you pick up and read.

In this presentation of mine, I have catalogued all of the things that I have elaborated on and given the source of the information so that in case there are any questions I will be glad to answer them.

[Mr. Dent's prepared statement and additional material follow:]

STATEMENT OF HON. JOHN H. DENT

Mr. Chairman and Members of this committee, I appreciate very much the opportunity to be able to present to you today some views that I have on the matter of international trade and the proposal for new legislation, now before this Committee, made by the President of the United States.

This testimony is in opposition to the Administration proposal on trade and tariff as presented.

Mr. Chairman and Members of this Committee, I came to the U.S. Congress fifteen years ago, an avowed free trader. In my early days in Congress, I came upon a report, put out by the Committee chaired by the Honorable Thomas Steed, entitled the "Impact of Imports on American Employment and Unemployment". After reading the report, I was amazed to find that my long belief in free trade was shaken to the roots. On my own, I made a list of all of the witnesses who appeared before the Steed Committee. Five years later, I requested and was given an *Ad Hoc* committee assignment and I was made Chairman of the same title committee. That particular committee is currently under the jurisdiction of the General Labor Subcommittee, which I am privileged to chair. From 1963 thru the present year, my committee has traveled to the four

corners of the world, has put hundreds of pages of reports and testimonies on record; has made on site inspections both inside and outside the United States. It is thus with considerable study that I present this testimony.

I hope to be able to summarize briefly some of the matters that I think are of the greatest importance. I believe that it is very necessary, with regard to this kind of legislation, to discuss imports that displace American workers; trade adjustment assistance and U.S. and Foreign multinationals.

It is well known to the Members of the Committee that I opposed the enactment of the 1962 Trade Act, and I think the current bill is the same wolf in sheep's clothing. I said then, and I think history has proven me to be right, that, with the passage of the 1962 Act, this nation would find itself in a more serious position in ten years than it had ever been, with the exception of the Great Depression. That time has come—ten years later—in spite of all the built in props that Congress has seen fit to put into the economy—Social Security, unemployment compensation, government spending programs, aid to education, and similar programs. In spite of these well intentioned efforts, we in the Congress have not addressed ourselves to the one blow that could wreck havoc upon this economy of ours.

I take a very narrow view, my critics say, because I lay the great portion of the blame for our present condition on antiquated, outmoded, and outdated international policies. For some unknown reason, men and women, intelligent toward every other kind of a problem that we face, seem to have a blank mind when it comes to considering the real dangers and the grave impact of excessive imports on the American economy. The great danger to the production facilities themselves is that they are being closed down and phased out. The loss of jobs deprives Americans of an opportunity to earn a living in the kind of work that they would like to do and have been doing for years. George Ball conjectured that this nation should dispense with the so called "unsophisticated" industry. Well, we phased out those "unsophisticated" industries, throwing the baby out with the bath, and destroyed hundreds of thousands of American jobs, for that great number of Americans who need that type of work the most, and in whose numbers are high percentages of unemployment. In my humble opinion, this nation cannot survive on distribution and consumption. We must have first and primary production of goods and services.

There is a large group in America, or at least a group speaking as though they were representing a large group, that has admitted satisfaction in seeing this country become a service oriented economy. You will note that this same group also stresses very heavily that we must correspondingly become a greater agricultural exporting nation. It is all very well, except for the fact that economic history, not only of this country, but of other countries, dictates that an agriculture economy cannot satisfy the needs of great nations and their peoples. In fact, we were the first to stand out and start a foreign aid program with the avowed purpose of developing countries that depended on agricultural output. It was our ultimate goal in establishing their self-reliance to provide an industrial base; to help these countries become independent of other nations by making them capable of manufacturing, mining, and producing. We have helped many nations become self-reliant and become exporting nations. At the same time we have allowed ourselves to become a nation of raw materials, agricultural products, and finances to feed the industrial might of other nations. The result of such actions is reflected not only by the unemployment in the industrial sector, but in the great national debt that we have created both here and abroad. The nation has allowed itself to be logically mesmerized into a situation where it honestly believes that it can survive without production. What kind of logic can dance to a swan song? To wit: the so-called energy crisis. We have *allowed* our oil supply to become scarce; we have not fully researched the many uses of coal. The current situation is a Sunday school picnic compared to what will come in the very near future, particularly if the oil producing nations suddenly decide to put a high dollar price on a barrel of oil. And which of us wants to guarantee that will not happen? Yet, who of us is determined to deal with that problem with foresight?

Despite the optimism of the President's recent Economic Report (Jan., 1972), domestic employment as it relates to U.S. trade remains a problem. First, recent import increases are largely in those industries which are labor-intensive from the standpoint of skill levels and man-hours (e.g., footwear, electronics assembly, various consumer goods . . .). Second, the continuing shift toward service-producing industries in the U.S. economy aggravates this situation. And third, U.S. imports are increasingly originating from the Far East where labor costs are

significantly lower than elsewhere. These disruptions in the employment patterns have, to a large degree, been brought about by changes in both the volume and composition of U.S. imports. These changes have displaced domestic resources faster than the nation has been able to transfer these resources elsewhere. Excess production capacity has complicated the resource transfer.

On June 28, 1962, four different sources of support for the Kennedy Round Trade Agreements made their respective predictions regarding the number of jobs that would be created under that particular Agreement. These predictions were made by the following in my own Committee, the Ways and Means Committee, and the Joint Economic Committee.

1. The Department of Labor predicted an additional 3,000,000 jobs.
2. Secretary of Labor Goldberg forecast 4,000,000 additional jobs.
3. Secretary of Commerce Hodges predicted the number would be nearer 6,000,000.
4. And the Importers Council hoped for a wopping 12,000,000. At the same time, Mr. Charles Percy, then of Bell and Howell, now a U.S. Senator, speculated that an additional 15,000,000 positions would be created. Unfortunately, none of these speculations bore fruit.

At that time in 1962, there was a total of 16,800,000 persons engaged in manufacturing, with a payroll of $90 billion a year, and with a total population of 160,000,000 people. Today with a total population of 208,000,000 there are 14,127,000 persons employed in the manufacturing sector. I point this out because, in spite of all their predictions, there has been a loss of jobs in the manufacturing sector, in the face of a production consumption increase of 50–60%. According to a report prepared by Stanley Ruttenburg for the IUD, between 1966 and 1969, U.S. foreign trade produced the equivalent of a new loss of half a million American jobs.

Among the most severely hit domestic industries are those manufacturing consumer products.

Imported products sold in the U.S. now account for 37 percent of all TV sets; 63 percent of all phonographs; 92 percent of radios; 96 percent of tape recorders; 15 percent of steel products; 20 percent of textiles; 53 percent of shoes.

The advance in electronic imports is startling. In just two years, between 1968 and 1970, the U.S. annual production of television receivers declined by 2,350,000 and radios by 6,000,000. In the same span, imports of TV sets increased by 1,790,000 units. Radio imports jumped by four million.

Imported parts and components, as well as finished products, are replacing U.S. production in many industries.

From these figures, it is not hard to figure out where the work is going—and who is losing it.

But this tells only a part of the story. Other domestic industries and their workers are also being hit hard by the rising tide of imports.

NONRUBBER FOOTWEAR

Imports in 1960 amounted to 26.5 million pairs. In 1971, imports rose to 268.6 million pairs.

HARDWOOD PLYWOOD

Imports in 1950 came to 58 million square feet—about 7% of the U.S. total. By 1971, hardwood plywood imports had risen to 5.03 *billion* square feet—about 71% of the U.S. total.

TOYS AND GAMES

Imports increased from 568 million in 1960, to 1,032 million in 1969 an almost 100% increase.

AUTOS

Imports amounted to 21,000 in 1950; 444,000 in 1960; and 2,600,000 in 1971.

POTTERY AND CHINA

Imports increased from 2 million dozen in 1947 to 34 million dozen in 1970—a 1,600% increase!

These examples of skyrocketing import totals show why the United States is now in a trade deficit situation. That deficit would be worse—much worse—if it were not for the fact that we have an export surplus in some of our domestic products to help offset the overall gain in import totals.

Jobs go down the drain by the thousands. Once thriving communities now lie in despair, the men and women out of work, the tax base shattered. The imports have taken over. We are talking about Monessen, Pa. (steel); Brockton, Mass. (shoes); Utica, N.Y. (radios); New Bedford, Mass. (textiles); Elmira, N.Y. (typewriters); Memphis, Tenn. (televisions); and on and on and on.

The electrical manufacturing industry has been particularly hard hit. The 1972 Convention of the International Union of Electrical, Radio and Machine Workers heard these situation reports:

In early 1970, the Standard Kolman Plant in Oshkosh, Wisconsin, closed down, laying off the last of 1,100 workers. The jobs went to Mexico.

On July 1, 1970, Emerson's Jersey City, N.J. plant close down. There were 1,000 people working there then, but several thousand worked there in years past. The work went to Taiwan.

On July 1, 1970, Sessions Clock, Forestville, Conn., shut its doors. Fifty people were made unemployed. The work went to Japan.

On September 1, 1971, Bendix closed its York, Pa. plant. Six hundred IUE employees worked there, making electrical equipment for the Navy. Now, Mexican workers supply our Navy at wages of 42¢ an hour.

On October 1, 1971, Warwick Electronics in Zion, Illinois, closed down. It had once employed 1,600 people. The work went to Mexico and Japan.

On November 1, 1971, RCA shut down a Cincinnati plant, laying off the last of a workforce which had once numbered over 2,000. The semi-conductors and transistors once made in this plant are now being made in Belgium and Taiwan, among other locations.

In February, 1972, McGraw-Edison ended production at its Voicewriter Division in West Orange, N.J. Some 700 people lost their jobs.

The message is the same, Mr. Chairman, in industry after industry, as unions in their working jurisdictions report on what is happening.

In the steel industry, imports of raw steel rose from 10.3% of U.S. consumption in 1965 to over 18% in 1971. It is estimated that this rise in imports means U.S. steelworkers have lost 75,300 job opportunities during the six-year period.

In the rubber industry, imported tires cost 8,900 job opportunities in 1970 and 10,000 in 1971.

In the electronics industry, imports of home-use electronic products (radios, TVs, tape recorders, etc.) resulted in 32,800 jobs lost between 1966 and 1971. In electronic components, the job loss was 84,200 over the same period. This represented a total drop of 117,000 U.S. production workers or a 27% decline in employment in the industry.

In the footwear industry, shoe industry employment in the U.S. dropped by 18,700 workers.

The President has posed to us in this Body a partial solution—trade adjustment assistance. I would like to respectfully suggest that the American people want *jobs*—not assistance, and while Trade Adjustment Assistance is imperative, it in no way directly addresses the problem of imports. It merely serves to mend the harm done by them. I am talking about jobs that Americans *need!* One estimate shows 900,000 work opportunities lost because of imports into the U.S. That surely calls for more than Trade Adjustment Assistance! This Administration's inclusion of Trade Adjustment Assistance in its bill is, of course, a long overdue recognition that imports *do* indeed adversely affect jobs. I repeat—and I do not at all intend to minimize the importance of trade adjustment assistance—American workers would prefer jobs to assistance any day of the week!

Since it has finally been recognized that imports adversely affect the labor market, it is imperative to provide for a better way of adjusting our manufacturing system. Any adjustment must be done with the welfare of the worker and firm in mind—in a way that mitigates the injury to both. Adjustment assistance should pay for itself, in part, since the U.S. economy would be made more competitive, through the enhancement of the skills of the work force.

It is essential to improve current standards of trade adjustment assistance and to further liberalize the standards of award. It is incredible that between 1962 and December 1969, *not one* worker petition was approved by the commission. In the four years between December, 1969 and May 1973, after the regulations were "liberalized," 35,000 workers were covered. In light of these fairly conservative awards, it would seem that liberalizing the trade adjustment assistance standards would necessarily be an integral part of any Trade package. Such is not the case in the current Administration proposal. It is to say the least—retrogressive. The Administration bill is the only one I know that proposes to decrease worker benefits, both in *level* and *duration*—a proposal that is in direct

conflict with the general purpose of trade adjustment assistance—that being, to provide those workers, who lose jobs so that the larger majority may benefit from freer trade, a reasonable level of compensation.

The proposed bill places new and increased demands on already seriously inadequate state unemployment compensation programs, which are not required to meet any minimum federal qualification or duration standards. It was these very state inadequacies that resulted in the enactment of federal standards for Trade Adjustment Assistance in the 1962 Act.

One cannot discuss the loss of jobs in America without discussing, at the same time, the recent and dynamic growth of the multinational corporation, the modernized version of the "runaway plant." For example:

If a multinational does not like a U.S. minimum wage of $1.60 an hour, it may simply close its plant and move across the border to Mexico and pay workers 16 cents an hour.

If a multinational does not like our National Labor Relations Act, it may remove its facilities to some land where unions are either non-existent or legally disapproved.

If a multinational does not like America's Fair Employment Practices Laws, it may set up shop in South Africa.

If a multinational does not like America's long overdue concern for the environment, it may move and pollute some other country's natural resources.

If a multinational does not like U.S. taxes, it may structure its accounts to show little profits here while recording huge gains in other countries with little or no corporate taxes.

If a multinational does not like our safety codes, our Social Security, our child labor laws, or our unemployment compensation, it may move and avoid all social costs.

American-based multinationals, by moving to another part of the world, shun the laws of this country, just as they shun the flag of this nation—A flag they refuse to carry on the high seas. American flag ships carried only 4.7 percent of our country's oceanborne foreign trade in 1970. While U.S. multinationals had a runaway flag fleet large enough to be the world's fifth biggest maritime power, the fleets of these non-Americans are more than four million deadweight tons larger than the American flag fleet.

While U.S. based multinational operations blanket the world with nearly 12,000 overseas operations, they are most heavily concentrated in the industrialized, well-developed and prosperous nations—1,255 in Canada, 923 in the United Kingdom, and 559 in Japan. Direct overseas investment involves the transfer of capital, technology, and management expertise from this country to some other country. But more important, these overseas operations represent an international trade-off, in which the average American citizen gets the worst of the bargain.

It is a trade of American jobs for jobs in France, Australia, South Africa, the Far East, and anywhere in the world.

It is a trade of revenue dollars for the U.S. Treasury for unrepatriated and untaxed dollars.

It is a trade of exports and a healthy balance-of-trade deficit.

It is a trade of a balance-of-payment surplus and a sound American dollar for a balance-of-payment deficit and a dollar that is still shaky despite devaluation.

It is trade of the skills and livelihood of American workers for the stock dividends of a privileged few.

In the past ten years, major American corporations have focused less on exports than on building plants and producing goods overseas. Between 1960 and 1970, for example, the value of American investment abroad has risen from $32 billion to $78 billion, and almost 3,600 American companies now have at least one plant overseas. According to AFL–CIO Research Director Nat Goldfinger, "Fully 25 percent of all U.S. trade today consists not of transactions between a U.S. company and foreign nationals, but transfers between divisions of these multinationals—with the type of goods and their prices determined by the company's internal needs and tax considerations, rather than by the dictates of international competition."

The U.S. Department of Commerce's Studies on U.S. Foreign Investment lists the following as motives for inverting abroad:

A need to get behind tariff walls to safeguard a company's export markets.

Greater efficiency and responsiveness by producing in the local market as compared with exporting to it.

The possibility of lower production costs which make it cheaper to produce components abroad.

The fear that competitors going abroad may capture a lucrative foreign market or may, by acquiring cheaper sources of supply, threaten the domestic market position of the company.

The need to diversify product lines to avoid fluctuations in earnings.

A desire to assist licensees abroad who may need capital to expand operations.

A desire to avoid home country regulations, e.g., anti-trust laws in the U.S.

Mr. Chairman and Members of this Committee, it is imperative that we in this Body address ourselves to this problem—before it becomes totally unmanageable. We are talking about companies without countries. It is imperative to establish a trade policy that deals with the realities of today—not the realities of yesterday. It is imperative to do so for the worker, for our economy, for our stability as a nation, and for our very freedom as a democracy.

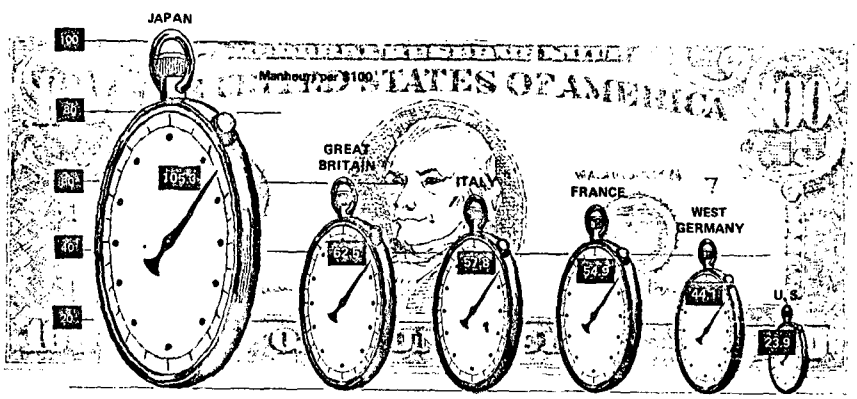
Thank you.

APPENDIX TO TESTIMONY OF HON. JOHN H. DENT

EXCERPTS FROM TARIFFS : THE CASE FOR PROTECTION

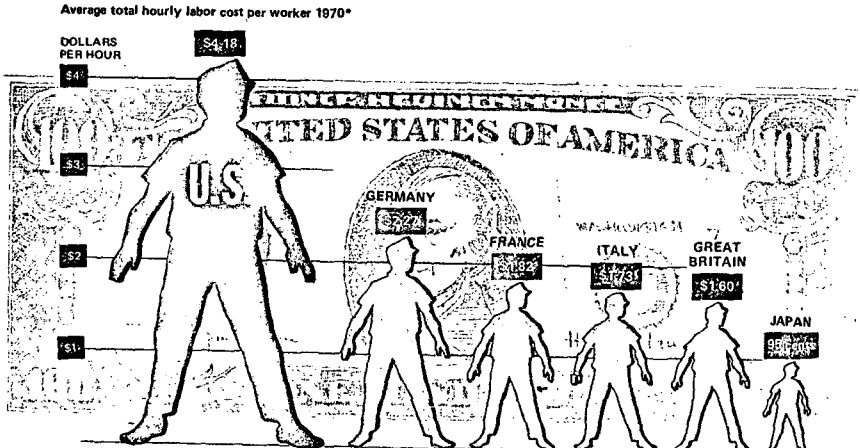
(By Devin-Adair)

How much labor can $100 buy?



Here's the reason why . . .

Average total hourly labor cost per worker 1970*



*Estimated by INDUSTRY WEEK, includes fringes and benefits.

WAGE RATE COMPARISONS

[From Free Trade and the Real World]

	Chemical [1] industry, percent of U.S.		Electrical [2] industry, percent of U.S.		Paper [3] industry, percent of U.S.	
	Dollars per hour	Wages	Dollars per hour	Wages	Dollars per hour	Wages
United States	2.40	100.0	1.91	100.00	2.30	100.0
Germany	.64	26.7	.42	22.05		
England	.62	25.8	.54	28.00		
Switzerland	.76	31.7	.46	23.84		
France	.78	32.5	.59	30.96		
Italy	.52	21.7	.38	19.60		
Japan	.19	8.1	.19	9.91		
Sweden				33.00	.587	25.5
Norway					.562	24.5
Finland					.435	19.0
Belgium			.63	33.04		
Holland			.40	20.74		

[1] SOCMA study. [2] NEMA study. [3] C. G. Parker study.

PRODUCTIVITY CONSIDERATIONS

But dosen't United States productivity more than offset the low foreign wage rates in all but marginal industries? Aren't our high wages merely the result of our productivity? Such conclusions are based on too simple an analysis of pertinent factors and relations.

Is American industry three to five times as efficient as the European and ten times as efficient as the Japanese? Can one American worker produce as much as three Frenchmen, four Germanys, five Italians, or ten Japanese? A moment's reflection will lead us to question whether we are really four or five times as strong or as smart as are foreigners. Have we become so proud of our industrial accomplishments that we are apt to accept such assumptions without examining them? We should guard against accepting the concept of American superiority on an emotional basis, lest we fall into the Hitler error of "the superior race." It is true, of course, that an American bulldozer can move more dirt than ten or even twenty Europeans with shovels. We must not forget, however, that many man-hours of labor were required to make the bulldozer; many more were required to make the machines to make the bulldozer; and still other men to mine and process the iron for the machines and bulldozers; while still other man-hours were required to produce and transport gasoline. Moreover, it is not too hard a problem to take an America bulldozer to Europe, or to build one over there.

The standard method of taking all this into account is to calculate the aggregate or average productivity. This is done by taking either gross national product or value added during manufacture and dividing by, in the first case, total workers; in the second case, industrial employees. Wage rates are obtained similarly by taking total wages and salaries and dividing by total hours worked. Since wages and salaries constitute so large a portion of total income (75 to 80 per cent for the United States), the two calculations are bound to show about the same difference between wages and productivity for different countries. In other words, the so-called "aggregate" productivity and wage rates are substantially two ways of saying the same thing—what is called a tautology.

Another valid objection to the term "average productivity" is that the productivity of few industries will coincide with the average. For individual industries, it will in fact vary widely on each side of the average. For example, in comparing U.S. productivity with that of industrial Europe, it is probable that their industrial productivity more nearly matches ours than does their agricultural productivity. Their agriculture has felt little impact as yet from mechanization, while ours has made great strides. Within industry itself there will be wide differences; some foreign companies may be inefficient while others are more alert. Some foreign industries are known to be fully as efficient as ours. Mr. Parker points out, "It takes the same number of men to operate a paper machine of a given size and speed in Sweden, Finland, Norway, Germany, Canada and the United States." [1]

[1] An address delivered by Cola G. Parker at a meeting of board members of the National Industrial Conference Board, February 19, 1953.

Indications of productivity can be obtained by comparing sales or job bid prices for different countries. The German custom machine-tool industry is currently bidding on United States contracts at around 50 per cent of the American bids. Shipbuilding bids from European shipyards run from 40 to 60 per cent of American bids. German bricklayers are reported to be laying 1,100 bricks per eight-hour day, while in the St. Louis area of the United States, reports indicate a union quota of 350 bricks a day.

An American manufacturer of office and store machinery who has manufacturing facilities abroad reports, "Precision tools can be acquired at one-third to one-fourth the comparable costs of producing them in the United States.[2] A comparison by another firm manufacturing a metal consumer product with manufacturing facilities outside the United States, is as follows:[3]

Comparison of costs of similar products using U.S. manufacturing costs as a base at 100 percent

United States	100
England	57
France	108
Mexico	71
Argentina	78
Brazil	46
Canada	97

John Coleman, President of Burroughs Corporation, in reporting before the Randall Commission, pointed out that productivity in their English plants is one-half that of their Detroit plant. He failed to point out, however, that the English wage rates are about one-fourth that of American wage rates.

The watch industry has computed its comparative productivity with certain other countries and estimates that Swiss productivity is 80 per cent of the American; British, 40 per cent; and Japan, 50 per cent. When the prevailing wage differentials are applied, the results are radically changed. Switzerland, with a productivity factor of 80 per cent, shows a labor cost of only 40 per cent, and Japan, whose productivity is 50 per cent, has a labor cost which is 20 per cent. England, on the other hand, with 40 per cent of American productivity in watch manufacture has a labor cost of 62 per cent.

The electrical equipment industry reports that in its major competing countries the rapid postwar advances in equipment and production methods have produced a corresponding decline in labor costs per unit of output and so has widened the disparity in total competitive costs. With respect to the steel industry, the British Productivity Mission reported comparative labor costs per ton of steel at $3.08 in the United States and $1.82 in England. The wool textile industry reports that although United States productivity in wool manufacture is from 1.3 to 1.5 times higher than the British, it is far more than offset by the fact that American wages are from three to four times higher than the British rate.

Although it is hard to get significant productivity comparisons, this type of data indicates that European productivity is about one-half of ours, while their wages are from one-third to one-fifth of ours.

The comparison of wage rates and productivity between the United States and foreign competitors demonstrates that the elimination of tariffs could bring about imports with prices low enough to take the market from American producers. This is true not only in high labor industries, but also in the mass-production industries. This is indicated by the fact that many mass-produced products are now being imported from European plants of American companies. The August 15, 1953, issue of *Business Week* reported that the Ford Motor Company planned to import $20-million worth of tractors into the United States in 1954. They say they can make them more cheaply over there.

EXPORT OF AMERICAN BUSINESS AND JOBS

It is not necessary, however, to ascertain the relative productivity between foreign production and United States production to evaluate what would happen if U.S. tariffs are set below a value which does not offset the foreign cheap

[2] *The United States and Its Foreign Trade Position.* New York: National Electric Manufacturers Association, December, 1953, p. 144.
[3] *Ibid.*, p. 143.

labor rates. If tariff barriers are removed and a national policy of free trade is adopted, the real situation will be this: American capital, plus American knowhow, exported to cheap-labor foreign countries to produce products for sale in the American market.

An American producer, under pressure from low-cost foreign producers, will build his new plants where he also has the advantages of cheap labor. Without tariffs, there would exist an irresistible force causing industry to move to low-labor areas. This would expand and create jobs where labor costs are low. It would reduce job opportunities here. The wholesale emigration of industry from the United States would not be restricted to marginal, hand-operated, and inefficient industries and businesses. If it is profitable for the inefficient operator to go where there are low wage rates, how much more would it be to the efficient producer? True, plants which are already in operation in this country would not be shut down, that is, not until they had become obsolete; but the new, more efficient plants would be built where low labor costs give an advantage—in the cost of construction and in lower operating costs. This is not a mere theory. It is already demonstrated by the actions of some of our most efficient producers, such as the Ford Motor Company, Burroughs Corporation, Eastman Kodak, and many others. In the next chapter, we shall see examples of what happens when economic advantages of low labor cost beckon to industry. Any efficient business manager must, in meeting competition, build his plants where he can get the lowest over-all costs.

The fallacy about low foreign wage rates which has trapped the freer trade advocates is the simple error of confusing real wages and money wages. The free trade advocate supposes that the American consumer, in fact everybody, benefits when we import products which are made by low-paid foreign labor and are sold in the American market below American selling prices. The fallacy becomes apparent when this theory is carried to its logical conclusion. Let us consider a case where prison labor is in direct competition with a commercial producer.

Now prisoners get very low wages. Incidentally, they also have a low living standard in that many goods and services are not available to them by virtue of their confinement. Since the prison director has an assured supply of labor at very low labor rates (about $.50 per day in the state of Michigan), he could manufacture, say, furniture or clothing for a fraction of the cost of a commercial producer paying, say, about $15 a day. His efficiency—production per man hour—would probably be lower because of lack of incentive, but this would be offset several fold by his low wage rates. He could sell at a much lower price and still make a good profit.

According to the free-trade advocates who would apply free trade to foreign low wage countries, this would be a good thing for everybody. It increases everybody's living standard they say. Well, if this is true, let us go all the way and trade with Russia. We could get products made in Russian slave labor camps, where the laborer would get no wages; or better yet, we could set up slave-labor camps of our own.

But this does not sound right; there must be some fallacy here. Yes, the fallacy is in the assumption that everyone benefits. The living standard of the citizen who purchases a low-priced product made with prison labor may have his living standard raised thereby, but what about the prison laborer, and what about the employees of the commercial producer who was put out of business by the low wage competition? This is merely an example of one individual benefiting at the expense of another.

The advocates of free trade between the United States and countries with a lower living standard find themselves in an interesting dilemma. If, as they claim, everybody's living standard in this country is raised by buying cheap goods produced by low-cost foreign labor, then our living standard is being raised at the expense of our foreign neighbors. Is this the kind of helping hand we are proposing to the free nations which we want to cooperate with us? If, on the other hand, the living standard of only those Americans who buy the foreign products is raised, then it is at the expense of some other American who has lost his job.

Thus, we see that trade between nations which is based upon different wage scales, and not on superior productivity, does not accomplish the objective of greater efficiency proposed by the theory of free trade, but rather, benefits one group at the expense of others. Many of the advocates of free trade are those whose personal or corporate advantage would be furthered by free trade at the

expense of unemployment of others in this country and at the expense of low wage countries with which the trade takes place.

There are some advocates of free trade who contend that wage rates are too high, that labor is getting out of hand in the United States. Whatever the motive for proposing free trade, its actual application would have just this restraining effect on workers and unions which some free traders would like to see. Some excellent examples of how this works in actual practice will be traced in the next chapter—for example, how the textile unions in New England were recently negotiating wage reductions at the same time other unions and workers throughout the United States were getting wage increases.

Those who would use free trade to combat organized labor seem to have forgotten or have never learned the lesson that the American mass market was built by broad income distribution through high wages to employees. The advantage of productivity increases can be distributed in many ways. The manager can take the increase in bigger profits; the selling price can be reduced to the consumer; or the increase can be passed on to the worker in the form of higher wages. In the United States, particularly during the past 30 years, productivity increases have largely been passed on to society in the form of higher wages to workers. Men like Henry Ford I, Herbert H. Dow, and others saw the advantages of creating a mass market by paying workers higher wages. This broadened market made feasible mass production which in turn created more jobs and a higher living standard for all.

In the face of the proven advantage of high and increasing wage rates, it is hard to understand the position taken by some union leaders on tariff reduction. Are union leaders who favor further reduction of United States tariffs which can lead to unemployment and lower wages in this country acting in the best interest of their members? Can it be that since immigration laws prevent cheap foreign labor from competing in the labor market and since this country has not been under pressure from imports made with low-cost foreign labor for about 20 years, that some labor representatives have forgotten what it is like to see factories slacken and finally close because of unfair foreign competition?

One additional word needs to be said about fair competition. We do not ordinarily speak of competition unless both participants follow the same rules. We do not match one man with a blackjack and brass knuckles against another with boxing gloves. It is just this sort of unnatural advantage which foreign producers have because of their low wage rates. The objective of an equalizing tariff is to put domestic producers on an equal footing so there will be fair competition, not an unequal contest in which the foreigner has an overwhelming advantage.

Many who are proposing freer trade seem to overlook the fact that since our wage rates and other labor factors are not set in a "free international market" the prices of the *products* of labor cannot be set by a "free international market." First of all, labor is not free to move. We and most other nations apply strict quotas on immigration. Our immigration quotas help maintain our high wages by limiting the supply of labor which can be attracted by our high wages. Moreover, in the United States we have a national minimum wage law and obligatory collective bargaining. Our "free market" on wages is well insulated from international competition. To be consistent, and in fact, to continue the effectiveness of these safeguards to high wages, it is also necessary to protect the selling price of the products made by this well-paid labor. This can best be done by equalizing foreign producers' labor costs by tariffs.

Wheat protection and pricing in this country are good illustrative examples of this equalizing. The United States market price of wheat is supported by government action. To maintain this price, we exclude foreign wheat with a restrictive quota almost equivalent to an embargo. Moreover, we extend export subsidies to dispose of our surpluses.

This is not offered as a defense of price supports, but rather to point out that in this case all agree that the wheat price cannot be maintained above world market prices if imports are freely admitted.

The same is true of wages. We cannot long maintain our wage rates above world wages if there are no tariffs or other restrictions on imports from low wage countries.

Returning now to the exodus of American business, let us see just how the stagnation of American industry and the exporting of American jobs would come about. At first one might suppose that the foreign products offered at a lower price will at once take over the market. It is generally not this simple and direct. The American producer fights back, he makes concessions to try to hold his market.

Through compensatory action, the American producer will hold most of his market in the short run. He does this, of course, by dropping his price to meet the foreign competition or by offering additional services which are equivalent to a price drop. There are a number of ways in which the reduction in income can be offset.

1. The firm would pay less income tax to the federal Government as its profits dwindle and finally disappear. The individual would, of course, be taxed additionally to make up the revenue requirements.

2. The firm would cut back on expenditures for research and on plant expansion.

3. Losses on one product may be sustained through higher prices on some other product.

4. Losses can be sustained for a time by consuming capital and merely meeting out-of-pocket costs. This simply means that only the most urgent repairs and maintenance are done, and no funds are put aside to replace the equipment when it wears out.

5. Lower selling prices may be offset by reduced costs. In the face of the loss of industry, pay rolls, state and local taxes may be reduced: and finally, labor may accept lower wages in preference to unemployment.

These compensatory actions are not considered by the "Trade, not Aid" idea based on the theory of free trade, which postulates, rather, a large number of small production units, some of which are marginal and just ready to be forced out of business. Moreover, it assumes perfect mobility of labor and other factors of production.

From these considerations we see that the results of the theory of free trade could be thwarted in the short run by the compensatory action of any major industry in this country. In the long run, the American producer himself will lose the race. Having cut back or eliminated research, he soon loses out technologically. For this reason and because he has little or no profits, he cannot modernize his plant, let alone expand it to make more jobs. So, in the end, his plant will be closed down and the jobs which it furnished will vanish.

Mr. BURKE [presiding]. Thank you, Congressman Dent.

Are there any questions?

Mr. BROYHILL. Mr. Chairman.

Mr. BURKE. Mr. Broyhill.

Mr. BROYHILL. John, I should like to commend you for an excellent presentation. You always do a splendid job whenever you take the floor. I stayed here purposely to hear your testimony instead of going to hear Dr. Henry Kissinger.

Mr. DENT. He is going to talk about trade. I am going up and catch him.

Mr. BROYHILL. What you said makes a lot of sense to me. What would be your answer to the contention that if we don't do something to liberalize our trade relations we could enter into a trade war of sorts, and many of our manufacturers who export commodities could be injured?

What is your answer to that? You seem to have a rather firm and strong position on limiting imports, but would there be any reciprocity that could be damaging to our economy by lessening our exports?

Mr. DENT. Since our exports are, in the main, foodstuffs and agricultural products, we assume that other nations buy them because they need them and they get them at good prices. The second largest major export in volume size, insofar as importance to us, are military requirements and we assume that other nations buy that because they need them. I haven't found them buying anything that they don't need execpt as a come-on to do something else. I find the threat of retaliation not holding up because when something injures their economy, they don't hesitate to slap the lid down. I think you chicken pluckers will remember the chicken deal. They just closed the door and we still don't sell chickens to the Common Market at anywhere near the right

price. They all have tariff walls by which they are protected in one fashion or another.

I told you we allow automobiles to come into this country at 3 percent tariff. The Japanese have an automatic 10 percent when you enter and by the time you get through the rigamarole, a $2,000 Pinto will cost you $5,000. Here we take a $2,000 Datsun and you can buy it for $1,600 if you know the dealer. There is no retaliation. If there was, wouldn't there have been a couple of bombs dropped, trade-wise, on Italy last week?

Mr. BURKE. Will you yield at that point? I want to correct you. The Pinto retails at $6,000 in Japan.

Mr. DENT. Well, I was giving them the benefit of the doubt. Last week, Italy, because of the injury to its electronics industry through Japanese imports slammed the door completely without any warning whtasoever against their agreements under GATT and against their Common Market agreements. They didn't care. I didn't see anybody retaliate. What is retaliation? You mean they won't buy our feed grains, they won't buy our foodstuffs, they won't buy our guns.

How much injury would that really do to us? Do you know if we kept our feed grains and fed our own cattle, we would only have about enough beef to feed the American people? So, I am not too much disturbed about retaliation.

You are a politician too. I bet you feel about that about the same as you do when you are concerned about a piece of legislation and some fellow or organization comes in or writes you a letter and says, "If you don't vote for this bill we will get you on election day."

It doesn't change your vote and I know it doesn't change mine.

Mr. BROYHILL. To the contrary.

Thank you very much, John.

Mr. BURKE. Mr. Vanik.

Mr. VANIK. Mr. Chairman.

I want to compliment the gentleman from Pennsylvania on his testimony. I am afraid that what may happen is that the issue of foreign taxation, foreign earned income and the multinational tax question may be dropped from this bill. How do you feel about that?

Mr. DENT. Well, I asked that I have the right to extend into my testimony certain matters dealing with that, and it is being typed in a manner that would fit into the testimony, and I will have it in. I treat the whole thing with about a seven-page discussion.

Mr. BURKE. You can't write a trade bill without dealing with that question in my judgment. Do you concur?

Mr. DENT. It is without a doubt one of the most misunderstood developments in the country today. The multinational and its place in export-import trade is a very serious matter.

Mr. BURKE. That is where all the incentives are.

Mr. DENT. Certainly. They don't participate, you know, in our cost for education or our cost for armaments. They don't participate in the cost of anything spent for the commonweal, the common good in the country.

Mr. BURKE. They are substantially subsidized for what the taxpayers have to spend for defense and they make very little contribution.

Mr. DENT. I will trace for you the basic treatment of the multinational and how it gets to where it is, and you will find that behind

it is the fluctuations and the displacement of international currencies here and there by their operations.

Mr. BURKE. Let me ask you another question. I agree with you that the prospects of negotiating out these nontariff barriers are not going to be very bright. I don't share the optimism of the President.

Mr. DENT. May I just at that point ask you to yield? It doesn't matter whether you do or not so long as we have to pay the cost on a product that is involved in payroll taxation, which is almost universally from one to three times as much as they pay in foreign countries for their whole wage bit. I don't care what barriers are put down. I don't care what you do or say. You can't lay down a product produced in this country even under the minimum wage bill.

Mr. VANIK. There is no question about the American market. It is the world's best market and I think that so many of our producers fail to realize that this is where the market is, and they have so much more to gain by thinking in terms of the American market and developing it and extending it, rather than extending their operations into foreign countries.

I am very concerned. I am very much concerned about the impact of foreign automobiles, when the average fellow finds out what the gasoline prices are and how little he gets per gallon with the conventional American automobiles. I am very much afraid that although there were a lot of representatives from the automobile unions who testified in support of this bill, that what may have been the very glorious sales year of 1973 may turn out to be a disaster in 1974. I am afraid that when the full impact of the higher prices of gasoline hits the marketplace that the people who work over in Lordstown will probably come to work in a Honda in order to be able to get there from their homes.

I feel that we have to be realistic about this whole business, and I am trying to urge the automobile industry to develop a very efficient economical car that is really competitive with the foreign product. I think the foreign product has shown us that you can develop a more gasoline-efficient automobile and our industrial leaders have failed to respond to it. I share your concern with what the total effect of this is.

How much penetration do you think we can afford? How much penetration do you think we can afford in the American market in an average commodity?

Mr. DENT. Of what?

Mr. VANIK. Anything. The Senate has worked this out on a farm bill and said that when it gets to milk they want the right to export us into hunger, and I am glad the President is finally waking up to that problem. On the farm bill they said that the proper level of penetration for dairy imports was 2 percent.

Mr. DENT. I don't say that there is a study available to this committee that we paid $10,000 for made out here at Georgetown. It is rather voluminous and probably some of your staff people could wind through it. We tried to summarize it so that it is easily understood. That study shows that when 3 percent of the American market in any product is reached by an import you have reached a place of no new growth in the industry. When you have reached 5 percent of the penetration, you start a retrogression in the production of that particular product. If you want to check it, here on the second page or

third page of my presentation we show you the levels of production 10 years ago and the levels of production today. It is just that simple.

Mr. VANIK. Does that study go across the board?

Mr. DENT. Across the board.

Mr. VANIK. It is at varying levels depending upon the item produced.

Mr. DENT. There are varying levels but 5 percent is what we get.

Mr. VANIK. It is an average.

Mr. DENT. Yes; there are some that you can take 11 and 12 and 14 percent and some you can't take any.

Mr. VANIK. The automobile penetration is now 15.7 and I think it is going to be 22 percent by the end of the year. If they don't change their ways in Detroit, we will be probably up to 40 percent penetration by the end of the year.

Mr. DENT. The increase in April was contained here. I had it in one of my presentations. I probably left it on the desk upstairs but there is an increase in April that shows the increased share of the market by the Japanese Toyota and Datsun and new Honda has gone up 20 percent.

Mr. VANIK. Let me ask you one more question.

Mr. DENT. I don't want to hold up the committee, as you well know.

Mr. VANIK. Are you a cosponsor of the Burke-Hartke bill?

Mr. DENT. Am I?

Mr. VANIK. Yes.

Mr. DENT. I have sponsored or cosponsored every bill that came down the line that I thought might crack the wall of the free-tradism. I am glad to have sponsored the Burke-Hartke bill, but he knows and I know that there has to be a graduation.

Mr. BURKE. Congressman Dent is my leader.

Mr. VANIK. Thank you very much.

Mr. DENT. Thank you, Mr. Vanik.

Mr. BURKE. Mr. Carey.

Mr. CAREY. Having these distinguished witnesses before the committee is almost like going to school in operation Head Start because the dangers of unregulated trade were certainly first indicated to the Congress very early in my career here by the distinguished gentleman from Pennsylvania, and as the gentleman from Florida indicates in his statement, he has had confidence in the ability of American industry to compete anywhere under fair standards of competition since way back in 1938.

Mr. Pepper, you have examined——

Mr. BURKE. Mr. Pepper has not testified as yet.

Mr. CAREY. I just want to bring this in, and maybe Mr. Dent could look into it as well, since they are both here together.

I am interested in the early analysis of both Mr. Dent and Mr. Pepper of the real benefit or loss, in other words, the gain or loss to us of the Soviet arrangement.

I have to call it an arrangement, because I don't know whether it is a barter, or a credit deal, or a long-term banking deal, or a product-for-product offset.

I just don't know what to call it.

I am wondering if you have looked at it from the standpoint of whether it is good, bad, or indifferent, for America in terms of what

we are going to get out of it economically and politically. Have you looked at it, and what is your opinion?

Mr. DENT. Yes, very thoroughly. What we are doing is trying to get volume dollars no matter what we have to give to it, in order to change our trade balance.

It is just like a fellow who sells shoe strings three for a dime and pays 4 cents apiece for them, but if he sells enough, he has volume.

We sold wheat at even below what we gave to other nations of the world to move it. But we can't move it now. It is impossible to get it in the time schedule. It will not be paid for because, very bluntly, if you read in the record, Kosygin told the 100-man team that went over there to try to start negotiations that they would no pay in cash to any hard-currency country. What they would do is barter.

The Occidental deal of $8 to $10 billion is strictly a barter, and they got rid of some of their lease-lend money through the wheat deal.

You can't uncover what it really is.

I don't care how much staff you have, you can't uncover the real depths of that deal. We know they got the wheat. We got the credit, and they got the wheat.

Mr. CAREY. That is what has me confused. It is almost a hand-in-glove deal. We can't find out what the end result will be for America.

Yet, our Government put its blessing on what is a private deal between Occidental and El Paso and the Russian governmental technologists.

So we have private enterprise doing business with another government.

No one seems to be able to inform me as to what the net result is going to be. The theory is that if we build a 2,000-mile pipeline into a field, we get some gas. We are going to supply the technology, and hope we will get gas at some time in the unpredictable future.

Mr. DENT. You are very right. Incidentally, you can add to that the $800 million, the $10 billion they are talking about, the $4,200 million that we are putting in, a big truck plant and computer plant in Russia by private enterprise. No money will come to this country, but it will go to the balance of trade this year.

You can count on $14 or $15 billion of future shipments, if there are any shipments involved, in Russian deals alone and if we can hurry up and get China into the bank, that is unlimited.

Even just the repairs on the Great Wall will keep us busy for a number of years.

Mr. CAREY. I hope we are not so hard-put for jobs to go over to repair the Great Wall. That is really going backward in time.

I am sure you have examined the impact of our agricultural trade which is booming, zooming and booming into higher figures all the time to our customer nations on the one hand and our dropoff of exports of manufactured goods in the other hand.

Do you feel that the trading negotiations should be kind of split off into categories so that we work the best possible deal we can get for agriculture where we have a lead on the rest of the world in technology and production and separately negotiate on the matter where we want to bring down barriers that are offsetting our ability to compete on industrial goods?

Mr. DENT. We are the only nation that I know of, and I think I have studied as many of them as most of the members, that treats trade as a basket deal.

Mr. CAREY. That is what I am worried about.

Mr. DENT. Agriculture is something that the world has traded in from the beginning of time. Manufactured products are a different type of an article. They are strictly a commercial product, never in any instances being the necessity that food is.

As far as our food exports over the years, basically the exports of foodstuffs have made our farm economy a very bad, unstable economy in this country.

Mr. CAREY. Will you agree that if we passed no trade bill at all and took no action, there will continue to be a huge worldwide demand for every additional gram or pound or ton of food that we can produce in this country, feed stocks, grain, or what-have-you?

Mr. DENT. And it ought to be a commercial venture only in the sense that we sell or give the excess wheat and surplus that we have, if we have such, to the nations that need it mostly for food.

Mr. CAREY. That will happen with or without a trade bill, won't it?

Mr. DENT. And there should not be any such thing as guideline trade like this anyway. No other nation has it.

This is not a bill to protect American industry. This is to measure out to each one a guarantee that, yes, you are going to have an open road to our markets. That is all it has ever been.

The Reciprocal Trade Agreement was like the unholy alliance. It wasn't an agreement, nor is it reciprocal.

Mr. CAREY. The gentleman has great knowledge in this area. I represent a port area which lives on both imports and exports and have to look at both sides of that coin. But I want to tell you that every time you make a speech it makes me feel like I am wearing a hair shirt if I ever even think about fair trade. I will be listening, believe me.

Mr. DENT. The figures will show that the distribution of products follows not where the product was made, as I said.

Mr. CAREY. Thank you, Mr. Chairman.

Mr. BURKE. Do you wish to inquire, Mr. Clancy?

Mr. CLANCY. I have no questions, Mr. Chairman.

I just appreciate Mr. Dent's appearing. It is always enjoyable to hear him.

Mr. DENT. Thank you, Mr. Clancy.

Mr. BURKE. Isn't it true that the only chip we have right now is the American selling price on chemicals and in the provisions of the administration's bill——

Mr. DENT. Don't get too excited about that. That has been pretty well withered away, that ASP. You look at the manner in which the multinationals operate, and that isn't the same as it was.

We fight for it because it is a token of some pride to us that we do have some bit of protectionism in our country, but it doesn't mean anything moneywise.

Mr. BURKE. But we gave away everything in the GATT agreements and there isn't much more to give away.

Mr. DENT. That is right.

Mr. BURKE. What do you think of the system whereby in a country like Argentina we ship leather goods down there and they charge us 100 percent tariff? They ship leather goods up to the United States, and we charge them about 5 percent?

Does that look like our negotiators have done a good job?

Mr. DENT. It is no different. That is why the trade agreements bill that you are acting on is so much paperwork, because you are doing what you say in your bill without any legislation.

We are not following any rules. Every country in the world has that ratio, not as great in some instances.

We have a universal trade barrier which is called a tariff. All the others have makeshifts, and all in one manner or other bring it up to where it protects their markets.

Mr. BURKE. Under the provisions of the administration bill it gives the negotiators the right to eliminate the American selling price and reduce all tariffs to zero.

There is nothing in the bill that would require them to get back anything in a reciprocal way. Do you think where there is a penetration of the market, say like the automobile industry that is up around 19 percent, and where the shoe industry is up around 40 percent, and pottery and different items that come in here, where it looks like they are going to have a complete takeover of the industry, that we should at least set up guidelines in the trade legislation whereby tariffs cannot be reduced and in fact should be adjusted properly to bring them within, say, 20 percent of what the tariff is on our trading partner?

Mr. DENT. That, of course, is the guts of the legislation that I proposed on numerous occasions, and it is somewhere along the lines that you are proposing in the Burke-Hartke bill.

But one thing that is wrong in this whole thing is that they tried to take a base year or period and run it across the board. Please don't do that.

You just can't do that and be evenhanded in trying to help those who need it in different types of industries and production facilities. You must take the base year or base period of years wherein the production in the United States was closest to being what we needed in the United States in production and use, and then take the difference between that and the amount that is coming into the country by imports that has reduced that productivity. If it took 10 years for the imports to get us into that position, then we give them 10 years to get us out of that position.

I don't believe in a fell swoop like Italy. I think if you have a 97-percent production loss in the United States and you need 97 or 90 percent to keep an economy that meets our needs, then you take the difference between the 10 or 5 percent that you can sustain, and divide the rest up into the number of years that it took to build that big import into the United States. No nation can complain about being hurt because, if they will raise their wages just about 5 or 10 percent periodically like we do with the so-called cost of living index, they will be able to consume that much more because they have built buyers.

This is the sickness of the trade that we are trying to follow.

We are the ones that build buyers. We are the ones that build consumers. All they do is build production. We are losing producers and

feeding them consumers. You have to do this on a 5- or 10- or even 20-year basis. Those nations will increase their productivity by more than the percentage that they are sending to the United States and not increase their consumption, so that they have to find a market.

That is where your shoe imports came in. We sold our hides as high as $27 a hide. We lost our tanneries in this Nation. At one time my State had 1,400-and-some tanneries, and now we have 2. We can't work that way. We sell them hides and bring back shoes and leather goods.

Mr. BURKE. Mr. Vanik mentioned the possibility that the tax provisions would be left out of this trade bill.

Isn't it true that the thing that excites those people who are so-called free traders more than anything else is not the quotas, but the fact that we might close that big fat tax loophole where they pick up about $4 billion a year at the expense of every working man and woman in America, who have to subsidize that to make up for that $4 billion tax loophole, and that is what they are more concerned about in trade legislation than they are about anything else that is in the bill?

Mr. DENT. I think that it is a very important factor in their thinking, and I am sure it probably helps.

Mr. BURKE. When we stop to realize that there have been two devaluations, two official devaluations, within 15 months, and the unofficial devaluation where the European countries raised their currencies, how can we in the Congress in good conscience leave tax provisions out of this bill and protect and stabilize the dollar around the world?

Mr. DENT. I just don't believe you will do it. I think you will keep it in. I don't think this committee is completely devoid of commonsense.

Mr. BURKE. It would be one of the most outrageous things ever done.

If they put through the bill that I think they are going to put through, and they have the votes to do it—I know it—they have the muscle—they have got everything to put the bill through, God help us when it does go through, because in 5 years the average housewife will be going down to the grocery store with a big wheelbarrow, if we can get some American-made wheelbarrows, to buy a loaf of bread because to buy a loaf of bread she will need a wheelbarrow full of dollar bills because this country is going through one of its worst crises right now.

As I said before, they are like the Irishman who visited the strange city and didn't know where to go and saw a good Irish name in the paper in the death notices and said, "I think I will go to a wake." He went to the wake and expressed his sympathy, and the widow said, "Why don't you go out in the kitchen and have a few libations," and he did, and stayed late that night. The next day he had no place to go and went back to the wake and stayed late that night, and the third day the same procedure.

The third day the widow said to him, "The family is in a little bit of a quandary. We don't know what to do with Pat. We don't know whether to bury him or cremate him." And the Irishman said, "If I had my way, I wouldn't do either one of them. I would stuff him and keep this party going."

That is what these multinational corporations want to do.

We have a corpse on our hands, and they want to stuff him and keep the party going.

I want to commend you, Congressman Dent, because you have been in the vanguard fighting down through the years. I have been fighting alongside of you, but I recognize and realize the powerful group we are fighting.

I hope someday that they will start looking into some of the problems.

The committee in the Senate is getting all the publicity, and someday the history of campaigns will be written truly, and when it is written, they will find out why the industrial complex of America is being changed and why American workers are losing their jobs.

I want to thank you for your appearance.

Mr. DENT. Thank you very kindly, Mr. Burke, and members of the committee.

Mr. BURKE. Our next witness is the Honorable Claude Pepper, of Florida.

We welcome you to the committee, Congressman Pepper, and you may proceed with your testimony.

STATEMENT OF HON. CLAUDE PEPPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. PEPPER. Thank you very much, Mr. Chairman, and members of the committee.

I have a prepared statement which I will thank you to have incorporated into the record, and I will try to speak briefly.

Mr. BURKE. Your statement will appear in the record.

Mr. PEPPER. Thank you.

Mr. Chairman, I am grateful for the privilege of appearing before this distinguished and hardworking committee. I commend you upon your diligence, and I sympathize with you upon the awesome responsibilities that you have to discharge in trying to write legislation that will deal with the problem presented by the desire of the American people to buy goods which they desire to purchase as cheaply as they can get them.

That means goods purchased in a competitive market, production being abroad as well as at home, and on the other side the interests of the American people in having jobs which can come only from production in the United States which is successful production and which employs at decent wages a large number of American people.

We have also the competition between the desire of industries in the United States to sell goods abroad which is essential to the employment of many Americans, and on the other hand the injury which is sustained by Americans from goods that come from abroad which, in turn, provide a market for the production in industry or agriculture or services which emanate from this country.

That produces a very difficult problem for public authority to determine.

I discovered soon after I was elected to the Senate an example of that very problem.

In Florida we were engaged primarily in the production of fruits and vegetables for export from our State. At that time we had not developed very much industry. We sold our fruits and vegetables into the great industrial centers of this country because there was generally

good purchasing power from Americans employed in industry at decent wages.

On the other hand, our profitable production of fruits and vegetables in Florida was very much impaired by the competition that we sustained from Cuba and Mexico.

So here we were. We needed the northern market where industry primarily was located to sell our fruits and vegetables in America. They, in turn, needed the markets of Cuba and Mexico to which to sell their manufactured goods, but if we gave them the purchasing power to buy a lot of those manufactured products from the northern industry, it would hurt us in the production of fruits and vegetables in Florida.

There we were, as it were, caught in that very difficult situation.

In respect to that, I believe, as Mr. Fascell says, about the only solution I have been able to see in the number of years that I have been concerned with the problems is to impose some kind of quota system upon Cuba if it ever again sells its fruits and vegetables into the United States or upon Mexico or whoever else exports fruits and vegetables into the United States.

If you use the method that has been tried in the past of giving one of them a certain part of the year by calendar and another a part of the calendar year, it is not satisfactory because they overlap.

Now, Mr. Chairman and members of the committee, as an illustration of the American people liking to buy goods in the American market at the cheapest possible price, I quote from Mr. Dent's statement on page 6. He says:

> Imported products sold in the United States now account for 37 percent of all TV sets; 63 percent of all phonographs; 92 percent of radios; 96 percent of tape-recorders; 15 percent of steel products; 20 percent of textiles; 53 percent of shoes.

All of these are produced in America, and our people could have bought them from American production on the farm or in the factory, but they chose to buy these products at a cheaper price, evidently, that were produced abroad, letting the American working man employed in industries competitive with the producers of those products, I suppose, sort of shift for himself; and Mr. Dent also points out, on page 7 of his statement, that automobile imports amounted to 21,000 in 1950; 444,000 in 1960; and 2,600,000 in 1971.

I am sure that the automobile producers of this country have had a good market, but certainly a large number of these people who bought those 2,600,000 automobiles manufactured abroad in 1971, if they had not been able to buy those cars, would have bought more American cars, and American industry and American labor would have profited by that.

How do you reconcile a problem like that?

By the way, in another part of his statement, Mr. Dent also points out a report, which I assume he gives credence to, that 900,000 Americans have lost jobs because of the imports that have come in from abroad. What do we do in a situation like that?

A long time ago the Democratic Party, as we will recall, had a steadfast doctrine in its platform, free trade. We were primarily trying to protect the consumer. Eventually in the days when the Republi-

cans were in power for a good long time in the early thirties they swung to the other extreme and said in substance:

We are going to build a tariff wall primarily around America. We are going to protect the American working man and our people can buy enough goods from our own production to satisfy their needs.

And, apparently, I think the general consensus is that the Smoot-Hawley tariff bill which attempted substantially to do that was a tragedy for the country.

Then along came another Democratic administration following that period, and a great American, a great Secretary of State, Cordell Hull, conceived the idea of reciprocal trade agreements where we negotiate, this country and another nation, reciprocally nation by nation and try to work it out that way.

Apparently that didn't solve the problem, although I think good results were derived from that program.

Then we had the Kennedy round of international agreements, and Dr. Dent points out in his statement the estimates that were given by various authorities that were supposed to be responsible, knowing, knowledgeable, that that would lead to a vast number of new jobs in America. Apparently it didn't do so.

Now our present President has come along with a proposal that he be given apparently very broad authority to work out evidently some sort of an international trade program.

I assume, based upon more or less negotiations with various nations, attempting to get the trading nations of the world to agree to certain general international programs and policies and in order to assure the American working man that under this program he in large numbers would not lose his job, he proposes sort of an adjustment assistance program apparently to compensate these workers who lose their jobs.

I am told by those who have studied the subject that they think it is a very complicated procedure and that it doesn't offer very substantial hope to the American working man who loses his job to the products from foreign competition that come into the United States market.

What do you gentlemen do, the members of this committee? You have the very difficult problem of deciding. I would say first, Mr. Chairman and members of the committee, that I think you should approach this matter from a comprehensive point of view.

I do think that your dealing with the multinational corporations is very relevant to the solution of this problem because, if an American factory that doesn't want to pay a minimum wage and minimum American taxes and the like, and observe other American requirements and standards, it can go over the line of another country and produce those products and send them into this country even though it gives a cheaper price maybe to our consumer, but taking jobs away from the American workingman who, after all, is the criterion of American prosperity.

If we don't have purchasing power in America, we cannot have a prosperous country so our own people have got to be almost totally gainfully and profitably employed if we are to have any hope of a prosperous America for the purchase and consumption of the products of farm and factory and the service-producing institutions of this country.

So I think you must deal with the multinational corporations. You must deal with every other aspect of this matter, including the tax aspects that affect the problem because it is an intricately balanced problem. It is like the mechanism of a clock. It all sticks together, each delicate part in its own place and each delicate part needing to function if the instrument is to function at all as a whole.

So that I hope that this able and distinguished committee will not hesitate and, if you need to legislate in areas beyond your jurisdiction, I hope you will ask the chairman of the committee that needs to legislate a program in harmony with yours and ask the leadership on both sides of the aisle to cooperate and see if we can't present a pattern of legislation that will be comprehensive in form, effective in its functioning, and will achieve the results in this difficult situation that the American people are entitled to have.

Now, it seems to me that there must be efforts on the part of our Government toward working out an international wage policy.

We cannot hope to maintain the position of the American workingman receiving decent wages—and why can you sell Cadillacs and Continentals in America when you can't sell them in some of the remote places in the world? Because there are not people there able to buy them in sufficient numbers because the American workingman, protected as he has been in the past, can make a decent salary and people above him in the economic scale deriving the benefits from what he contributes are able to buy these products.

On the other hand, we must encourage, if not make a condition of our buying their goods, let them come into this country, that they have a decent wage policy.

I mentioned briefly on the floor the other day that we had that problem in the South, and my distinguished friend here from the South, from the great State of Virginia, will remember that we had that problem when the minimum wage bill came up.

A great many of the leading people in industry and finance in the South believed that it would be ruinous for the Nation to adopt a minimum wage bill that would apply to the South. They thought we had to have low wages in the South.

There were some of who thought, on the contrary, that we had to raise wages in the South so that we would have more purchasing power and then we could have some industry of our own and wouldn't have to live entirely off of the products produced in another part of the country.

There was a very conscientious disagreement over that and very difficult and bitter political trouble between the proponents and opponents of that policy.

Those of us who were the proponents took a position in line with the national point of view, and the South has prospered.

There may have been a few people who got hurt, but in large measure the South has immeasurably prospered, and I will mention only one little illustration.

A man who was an inspector for the Wage and Hour Administration told me about traveling through Georgia before the minimum wage law went into effect and after it had been in effect 2 or 3 years.

He said, "When I first went through Georgia and Alabama and

northern Florida in the lumber areas where they had commissaries for their workers, there wasn't a refrigerated place where there was decent meat." He said, "After the bill had been in effect 2 or 3 years, I went into those same commissaries and in the back there were refrigerated meat sections with steak, and pork, and different kinds of meat that you would ordinarily expect to find in the ordinary place of business."

Something had changed.

The only thing that changed was those workers were getting a better wage and were able to buy those meats.

We are not going to hurt these foreign countries if we press them to raise their wages. They can't do it overnight. We ought to make it a condition that they adopt trade wage policies that are decent for their own people and will be fairer in the competition that they extend to industry and producers in this country.

That is the first thing.

The other thing is, of course, to try to bring into effect a harmony of policy among the trading nations of the world so that they will try to compensate for the differences in the wage level and try to all fit into the same pattern.

Now, Mr. Chairman, I am sorry to take so much time. I will say just briefly one other thing. I feel very strongly that we ought not to extend the most-favored-nation treatment to Russia until it has unequivocally adopted a policy that will permit any minority race or religion or national group to emigrate as the Jews are trying to do from Russia to a country like Israel which is their ancient homeland.

We ought to insist that we are going to do business with people who act decently in the world and, as Thomas Jefferson wrote into the Declaration of Independence, have a decent respect for the opinions of mankind.

We talked a little bit ago, a group of us, to a Jew who had bought his way out of Russia, and he told us that, while the Russians are beginning to relax to the extent of 2,000 or 3,000 a month, their restriction to allow Jews to emigrate without paying excessive, barbaric educational fees, that they have been requiring, they are adopting other means of harassing them and prosecuting and persecuting them on one excuse or another as a way of discouraging their making application to emigrate.

The Russians want to trade with this country. They need our trade worse than we need theirs. We have gotten along pretty well for a good while without having much of that.

If they want to trade with us, let them exhibit a decent respect for the opinions of mankind by letting these people whom they have persecuted, and harassed, and treated barbarically in so many instances in the past, leave if they want to.

There are not but about 2 or 3 million altogether. Russia is a country of 40 or 50 million people. Let us tell them:

If you want to enjoy money from the U.S. taxpayer or the Government of the United States, if you want to get into the American market, you give decent respect to the opinions of the American people who live in freedom and think you should extend it to your own people.

Thank you very much, Mr. Chairman, for your kind indulgence.

[Mr. Pepper's prepared statement follows:]

STATEMENT OF HON. CLAUDE PEPPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

I am grateful, Mr. Chairman, for the opportunity to appear today before this distinguished and exceedingly hardworking Committee on Ways and Means. You have before you far-reaching imports and investment, and the President said last night that he is sending you additional trade legislation which would extend controls over the export of feed grains and other products in short supply in this country.

Since you have been hearing witnesses on new trade legislation for many weeks, it would be presumptious of me to attempt to advise you in detail on the provisions of the various bills before you. I do wish, however, to touch a few of the high points and indicate to you my strong feelings on several of them.

One basic consideration in new trade legisaltion, I feel, must be the preservation of the minimum wage standards we have developed for American working men and women over the last third of a century. We established those standards in the same period in the 1930s when we were developing freer trade policies and practices in the world. I believe we can continue to improve the wage standards of American labor while promoting mutually beneficial trade among the nations of the world.

As many of you know, I was associated in the late 1930s, in the Other Body, in the development of the Federal Fair Labor Standards Act. I was a member of the Senate Labor Committee which developed the legislation and I was the only Senator from the South to vote for such legislation.

I was attacked bitterly in my reelection campaign in 1938 for having—it was charged—failed to understand the nature of the Southern economy, which it was said could only be that of furnishing raw materials, the hewers of wood and drawers of water for the industrial economy of the North. Yet I believed the economy of the South would grow rather than collapse if we raised wages—from in many cases as low as 9 cents an hour—to a minimum of 25 cents an hour and gradually to 40 cents an hour. I believed it was possible to have high wages and still develop Southern industry which could compete with established industry in other parts of the country.

I believe today that we should develop international fair labor standards which would enable developing countries to develop their own industry on the basis of rapidly expanding domestic markets. This would relieve the pressures to tap the huge U.S. market based on the high earnings of American workers. It would help to restrain the flood of foreign imports that is threatening to destroy part of our great American market by destroying the jobs of millions of American wage-earners.

Unfortunately, the Administration's trade legislation does not address itself to the question of international fair labor standards. It fails in this regard, as it does in providing any other meaningful kind of protection for the existing standards of living of the American working man or woman. It relies, instead, on the discredited "adjustment assistance" concept for workers whose jobs are destroyed by foreign imports.

The section of the bill which is supposed to provide adjustment assistance for workers who lost their jobs because of imports is a cobweb of legal technicalities, with its petitioning procedures, group eligibility requirements, and determinations by the Secretary of Labor. And for workers who manage to get through this web, there is little guarantee that the assistance provided them will be worth their efforts, while they will lose the benefits built-up through many years of labor in their former jobs.

The challenge for this committee is to find effective ways of protecting American jobs and wage standards while permitting the development of an effective international economy based upon mutually beneficial trade. The multinational corporation has a role to play in the development of this interantional economy. But we must face realistically the fact that there cannot be a truly international economy—with free movement of goods and capital—until there are international fair labor standards. We cannot ask American workers to accept without complaint the destruction of their jobs through the exportation of the technology developed by their sweat and brains. Nor can we expect them to tolerate tax advantages for operations which destroy their livelihoods and burden them with additional taxes that others escape through their operations overseas.

I believe this distinguished committee is equal to the challenge of developing a new trade policy for the United States and I commend you for the conscientious attention and long hours you have been devoting to this matter.

There is but one other matter that I wish to comment upon. That is the question of exending "most-favored-nation" status to the Soviet Union and of guaranteeing credits to the Soviet Union as part of an expanding trade between the Soviets and the United States.

I feel very strongly that we must not accede to the President's recommendation of this change in the Soviet Union's trade status as long as the Soviet regime continue to deny the free right of emigration to its citizens and particularly to Soviet Jews who wish to immigrate to Israeal. I am pleased to be a sponsor with the distinguished chairman of this committee and other of your distinguished members of the Mills-Vanik legislation to deny more favorable trade relations with the Soviet Union while the right of emigration is denied. I believe the introduction of this legislation has had a powerful influence on Soviet policy in this regard and I believe we must keep up the pressure until freedom of emigration is achieved.

I am not at all persuaded that a mere suspension of the notorious exit fees enacted by the Supreme Soviet constitutes sufficient action by the Soviet regime on the emigration issue.

It was my privilege to meet recently with a former Soviet Jew, Mr. Mikael Shepshelovich, who was able to buy his way out of the Soviet Union a year ago, after spending two years in a prison camp for distributing literature objecting to the Soviet ban on emigration to Israel. He told me that the Soviet regime has now adopted other methods of harassment of Soviet Jews who are seeking to emigrate. They have resorted to well-publicized trials of Jews on various charges as a means of intimidating other Soviet Jews who might apply for exit visas. He believes these and other methods will be used to deter emigration, even if the exit fees are repealed. if we grant the Soviet regime the trade privileges it is seeking in this legislation.

I strongly urge this committee to make freedom of emigration itself, rather than any particular action such as repeal of the exit fees, the test for granting and continuing most-favored-nation status and credit guarantees for the Soviet Union. Freedom of emigration is the substance of the thing, and we should not be satisfied with anything less than this fundamental human right for those who wish to flee the generations of discrimination that Jews have had to suffer in both Czarist Russia and the Soviet Union.

We must, I think, uphold the principles of a free nation, even as we seek to expand peaceful trade with all nations of the world. I believe the Soviet Union is sufficiently interested in trade that it will recognize the right of emigration for Soviet Jews. We should not fail to seize this opportunity to strike this historic blow for human freedom.

Mr. VANIK [presiding]. Thank you, Senator. It was a very fine statement.

Mr. Carey.

Mr. CAREY. Thank you, Mr. Chairman.

The sincerity and content of the gentleman's statement is on a par with the coruscating brilliance of his oratory. It is always an enriching experience to listen to Mr. Pepper.

Mr. PEPPER. Thank you.

Mr. CAREY. And your very pertinent observations on the impact of minimum wage in one part of our country as it began to industrialize is, I think, exceedingly apt when we talk about trying to have some influence on our trading partners.

Practically and logically, though, in trade negotiation, precisely what can we do to try to insist that those who wish access to American markets adopt some sort of fair and reasonable wage standard? What can we do?

Mr. PEPPER. I certainly think they should be required to do it. I saw the South rob, in a way, many good northern communities of their industries because we would offer them cheap labor. In the long run

it wasn't to our advantage to do that. I don't think it is a fair competitive practice. So we must not give them that same prerogative.

Mr. CAREY. Certainly with regard to the Japanese, they have a very special wage-hour pattern, don't they? They have almost a controlled labor force that has built into it a productivity index they have to match, and it is all based on some national goal of increased production, increased export, increased wealth spread generally around.

I don't know whether it was conceived by General MacArthur or not, but whatever it is, it is a tough competitive factor for us to face in the world.

Certainly Japan, flush with American dollars building tremendously in every facet, would be one part of the world that could begin to look more candidly at its method of employment. It has no overtime. It has no social security pattern, so to speak.

You imply participate only if and when Japanese industry finds new markets abroad because the goods are well produced, cheaply produced, and cleverly exported.

Certainly the Japanese, I think, should begin to look more toward social welfare benefit legislation of some kind that would allow us to catch up a little bit with their expertise today as a trading nation. Maybe in that part of the world we could have some beneficial influence as well as Taiwan and Korea perhaps.

While we still have some influence perhaps we could encourage the social conscience of those countries. I think one way to do it would be to send the gentleman from Florida on the Rules Committee abroad and make the speech in Taiwan and Tokyo. If they listen, they would get the message very clearly.

Thank you, Mr. Chairman.

Mr. PEPPER. Mr. Chairman, I can only say we all want to engage in world trade, but we must remember that these people in the United States are our people, that we must never give them away in whatever we agree to.

Mr. VANIK. Mr. Broyhill.

Mr. BROYHILL. Thank you, Mr. Chairman.

I should like to join with my colleague from New York, Mr. Carey, in commending our colleague, Mr. Pepper, on his great oratorical ability, and it is certainly very helpful to hear him comment on this bill and learn something about how he feels on the subject.

You expressed great concern about multinational corporations and their shipping of manufactured products back to this country, and we can deal with that matter in this bill. It is proposed that we do so, particularly through tax changes.

Are you suggesting any other approach on the part of the committee in dealing with multinationals?

Mr. PEPPER. Mr. Chairman, I think this committee should have authority in dealing with this subject to put into whatever program you determine all of the necessary ingredients. This has to do with the amount of tax imposed. It has to do with prohibitions against American citizens doing business abroad under certain conditions.

In other words, I think you cannot do a job that is effective for the American people unless you make a comprehensive approach and you put all of the parts into harmony and symmetry in their operation.

That is the reason I said if you think that this is one loophole we

can't close and there is some other committee that has jurisdiction to do that, this distinguished committee should call upon that committee to legislate simultaneously with you in respect to that subject so that, when you present this to the House, you and whatever other committee should participate, will present a complete package that will deal effectively with the numerous aspects of this very difficult problem.

Mr. BROYHILL. I recall that you talked about wages that foreign workers receive, and said you feel they should be brought up to our level. How could we do that?

Mr. PEPPER. Well, it might not be possible in one fell swoop probably to bridge the long distance there is between their present wage scale and our minimum wage scale in this country, but I don't see anything improper with either allowing the President or a commission or some authority in, say, negotiating with Japan to lay down the conditions upon which we will permit Japanese exports into this country which compete with ours. After all, this is our country, and these are our borders. We can do what we will in respect to permitting goods to come over those borders. It is difficult, and you know we are reluctant in a way to entrust this to any administration because there is always a possibility that it might side with one segment of our economy against the other, but some authority will have to have the flexibility and the authority to deal with the numerous aspects of this problem.

We can very well say to Japan, "Either we will give you a quota or you must meet certain requirements before you can enter the American market above a certain quota."

These are some of the requirements. "You have to do this and that and the other," depending on what is reasonable and fair and will legitimately protect the interests of this country.

Mr. VANIK. Senator, I want to express to you my appreciation for your statement on the amendment that is sponsored by the chairman, Mr. Mills, and by myself on the emigration tax question. Do you agree with us in our thinking on this point that we are thinking of something broader than the education tax and are thinking about the cruel, harsh treatment of prospective emigrants from the Soviet Union when they sometimes lose their jobs, they lost their homes, they lose their status in the community?

I feel that there is no other way to approach this problem except through the language that we have developed in our amendment. You concur in that, do you not?

Mr. PEPPER. Yes, indeed.

We all want to commend in the highest way the distinguished gentleman from Ohio who is acting as chairman, Mr. Vanik, and the distinguished chairman of this committee, Mr. Mills, for taking the lead that so many of us have followed in demanding that we make a condition of our granting most-favored-nation privileges to Russia that she comply with decent standards in permitting these people to emigrate, the Jews particularly, to emigrate to Israel, when they want to do it, without imposing a barbaric tax, and without persecuting them, and prosecuting them, and harassing them in any way.

Mr. VANIK. If we can develop a better morality about this business of trade, this is one of the ways to start.

Mr. PEPPER. You know, when they want something from us, it is time for us to get a definite, not a conditional, commitment dealing with this subject.

Mr. VANIK. When you talk about a comprehensive trade bill, I take it that you include the need for providing multinational taxation or foreign source income in this legislation rather than in a separate bill?

Mr. PEPPER. I would like to see this or other legislation contemporaneously presented to the Congress deal with every essential aspect of this problem.

Mr. VANIK. There are two other things that are sort of left out. Agricultural trade seems to be handled primarily by the Department of Agriculture rather than within the framework of this bill.

Don't you agree that agriculture and agricultural trade should generally be coming under the same umbrella, so that we work out a balanced program of trade which will include all aspects of trade?

Mr. PEPPER. There must be some way, Mr. Chairman, to correlate the two, or we cannot do an effective job. We can't let one segment of our economy go over in one direction may be in a manner that is the antithesis of the best interests of another section. We are the Congress. We represent all the people on all subjects.

Mr. VANIK. But do I read you correctly when I get from your use of the word "comprehensive" trade, that you would think that agricultural trade should be included within the trade legislation that we are now writing in this committee?

Mr. PEPPER. Well, there should be policies, Mr. Chairman, dealing with agricultural trade which are at least consistent with other trade policies of the country. That is what I am talking about.

Mr. VANIK. Then we have the problem of the credits. Today we are bargaining in the world not for commodities or prices but credits are a tremendous factor. One of the things that concerns me is the way the Export-Import Bank seems to operate entirely by itself out there without relating itself to a comprehensive trade policy.

I was shocked for example when they gave the Japanese airlines a 6-percent publicly subsidized loan to buy aircraft from one of our American companies while our own carriers have to pay 10 percent traveling the same routes competitively.

Mr. PEPPER. That is a good example of unfair competition.

Mr. VANIK. Don't you agree that the use of Export-Import Bank credits should receive some sort of direction from the comprehensive trade policy?

Mr. PEPPER. It should be a part of a harmonious whole dealing with this subject and should stay within the general framework of our program.

Mr. VANIK. I want to thank you, Senator, because your wealth of experience and your great knowledge, I think, is one of the great sources of information and guidance in the Congress, and I appreciate it.

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

Mr. VANIK. Our next witness is Mr. Alphonzo Bell, of California.

Mr. Bell, we will be very happy to hear you now.

STATEMENT OF HON. ALPHONZO BELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BELL. Thank you.

Mr. Chairman and members of the committee, I am very pleased to be here this morning.

Mr. VANIK. I might say, Mr. Bell, that if you like, your entire statement will be incorporated in the record. You may read it or extract from it in any way.

Mr. BELL. If it is all right with the committee, I would just as soon read it and put it in that way.

You are engaged in work which is absolutely vital to our Nation's future welfare, and I appreciate having the opportunity to present my testimony to you.

My remarks this morning concern the most-favored-nation provisions of H.R. 6767. I firmly support the Mills-Vanik freedom-of-emigration alternative to the language requested by the administration.

The President has said that, "I do not believe that a policy of denying most-favored-nation treatment to Soviet exports is a proper or even an effective way of dealing with" the problem of Soviet Jewry. Mr. Chairman, I submit that it is entirely proper, extremely effective, and absolutely necessary.

I should like to emphasize three points which buttress this view: First, the plight of Soviet Jews continues unabated today; second, there is vast historical precedent for the use of foreign economic policy to attain political ends; and last, the problem of Soviet Jewry is truly an international and not an internal problem confined to the Soviet Union.

THE PLIGHT OF SOVIET JEWRY TODAY

It is crucial that this committee recognizes that the prohibitively steep "education tax" which the U.S.S.R. apparently suspended in March of this year was only one factor among the obstacles facing Soviet Jews who seek to emigrate. An equally severe obstacle, and one which continues today, is the totally arbitrary manner in which requests for permission to leave the country are rejected by the Soviet authorities without plausible explanation. There are no published rules and regulations which govern the granting of permission to leave the Soviet Union; an applicant has no way of determining if his application to emigrate will succeed, and refusals are not subject to any appeal.

But far worse than this denial of elementary due process is the fate of those thousands of Jews who are refused permission to leave Russia; in many cases they are fired from their jobs or lose their pensions, and some have subsequently been charged with being "parasites of the state" since they no longer have an income, just because they made application to emigrate to Israel.

Finally, application for permission to leave the Soviet Union often entails arbitrary house searches, interrogation by the police, and arrests and trials on fabricated charges.

So we must not be misled into acquiescence by the temporary lifting

of the education tax; indeed, that action merely demonstrates that the Congress of the United States has the power to influence Soviet policy. It would be irresponsible if we were to refuse to utilize that power to alleviate the persecution of more than 100,000 people who are compelled to live in the Soviet Union.

THE HISTORICAL PRECEDENT

Allegations that the Mills-Vanik approach represents a radical and new use of foreign economic policy to intervene in the decisions of another government are simply mythical.

For example, this Congress, under the leadership of President Washington, instituted a limitation on commerce on March 26, 1794, designed to cause Great Britain to rescind its notorious Orders in Council. President Jefferson terminated all American foreign trade in 1807 for much the same reason.

More recently and more in point, in October 1960, the United States imposed an almost total embargo on trade with Cuba in an attempt to influence Cuba's very form of government. And in July 1967, the United States joined in a United Nations embargo against Southern Rhodesia for the express purpose of altering that Government's policy toward its black residents.

Thus, there is adequate precedent for the step that I am urging you to take. Perhaps the essential distinction between the historical examples I have cited and the freedom-of-emigration measure is that the former involved the withholding of previously ongoing trade relations; today we do not propose to interfere in any way with ongoing relations, but merely to condition a new concession on our part with a concession by the other side.

AN INTERNATIONAL PROBLEM

The final point I would like to emphasize is that the plight of Jews within the Soviet Union simply cannot be classified as an internal problem of that nation. To my mind the history of the Jewish people, and especially the 20th century record, is such that no human being, no matter what his country or religious belief, can justify closing his eyes and mind to their plight. In that sense the problem of Soviet Jewry is truly an international one. No post-Vietnam retreat by America from the world stage, no matter how necessary or valid, can possibly dissuade the people of the United States from attempting to aid those Jews who are still being singled out for inhumane treatment in 1973.

Finally, articles 13 and 14 of the Universal Declaration of Human Rights, to which the United States subscribes, provide that:

> Everyone has the right to freedom of movement and residence within the borders of each state * * * Everyone has the right to leave any country, including his own. * * * [and] Everyone has the right to seek and to enjoy in other countries asylum from persecution.

The Declaration also provides that every nation should strive, "by progressive measures" to

> secure their universal and effective recognition and observance * * * among the peoples of the Member States * * *

The Mills-Vanik proposal is nothing more nor less than a "progressive measure" to implement the Universal Declaration of Human Rights. It is therefore an entirely appropriate function of the U.S. Congress.

Of course I favor the relaxation in tension between the Soviet Union and the United States, and of course I fully support the expansion of economic relations between the two central powers in the world. Yet I do not believe that American insistence on the Universal Declaration of Human Rights will jeopardize the growth in Soviet-American trade. If it should, however, we should certainly recognize the price we would be paying if we were to end our insistence on freedom of emigration.

My conclusion is that there is no need whatsover for the United States to relent at this time, and that our insistence on freedom of emigration is consistent in the record of history, correct in the annals of international law, and essential to the moral standing of our Nation.

Thank you, Mr. Chairman.

Mr. VANIK. Thank you very much, Mr. Bell.

Mr. Broyhill.

Mr. BROYHILL. I have no questions, Mr. Chairman, other than to commend our colleague, Congressman Bell of California, for an excellent and helpful statement.

Mr. VANIK. I would like to say, Mr. Bell, that you have submitted one of the best briefs that I have seen on the subject of the freedom of emigration amendment, and I certainly appreciate your very thoughtful and concise and accurate documentation of historical precedent because that issue has been raised.

Do you believe that the freedom of emigration in the bill can in any way jeopardize the establishment of an effective trade proposal?

That has been said by some, that it would jeopardize the development of a trade bill.

Mr. BELL. No; I don't think it could, Mr. Chairman, and the very idea that the Soviets have already indicated their willingness to relent a little bit in the treatment of the Jewish people is an indication that maybe they would be flexible on this if we were determined.

Mr. VANIK. This is an American law written by an American Congress, and we certainly have the right to insist on some humane provisions if we have this opportunity?

Mr. BELL. Certainly.

Mr. VANIK. I think we are rather late to move legislation in that direction, but it is never too late, and I certainly want to commend you for your very strong and concise and effective statement. You have done an eloquent, excellent job of summarizing the issue, and I appreciate it very much. I am sure that Chairman Mills shares my feelings on this issue.

Thank you very much for your testimony.

Mr. BELL. Thank you.

Mr. VANIK. We now have a quorum call. The committee will stand recessed until 2 o'clock this afternoon, at which time we will resume the rest of the testimony for the day.

[Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. VANIK. The committee will be in order.

Our first witness will be our distinguished colleague. Mr. Ben Blackburn of Georgia.

Mr. Blackburn, you can have your statement inserted in the record as read or you may read it or you may use excerpts from it, in any way that you desire.

The committee is pleased to have you here and to have your testimony.

STATEMENT OF HON. BEN B. BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA, ACCOMPANIED BY MILES M. COSTICK

Mr. BLACKBURN. Thank you, Mr. Chairman.

I would like to submit my statement for the record.

I would also like to submit three articles to follow my prepared statement, one of them being an excerpt from the Washington Post dated May 27, 1973, entitled: "Russian Trade: Myth and Reality;" the second being an article appearing in the Washington Post by Mr. Stephen S. Rosenfeld, entitled: "Summit: Political Bomb?" dated June 8, 1973; and the third article being an article which appeared in the July–August 1973 edition of the Saturday Evening Post entitled: "U.S.S.R.: Super Power or Paper Tiger?" by Otto von Hapsburg.

Mr. VANIK. Without objection these articles will be inserted in the record at the conclusion of your testimony.

Mr. BLACKBURN. I would like to introduce at the witness table with me, Mr. Miles Costick, who is a member of my staff, a specialist in international economics and I would like to have him here to assist me in case of questions that might come from the panel.

I will not read my entire statement. I would like to read excerpts from it and make a few observations so that we can complete the testimony as soon as possible.

Let me begin by referring to the introduction in my statement.

Those of us who must be aware of political trends in either national or international affairs recognize that a decision has been made at the top levels of both the United States and Soviet Union Governments that expanded trade between the two nations is a desirable objective. The theory has been advanced by a spokesman for the United States that through a great expansion of trade contacts between the United States and the U.S.S.R., there will evolve a "web of vested interests" in the field of economic relationships that will somehow remove the pressures of confrontation as it has existed for the past 28 years. It is further advanced that this mingling of vested interests will prove highly beneficial in meeting the balance-of-payments deficits which this country now faces and will create a dependable source of energy as an alternative to the instabilities of the Middle East.

The purpose of my testimony is to point out what I consider to be clear indications that these top level decisions have been dictated more by political considerations than by economic considerations.

Further, it is my purpose to point out that the political considerations which have led the leadership in this country to clasp the Soviet Union to its bosom as a profitable and beneficial trading partner are not consistent with the political objectives of the Soviet Union's leadership. The economic arguments for expanded trade with the Soviet Union are extremely questionable when viewed in the pragmatic light of experience and the realities of the world. The benefits to the Soviet Union are obvious: she will develop within the boundaries of her own geographic borders, resources which today are denied to her by reason of the backward nature of her technology and she will have developed these resources largely through the investment of American capital, capital either provided directly by the U.S. taxpayer or capital invested by reason of guarantees supported by the U.S. taxpayer.

In either event, the capital is provided as a subsidy to Soviet industries with no direct or equal benefit to the U.S. taxpayers.

Our present economic ills such as deficit in our balance of payments and dollar crisis, could be directly traced to the Breton Woods agreements, to our unwise monetary policy and to discriminatory trade policies of our major trading partners, Japan, Canada, and the European Economic Community. Consequently, the economic rationale for expansion of the so-called East-West trade is, in the best case, of secondary importance and the primacy goes to the political considerations. And there our rationale should be guided by the criteria of whether it is in the interest of the United States to increase the military and subversive potential of our enemy.

While it has been firm policy for this country to separate political from economic considerations in discussion or negotiations affecting trade, we must never forget that for the Soviet Government trade is nothing more than an extension of political objectives. Every student of the Soviet system of government and economics recognizes that every aspect of life under the Soviet system is subordinate to the political considerations.

HISTORICAL PERSPECTIVE

Fifty years of trade with the Soviet Union suggests that "peaceful trade" with Communist governments is a pipedream. In 1918 the Bolsheviks only occupied part of Russia. They needed western supplies to consolidate and extend their control. Edwin F. Gray, Chairman of the U.S. World Trade Board, argued for trade. "Economic isolation would not bring stable government in Russia" said Gray, and "if the people of the Bolshevik sections of Russia were given the opportunity to enjoy improved economic conditions they would themselves bring about the establishment of a moderate and stable order." How this line, 50 years later, in spite of all historical experience, still flourishes, is one of the absurdities of the age in which we live.

Trade began and in the 1920's, over 350 Western businessmen invested in Soviet concessions. When the time came for expropriation only the favored few, such as Dr. Armand Hammer, chairman of Occidental Petroleum Corp., received compensation. As a matter of fact, in addition to compensation, Dr. Hammer was permitted to take with him a fortune in expropriated czarist art treasures and jewels. It

is no wonder that today Dr. Hammer is one of the strongest advocates of trade with Communist governments and that Dr. Hammer's Occidental obtained a multibillion dollar agreement with the Soviets involving oil, gas, fertilizers, and tools.

America firms built the major factories of the 5-year plan. Henry Ford built the Gorki auto plant which today supplies trucks for the Ho Chi Minh Trail. The Stalingrad and Kharkov tractor plants produced the International Harvester 15/30 model—as well as tanks. The Chelyabinsk tractor plant produced the Caterpillar 60 tractors—and tanks of U.S. Christie design. Glen Martin, Seversky, Vultee, Douglas and Curtiss-Wright provided the Soviets with technology for an aircraft industry.

RCA transferred to the Soviets the entire field of manufacturing and experimental activities of RCA and its subsidiaries. General Electric in the United States and Metropolitan Vickers in the United Kingdom gave similar assistance.

The gift of lend-lease and European reparations in the 1940's was followed by the trade boom of the 1950's and 1960's. Soviet jets are based on Rolls-Royce, Junkers and BMW technology.

The massive Soviet merchant marine was 70 percent built outside the U.S.S.R. and all its large marine diesel engines originated outside the U.S.S.R.—from Burmeister & Wain in Denmark, Fiat in Italy, MAN in Germany—*Poltava* class ships—with Danish engines—carried missiles to Cuba in 1962. None of the 96 Soviet ships used on the Haiphong supply run has an identified Soviet design main engine. Most came from NATO allies—Denmark and Germany.

In 1959 the Bryant Chucking Grinder Co. sold 46 Centalign-B machines to the U.S.S.R. for manufacture of miniature ball bearings—almost all used in missiles. All Soviet bearings capacity was imported in the thirties and forties; they had no ability to mass-manufacture miniature bearings.

Late in 1971 the Nixon administration issued $1 billion in export licenses for the Kama truck plant—the largest plant in the world—to produce 150,000 multiaxle trucks per year. There is no indigenous Soviet truck technology. A U.S. Government interagency committee has concluded that multiaxle trucks are essential for war; and the Commerce Department publicly has acknowledged these findings.

In brief, major American and European firms—with the knowledge and assistance of their governments—have provided the technology for the Soviet economy. Soviet technology is either imported or duplicated from imported models. A decade-long search has identified only a handful of Soviet innovations.

In direct contradiction to these findings, successive administrations have denied the impact of our technology on the Soviet military-industrial complex.

For example: In 1931, Senator Smoot queried the State Department about export of aluminum powder technology—used in explosives. An internal State Department memorandum now tells us why no reply was ever made to the Senator:

> No reply was made to Senator Smoot by the Department as the Secretary did not desire to indicate that the Department had no objections to the rendering by Mr. Hahn of technical assistance to the Soviet authorities in the production of aluminum powder in view of the possibility of its use as a war material and preferred to take no position at the time in regard to the matter.

In 1961 another Secretary of State, Dean Rusk, made the following statement to Congress:

> * * * it would seem clear that the Soviet Union derives only the most marginal help in its economic development from the amount of U.S. goods it receives.

Then a State Department publication—presumably after investigation by its research bureau—hopefully claimed the U.S.S.R. had a "self-developed technology." In fact, there is no such thing as Soviet technology. Almost all—perhaps 90 to 95 percent—came directly or indirectly from the United States and its allies.

I have example after example in my submitted statement dealing with technology for small miniature ball bearings that they are now using in their missile systems, which were manufactured using American equipment and American licenses.

I have referred to technology for development of explosives that were sold to the Soviet Union in 1931. In short, gentlemen, if you will really study the Soviet economy: we have interviewed recent refugees from the Soviet Union and we are advised that the great bulk of their capital equipment is over 35 years old and they are still using it because they have not developed their own technology for building improved capital equipment.

Gentlemen, when we consider trade we have to recognize that if it is going to be meaningful and continual it must be a two-way street. And when we examine the big proposals that are now being discussed at the top levels of the Soviet and U.S. Governments, we are really being told that we should develop the Soviet industrial base using U.S. technology, financed by U.S. capital, all within the borders of the Soviet Union.

And once we have developed this industrial base in the Soviet Union we will have absolutely no control over the use of this equipment. And what do the Soviets have to sell us in return?

I am going to refer back to this later but you will find that the propositions are being made today that if the U.S. industries will go through the Soviet Union and develop complete factories, the Soviet Union will operate these factories and repay us in kind out of the produce of these factories.

An interesting argument of the advocates of East-West trade in general, and those who favor credits to the Soviet Union and other Communist governments in particular is, for them, the "intriguing" phenomenon that the Soviet Union "never" defaulted on its financial obligations.

If we scrutinize the existing situation in regard to the Soviet creditworthiness, it is imperative to discover the actual situation which is far from being that which the advocates of East-West trade maintain.

At present there is a long-term outstanding debt on the part of the Soviet Government of $385 million of principal and interest dating back to the early 1910's. It is worth noting that despite the fact that a U.S. Government agency, the Foreign Claims Settlement Commission, has officially reported that the U.S.S.R. owes U.S. nationals—on unpaid awards—over $120 million, which the U.S.S.R. does not even acknowledge.

Additionally, the U.S.S.R. owes U.S. investors the principal and interest on the dollar bond debt, as well as the U.S. Government, the

Kerensky government debt, which was on the order of $100 million, plus interest since 1918.

The dollar-bond debt of the Kingdom of Serbs, Croats, and Slovenes has been acknowledged by the successor-Yugoslav Communist government, which has been paying interest on those dollar bonds for many years; more recently, the FBPC negotiated with the present Communist Government of Poland and the latter have agreed to certain reduced interest payments on the dollar bonds issued by its predecessor, the Republic of Poland, and have further agreed to negotiate a complete settlement of that old dollar bond debt within the next 18 months.

Both the Communist Hungarian Government and the Communist Rumanian Government have promised in writing—to the U.S. State Department—to negotiate settlements of their dollar bond obligations as soon as they are able to do so.

The Government of the People's Republic of China has just settled a debt with the Canadian Government incurred by private businesses of Nationalist China prior to 1948.

Lend-lease exports to the Soviet Union during World War II totaled over $11 billion in 1941–45. The terms of lend-lease agreements require the recipient countries to pay for material accepted after hostilities officially ended. In 1952 the United States asked the U.S.S.R. for $800 million in settlement.

In 1972 at the time Secretary of Commerce Peter Petersen, announced the agreement between Soviet representatives and representatives of the U.S. Government of the lend-lease settlement in an amount of $722 million, to be paid by the year ending July 1, 2001.

The agreement allows the Soviet Union to take up to four deferments. However, in the agreement between the U.S. Government and the Government of the Union of Socialist Soviet Republics requiring settlement of lend-lease, reciprocal aid and claims, signed on October 18, 1972, by Secretary of State William P. Rogers and Soviet Minister of Foreign Trade, N. Patolichev, the Soviets were successful to linking receiving of the most-favored-nation status with payment of lend-lease debt.

In other words, if the Congress refuses to grant the Soviet Union the MFN status they will not pay any part of the World War II lend-lease debt. Mr. Helmut Sonnenfeldt, one of our chief negotiators in Moscow, and at present Under Secretary of the Treasury, in his recent testimony before the Senate Finance Committee, has confirmed this.

Between 1822 and 1914, Russia borrowed an estimated $4.8 billion from private investors in Europe on 114 issues of bonds most of them payable in non-Russian money, especially in French francs and British sterling. Most of the loans had gold clauses. Seventy-nine of the bond issues were to raise money for the Russian state railroads or to finance nationalization of private Russian railroads.

Forty-three railroad systems and eight city governments participated in the borrowing. The cities were Astrakhan, Baku, Kiev, Moscow, Nicolaev, Perm, St. Petersburg, and Saratov. These external debts were defaulted.

The Soviet Government repudiated all obligations of the predecessor Czarish State by a retroactive decree issued February 8, 1918. A further default occurred when in 1940 the Soviet Government dishonored its own external obligations by discontinuing interest payments on

British sterling notes issued by the Soviets in 1932 and 1934 to dispossess the owners of Lena Gold Fields, Ltd., a Siberian enterprise, and owners of Tetiuhue Mining Corp.

Spokesmen for Soviet Russia, including its founder, Lenin, repeatedly expressed a willingness to honor the external debt of the predecessor regime providing payment on the old debt could be arranged within the Soviets' capacity to pay and provided further, that long-term credits were made to the Soviet Union from abroad. This official attitude was renewed at international conferences at Geneva and The Hague in 1922, and in negotiations with the French Government from 1924 to 1927 and again in 1933. In 1956 new negotiations of like kind broke down.

A further analysis of Soviet credit and debt handling discloses that the credits obtained and debts incurred during the past decade manifests a more sophisticated pattern in Soviet strategy in quests for credit. The first criteria for incurring indebtedness, analogous to the previous patterns, was that it had to be long-term credits—that is, commercial credits ranging from 10 to 15 years.

Their second criterion was to obtain an interest rate considerably below the ongoing market interest rate. It goes without saying that this type of arrangement equals subsidy on the part of credit-providing sources—the Western governments.

Third, using various kinds of pressures they were able to compel creditors to accept raw materials in the form of payments.

Fourth, and last but not least, using governmental power, threats and insinuations about defaulting on existing obligations, they were always able to coerce the creditors to reextend—refinance—again on long terms, the existing long-term indebtedness. The European bankers and their governments, afraid of losing face before their public and business community, were willing to oblige the Soviets in order to save face.

A will-o'-the-wisp record shows that the sellers are hit by endless cancellations, arbitrary rejections of products, outrageous downward contract price adjustments, and outright repudiations of terms. Moreover, despite the 10- 12- and 15-year payment provisions, creditors have had to suffer losses from current obligations of the Soviet Government or its agencies.

That is what is happening to the West Germans. West Germany graciously exported to the Soviet Union and the Communist controlled countries of Eastern Europe more than $1 billion in goods and capital during 1970. The collection problem has now reached a crisis. In fact, it was a significant factor in the financial problems of the giant Krupp enterprises.

The Mont Edison Industrial conglomerate of Italy is one of the largest enterprises of that country. It is controlled by the Italian Government because the majority of its stock is owned by the government, although private investors also own stock in that enterprise.

As early as 1967 Mont Edison entered into a joint venture with the Soviet Government to begin the production of electrical machinery in the Soviet Union. Capital equipment was exported from Italy to the Soviet Union and financed by Mont Edison for the purpose of carrying out the joint venture.

It is not known the amount of credits that were extended but it is known that the Soviet Government defaulted on payments of the loan. Today Mont Edison would be incapable of continuing operations except for heavy subsidy financing by the Italian Government. This crisis was brought about because of the failure of the Soviet Government to complete its part of the joint venture and make payments as contracted.

We are all familiar with the construction by Fiat of an automobile factory in the Soviet Union. The plant is known as the Soviet Togliatti automobile plant and involves a $1 billion loan commitment from various sources, including an $80 million loan from the U.S. Export-Import Bank. The automobile plant has not been as successful as contemplated. The Soviets had agreed as part of their commitment to the plant to supply certain parts to be used in the assembly of the completed automobiles. The Soviets failed to meet this commitment. Whether the failures were due to a lack of Soviet technology or mismanagement is not important to our discussion.

What is important is that the failures did occur and as a result, Fiat was compelled to borrow an additional $162 million in order to fabricate components in its Italian plant to be shipped to Russia for the assembly of completed Togliatti automobiles. The solvency of Fiat can well be endangered if the Soviets are unable to or are unwilling to make good their original commitment. Again, the important consideration is the fact of the failure of the Soviet Government to meet a contractual obligation.

One of the first West German companies to feel the pain of joining with the Soviet Government in industrial enterprises was the giant Krupp Enterprises. This firm, having been one of the oldest and largest steel manufacturers in the world prior to and after World Wars I and II, began entering into a series of joint ventures with the Soviet Union and Poland in the late 1950's. The ventures called for the construction by Krupp of steel and diesel engine manufacturing facilities within the Soviet Union.

Krupp was to be paid by the receipt of a portion of the goods produced with the thought that Krupp could recoup its investment and make a profit by the sale in Western markets of the goods received by them. Soviet deliveries of goods were never on schedule, never in the quantities anticipated by Krupp, and of dismal quality with the result that they were not marketable in Western markets.

Not only was Krupp disappointed in the quality and quantity of its share of the goods produced, but financing extended to the Soviets by Krupp as part of the overall financing transactions was never paid on time. The combination of these failures in the joint ventures found Krupp Enterprises in serious financial trouble. This is hardly an encouraging recommendation for American businessmen who are today being led to believe that joint ventures with the Soviet Government have great hope for financial reward.

The examples above of disappointments by Western nations and Western firms in dealing with the Soviet Union should not be treated as isolated incidents unrelated to the American experience. To come more close to home and more recent in date, a reference to the Soviet grain purchase last year is appropriate.

THE COSTS OF THE SOVIET GRAIN "DEAL"

The huge grain sales to the Soviet Union resulted in a wide variety of costs which can be classified into the following categories:

1. Costs to the consumers;
2. Costs to the taxpayers;
3. Cost to the economy as a whole;
4. Political costs to the United States; and
5. Costs to the free economies.

COSTS TO THE CONSUMERS

According to the figures supplied by the Comptroller General, Elmer B. Staats, the massive grain sales to the Soviet Union raised domestic prices of wheat from about $1.63 per bushel in July 1972, to $2.49 a bushel in September of the same year.

CBS News has computed the total cost to the American consumers for the 9-month period starting July 1972 and according to these figures, the total costs to the consumer for the purchase of bread and other flour-based products as a result of the Soviet wheat deal, will be at least $300 million and that is a conservative estimate.

As far as beef and pork—and beef and pork-based products—are concerned, the additional costs the American consumers will have to absorb during the same 9-month period is $1.2 billion in order to eat the amount of meat that he has been consuming. However, the actual increase in food prices imperatively adds an additional 12 percent to the combined figure of $1.5 billion.

The cost of feed grain plays a large role in determining the price of poultry, eggs, and dairy products. The increase in those prices vary from 12 to 25 percent, and that adds for the 9-month period, an additional cost to the consumer of about $800 million.

COSTS TO THE TAXPAYERS

The direct subsidy for the Soviet grain deal at the expense of the American taxpayers, exceeded $300 million. The subsidy for the transportation of grain so far has amounted to over $400 million. This figure coincides with that estimated by CBS News.

COSTS FOR THE ECONOMY AS A WHOLE

These are the most difficult to estimate because they reflect a variety of costs and factors which are extremely intricate in nature. Some of them such as market distortions, transportation tieups, and loss of good will with established customers for agricultural products—for instance, Japan—are almost impossible to measure.

The grain deal has been financed with a credit of $750 million by the Commodity Credit Corporation—CCC at 6⅛ percent interest, repayable in 3 years. The interest rate is lower than what it cost the U.S. Treasury to borrow in the marketplace. By contrast, the Treasury is paying 6½ percent and 6⅝ percent on recent market borrowings.

The freight rates on the railroads increased by about 10 percent and in addition, the economy experienced the most acute railroad car shortage in the history of the American railroads. This shortage in

the Midwest resulted in the shortage of some rail-carried products such as fuel oil.

The overburdening of the transportation system with transportation of grain for the Soviet Union resulted in delayed deliveries of numerous industrial products from steel and machinery to various component parts for a variety of industrial commodities.

Another cost to the economy resulting from the Soviet grain deal is the increased price of agricultural machinery. The increase has been reported to be about 10 percent.

National and independent bakers are complaining because wheat shipments to the Soviet Union have resulted in a price surge at home. The price surge at home resulted in the increase of the price of flour the bakers buy. This resulted in a large number of bankruptcies among the independent bakers which, so far, have cost 10,000 people their jobs. For example, the added annual cost of one particular enterprise—American bakeries—is estimated at $9.2 million over the 12-month period starting August 1972.

For the farmers the cost of the Soviet grain "deal" was at least $120 million by September 1972—both because they sold wheat too early—spring of 1972 which is usual—to benefit from higher prices and, more importantly, because the higher prices cut the subsidy available to many southwestern farmers.

The fight against inflation failed primarily because of increases in food prices which are directly associated with the Soviet grain deal. While the increase in the Consumer Price Index was at the annual rate of about 5 percent, the increase in food averaged—for the same period—some 25 percent. This is a clear indication that the fight against inflation might have been completely successful had it not been for the Soviet grain deal. The increase in food prices is primarily responsible for the present inflation hysteria around the Congress and the country as a whole. The consequences of it for the welfare of the United States and its economy are not difficult to foresee: distorted markets; large economy fluctuations; and all this due to irrational behavior on both the supply and demand side.

If we sum up the cost of the Soviet grain deal to the American public, we then reach a sum which for the 9-month period exceeds $3.2 billion.

POLITICAL COSTS TO THE UNITED STATES

The lack of any political tradeoffs in regard to the Soviet Union could be clearly defined as a political cost.

While it has been firm policy for this country to separate political from economic consideration in discussions or negotiations affecting trade, we must never forget that for the Soviet Government, trade is nothing more than an extension of political objectives. Every student of the Soviet system of Government and economics recognizes that every aspect of life under the Soviet system is subordinate to the political considerations.

There were rumors that, as part of the agreement to sell them grain, the Soviets were going to use their influence with the Communist rulers of North Vietnam to terminate the conflict in Indo-China. If the war has been terminated, we are unaware of it. However, it is obvious that the persuasion of the North Vietnamese Communist

necessary to force them to sign the peace treaty was in the form of B–52 bombers in December of last year. That was the persuasion that was effective. At present, we have a series of flagrant and calcuated violations of the peace treaty in reality supported by the Soviets and their satellites.

Despite the Soviet paramount economic problems and famine they were experiencing, we provided them with grain and credits and, at the same time, in addition made concessions in the disarmament talks (SALT) and military forces reduction talks (NBFR) at the expense of our economy and security.

All these obviously constituted unnecessary political costs to the United States without any benefits in return.

The seriousness of the Soviet agricultural failure and loss of potential concessions are underscored by new information on the size of the Soviet defense budget. Two anonymous Soviet economists publishing in the Russian underground papers have estimated that the Soviet Union spends 40–50 percent of its GNP on defense. Their computations, according to Robert G. Kaiser, writing in the Washington Post on April 13, set the Soviet defense budget at 80 billion rubles ($88 billion at the official exchange rate) in 1969, and on the rise. The 1969 Soviet GNP was $130–$190 billion. In the same year the U.S. defense budget was $77.8 billion, and for fiscal year 1974 the U.S. figure is only $78.2 billion (30 percent of the budget, or about 6 percent of our GNP).

Were Washington to refuse credit for the purchase of grain to the Kremlin bosses, they would be compelled to direct a portion of their gold reserves, estimated at $7–$8 billion, for the purchase of grain.

COST TO THE FREE ECONOMIES

The cost to the free economies primarly take the form of distortion effects on the market forces, both within the financial market and markets for agricultural products. In financial markets, the market interest rate is suppressed by Soviet absolute demand monopoly and ability to use political power for the purpose of coercion. In agricultural markets, strongly fluctuating and sudden exaggerated demands for the grain stuff, and playing competitors on the supply side against each other, resulted in tremendous distortions on prices and supply. And both elements, distortions in financial and agricultural markets, are responsible for highly negative influence on the world economy.

THE POSSIBLE IMPACT OF U.S.-U.S.S.R. TRADE ON THE BALANCE OF PAYMENTS OF THE UNITED STATES

Our studies on Soviet-American trade prospects over the next 10 years strongly suggests the following conjectures on the impact of this trade on the balance of payments:

a. The Soviets are unresponsive to most market criteria but are not unresponsive to balance of payments troubles. They cannot run into large deficits with the United States except in the case of barter agreements.

b. Accordingly they will try to control imports and push certain exports here—like diamonds, nonferrous materials, furs—oil and gas will come into consideration only after the mid-1980's.

c. The Soviets may use more aggressive methods than before to push their products in Western Europe, Japan and other convertible currency areas including the United States. They may use American consultants, set up enterprises based on coparticipation for producing for U.S. markets, etc.

Eventually U.S. purchases of Soviet goods may reach a quarter to half a billion dollars annually. Now, that is excluding the large imports of Soviet energy which are doubtful at this point.

The importance to this committee is this: If the projected purchases by this country from the Soviet Union were only run in the neighborhood of a half a billion dollars a year, then how can we justify these tremendous capital investments in the Soviet Union? Because they can't possibly hope to sell us enough goods to pay for these capital investments.

Since credits and insurance for such projects involve periods longer than 5 years, no private firm would be ready to engage in these operations without a U.S. Government guarantee. The guarantee against uncertainties would reduce the interest rates paid by the Soviets, but would imply a U.S. Government subsidy equivalent to a government-to-government aid, since all Soviet firms are state-owned.

According to our estimates, the Soviet Union could increase its imports to roughly $1.5 to $2 billion per year during the second half of the 1970's—with possible repayments starting in the middle of the 1980's in the form of oil and gas shipments.

Impact on the U.S. balance of payments. It is our feeling that such exports would have an unfavorable impact on our balance of payments—which now runs a deficit likely to grow unless the energy problem is dealt with imaginatively. Adding higher inconvertible long-term promissory bonds from the U.S.S.R. for the bilateral export surplus would further weaken the U.S. international reserves and payments position since U.S. exports are diverted from earning convertible currency.

One may finally note that:

a. The volatility of the Soviet market and of its demand patterns would further affect adversely our general trade;

b. Pressures from Western European countries that the U.S.S.R. straighten out its balance of payments problems with them—that is, increase Soviet imports from these countries rather than from the United States—are likely to increase;

c. The danger of sharp Soviet reversals will increase; 20 or 40 year agreements are easily talked about by the Soviets; but are just as easily broken by them—let us not forget their "unbreakable eternal friendship" with China, Yugoslavia, and so forth. The indebtedness of a big country to another does not always guarantee political peace.

If the Soviets honor the proposed peacetime lend-lease which is now under consideration with the same degree of obligation that they honor their World War II lead-lease obligations, the picture is indeed a dismal one for the American businessman, the American consumer and the American taxpayer.

CONCLUSIONS AND RECOMMENDATIONS

Careful scrutiny of Soviet internal and external policies clearly suggests that these were no significant changes in Soviet long-established practices. The Soviet Union is still a police state and its long-term objective is to establish the Soviet Union as the unparalleled world power. In fact, the Brezhnev strategy is designed to use Moscow's new relationship with America as a double-edged sword toward that end.

The Kremlin needs and wants the help of American know-how in solving Soviet problems of industrial backwardness and its lag in technological advance. The Soviets are anxious for assurance that they will be able to get American grain when their abysmally inefficient agricultural system failed again. Politically they would like to have the U.S. support in neutralizing their Communist adversary, Red China, and in stabilizing East Europe.

On one side the Soviet leaders see in the aura of good feeling the best opportunity so far to solving the Soviet's tremendous domestic problems and perhaps eventually achieving economic stature equal to that of America—just as the Soviets have reached a balance of nuclear power with the United States.

With the other of his two cutting edges, Brezhnev probably reasons that in an atmosphere of warmth and cooperation there is a chance of gradually tilting the political balance among U.S. allies toward the Soviet Union.

Domestically, despite its assurance to the contrary, the Soviet Union is suppressing the rights of its people in spite of some paragraphs in the Soviet Constitution which suggest that certain rights of its citizens are guaranteed.

For instance, the persecution of Soviet Jews who wish to immigrate to Israel is the most flagrant example of violation of basic human rights. For years the Soviet Union has been practicing a trade with human beings charging the Israeli Government $10,000 per head of each Jew immigrating to Israel. Today we witness a series of trials in the Soviet Union involving Jews who want to immigrate.

In addition to it, many Jews are subjected to house arrest, loss of jobs, denial of medical care, and slow starvation.

The dissidents of various kinds including intellectuals, the clergy, and those who practice their religious beliefs, are sent either to concentration camps or locked into lunatic asylums.

Soviet acceptance of international copyright convention is just another method to control internal dissent, only in a more subtle way. And there are many people who hail the Soviets for joining the International Copyright Convention as if this were a move toward liberalization in the Soviet Union. Nothing could be further from the truth.

The truth of the matter is that by joining this convention they can now prohibit and prevent the publication of novels and articles by people within the Soviet Union, from being published in the United States and receiving the widespread circulation that they received prior to the time the Soviets joined the International Convention.

The Soviet propaganda against the democratic societies, and the United States in particular, is still one of the pillars of their public education.

In the international arena, we see the continuation of Soviet promotion of unrest and instability in non-Communist parts of the world. British intelligence, for instance, has established Soviet involvement in IRA and Civil War among the Irish factions. The presence of Soviet arms, money and agents in that struggle is a fact.

Furthermore, the Soviet Union is the chief supporter of North Vietnam in spite of the fact that the Communist Government of North Vietnam is continually and flagrantly violating the peace agreement. The Soviet Union continues to finance Cuba at a rate of $2 million a day. In 1972 the pro-Communist Government of Chile received $250 million in Soviet aid.

Soviet support of revolutionary elements in the Middle East, as well as their support of aggressive Arabic Governments, is a matter of record.

During the past several years the Soviets have done everything to surpass the United States in the area of military power. The presence of Soviet fleets in the Mediterranean and the Indian Ocean with its implications for the security of the free world is of paramount concern to the non-Communist countries in bordering areas. It goes without saying that the strategic consequences for the United States are obvious.

Soviet emphasis on rapid development of the SS–17, their edition of our MIRV's, and development of sophisticated weapon systems based on laser power, clearly signifies their military and strategic objectives.

In the area of international economic relations, the Soviet Union bases its present strategy on three objectives: namely, to obtain from the United States and developed nations of the West advanced technology, industrial know-how, and massive credits.

At the same time, its own policy with regard to its gold reserves is based on Lenin's formula:

> We must save the gold in the U.S.S.R., sell it at the highest price, buy goods with it at the lowest price. When you live among wolves you must howl like a wolf, while as for exterminating all the wolves, as should be done in a rational human society, we shall act up to the wise Russian proverb: boast not before, but after, the battle.

This formula adequately explains a strange paradox being presented to the world and the American people. A country rich in gold reserves, the Soviet Union is seeking loans from a country, the United States, whose currency is under sustained attack and whose gold reserves are woefully inadequate.

The authoritative studies about the Soviet gold reserves set the latter at $7 to $8 billion. Inasmuch as there are no rubles outstanding which can be presented for conversion to gold, it is fair to say that the Soviet gold reserves are free and clear. It is estimated that approximately $80 billion (U.S. dollars) are floating in the Eurodollar and the other financial markets.

What possible logic can be urged to support the concept that the gold-rich nation should be financed and subsidized by the Nation which is experiencing a currency crisis and serious problems arising out of its inequilibrium in the balance of payments?

In other words, this country, with $80 billion in demands against $11 billion dollars worth of gold reserves, is being told that we should

loan capital, that we should export capital to Russia, sitting on $8 billion worth of gold.

Mr. Brezhnev is coming to the United States to negotiate, among other things, that which is promising to turn into a breakthrough in large-scale development deals. Dr. Armand Hammer, chairman of Occidental Petroleum, which has signed an agreement with the Soviet Government about production of fertilizers and related chemicals in the Soviet Union, was kind enough to make public that the most important part of the deal involves a $7 billion project to tap natural gas deposits and possibly other resources in Siberia.

It is interesting that as part of the proposed fertilizer plant to be constructed in the Soviet Union, the United States is to provide $9 out of every $10 that goes into the construction of this facility.

And I am going to get back to the question of: To what degree should we require the Soviets to match United States dollars if we are going to be advancing them these large credits?

THE BASIC SOVIET TROUBLES

The heart of the Soviet troubles today, Western experts agree, is domestic; not international politics or foreign policy failures, but basic economics.

Nowhere are Soviet shortcomings made more apparent than when Russia is compared with the United States.

Soviet authorities themselves claim an overall economic growth of only 4 percent last year. By U.S. standards of measurements, the figure is closer to 0 percent. By either reckoning, America, with a 6.4 percent real growth in production of goods and services, is expanding faster than the Soviet Union. U.S. gross national product for 1972 totaled $1.2 trillion, while the Soviet gross national product was about $300 billion.

In no other element of the economy are Soviet problems more acute than in agriculture, Soviet grain production—targeted at 195 million tons in 1972—fell, according to official Soviet figures, 27 million tons below that goal—to 168 million tons. From U.S. officials we find that even this figure may be exaggerated by as much as 33 million tons.

To forestall bread shortages and the danger of worker protests, Soviet authorities have purchased 30 million tons of grain in the West, at a cost of $2 billion. That is equivalent to the total amount spent on machinery imports in the past 5-year plan.

Other kinds of crops fared almost as badly. The vegetable harvest dropped 8 percent from the year before. The harvest of potatoes, a staple, plunged from 92 million tons in 1971 to 77 million tons last year. The pig population dropped drastically reflecting shortages in feed grain.

According to reports in Pravda and the New York Times, during the week of March 12, 1973, numerous Soviet provinces reported shortages in bread supply. The cities of Novosibirsk, Volgograd, and Gorki were among those cities that experienced the shortage of bread, and were forced to establish sales quotas of brand per household. Pravda also reported the shortage of break in the Tanbow region and Bashkir Republic. During the month of March, the Soviet press con-

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tained numerous letters from the people in rural areas who were complaining about the bread shortage.

And these reports were published in the Soviet press in Russian, so that we can assume that they were certainly true.

RECOMMENDATIONS

The past has demonstrated that there can be changes in Moscow's tactics, manners, and theatrics. But the goal, that of attaining preeminent world power, never changes.

Therefore, in order to insure a de facto détente and a "generation of peace," we would like to recommend the following inclusions in law.

We suggest that:

A. Before any long-term credits can be extended to the Soviet Union by, or with participation of, our Government, the Soviet state, as a successor government, should first be required to make settlement in full of debt claims awarded to: (1) U.S. private investors, and (2) U.S. businesses to whom awards were certified by the Foreign Claims Settlement Commission in 1958–59.

B. The Soviet Government should be required to permit American corporations to invest in the Soviet economy and operate its enterprises in accordance with well-established international business criteria.

C. American financial institutions should be permitted to establish their branches in the Soviet Union and operate on its territory in accordance with long-established international financial and commercial practices. And I would like to inject at this point that the Soviets' definition of fair treatment is considerably different from ours. We believe that only by following the aforementioned ideas can we be instrumental in liberalizing the Soviet society. And without liberalizing the Soviet society, by continuing the present Government of the Soviets, we will continue to see no change in their basic ambitions or their basic thrust.

When I visited the Soviets in December of last year, the head of their largest financial institution, the biggest bank there engaged in foreign currency transactions, asked if we would have any objection to his bank establishing a bank in the United States.

I said, "Well, I can see no real objection to that provided you allow American banking enterprises to establish banks in the Soviet Union." He said, "Well, what we would want to do is establish a bank, and we would allow your banking enterprises to establish an office in the Soviet Union."

"Well," I said, "would this office be allowed to accept deposits and pay interest on deposits and handle checking accounts?" And he said, "Well, no, they would be able to have a telephone and a representative there."

Now their definition of fair play all boils down to his: they want to come into this country and set up a bank with all the powers and all of the privileges of any other commercial bank in the United States while, in turn, they will give the right to an American bank to open up an office and have a telephone there.

Now, gentlemen, that is not quite a quid pro quo in exchange of rights.

D. Every dollar of U.S. Government credits and/or U.S. Government credit guarantees involving tax moneys or funds raised by the Federal Government or its agencies for investment in joint ventures with Soviet state business enterprises, must be matched by an equal amount of U.S. dollars provided by the Soviet Government.

Now, gentlemen, I think this is essential if we are going to protect our own best interests.

If we go into transactions such as the proposed fertilizer deal, where we put up $9 and they only put up $1 for the financing, we are freeing up other sectors of their economy to be used for either military purposes or to be used to continue the exportation and financing of subversion abroad.

We have been requiring for years that American local government, that American State governments, match Federal funds for specific purposes. I don't think there is a thing unreasonable or unfair in making a similar requirement of the Soviet Union in order to protect our own best interests.

Finally, no transfer of American technology relevant for the development of sophisticated weapons systems should be allowed, directly or indirectly, to the Soviet Union. And where I say "indirectly," we have found that the Export Control Act has not been effective because, where American companies have been unable to sell sophisticated equipment to the Soviets, their foreign subsidiaries have been able to sell sophisticated controls and equipment, with the result that the Soviets have gained technology that they would never have been able to develop in their own country.

I believe that only with the establishment of an American presence on the territory of the Soviet Union and by the application of sound economic and business practices in the Soviet economy, can we assure the liberalization of the Soviet system, which in the final analysis is the only guarantee for a meaning détente and a better world for our children.

[Mr. Blackburn's prepared statement and supplementary material follow:]

STATEMENT OF HON. BEN B. BLACKBURN

INTRODUCTION

Those of us who must be aware of political trends in either National or International affairs recognize that a decision has been made at the top levels of both the United States and Soviet Union Governments that expanded trade between the two nations is a desirable objective. The theory has been advanced by a spokesman for the United States that through a great expansion of trade contracts between the United States and the USSR, there will evolve a "web of vested interest" in the field of economic relationships that will somehow remove the pressures of confrontation as it has existed for the past 28 years. It is further advanced that this mingling of vested interests will prove highly beneficial in meeting the balance of payments deficits which this country now faces and will create a dependable source of petroleum products as an alternative to the instabilities of the Middle East.

The purpose of my testimony is to point out what I consider to be clear indications that these top level decisions have been dictated more by political considerations than by economic considerations.

Further, it is my purpose to point out that the political considerations which have led the leadership in this country to clasp the Soviet Union to its bosom as a profitable and beneficial trading partner are not consistent with the political considerations of the Soviet Union's leadership. The economic arguments for expanded trade with the Soviet Union are extremely questionable when viewed

in the pragmatic light of experience and the realities of the world. The benefits to the Soviet Union are obvious: she will develop within the boundaries of her own geographic borders, resources which today are denied to her by reason of the backward nature of her technology and she will have developed these resources largely through the investment of American capital, capital either provided directly by the United States taxpayer or capital invested by reason of guarantees supported by the United States taxpayer. In either event, the capital is provided as a subsidy to Soviet industries with no direct or equal benefit to the United States taxpayer.

The present economic ills could be directly traced to the Breton Woods agreements, to our unwise monetary policy, and discriminatory trade policies of our major trading partners, Japan, Canada and the European Economic Community. Consequently, the economic rationale for expansion of the so-called East-West trade is, in the best case, of secondary importance and the primacy goes to the political considerations. And there our rationale should be guided by the criteria of whether it is in the interest of the U.S. to increase the military and subversive potential of our enemy.

While it has been firm policy for this country to separate political from economic considerations in discussion on negotiations affecting trade, we must never forget that for the Soviet Government, trade is nothing more than an extension of political policy. Every student of the Soviet system of Government and economics recognizes that every aspect of life under the Soviet system is subordinate to the political considerations.

Historical Perspective

Fifty years of trade with the Soviet Union suggests that "peaceful trade" with Communist Governments is a pipe-dream. In 1918, the Bolsheviks only occupied part of Russia. They needed western supplies to consolidate and extend their control. Edwin F. Gray, Chairman of the U.S. World Trade Board, argued for trade. "Economic isolation would not bring stable government in Russia," said Gray, and "if the people of the Bolshevik sections of Russia were given the opportunity to enjoy improved economic conditions, they would themselves bring about the establishment of a moderate and stable order." How this line, 50 years later, in spite of all historical experience, still flourishes, is one of the absurdities of the age in which we live.

Trade began, and in the 1920's, over 350 western businessmen invested in Soviet concessions. When the time came for expropriation, only the favored few, such as Dr. Armand Hammer, Chairman of Occidental Petroleum Corporation, received compensation. As a matter of fact, in addition to compensation, Dr. Hammer was permitted to take with him a fortune in expropriate czarist art treasures and jewels. It is no wonder that today Dr. Hammer is one of the strongest advocates of trade with communist governments, and that Dr. Hammer's Occidental obtained a multi-billion dollar agreement with the Soviets involving oil, gas, fertilizers and tools.

American firms built the major factories of the Five-Year Plan. Henry Ford built the Gorki auto plant which today supplies trucks for the Ho Chi Minh trail. The Stalingrad and Kharkov tractor plants produced the International Harvester 15/30 model (as well as tanks). The Chelyabinsk tractor plant produced the Caterpiller 60 tractors—and tanks of U.S. Christie design. Glen Martin, Seversky, Vultee, Douglas and Curtiss-Wright provided the Soviets with technology for an aircraft industry.

RCA transferred to the Soviets "the entire field of manufacturing and experimental activities of RCA and its subsidiaries." General Electric in the U.S. and Metropolitan Vickers in the United Kingdom gave similar assistance.

The gift of lend lease and European reparations in the 40's was followed by the trade boom of the 1950's and 1960's. Soviet jets are based on Rolls-Royce, Junkers and BMW technology.

The massive Soviet merchant marine was 70% built outside the U.S.S.R. and all its large marine diesel engines originated outside the U.S.S.R. (from Burmeister & Wain in Denmark, Fiat in Italy, MAN in Germany). Poltava class ships—with Danish engines—carried missiles to Cuba in 1962. None of the 96 Soviet ships used on the Haiphong supply run has an identified Soviet design main engine. Most came from NATO allies—Denmark and Germany.

In 1959, the Bryant Chucking Grinder Company sold 46 Centalign-B machines to the U.S.S.R. for manufacture of miniature ball bearings—almost all used in missiles. All Soviet bearings capacity was imported in the 30's and 40's: they had no ability to mass manufacture miniature bearings.

Late in 1971, the Nixon Administration issued $1 billion in export licenses for the Kama truck plant—the largest plant in the world—to produce 150,000 multi-axle trucks per year. There is no indigenous Soviet truck technology. A U.S. government interagency committee has concluded that multi-axle trucks are essential for war; and the Commerce Department publicly acknowledges these findings.

In brief, major American and European firms—with the knowledge and assistance of their governments—have provided the technology for the Soviet economy. Soviet technology is either imported or duplicated from imported models. A decade-long search has identified only a handful of Soviet innovations.

In direct contradiction to these findings, successive administrations have denied the impact of our technology on the Soviet military-industrial complex.

For example, in 1931 Senator Smoot queried the State Department about export of aluminum powder technology (used in explosives). An international State Department memorandum now tells us why no reply was ever made to the Senator:

"No reply was made to Senator Smoot by the Department, as the Secretary did not desire to indicate that the Department had no objections to the rendering by Mr. Hahn of technical assistance to the Soviet authorities in the production of aluminum powder, in view of the possibility of its use as a war material, and preferred to take no position at the time in regard to the matter."

In 1961, another Secretary of State, Dean Rusk, made the following statement to Congress:

". . . it would seem clear that the Soviet Union derives only the most marginal help in its economic development from the amount of U.S. goods it receives."

Then a State Department publication—presumably after investigation by its research bureau—hopefully claimed the U.S.S.R. had a "self-developed technology." In fact, there is no such thing as Soviet technology. Almost all—perhaps 90 to 95%—came directly or indirectly from the United States and its allies.

The present Administration opines vaguely about "peaceful trade" in agricultural commodities, consumer goods, capital equipment, and "know-how," but avoids the topics of risks involved in technological transfers to the Soviets and Red China.

Trucks will move ammunition or food. Computers will control a population, calculate missile orbits, as well as more peaceful equations. A ship will haul missiles or wheat. A printing press will produce truthful or propaganda material.

For 100,000 Americans and countless Allied soldiers, in Korea and Viet-Nam, "peaceful trade" has been the trade of death.

The Nature of Administration's New Economic Policy

The present euphoria on East-West trade started with two important events; one was Mr. Nixon's trip to Mainland China and the other was the announcement of $750 million grain "deal" with the Soviet Government. These two events were followed by the lifting of the ban on trade with the communist government of Mainland China and liberalization of trade and conditions necessary for trade with the Soviet Union. The political rationale behind these events is obviously based on a "web of vested interest." Other administration spokesmen have repeated the same theme, advocating the creation of "vested economic interests in peace" even while ideological rivalries continue. Although the enthusiasts proclaim that economics has become the leading factor in resolving international tensions, the trade is surely but the ratification of political decisions based on a confluence of U.S.-Soviet interest in Viet-Nam, China, Berlin, SALT, MBFR and European security.

This is the key. American policy for years took an ambiguous view of how much trade and economic cooperation was feasible, while Cold War tensions continued. Businessmen who went to Washington with plans, ideas and demands for trade expansion were turned away with the admonition that it wasn't yet time.

Well, apparently, the time has clearly come, and it is being proclaimed and promoted from the housetops. The Administration is promoting what has been hailed as "the contagion of confidence."

It is obvious that our grand design for "a generation of peace" is based on a desire for a stable detente among the world powers which in turn would be based on the desire for balance of power.

All these foreshadow the great interest in increased East-West trade by officials of the U.S. Government, traditional proponents of East-West trade, and considerable segment of the American business community.

Potential for East-West Trade

If we all lived in a free world, which we obviously do not, the potential for East-West trade, considering the territory, population and natural resources of the Soviet Union, its satellites and Red China, would obviously be enormous. However, under the existing realities of the world in which we live and despite the substantial potential of extension of trade, the economic relationship with any particular communist governed countries is subject to the disappearance of the communist power constraint.

Under the existing conditions, the trade projections for U.S. exports to U.S.S.R., Eastern Europe, and especially Red China, are very modest.

The recent studies by the Department of Commerce, the State Department and other governmental agencies, reach the same basic conclusion as far as the projected U.S. export to the Soviet Union and Eastern Europe are concerned. Under present conditions, they have estimated that U.S. exports to the U.S.S.R. in 1978 would amount to $295.4* million. However, under "normalized" conditions, estimated 1973 U.S. exports to the U.S.S.R. should reach a figure of $536.8* million. On the other hand, estimated 1978 figures for U.S. exports to the U.S.S.R. under "normalized" conditions would be $683* million and under most optimistic estimates $1,056,000,000.*

The trade projections for U.S. exports to Eastern Europe look somewhat different. While estimated 1978 exports to Eastern Europe under present conditions project a figure of $526.3 million, the estimated 1973 U.S. exports to Eastern Europe under "normalized" conditions should reach the figure of $1,017,000,000. The estimated 1978 U.S. exports to Eastern Europe under "normalized" conditions are expected to be $1,371,000,000.

If we consider the total U.S. exports to the rest of the world in 1972, the communist countries' share of $49.2 billion of U.S. exports was only 2%. The trade projections for U.S. exports to the U.S.S.R. under "normalized" conditions forecast only slight improvements in the communist countries' share of U.S. exports. The U.S. imports from major world areas in 1972 indicates that communist countries' share was an insignificant 1%. The trade projections for future U.S. imports from the U.S.S.R. also suggest very slight improvement. As far as Eastern Europe is concerned, the situation is somewhat better, while Red China, despite its size and needs ranks a poor third among communist countries.

In 1971, U.S. total exports to the rest of the world were about $42 billion. From that sum, only $160 million worth of exports were designated to the U.S.S.R. In 1971, the visible import of goods from the rest of the world into the United States was roughly $45 billion, in particular the imports from the Soviet Union amounted to about $68 million. If we take a look at the GNP per head in the Soviet Union, we will find out that according to the official Soviet figures, it is 42% of that in the United States. However, this is true only if we are prepared to accept Soviet figures at their face value. We must bear in mind that the strange accounting method used by the Soviet central planners does not consider either the quality of their economic output or the depreciation of the capital equipment. Consequently, it becomes obvious that their GNP figures are irrelevant for the purpose of estimating the trade potential with the Soviet Union. What really counts is the purchasing power of the Soviet citizens, which is insignificantly trivial as far as its implications for trade expansion are concerned.

In 1972, the total value of the United States exports to the U.S.S.R. was $540 million. However, 58% of this amount consisted of U.S. grain exports ($369 million). It is interesting to note that during the same period of time, the total trade with Poland amount to $250 million, which in proportion to the population of Poland (33 million) represents considerably larger trade transactions than the trade with the Soviet Union. We find an almost analogous situation in the case of commercial relations with Czechoslovakia.

Let us examine the trade with Red China. In 1971, that trade amounted to zero. In 1972, the sale of wheat to Mainland China amounted to $39 million, while the total trade with the Red Chinese government was only $44 million.

If we list the Chinese GNP, using the most favorable figures supplied by the

*Excludes any possible grain deals of the type concluded in July, 1972, whose nature and causes prevent them from being estimated. For the actual 1973 under "normalized" conditions, approximately $425 million should be added to the estimates.

United Nations, we find that the country with a population of some 780 million people has a GNP equivalent to Italy's (which has a population of 54 million), which is certainly not an economic giant by any means.

The other Western countries, and Japan, have a much greater stake in international trade in general than the U.S. Consequently their trade policies, which could be characterized by "balance of payments surplus syndrome," play a considerable role in tailoring their foreign economic policy including the one toward Communist bloc countries.

Two leading Western countries, as far as the trade with the Communist governments is concerned, are West Germany and Japan. West Germany was, and still is, the largest single trading partner of East Germany. Half of all East Germany imports from the West originates in West Germany.

Japan, on the other hand, has a sizeable commercial interest in trade with Red China. If we scrutinize the Red Chinese imports, we will find that a third of all imports comes from Japan, while West Germany provides 16% of Red China's imports. It is worth stressing that the United Kingdom sells to the Netherlands, with a population of 12 million, ten times more than she sells to Red China.

If one includes Yugoslavia in East-West trade figures, one will observe that in spite of a relatively low GNP for the country, Yugoslavian trade with the West comes up as quite sizeable in comparison with the trade figures of the other Communist governments. Someone might ask why should there be a noticeable difference in the trade between Western countries and Yugoslavia, particularly when we consider the relatively low GNP in Yugoslavia as compared to other Communist governed countries. There is no argument but that the healthier trade relationship with Yugoslavia is a direct result of more liberal attitudes by the Yugoslavian government toward its own internal and external economic policies.

Items of present trade

The types of commodities exchanged in the East-West transactions are rather typical. For instance, pig bristles are shipped from Red China to the United Kingdom (the same type of commodity China has exported to the West since the 19th century), antiques and foodstuffs to the rest of the world.

The typical exports from the Soviet Union consist of raw materials, some basic commodities, and a tiny trifle of manufactured goods; among raw materials the most pronounced are chrome (displacing Rhodesian chrome on Western market), natural gas, and some oil. To this list of Soviet exports, we should add the following items: gold, some platinum, diamonds, furs and, of course, vodka.

As far as Western exports to the Soviet Union, Eastern Europe and Red China are concerned, the capital equipment played the paramount role. The United States' exports to the U.S.S.R. primarily consist of non-electrical and electric machinery, electric apparatus and appliances, chemical elements and compounds, transportation equipment, foundries, various licenses, and production systems. The West European and Japanese exports to the Communist governments are also characterized by high technology items. In recent years, one could have observe numerous transfers to entire plants from Western European countries and Japan to the Eastern bloc countries and Red China. Among these transfers, the interesting examples were Fiat's Tolyati automobile plant in the Soviet Union (involving considerable financing by the U.S. Export-Import Bank because transferred technology was of American origin), British Imperial Chemical Industry's investment into a chemical plant in the Soviet Union, COTOS fiber plant transfer to the Soviet Union, a number of French exports involving chemical plants and equipment designated for the Soviet Union, and West German exports of electronic and chemical plants and equipment to the Soviet Union.

The Nature of Trade

The trade between free countries, in the first place, is characterized by the economic consideration and criteria. The Western countries trade on the basis of comparative advantage (comparative costs), and on the basis of international division of labor. However, neither of the two criteria, and therefore economic underlining factors, comes clearly as a motivation force in dealing with the Communist government. The history of so-called East-West trade provided sufficient empirical evidence that the commercial relationships with the East based on purely economic considerations is simply impossible. The Communist governments refuse the trade based either on comparative costs or on international

division of labor; they also refuse to make their currencies convertible; but rather they engage in the barter trade which requires fixed deals. It should be obvious that barter trade renders inoperative in principle of comparative cost in the production of goods as well as the principle of international division of labor which underlies trade governed by market forces. Barter transactions can only have an adverse effect on the proper functioning of the market in those areas in which the Soviets buy or sell.

Financing the Trade With Communist Governments

A. Government Financing. In order to generate the trade between East and West the Western Governments, including Japan, must finance, guarantee, and insure big contracts involving sale of capital and intermediate goods to the Soviet Union and other Communist ruled countries.

The financial terms under which the East-West trade takes place are an interesting economic curiosity. To generate exports each of the Western governments has established a financial institution analogous to the U.S. Export-Import Bank, which makes long-term loans at less than the prevailing market rate of interst. The United Kingdom has its Export Credit Guarantee Department. Japan has its Export-Import Bank, Western Germany also has a corresponding financial institution, and of course France is not without a state bank which finances its exports. The financing of the above institutions generally involves a direct authorization from the Treasury of the countries involved followed by authority of the institution itself to borrow funds on the open markets. In the case of the Export-Import Bank, the borrowings of that institution are guaranteed by the full faith and credit of the United States Government. This is a subsidy for the lending institution since the guarantee allows borrowings at less than current market rates. In many instances, loans by private lending institutions are guaranteed against loss by the government lending institution. These guarantees are themselves subsidies to the extent that the lender is relieved of a risk which he would either take into account by setting higher interest rates, or by requiring the borrower to secure acceptable insurance to protect against such risk. In the assumption of each risks it is the taxplayer through the respective governments involved who is ultimate insurer.

By guaranteeing and insuring contracts involving transfer of capital and technology, transferring of intermediate goods, even trade in agricultural products, the governments of the involved Western nations assume upon themselves the risks of default on the part of the Communist governments. It goes without emphasizing that whatever risk is assumed by the involved government, automatically the same risk becomes a liability of the citizens of that country.

B. Private financing. Western banks that have been scrambling to establish themselves in the Soviet Union and Eastern Europe by offering cut-rate loans, have been criticized by Gebriel Hauge, Chairman of Manufacturers Hanover Trust Company, who last week assailed such efforts as "dubious banking". As an example, I would like to mention the Banca Commerciale Italiana, which contracted to lend the Soviet Union $300 million at only ⅜% above the floating Eurodollar loan rate.

Another bank involved in lending to the Soviet Union is the Chase Manhattan Bank, practiced in lending based on the "erosion of margins". In other words, the Chase Manhattan Bank has offered rate concessions to the Soviet Union and other East bloc countries to finance exports. According to S. Yassukovich, managing director of White, Weld's London based investment banking affiliate, such deals "apparently gave the Russians the idea that they could obtain a large syndicated loan at these rates."

The most recent inquiries with Chase Manhattan Bank failed to produce any information on the nature of most recent lendings to the Soviet Union of $86 million to help finance construction of the world's largest truck foundry, to be located on the Kama River.

The Soviets and other East bloc countries can make good deals in the Eurodollar market. In the short-term market, they can borrow at virtually the London interbank rate (currently 8.7% for 6 months money). "Banks over here are liquid and there is a temptation to try to make a loan anywhere", says George Yurchyshnya of the London office of the First Bank of Boston.

Consequently, the East Europe countries can still negotiate attractive rates for long-term loans. Poland, for example, has been at the Eurodollar well seven times already this year for a total of $230 million. The First National Bank of Boston recently participated in one such deal—a $30 million, 7-year loan to

Poland's Bank Handloway Warszawie. The rate: just ⅝% above the Eurodollar floating rate.

Financial sources in London said that the Soviets have already borrowed as much as $1 billion in the last year in unannounced loans from individual banks. Moscow needs about another $1 billion to finance the grain buying for 1972–73.

The Soviets are said to be negotiating simultaneously with several banks in Europe and the United States for various loans in amounts up to $200 million or $300 million each. But, according to informed financial sources, Moscow would prefer a single loan of $1 billion from a consortium of Western banks.

The London Reports said that some banks have declined to participate because of the low interest rates. But banks trying to get into Soviet trade finance or to open offices in Moscow are said to be more amenable.

Consequently, the narrow margins are likely to continue as long as the Western banks remain anxious to get into the Soviet Union and Eastern Europe. Yurchyshnya explains First Boston's rationale: "It was more a marketing gesture than anything. We do want to develop a business in Poland. We cannot pack up our tents and go home for two years hoping that the market will get better."

SOVIET CREDIT WORTHINESS

An interesting argument of the advocates of East-West trade in general, and those who favor credits to the Soviet Union and other communist governments in particular, is, for them, the "intriguing" phenomenon that the Soviet Union "never" defaulted on its financial obligations. If we scrutinize the existing situation in regard to the Soviet credit worthiness, it is imperative to discover the actual situation which is far from being that which the advocates of East-West trade maintain.

At present, there is a long-term outstanding debt, on the part of the Soviet government, of $385 million of principal and interest dating back to the early 1910s. It is worth noting that despite the fact that a United States government agency, the Foreign Claims Settlement Commission, has officially reported that the U.S.S.R. owes United States nationals (on unpaid awards) over $120 million, which the U.S.S.R. does not even acknowledge. Additionally, the U.S.S.R. owes United States investors the principal and interest on the dollar-bond debt, as well as the U.S. government, the Kerensky government debt, which was on the order of $100 million, plus interest since 1918.

The dollar-bond debt of the Kingdom of Serbs, Croats and Slovenes has been acknowledged by the successor-Yugoslav communist government, which has been paying interest on those dollar-bonds for many years; more recently, the FBPC negotiated with the present communist government of Poland and the latter have further agreed to certain reduced interest payments on the dollar-bonds issued by its predecessor, the Republic of Poland, and have further agreed to negotiate a complete settlement of that old dollar-bond debt within the next 18 months. Both the communist Hungarian government and the communist Rumanian government have promised in writing (to the U.S. State Department) to negotiate settlements of their dollar-bond obligations as soon as they are able to do so.

The Government of the Peoples Republic of China has just settled a debt with the Canadian Government incurred by private businesses of Nationalist China prior to 1948.

Lend-lease exports to the Soviet Union during World War II totaled over $11 billion in 1941–1945. The terms of lend-lease agreements require the recipient countries to pay for material accepted after hostilities officially ended. In 1952, the United States asked the U.S.S.R. for $800 million in settlement. In 1972, at the time Secretary of Commerce Peter Petersen, announced the agreement between Soviet representatives and representatives of the United States' government of the lend-lease settlement in an amount of $722 million, to be paid by the year ending July 1, 2001. The agreement allows the Soviet Union to take up to four deferments. However, in the agreement, between U.S. government and the Government of the Union of Socialist Soviet Republics requiring settlement of lend-lease, reciprocal aid and claims, signed on October 18, 1972, by Secretary of State, William P. Rogers and Soviet Minister of Foreign Trade, N. Patolichev, the Soviets were successful to linking receiving of the Most Favored Nation status with payment of lend-lease debt. In other words,

if the Congress refuses to grant the Soviet Union the MFM status they will not pay any part of the World War II lend-lease debt. Mr. Helmut Sonnenfeldt, one of our chief negotiators in Moscow, and at present Under Secretary of the Treasury, in his recent testimony, before the Senate Finance Committee, has confirmed this.

Between 1822 and 1914, Russia borrowed an estimated $4.8 billion from private investors in Europe on 114 issues of bonds, most of them payable in non-Russian money, especially in French francs and British sterling. Most of the loans had gold clauses. Seventy-nine of the bond issues were to raise money for the Russian state railroads or to finance nationalization of private Russian railroads. Forty-three railroad systems and eight city governments participated in the borrowing. The cities were Astrakhan, Baku, Kiev, Moscow, Nicolaev, Perm, St. Petersburg and Saratov. These external debts were defaulted.

The Soviet government repudiated all obligations of the predecessor Czarish State by a retroactive decree, issued February 8, 1918. A further default occurred when in 1940 the Soviet government dishonored its own external obligations by discontinuing interest payments on British sterling notes issued by the Soviets in 1932 and 1934 to dispossess the owners of Lena Gold Fields, Ltd., a Siberian enterprise, and owners of Tetiuhue Mining Corporation. Spokesmen for Soviet Russia, including its founder, Lenin, repeatedly expressed a willingness to honor the external debt of the predecessor regime providing payment on the old debt could be arranged within the Soviets' capacity to pay, and provided further, that long-term credits were made to the Soviet Union from abroad. This official attitude was renewed at international conferences at Geneva and The Hague in 1922, and in negotiations with the French government from 1924 to 1927, and again in 1933. In 1956, new negotiations of like kind broke down.

A further analysis of Soviet credit and debt handling discloses that the credits obtained and debts incurred during the past decade manifests a more sophisticated pattern in Soviet strategy in quests for credit. The first criteria for incurring indebtedness, analogous to the previous patterns, was that it had to be long-term credits (that is, commercial credits ranging from 8 to 15 years). Their second criteria was to obtain an interest rate considerably below the ongoing market interest rate. It goes without saying that this type of arrangement equals subsidy on the part of credit-providing sources (the Western governments).

Third, using various kinds of pressures, they were able to compel creditors to accept raw materials in the form of payments.

Fourth, and last but not least, using governmental power, threats and insinuations about defaulting on existing obligations, they were always able to coerce the creditors to re-extend, again on long terms, the existing long-term indebtedness. The European bankers and their governments, afraid of losing face before their public and business community, were willing to oblige the Soviets in order to save face.

A will-o-the-wisp record shows that the sellers are hit by endless consolations, arbitrary rejections of products, outrageous downward contract price adjustments, and outright repudiations of terms. Moreover, despite the 10-, 12-, and 15-year payment provisions, creditors have had to suffer losses from current obligations of the Soviet government or its agencies.

That is what is happening to the West Germans. West Germany graciously exported to the Soviet Union and the Communist controlled countries of Eastern Europe more than $1 billion in goods and capital during 1970. The collection problem has now reached a crisis. In fact, it was a significant factor in the financial problems of the giant Krupp enterprises.

The MontiEdison Industrial conglomerate of Italy is the largest single enterprise of that country. It is controlled by the Italian Government because the majority of its stock is owned by the Government, although private investors also own stock in that enterprise. As early as 1967 MontiEdison entered into a joint venture with the Soviet Government to begin the production of electrical machinery in the Soviet Union. Capital equipment was exported from Italy to the Soviet Union and financed by MontiEdison for the purpose of carrying out the joint venture. It is not known the amount of credits that were extended but it is known that the Soviet Government defaulted on payments of the loan. Today, MontiEdison would be incapable of continuing operations except for heavy subsidy financing by the Italian Government. This crisis was brought about because of the failure of the Soviet Government to complete its part of the joint venture and make payments as contracted.

We are all familiar with the construction by Fiat of an automobile factory in the Soviet Union. The plant is known as the Soviet Tolati automobile plant and involves a $1 billion loan commitment from various sources, including a $80 million loan from the U.S. Export-Import Bank. The automobile plant has not been as successful as contemplated. The Soviets had agreed as part of their commitment to the plant to supply certain parts to be used in the assembly of the completed automobiles. The Soviets failed to meet this commitment. Whether the failures were due to a lack of Soviet technology or mismanagement is not important to our discussion. What is important is that the failure did occur and as a result, Fiat was compelled to borrow an additional $162 million in order to fabricate components in its Italian plant to be shipped to Russia for the assembly of completed Tolati automobiles. The solvency of Fiat can well be endangered if the Soviets are unable or unwilling to make good their original commitment. Again, the important consideration is the fact of the failure of the Soviet Government to meet a contractual obligation.

One of the first West German companies to feel the pain of joining in with the Soviet Government in industrial enterprises was the giant Krupp enterprises. This firm, having been one of the oldest and largest steel manufacturers in the world prior to and after World Wars I and II, began entering into a series of joint ventures with the Soviet Union and Poland in the late 1950s. The ventures called for the construction by Krupp of steel and diesel engine manufacturing facilities within the Soviet Union. Krupp was to be paid by the receipt of a portion of the goods produced with the thought that Krupp could recoup its investment and make a profit by the sale in western markets of the goods received by them. Soviet deliveries of goods were never on schedule, never in the quantities anticipated by Krupp, and of dismal quality with the result that they were not marketable in western markets. Not only was Krupp disappointed in the quality and quantity of its share of the goods produced, but financing extended to the Soviets by Krupp as part of the overall transactions was never paid on time. The combination of these failures in the joint ventures today finds Krupp Enterprises near collapse. This is hardly an encouraging recommendation for American businessmen who are today being led to believe that joint ventures with the Soviet Government have great hope for financial reward.

The examples above of disappointments by Western nations and Western firms in dealing with the Soviet Union should not be treated as isolated incidents unrelated to the American experience. To come more close to home and more recent in date, a reference to the Soviet grain purchase last year is appropriate.

THE COSTS OF THE SOVIET GRAIN "DEAL"

The huge grain sales to the Soviet Union resulted in a wide variety of costs which can be classified into the following categories:

1. Costs to the Consumers.
2. Costs to the Taxpayers.
3. Costs to the Economy as a Whole.
4. Political Costs to the United States.
5. Costs to the Free Economies.

COSTS TO THE CONSUMERS

According to the figures supplied by the Comptroller General, Elmer B. Staats, the massive grain sales to the Soviet Union raised domestic prices of wheat from about $1.63 per bushel in July of 1972, to $2.49 a bushel in September of the same year. CBS news has computed the total cost to the American consumers for the 9-month period starting July 1972, and according to these figures, the total costs to the consumer for the purchase of bread and other flour-based products as a result of the Soviet wheat deal, will be at least $300 million, and that is a conservative estimate. As far as beef and pork (and beef and pork-based products) are concerned, the additional costs the American consumers will have to absorb during the same 9-month period is $1.2 billion in order to eat the amount of meat he has been consuming. However, the actual increase in food prices imperatively adds an additional 12 per cent to the combined figure of $1.5 billion.

The cost of feed grain plays a large role in determining the price of poultry, eggs, and dairy products. The increase in those prices vary from 12 to 25 per cent, and that adds—for the 9-month period—an additional cost to the consumer of about $800 million.

COSTS TO THE TAXPAYER

The direct subsidy for the Soviet grain deal, at the exepnse of the American taxpayers, exceeded $300 million. The subsidy for the transportation of grain, so far, has amounted to over $400 million. This figure coincides with that estimated by CBS–News.

COSTS TO THE ECONOMY AS A WHOLE

These are the most difficult to estimate because they reflect a variety of costs and factors which are extremely intricate in nature. Some of them, such as market distortions, transportation tie-ups, and loss of good will with established customers for agricultural products (for instance, Japan) are almost impossible to measure.

The grain deal has been financed with a credit of $750 million by the Commodity Credit Corporation (CCC) at 6⅛% interest, repayable in three years. The interest rate is lower than what it cost the U.S. Treasury to borrow in the market place. By contrast, the Treasury is paying 6½% and 6⅝% on recent market borrowings.

The freight rates on the railroads increased by about 10% and, in addition, the economy experienced the most acute railroad car shortage in the history of the American railroads. This shortage in the Midwest resulted in the shortage of some rail carried products, such as fuel oil. The overburdening of the transportation system with transportation of grain for the Soviet Union, resulted in delayed deliveries of numeorus industrial products from steel and machinery to various component parts for a variety of industrial commodities.

Another cost to the economy resulting from the Soviet grain deal is the increased price of agricultural machinery. The increase has been reported to be about 10 per cent.

National and independent bakers are complaining because wheat shipments to the Soviet Union have resulted in a price surge at home. The price surge at home resulted in the increase of the price of flour the bakers buy. This resulted in a large number of bankruptcies among the independent bakers which, so far, have cost ten thousand people their jobs. For example, the added annual cost of one particular enterprise—American bakeries—is estimated at $9.2 million over the 12-month period starting August 1972.

For the farmers, the cost of the Soviet grain "deal" was at least $120 million by September 1972—both because they sold wheat too early (spring of 1972 which is usual) to benefit from higher prices and more importantly, because the higher prices cut the subsidy available to many Southwestern farmers.

If we sum up the cost of the Soviet grain deal to the American public, then we reach a sum which for the 9-month period exceeds $3.2 billion.

POLITICAL COSTS TO THE UNITED STATES

The lack of any political trade-offs in regard to the Soviet Union could be clearly defined as a political cost.

The fight against inflation failed primarily because of increases in food prices which are directly associated with the Soviet grain deal. While the increase in the Consumer Price Index was at the annual rate of about 5%, the increase in food averaged (for the same period) some 25%. This is a clear indication that the fight against inflation might have been completely successful had it not been for the Soivet grain deal. The increase in food prices is primarily responsible for the present inflation hysteria around the Congress and the country as a whole. The consequences of it for the welfare of the United States and its economy are not difficult to foresee; distorted markets; large economy fluctuations; and all this due to irrational behavior on both the supply and demand side.

COSTS TO THE FREE ECONOMIES

The cost to the free economies primarily take the form of distortion effects on the market forces, both within the financial market and markets for agricultural products. In financial markets, the market interest rate is suppressed by Soviet absolute demand monopoly and ability to use political power for the purpose of coercion. In agricultural markets, strongly fluctuating and sudden exaggerated demands for the grain stuff, and playing competitors on the supply side against

each other, resulted in tremendous distortions on prices and supply. And both elements, distortions in financial and agricultural markets, are responsible for highly negative influence on the World economy.

MAJOR WESTERN CREDITS OBTAINED BY U.S.S.R. SINCE 1964

For the past eight years Western companies have been trading with the USSR on the basis of credits advanced by Western banks or governments in order to finance the deals. Unfortunately, no complete list of such credit operations has yet become available, but some of the major deals which are known to have taken place already are outlined below; others are still in the pipeline, but not yet firm.

Years, company, or country	Amount (millions)	Repayment period (years)	Interest rate (percent)
1964–69: Great Britain (rubles)	234	10–15	[1] N.A.
1964–69: Italy (rubles)	379	10–14	[2] 5½
1964–69: France (rubles)	463	10–12	[3] 5½
1966: Fiat, Italy (rubles)	330	14	[4] 5½
1964–69: Austria (rubles)	88	10	[5] N.A.
1969: ENI–IRI, Italy	$200	5	[6] 6.0
1969: Thyssen, Manessmann, Germany (Deutsche mark)	1,200	10	6.0
1972: Swindell-Dressler, United States	$20	N.A.	[7] 6½
1972: Caterpillar Tractor, United States	$68	N.A.	[8] 6½
1972: Korff, Salzgutter, Lurgi (Deutsche mark)	450	N.A.	[9] 6–12
1972: International Harvester, United States	$40	N.A.	[10] 6–12
1972: Great Britain (pounds)	200	2	[11] 6
1972: Continental Cargill and others, United States	$750	3	[12] 6⅛
1972: Bison Werke, Teamwood International and Salzgutter, A. G., Germany (pounds)	50	5	[13] 6
1972: French-American Bank, New York and other U.S. banks	$100	10	[14] 6½
1972: Alliance Tool & Die, Atlas Fabricators, United States	$55	10	[15] 6¼
1972: Simon-Carves, Redman, Heenan, H. H. Robertson, United Kingdom (pounds)	6	8½	[16] 6
1972: Export-Import Bank, United States	$100	NA	[17] 6½
1972: Consortium of European Banks	$1,000	NA	[18] NA
1973: U.S. Export-Import Bank	$202.4	12	[19] 6
1973: Exim Bank	$360	12	[20] 6
1973(pending): El Paso, Bechtel, Occidental, United States	$7,000	5	[21] 6½

[1] Vneshnyaya Torgovlya, May 1970.
[2] Politique Hebdo, Oct. 8, 1970.
[3] Ibid.
[4] Ibid.
[5] Vneshnyaya Torgovlya, May 1970.
[6] Financial Times, Dec. 11, 1969.
[7] Christian Science Monitor, Oct. 20, 1972.
[8] Ibid.
[9] Die Welt, Oct. 14, 1972.
[10] UPI, Aug. 16, 1972.
[11] Reuter, July 20, 1972, Economist, Aug. 5, 1972.
[12] Muenchner Merkur, July 10, 1972; Washington Post, Nov. 10, 1972.
[13] Financial Times, July 7, 1972.
[14] Financial Times, Nov. 10, 1972.
[15] Reuter, June 19, 1972; Journal of Commerce, Aug. 21, 1972.
[16] Financial Times, July 21, 1972.
[17] UPI, Oct. 30, 1972.
[18] Washington Post, May 10, 1973.
[19] Wall Street Journal, Mar. 9, 1973.
[20] Wall Street Journal, May 31, 1973.
[21] Financial Times, Nov. 4, 1972.
NA—Not available.

The Possible Impact of U.S.-U.S.S.R. Trade on the Balance of Payments of the U.S.

Our studies on Soviet-American trade prospects over the next ten years strongly suggests the following conjectures on the impact of this trade on the balance of payments:

a. The Soviets are unresponsive to most market criteria—but are not unresponsive to balance of payments troubles. They cannot run into large deficits with the U.S.—except in the case of barter agreements.

b. Accordingly they will try to control imports *and* push certain exports here—like diamonds, non-ferrous materials, furs (oil and gas will come into consideration only after the mid 1980's).

c. The Soviets may use more aggressive methods than before to push their products in Western Europe, Japan and other currency convertible areas including the U.S. They may use American consultants, set up enterprises based on co-participation for producing for U.S. markets, etc.

Eventually, U.S. purchases of Soviet goods may reach a quarter to half a million dollars annually (before large imports of Soviet oil).

U.S. exports.—Only U.S. credits could encourage Soviet imports other than sporadic grain purchases. Such credits would be needed for: (A) entire production facilities ("turnkey" projects); (B) long-term licensing agreements; (C) direct investments in the U.S.S.R. (e.g., for the exploration and exportation of oil and gas).

Since credits and insurance for such projects involve persons longer than five years, no private firm would be ready to engage in these operations without a U.S. government guarantee. (The guarantee against uncertainties would reduce the *interest rates* paid by the Soviets, but would imply a U.S. Government subsidy equivalent to a government to government aid, since all Soviet firms are state-owned).

According to our estimates, the Soviet Union could increase its imports to roughly 1.5 to 2 billion dollars per year during the second half of the 1970's—with possible repayments starting in the middle of the 1980's in the form of oil and gas shipments.

Impact on the U.S. balance of payments.—It is our feeling that such exports would have an unfavorable impact on our balance of payments—which now runs a deficit likely to grow unless the energy problem is dealt with imaginatively. Adding higher inconvertible long-term promissory bonds from the U.S.S.R. for the bilateral export surplus would further weaken the U.S. international reserves and payments position since U.S. exports are diverted from earning convertible currency.

One may finally note that:

a. The volatility of the Soviet market and of its demand patterns would further affect adversely our general trade;

b. Pressures from Western European countries that the U.S.S.R. straighten out its balance of payments problems with them (i.e., increase Soviet imports from these countries rather than from the U.S.) are likely to increase;

c. The danger of sharp Soviet reversals will increase: 20 or 40 year agreements are easily talked about by the Soviets, but are just as easily broken by them (let us not forget their "unbreakable eternal friendship" with China, Yugoslavia, etc.). The indebtedness of a big country to another does not always guarantee political peace.

If the Soviets honor the proposed peacetime lend-lease which is now under consideration with the same degree of obligation that they honor their World War II lend-lease obligations, the picture is indeed a dismal one for the American businessman, the American consumer, and the American taxpayer.

CONCLUSIONS AND RECOMMENDATIONS

Careful scrutiny of Soviet internal and external policies clearly suggests that these were no significant changes in Soviet long established practices. The Soviet Union is still a police state and its long-term objective is to establish the Soviet Union as the unparallel world power. In fact, the Brezhnev strategy is designed to use Moscow's new relationship with America as a double-edged sword toward that end.

The Kremlin needs and wants the help of American know-how in solving Soviet problems of industrial backwardness and its lag in technological advance. The Soviets are anxious for assurance that they will be able to get American grain when their abysmally inefficient agricultural system failed again. Politically, they would like to have the U.S. support in neutralizing their Communist adversary, Red China, and in stabilizing East Europe.

On one side the Soviet leaders see in the aura of good feeling the best opportunity so far to solving the Soviet's tremendous domestic problems and perhaps eventually achieving economic stature equal to that of America—just as the Soviets have reached a balance of nuclear power with the United States.

With the other of his two cutting edges, Brezhnev probably reasons that in an atmosphere of warmth and cooperation there is a chance of gradually tilting the political balance among U.S. allies toward the Soviet Union.

Domestically, despite its assurance to the contrary, the Soviet Union is suppressing the rights of its people in spite of some paragraphs in the Soviet Constitution which suggest that certain rights of its citizens are guaranteed. For instance, the persecution of Soviet Jews, who wish to immigrate to Israel is the most flagrant example of violation of basic human rights. For years the Soviet Union has been practicing a trade with human beings charging the Israeli government $10 thousand per head of each Jew immigrating to Israel. Today we witness a series of trials in the Soviet Union involving Jews who want to emigrate. In addition to it, many Jews are subjected to house arrest, loss of jobs, denial of medical care, and slow starvation.

The dissidents of various kinds including intellectuals, the clergy, and those who practice their religious beliefs, are sent either to concentration camps or locked into lunatic asylums.

Soviet acceptance of international copyright convention is just another method to control internal dissent, only in a more subtle way.

The Soviet propaganda against the Democratic Societies in the United States in particular is still one of the pillars of their public education.

In the international arena, we see the continuation of Soviet promotion of unrest and instability in non-Communist parts of the world. British intelligence, for instance, has established Soviet involvement in IRA and Civil War among the Irish factions. The presence of Soviet arms, money and agents in that struggle is a fact. Furthermore, the Soviet Union is the chief supporter of North Viet Nam in spite of the fact that the Communist government of North Viet Nam is continually and flagrantly violating the peace agreement. The Soviet Union continues to finance Cuba at a rate of $2 million a day. The pro-Communist government of Chile has received, in 1972, $250 million in Soviet aid. Soviet support of revolutionary elements in the Middle East as well as their support of aggressive Arabic Governments is a matter of record.

During the past several years the Soviets have done everything to surpass the United States in the area of military power. The presence of Soviet fleets in the Mediterranean and the Indian Ocean with its implications for the security of the free world is of paramount concern to the non-Communist countries in bordering areas. It goes without saying that the strategic consequences for the United States is obvious.

Soviet emphasis on rapid development of the SS–17, their edition to our MIRVs, and developing of sophisticated weapon systems based on laser power, clearly signifies their military and strategic objectives.

In the area of international economic relations, the Soviet Union bases its present strategy on three objectives. Namely; to obtain from the United States and developed nations of the West, advanced technology, industrial know-how and massive credits.

At the same time, its own policy with regard to its gold reserves is based on Lenin's formula; "We must save the gold in the U.S.S.R., sell it at the highest price, buy goods with it at the lowest price. When you live among wolves, you must howl like a wolf, while as for exterminating all the wolves, as should be done in a rational human society, we shall act up to the wise Russian proverb: Boast not before but after the battle."

This formula adequately explains a strange paradox being presented to the world and the American people. A country rich in gold reserves, the Soviet Union, is seeking loans from a country, the United States, whose currency is under sustained attack and whose gold reserves are woefully inadequate. The authoritative studies about the Soviet gold reserves set the latter at $7 to $8 billion. Inasmuch as there are no rubles outstanding which can be presented for conversion to gold, it is fair to say that the Soviet gold reserves are free and clear. It is estimated that approximately $80 billion (U.S. dollars) are floating in the Eurodollar and other financial markets. What possible logic can be urged to support the concept that the gold-rich nation should be financed and subsidized by the nation which is experiencing a currency crisis and serious problems arising out of its inequilibrium in the balance of payments?

Mr. Brezhnev is coming to the United States to negotiate, among other things, that which is promising to turn into a breakthrough in large-scale development deals. Dr. Armand Hammer, Chairman of Occidental Petroleum, which has signed an agreement with the Soviet Government about production of fertilizers and related chemicals in the Soviet Union, was kind enough to make public that the most important of the deals involves $7 billion project to tap natural-gas deposits and possibly other resources in Siberia.

THE BASIC SOVIET TROUBLES

The heart of the Soviet troubles today, Western experts agree, is domestic. Not internal politics or foreign-policy failures, but basic economics.

Nowhere are Soviet shortcomings made more apparent than when Russia is compared with the United States.

Soviet authorities themselves claim an overall economic growth of only 4 per cent last year. By U.S. standards of measurements, the figure is closer to 0 per cent. By either reckoning, America—with a 6.4% real growth in production of goods and services—is expanding faster than the Soviet Union. U.S. gross national product for 1972 totalled $1.2 trillion, while the Soviet gross national product was about $300 billion.

In no other element of the economy are Soviet problems more acute than in agriculture. Soviet grain production—targeted at 195 million tons in 1972—fell, according to official Soviet figures, 27 million tons below that goal—to 168 million tons. From U.S. officials we find that even this figure may be exaggerated by as much as 33 million tons.

To forestall bread shortages and the danger of worker protests, Soviet authorities have purchasesd 30 million tons of gain in the West, at a cost of $2 billion. That is equivalent to the total amount spent on machinery imports in the past Five-Year Plan.

Other kinds of crops fared almost as badly. The vegetable harvest dropped 8% from the year before. The harvest of potatoes, a staple, plunged from 92 million tons in 1971 to 77 million tons last year. The pig population dropped drastically reflecting shortages in feed grain.

According to reports in Pravda and the New York Times during the week of March 12, 1973, numerous Soviet provinces reported shortages in bread supply. The cities of Novosibirsk, Volgograd, and Corki were among those cities that experienced the shortage of bread, and were forced to establish sales quotas of bread per household. Pravda also reported the shortage of bread in the Tanbow region and Bashkir Republic. During the month of March, the Soviet press was continuing numerous letters from the people in rural areas, who were complaining about the bread shortage.

RECOMMENDATIONS

The past has demonstrated that there can be changes in Moscow's tactics, manners and theatrics. But, the goal—that of attaining pre-eminent world power—never changes.

Therefore, in order to insure a defacto detente and a "generation of peace" we would like the United States Congress to consider the following recommendations. Because we believe that only by following these ideas can we be instrumental in liberalizing the Soviet society. And it goes without saying, that without liberalization of the Soviet Union there is no guarantee for our children and grandchildren that they will enjoy the "generation of peace."

We suggest that:

a. Before any long-term credits can be extended to the Soviet Union, by, or with participation of, our government, the Soviet State, as a successor government, should first be required to make settlement in full of debt claims awarded to: a.) U.S. private investors; and b.) U.S. businesses to whom awards were certified by the Foreign Claims Settlement Commission in 1958–59.

b. The Soviet Government should be required to permit American corporations to invest in the Soviet economy and operate its enterprises in accordance with well-established international business criteria.

c. American financial institutions should be permitted to establish their branches in the Soviet Union and operate on its territory in accordance with long-established international financial and commercial practices.

d. Every dollar of U.S. government credits and/or U.S. government credit guarantees involving tax monies or funds raised by the Federal Government or its agencies in financial markets for the financing of commercial transactions with the Soviet Union and/or investment in the Soviet economy and/or investment in joint ventures with Soviet state business enterprises must be matched by an equal amount of U.S. dollars provided by the Soviet Government.

The purpose of this provision is twofold. First, to ascertain that the Soviets are not going to divert their resources from civilian into military areas, or to divert their resources for promotion of conflicts and subversion around the world. Second we believe that if we demand from our local governments and communities to match every federal dollar invested into their area with a local dollar, that it is only fair to apply the same criteria to the Soviet Union.

e. No transfer of American technology, relevant for the development of sophisticated weapons systems, is to be allowed, directly or indirectly, to the Soviet Union.

I believe that only with establishment of American presence on the territory of the Soviet Union and by application of sound economic and business practices, can we assure the liberalization of the Soviet system, which is the only guarantee for a meaningful detente and better world for our children.

[From the Washington Post, May 27, 1973]

RUSSIAN TRADE: MYTH AND REALITY

(By Edward N. Luttwak)

Luttwak, author of "Dictionary of Modern War," is currently at Georgetown University's Center for Strategic and International Studies.

The most heavily advertised benefit of the Soviet-American detente is the potential growth of trade between the two countries; the main justification given for the expansion of this trade is that it would help consolidate the detente. But less disturbing than the fact that the argument is circular are the profound misconceptions that prevail about the size and importance of this trade now and in the foreseeable future.

Businessmen proud of their commercial *machismo* in counting everything in dollars and cents ignore the figures in this case and talk airily about "240 million Russian consumers"; the State Department, in its confrontation with Congress and Sen. Henry Jackson of Washington, swears by the Russian market; American newspaper readers have by now been persuaded that there is a new El Dorado on the banks of the Volga. Armand Hammer, with his flair for publicity, has acted as chief barker: In his last appearance he toted up 20 years of future trade—agreed on only in principle, not in firm contracts—to come up with the gratifyingly large figure of $8 billion. (Ask your banker how much he will advance to you on dollars you expect to earn in 1993; you would be lucky to get 15 cents on the dollar. That is how the 20-year deal should have been added up: in discounted dollars.)

BARGAIN RATES, INFLATED HOPES

The actual figures on the Soviet Union's capacity to pay for imports do not support these inflated hopes. According to the Peterson report, total Soviet imports from hard-currency suppliers amounted to less than $2.9 billion in 1971; of this total, only $143 million was spent in the United States. In 1972, the year of the great wheat deal, Russian imports from the United States still amounted to only $550 million, and this was of course a very disruptive, one-shot purchase for which the Soviet Union had to dig into its gold reserves. Even at bargain rates, obtained through market manipulations in the best capitalist tradition, the Soviet Union could not pay for imports at this level year after year.

But even the inflated 1972 figures do not place the Soviet Union in the front rank of American export markets: Spain imported $972 million worth of U.S. goods, and even little Israel bought more than $558 million. As compared to the truly important U.S. markets—Canada, Britain, Germany and Japan—the Soviet Union remained an almost insignificant customer.

THE CHINA-TRADE PRECEDENT

Perhaps the illusions that prevail over the scope of the Russian market should not be surprising since there is a precedent in the China trade myth: From the mid-19th century to the eve of Pearl Harbor, the "limitless" China market hypnotized Americans—even though the Japanese imported more American goods year after year. This particular illusion had much to do with American persistence in antagonizing the Japanese to keep commercial doors open in China. Then, as now, even "hard-headed" businessmen made the facile conversion of need into effective demand, forgot about the purchasing-power constraint and went on to assume that hundreds of millions of Chinese would sooner or later have to become that many consumers. But this prospect proved to be a receding mirage, and it remains beyond the horizon to this day.

Those who have made it their business to promote the importance of the Russian trade argue that static comparisons are misleading since the Soviet Union does not yet have most-favored-nation status and since it is only recently

that the Soviet Union has made East-West trade an important priority. These points are well taken, but they cannot alter the plain fact that the potential size of the Russian market for Western exports will be set by the Soviet Union's ability to sell its own products on free markets—which is, and is likely to remain, rather low.

At present, the only goods the Russians can sell for hard currency are raw and semi-processed raw materials: oil, natural gas, timber, metals and furs—plus, of course, vodka and caviar. These are essentially the exports of an underdeveloped economy, and the potential for expansion is limited except for oil and gas. Unfortunately, the exportable surplus of Russian oil has remained at 50 million metric tons for several years, and with the growth in internal demand this figure is not now expected to rise significantly in the future. As for natural gas, of which the Russians do have large reserves, the high cost of transport (its low density requires large and expensive pipes) sets a limit on potential exports.

WITH A LITTLE HELP FROM THE U.S.

If the United States were to invest $5 to $6 billion in developing feeder lines, pipelines, liquefaction plants and special-purpose deep-freeze tankers, the Soviet Union would be able to export $500 million worth of natural gas to the West Coast by 1978 or 1979. Adding future gas exports to every other source of hard currency, throwing in every conceivable barter deal and making generous allowances all around, the Soviet Union would still remain—even in the 1980s—a middle-league importer of U.S. products, comparable at best with Italy. The present level of Russian exports to all non-Communist markets (including soft-currency barter deals) amounts to about $5 billion per year as against $16 billion for Italy, which, with a semi-modernized economy and a population just over one-fifth that of the Soviet Union, is a good standard of comparison. Assuming a less-than-average growth for Italy, and a dramatic 400 per cent increase in the Soviet import capacity, then the Soviet Union will reach the status of Italy, as a hard-currency market, by the mid-1980s. Even the most ardent advocates of East-West trade would not claim more than that.

THE SUPPLIERS OF LAST RESORT

The trouble is that Soviet industrial design is so primitive, and the finish on Soviet consumer goods and machinery so shoddy, that the only markets that will absorb Russian industrial exports are those in which the Russians act as the suppliers of last resort. When Poles and Egyptians have committed their hard currency for the year to purchases from the West, they then buy additional requirements from the Soviet Union under barter arrangements in exchange for equally unsalable barter goods of their own. Thus Poles sell their good quality sausages to Britain and leave substandard meats for sale to the Soviet Union, while Egyptians sell their premium-grade cotton to Italy and pay their debts to the Russians in lowgrade cotton fiber. In the West the Russians can sell only raw materials.

The Soviet economy, as presently constituted, can neither expand on material production very much nor improve the quality of industrial manufactures to the point where Western consumers will buy the stuff. Nor is this the type of backwardness that can be put right by the mere injection of U.S. technology. Those who claim that it is share the same naive belief in the "tech-fix" approach that was so unhappily demonstrated in Indochina.

In a recent interview in Le Monde Samuel Pisar—an American lawyer who represents firms trading with the Soviets and a strong advocate of East-West trade—was forced to admit that the Soviet enonomy's inability to produce high-quality goods was not a mere matter of technology but was due to structural—that is, political—reasons. It is obvious that the rise of a spirited and innovation-minded managerial class able to modernize production and marketing would require the displacement of the party bureaucrats who now control the Soviet economy. The Kremlin leaders would dearly love to modernize the economy, but they face a cruel dilemma: Modernization is incompatible with the survival of the political bureaucracy, that is their only power base. As the failure of the Russian economic liberalization program showed, it is too much to expect that shopworn and very formalistic party men should suddenly become inventive and efficient business managers. Importing American computers and American know-how, would certainly help, but it would still be the sort of "tech-fix" that

inserts high-grade technology into an unfavorable environment, with inevitably disappointing results.

Spaniards and Italians have converted much of their industry to modern U.S.-style technology, but as they did so they discovered that the conversion required a parallel social change from a staid and conservative land-owner-lawyer elite to a new managerial class with modern skills and a modern outlook. The same changeover could not take place in the Soviet Union without demolishing the power of the party—and without the party only the military would survive as a power bloc. And the military, of course, have other uses in mind for Russian resources than the automobiles and lipsticks that the Russian consumer no doubt wants, and that the men now in the Kremlin feel they must supply.

THE WAY OUT: WESTERN AID

This political problem limits the flexibility of Soviet economic policy and sets a rigid limit on the potential growth of Soviet exports and thus, of Soviet imports. But there is a way out: If the Soviet leaders who persuade the United States, West Germany, Japan, and others to be "constructive" in their attitude, the Russians could square their economic circle by obtaining long-term, low-interest loans.

It has been reported that in the early stages of the unfortunate wheat deal affair the Russians tried very hard to obtain a 20-year loan at 2 percent per year to cover the cost of their food-grain purchases—and the State Department apparently discussed this proposal seriously. Needless to say, a 2 per cent interest rate and a 20-year repayment schedule would be aid, not trade—as would any terms softer than the 5 to 6 per cent rates now in effect. Even if this ploy did not work with the wheat deal, the Russians have been able to receive low-interest long-term loans (up to 20 years) all over the Western world. Just recently there was some agitation in Britain following the disclosure that the British had sold vast quantities of butter to the Soviet Union at 30 per cent of the price charged to the British housewife—and with a low-interest long-term loan to cover the purchase. Right now the Russians are trying to negotiate major low-interest loans from the West Germans and the Japanese.

There is one school of thought that proclaims all economic arguments on this subject invalid, since the great benefit of East-West trade is political. The remarkable persistence of the belief that those who trade do not fight is one of the most curious phenomena of intellectual history. Norman Angell's book arguing this point was still selling well in 1914 when the best of trading partners, Britain, Germany, France and Russia, set off to war. In 1939 Anglo-German and even more, Franco-German trade was booming, as was American-Japanese trade. In fact, one could argue convincingly that there is a postive correlation between high levels of trade and conflict, although of course neither argument has any validity, since the relationship between trade and conflict is obviously very tenuous.

If trade is not converted into aid by concessionary low-interest loans there is no reason East-West trade should not be encouraged. After all, the Soviet Union may soon overtake South Korea as a market for U.S. goods ($681 million in 1971) and in time it may well reach the level of Italy.

[From the Washington Post, June 8, 1973]

SUMMIT: POLITICAL BOMB?

(By Stephen S. Rosenfeld)

Last year Mr. Nixon and Mr. Brezhnev talked of trade as an economic and political bonanza, but on the eve of their second summit it looks more like a bomb—economically disappointing, politically explosive.

The prospect of repeated large grain sales has been heavily tarnished by the widespread feeling in Congress and elsewhere that the 1972 grain deal bailed the Russians out of a deep hole but helped push American food prices sky high.

The biggest industrial deal, Occidental Petroleum Corp. building a fertilizer complex, turns out to require an initial investment of nine dollars by the United States for one dollar by Moscow. The kind of arrangement Moscow most wants, indications are, is to borrow money for investments it wouldn't make with its own money.

Last November three American firms said they were on the verge of the biggest deal in history—$45 billion worth of Soviet natural gas. Key American energy aides say the deal is nowhere near consumation. The hangup is "financing," i.e., the terms on which Americans (and Japanese) would invest the billions to produce and market the Soviet gas.

Returning from Moscow last winter, Senators Hubert Humphrey (D.-Minn.) and Henry Bellmon (R.-Okla.) and Rep. Henry Reuss (D.-Wis.) concluded that while natural-resource deals would provide economic benefit to the United States, the net economic benefits "would tend to favor the Soviet Union. Therefore, only if political benefits to the United States from flexibility in the Soviet system and the shift away from Soviet military programs were added to the equation, did it appear that the long-term costs and benefits of large-scale joint ventures tended to equal out for both sides."

In the latest Newsweek, economist Paul Samuelson submits that rapproachment with Moscow (and Peking) is not "of much *economic* importance" (his italics) for us. The Russians, who have little to sell, want credit and help in developing future exports. "But in this age after Keynes, there is no need to seek such investments merely to prime the pump of purchasing power and to make jobs at home. And certainly our balance of payments will not be helped by any program that involves our expanding exports which are paid for only by IOUs."

Finally, trade has gotten deeply enmeshed with both Soviet and American politics. Specifically, large solid majorities of both houses of Congress have linked approval of "most-favored-nation (MFN)" tariff status *and* continuation of official credits and guarantees to free emigration from the Soviet Union, particularly of Soviet Jews.

A concern for the plight of Soviet Jews and a responsiveness to the pressure of American Jews accounts only for the most conspicuous part of this congressional trade-emigration "link." Other independent parts, no less real for being less publicized, arise from dissatisfaction with the terms of recent and prospective deals and from hardcore anti-Communist reluctance to any trade at all.

In making his various trade pledges to Moscow last year, Mr. Nixon evidently thought that subsequent deals would sustain the summit glow and that he could swing Congress. He was wrong on both counts, Watergate accounting for only part of his problem. Instead of granting the administration request to bestow MFN (economically unimportant), Congress fashioned the trade-emigration link withholding MFN and taking back from the President his existing authority to extend Eximbank credits and guarantees—this is economically very important.

Congress did this, I think, chiefly because after the 1972 summit, Moscow made the serious mistake of cracking down on Jews seeking to emigrate, thus nullifying the summit's implicit promise on this tender issue and thus nourishing the idea that the only way to keep the Kremlin honest is to keep on the heat.

Although "non-Jewish" issues underlie the congressional toughness on the trade, Mr. Nixon counterattacked just on the Jewish issue. But with his would-be comrade in trade, the Kremlin, he made a series of tactical errors:

The White House and the Kremlin thought Congress could be moved by piecemeal concessions, but these, when made, only spurred demands for more. Rightly or wrongly, congressmen see the emigration issue as a key test of the role that human rights will play in detente—and, in another frame, of the role Congress will play in detente, too.

The White House and the Kremlin evidently thought that when House Ways and Means Chairman Wilbur Mills indicated in April he was dropping off the Mills-Vanik bill (counterpart of the Senate's Jackson amendment), the bill would fade. But not one congressman followed Mills and he quickly got back aboard his own bill. Not one senator has dropped off either—out of 77.

The White House and the Kremlin have not understood the basic and profound motivation of American Jews who support Soviet Jewry: guilt for having failed to prevent Hitler's destruction of European Jewry. This motivation has withstood both the unprecedented measures in behalf of Soviet Jews taken by President Nixon and the threats of anti-Semitic backlash in both the United States and Soviet Union made by such Soviet officials as G. A. Arbatov and echoed (entirely innocently) by such American officials as Peter Flanigan.

Sen. Henry Jackson (D.-Wash.), by the way, has understood this Jewish motivation very well: "I was at Buchenwald . . ." he told a Jewish audience this week.

So Mr. Brezhnev, who has invested a great deal in gaining MFN and in expanding trade with the United States generally, has a difficult problem as the second summit nears: on both economic and "Jewish" grounds, he is failing.

Mr. Nixon has a problem too: not only has he failed to get MFN for Brezhnev, but he also will have to report to him that Congress stands ready to take away the presidential credit authority on which the really important future deals hinge: This would be a large step backward on trade and, to the extent that detente is related to trade, on detente as well.

I think the situation is extremely tense. On the American side, Congress is standing firm and Mr. Nixon's hands are tied. The only possible give is on the Soviet side. Mr. Brezhnev has a broad choice between cutting back his hopes for trade—a decision for which Soviet Jews might well pay heavily, with poisonous effects that would feed back into other aspects of Soviet-American detente—and moving forward as best he can on both fronts, emigration and trade.

[From the Saturday Evening Post, July–August 1973]

U.S.S.R.: SUPERPOWER OR PAPER TIGER?

(By Otto Von Habsburg)

There is but one way to face Russia effectively: with courage!
—KARL MARX.

Since President Nixon's much publicized trip to Peking in February, 1972, Chinese missions have visited all the capitals of the non-Communist world. They are particularly numerous today in Western Europe—generally unobtrusive, quite discreet but persuasive. Much to the dismay of many businessmen, they rarely talk of trade or that perennial economic facta morgana, the China market. Instead, they speak about politics and the worldwide dangers of Soviet imperialism. Their discourses generally end with the suggestion that, as neighbours of the same aggressive power, Europeans and Asians should come to an understanding.

Soviet representatives—and there are plenty of them—use, in turn, a new language. The "solidarity of the white race" and the "defense of our common cultural heritage against the threat from China" have become standard formulas. The words remind one of the late German Emperior, William II, who used to talk of the "yellow peril."

Thus the Sino-Soviet conflict, first indicated by the Russian Communique of November 4, 1956, when the Red Army marched into Hungary, has crossed a new threshold—the global confrontation and the search for allies outside the Communist camp. This is added proof that those few commentators were right, who, from the beginning, had insisted that the struggle of the Communist giants was no ideological confrontation. Now, for all to see, we have the national rivalry, more profound than passing political philosophies because it transcends party lines and mobilizes all the people to serve "Mother Russia" or the liberation and reunion of the tribes of Asia.

History shows that all through the nineteenth century czarist diplomacy was was ineffective, torn as it was between the Eastern and Western schools of thought. Russia, due to its small population density and enormous space, never was able to fight on two fronts simultaneously. Since a major power can only be politically potent when in case of need it is able to use force, Moscow had to choose between a strong approach in the East coupled with peace-at-any-price West, or the exact opposite. If Russia, in Stalin's time, could escape for once the dilemma, it was because—a rare moment in history—Asia had ceased to exist politically: Japan was crushed by the United States; China was in the throes of civil war. Thus the Yalta and immediate post-Yalto policies became possible. The situation was bound to change with Asia's resurgence. This reality drives now the Soviet Union unrelentingly towards an agonizing reappraisal of its global policies. Soviet leaders are not to be envied.

A few years back I was at a dinner in Georgetown with a high American official. When it was over we started to solve the world's problems—that is to say, we enumerated the many reasons for which the United States was to be pitied. When the gloom had sufficiently spread, one of those present turned to the dignitary: "With all the terrible problems on your mind, how do you manage to sleep at night?" "Well," was the answer, "I have found a surfire remedy. When I am too much obsessed by our troubles I just turn my mind to what our dear friend Gromyko must think right now in the Kremlin. After that I sleep wonderfully."

The Russian dilemma of today is even worse than it was before World War I. There is not only the undeniable fact that China is stronger than at any time in the last three centuries, but one must furthermore count the rise of the Asiatic races in Siberia and popularity of the anti-colonial issue. Finally, the Yalta agreement, considered in the past one of Moscow's greatest victories, may turn out to have been a long-range tragedy for the Kremlin's imperial dreams. Russia has not been able to absorb 110 million Europeans; it has been compelled to leave for a quarter of a century the cream of its forces to keep the restless people down. Thus the U.S.S.R.'s attention was diverted from the real area of future dangers: Siberia. Moscow failed to take advantage of the time of grace in which it could have consolidated its position in the vast empty spaces without Chinese interference. Now it may be too late.

Any policy devised by the Kremlin is today necessarily divided between the fronts East and West. Efficiency is bound to suffer even though the country's suburb diplomacy has so far successfully tried to hide these facts. In the West it seems to succeed; in the East the Soviet diplomats and propagandists are unlikely to fool the old professionals who guide the destinies of China.

These political difficulties are by far not the only one which best the Kremlin. In the West there was much talk recently of the resistance of intellectuals to the oppressive regime. Unquestionably the courageous men who cry out for liberty deserve our adminration. But as realists we must fear that we overestimate their true importance. They certainly make trouble and add to the U.S.S.R.'s worries. But their numbers are small and they are not—as one sometimes seems to believe—the only representatives of Russian youth or intellectuals. There is also in the Soviet Union a strong Stalinist revival. The Stalin seen by his admirers of 1973, nevertheless, is not the one we of the older generation knew. He has been resurrected on a wave of nationalist romanticism as the worthy successor of Peter the Great and Ivan the Terrible—that is to say, as the man who has extended the territory and increased the glory of Russia. He thus is a symbol of Soviet imperialism, warning his people not to give away a single square foot of national soil—inviting them to liberate other areas which rightfully should belong to what one day will be the universal Empire of Russia. In the U.S.S.R., world revolution and national aspirations coincide—exactly the reverse of the occupied countries where Communism is tantamount to foreign oppression and hence more easily fought than where it is the fulfillment of an age-old dream.

Much more threatening to the Soviet Union's stability than intellectual protest are the inner contradictions of the Marxist system presently catching up with the Communist regime.

A short while ago I had the opportunity to have a bird's-eye view of this reality. Flying down the Houston shipping Canal to Galveston by helicopter, I watched from the air the enormous operation of America's wheat sales to Russia. For over thirty miles every dock was full with all types of ships being loaded; at sea many boats were awaiting the permission to come in. Few of them were Russian; it was and is a true worldwide naval mobilization.

Watching the proceedings, so reminiscent of wartime, one could but wonder how a rich country like Russia had gotten into such a trouble. True, it is notorious that Soviet productivity is low. In the United States, one man working in agriculture in 1972 had fed 142 people otherwise employed; in Western Europe it was 38; in the Soviet Union 3.5. Significantly Russia's farm productivity in the last peaceful year of the Czar, 1913, had been one agricultural worker feeding 2.8 others. Not a very impressive rise in a long period of six decades!

The Soviets claim that their plight was the result of inclement weather. This has been heard before—during the Khrushchev crisis, of which we were told after the downfall of the dictator, that it was the consequence of gross mismanagement. In this light one will not fail to note that Russia's neighbours were not hit by the natural catastrophe, which miraculously seems to have stopped at a man-made border. Doubts will be increased by the news concerning Soviet industry, especially heavy unemployment in certain areas and acute labour shortages in others—a typical phenomenon of poor planning and bureaucratic confusion. The problem can be explained if put in the perspective of what happened in the course of the last ten years. Back in 1962 the U.S.S.R. had a crisis very similar to the one of today. The Russian papers, which presently analyze their country's economic plight and are quite outspoken about it, seem almost a carbon copy of similar feature stories written a decade ago. To master

the situation the Kremlin was compelled to liberalize the economy—the days when Professors Kantorowicz and Liberman in Russia, Ota Sik in Czechoslovakia had their great hour. The new policy was a full success. The economy rapidly improved. Unfortunately for the Kremlin, freedom is as indivisible as slavery. The new economic freedom shook the political order to its foundation. The most visible symptom for the West was the Dubcek spring in Prague. It was hence logical that after the Soviet invasion of Czechoslovakia on August 21, 1968, the economy was once again subjected everywhere to bureaucratic and party controls. The consequence was inevitable and swift; three years later in 1972, Russia was back where it was in 1962. The vicious circle has been closed.

This evolution brings to mind earlier experiences. The cycles in the Soviet economy are becoming increasingly shorter. Russia faces an acceleration which soon is likely to lead to genuinely insoluble problems. The economy demands liberalization, but the law of survival of the regime forbids it. A choice will have to be made; one way or the other it is bound to change the Soviet Union profoundly.

Whether in politics or in the economy, the U.S.S.R. today is in serious trouble. A solution, on either level, is not in sight. Of all the world powers it is Russia which has to face the gravest difficulties and has the least freedom of maneuvers. And still the Soviet diplomacy seems able to play a successful political game with its weak cards. This feat is possible only if the partner on the other side ignores his strength, or else is just plainly a bad player.

All too often, in the last thirty years, the democratic countries have given the impression of being mentally one jump behind the Soviet Union. Recently, though, they, more than once have seized the initiative. Our public opinion, nevertheless, poorly informed, thinks of Russia mostly as if it were the great power of the Yalta era, a country to be feared and appeased.

Mao Tse-tung introduced the notion of paper tiger into our vocabulary. Paper tigers exist today as they did before, though they are not always the same. They can even become dangerous when those who meet them are afraid and run. In the middle of the last century no less a person than Karl Marx had this to say concerning Russia: "The Tartar method of Russian policies owes its triumphant victories to the fear and confusion of its enemies. Faithful to the old Asiatic method of systematic falsehoods, Russia takes advantage of the good faith of the Western world. There is but one way to face Russia effectively: with courage!"

Mr. LANDRUM [presiding]. Thank you, Mr. Blackburn. We appreciate your coming to the committee with such a detailed expression of your feelings and such knowledge which we will need to have in our executive sessions if we are ever allowed to get there, in discussing this trade bill.

I know that the amount of work you have put into this has been tremendous. On behalf of the committee, I want to thank you for this effort. I regret that more members were not here, but it is just a fault of the system.

Mr. SCHNEEBELI. I welcome my colleague here. Congressman Blackburn, it is quite obvious that you have made a very comprehensive study of the subject, and I think your input will be very meaningful to the committee in its deliberations.

Mr. CONABLE. I suspect our colleague has done quite a bit of research on this, and it is a very interesting statement.

Mr. Blackburn, I wonder about your feeling that we shouldn't deal with the Soviets in any substantial degree, either in strategic goods or in things which would permit a revision of their economy so that they can continue to put massive investment in arms and things of that sort. Are we to assume from that, then, that the United States has no trade role with Russia at all?

Mr. BLACKBURN. No, not at all, but we should proceed with a realistic caution.

Mr. CONABLE. We all agree on that.

Mr. BLACKBURN. The significance of my pointing out the weaknesses in the Soviet economy is based on the realities of the potential Soviet trade with this country. If they don't really have anything that we want, they cannot possibly hope to pay off the investments that they are seeking.

I am frankly concerned about the Brezhnev visit. I am concerned that the President may feel under some domestic pressures at home to make some dramatic announcements of huge breakthroughs.

Mr. CONABLE. This feeling is held by Senator Jackson as well, I know.

Mr. BLACKBURN. He is not alone in that. Certainly the Congress is not under any pressure to make any dramatic announcements, and I think it is our duty to perhaps be a little more dispassionate in approaching the subject.

Mr. CONABLE. What about the argument that if we do not trade with the Soviets the other countries of the Western World will, including our foreign subsidiaries of American companies that are operating abroad?

Mr. BLACKBURN. The ability of other countries to trade with the Soviets, and to finance the Soviets to the degree that they would like to be financed, just does not exist. The fact that the Soviets were being compelled to sell their gold for hard currency in order to be able to pay cash for their grain purchases from Australia and from Canada. Well, Australia and Canada certainly are not happy to find that the United States is willing not only to sell them the grain at the subsidized prices, but to finance the transaction as well.

Now, this has taken the pressure off the Soviet Union to have to sell their gold, and turn it into hard currency in order to buy grain. So what I am saying is that the potential for trade with the Soviet Government is not nearly so great as we are being led to believe. And if their trade potential is not that great, it is unrealistic to assume that they will repay the obligations that they are asking to incur.

Mr. CONABLE. I wonder if you are not understating the Soviet economic strength. They have the second largest GNP in the world, don't they?

Mr. BLACKBURN. That is using their figures.

Mr. CONABLE. It is $500 billion.

Mr. BLACKBURN. Their figures are subject to considerable discount. For example, they are still carrying their capital investments at the purchase price they paid for their capital equipment 35 years ago.

Under any Western standard of accounting, their GNP would run closer to $300 billion.

When you consider their population and divide their GNP among their population, they are in a rather uncomfortable position over there.

We have got far more trade with South Korea than even the most optimistic projections are right now for the immediate future with the Soviet Union. We have done more exporting to South Korea than we can optimistically expect to do to the Soviet Union for 5 or 10 years.

All I am saying is, let's look at the figures and decide just how much financing they can handle as a nation, because once we make these tremendous investments in the Soviet Union, when we build these plants, and when we tap the Siberian gas reserves and build the

refineries and build the pipelines and all the other things that will expand the industrial base of the Soviet Union, they will be under the absolute control of the Soviet Union, and if they want to default the loan, we can't do anything about it. We can't go over there and repossess a gas well.

Mr. CONABLE. You feel, then, that unless we prop them up, there will be evolution away from authoritarian rule there?

Mr. BLACKBURN. What I am saying is that in the process of propping them up, we should insist upon good basic business practices which will necessarily liberalize the Soviet system.

At the present time, if we just prop up the present system and allow it to function as it does today, the Soviet economy can never hope to reach its full potential, because the apparatus of the Soviet Government, the thing which sustains the Soviet Government, is the placing in business, or what we would call a business establishment, in the economy of party leaders.

It is party leaders who are running the economy of the Russians today, and every consideration that is made by these political leaders is a political consideration, not a business consideration.

If we can insist that their system develop a middle management class of technocrats, so to speak, and these technocrats could begin to supplant and replace the political appointees in the economic system, then I think we could see hopes for liberalization, but so long as they continue their present system, which is founded on economic control by political apparatus, they cannot hope to catch up with us, but they can benefit a great deal from heavy American investment without any political return to us at all.

Mr. CONABLE. Is there any generalization that can be made about the pattern of detente and freeze which has characterized the Soviet policy in the past?

We assume they are seeking détente now. Is there anythime when we can expect them on any sort of a cyclical basis to revert to the old freeze technique which has usually punctuated these periods of detente? Is there any natural law about this?

I think you are right, that we have to be very suspicious of Soviet foreign policy in its manipulative aspects, and yet we all desperately hope to extend detente with them. But unless this is a new era, we can expect frequently to have our hopes dashed.

What kind of a generalization can you make out of the research you have obviously done on this?

Mr. BLACKBURN. Well, I recall that in the early 1960's we went through a little thawing period for a while, and Czechoslovakia attempted to take advantage of that. She experienced some liberalization in economic as well as political areas, and once the Soviets realized that this period of warming to the West was resulting in an undermining of their political system, they moved, and they moved dramatically against Czechoslovakia, because they saw the very thing that I am talking about beginning to develop, that is, the Czechoslovakians were beginning to develop management, middle-class management talent that would make decisions not based on political considerations but based on good business judgment, and they could not tolerate for a moment the substitution of this class of person for the personal op-

erative that is their mainstay, and the mainstay of their establishment. We saw the freeze, of course, firm up again.

Now we are going back to detente, and as to the detente, we take one attitude toward it, and they take another: We regard it as an opening to personal friendships and peace around the world; they use it as a period of regrouping and rebuilding their strength at home. They see an opportunity to develop their domestic economy at American expense.

They are very much concerned about the Chinese, and the growth in stability of the Chinese on their border in the west. Thus, their cooperation is a romance of the moment, and if once they could feel that they were freed of the Chinese threat, once they feel that they have gotten all the benefits that they can get from this country, I would not be optimistic of any long term improvement.

Mr. CONABLE. In a historical sense, you are accurate.

Thank you, Mr. Chairman.

Mr. LANDRUM. Mr. Blackburn, if I could have just 2 minutes to direct a question by Mr. Vanik.

He regretted that he had to leave, but he told me that earlier in your statement you suggested that the Export-Import Bank in its financial activities would do just about what it wanted to.

His question is: What do you think this committee do, if anything, about placing restraints or giving directions about the use of Export-Import?

Mr. BLACKBURN. Of course, there are some limits on the amount of loans or credits or guarantees that Eximbank can have outstanding with any one country. We don't want to wake up and find that their whole portfolio, or one-half, represents loans made to any one country, no matter which country it may be.

I feel that the two things I suggested in my conclusion would be essential: One, that the Soviets in accepting these credits or guarantees be compelled to match, dollar for dollar, our investment in their domestic economy, because that, you see, assures us that we are not freeing up other funds for more disastrous uses by the Soviet Union.

Second, that they must open their books to Western scrutiny, so that we can know how they are using the money.

Mr. LANDRUM. We understand that. We got that from your very excellent statement. But I think the burden of Mr. Vanik's question, if he were here to put it, would be: Do you think this committee or the Congress should take any action in directing the deals to be accomplished?

Mr. BLACKBURN. I personally have expressed some concern with the Eximbank on its practice of making low-interest loans to purchases by capital-rich countries.

For example, to me it is inconsistent for this country, through the agency of the Eximbank, to finance say 747's, that are being bought by Japan airlines. Japan is a capital-rich country today. She has surplus dollars and is trying to find something to use them for, and it just doesn't make sense for this country to be financing purchases by Japan or Japanese firms. They have dollars. Let them pay dollars.

West Germany is another country that is sitting there with a surplus of U.S. dollars. Why should we, through a Government agency.

finance at less than current market rates purchases of airplanes? And then tell our own domestic airlines that they have to buy their airplanes and finance them at current market rates of interest, and then compete with the foreign concerns that we are in effect subsidizing.

Mr. LANDRUM. If Mr. Duncan will indulge me.

Mr. DUNCAN. Yes.

Mr. LANDRUM. I have one statement of my own. I will put it in such fashion as to get your response.

I noted in your statement your reference on two or three occasions to the fact that the Soviets didn't have anything to sell us in quantities, or perhaps in quantities that would pay for what they want from us.

I had this experience recently down at the University of Georgia at Athens when I went down to participate in law day, and spoke on the program at the law school with Mr. Bugrov.

The question was put to Mr. Bugrov from somebody in the audience: "What have your people got over there to sell us?"

To my astonishment, he started down a long list of natural resources, like he had the list all ready, in which we are showing annually a serious shortage.

I don't know whether they have all that or not. Do they?

Mr. BLACKBURN. Well, there is beginning to develop a serious question about their petroleum reserves. We have pretty well confirmed that apparently they do have untapped natural gas in Siberia, but it is in one of the most inhospitable regions in the whole world. They themselves do not have the technology or the capability of extracting that gas, at the present time. They need us.

In their petroleum supplies, they have met some failures in areas where they thought they were going to find good quality oil. But they found oil that is laced pretty heavily with water, with the result that nobody wants it.

Also there is evidence that the Soviets themselves are experiencing an energy shortage of their own.

I don't know what sort of list they read, but I would view it with considerable skepticism. If they have it all, they ought to be selling it now.

Mr. LANDRUM. Thank you so very much.

Thank you, Mr. Duncan, for indulging me.

Mr. DUNCAN. I would like to join in welcoming you to this committee, and to commend you for the obvious hard work that you have put into this subject.

Let me ask you a question. Do you think the President's visit and the gentlemen's agreements that were made played any part in ending our involvement in Vietnam?

Mr. BLACKBURN. Again, I know there were rumors that, as part of our agreement to sell them grain, they were going to use their influence with the North Vietnamese to terminate the war in South Vietnam.

Well, if the war has been terminated, I am unaware of it. In my own opinion, the persuasion of the North Vietnamese was in the form of B-52 bombers in December of last year. That was the persuasion that was effective.

Mr. DUNCAN. We have our prisoners out of Vietnam now, and all of our ground forces. It is pretty obvious that it pretty well has ended as far as we are concerned in Vietnam.

Mr. BLACKBURN. We are out of South Vietnam, yes. As to whether or not the war has ended, as to whether or not the ultimate purposes of the Communists in South Vietnam have ended, I think is questionable.

Mr. DUNCAN. Lets suppose the grain deal did have some bearing upon the fact that we were able to step up our offensive and get our prisoners back home. Do you think that might have been worth that?

Mr. BLACKBURN. Well, I think that for the cost we incurred, we could have demanded perhaps a great deal more in political considerations.

You see, one of the weaknesses of our bargaining position is that our sellers are not involved in setting Government policy. They are only interested in selling at a profit, which is the American system. I don't criticize them for that.

But I am saying that when we consider that the Soviets were concerned about empty stomachs in the Soviet Union, which is a right considerable concern, I suspect we were in a position to exert more leverage than we did.

Mr. DUNCAN. You mentioned the fact that we are propping up their economy. Don't the Soviet trade with most of the other nations of the world?

Mr. BLACKBURN. I am sure that they do.

Mr. DUNCAN. What are we giving them, or selling them, that they couldn't get elsewhere?

Mr. BLACKBURN. We are selling them technology that they can't get anywhere else.

As part of the Fiat transaction, the Fiat Co. itself had to come to the United States to buy roughly $80 million worth of equipment that they couldn't sell the Soviet Union.

Our machine equipment is generally considered to be superior to that produced anywhere else in the world. It has built-in advances in technology that nobody else has been able to obtain.

In electronics, again, we are ahead of the rest of the world.

Mr. DUNCAN. We have had testimony here that technology now on automobiles and most things needed in the world today is not confined just to the United States, that that is one of our problems in the deficit of payments, because technology just isn't confined to our country now.

Mr. BLACKBURN. I am satisfied that there are areas in which the quality of our production is not as high as it should be, but I don't think that that is due to a lack of technology.

Mr. DUNCAN. If they didn't buy the planes from us, couldn't they get those elsewhere?

Mr. BLACKBURN. If they didn't buy what, now?

Mr. DUNCAN. I noticed that you had some criticism of the fact that we were selling them planes.

Mr. BLACKBURN. Airplanes?

Mr. DUNCAN. Yes.

Mr. BLACKBURN. I was talking about the financing of airplanes to Japan and West Germany. In responding to a question from Mr. Landrum. I was being critical of the fact that we are exporting capital in the form of low-interest rate loans for airplanes purchased by Japan and West Germany, both being capital-rich countries.

This has nothing to do with the Soviet purchase.

Mr. DUNCAN. I misunderstood your question.

I do thank you.

Thank you very much, Mr. Chairman.

Mr. GREEN [presiding]. Mr. Clancy.

Mr. CLANCY. Thank you, Mr. Chairman.

Mr. Blackburn, I want to join with our colleagues in complimenting you on a very fine presentation. You have certainly done a great deal of research to make a presentation such as this.

I would like to ask you just a few questions, one of which you may be able to answer for us.

What is the reasoning behind the Communist decisions not to make their currency convertible?

Mr. BLACKBURN. Well, they don't want to admit to the world the true value of the ruble. I think it is primarily a matter of national pride.

It is a mystery to me, too, when you realize that the ruble at the official exchange rate is running about $1.20, or $1.25, since the last devaluation of the dollar, and rubles are selling on the streets in Western Europe for 20 cents apiece, roughly.

The question in my mind arises: Why don't the Soviets go ahead and admit that they have the ruble very badly overpriced? They recognize it. They won't admit it, but they recognize it through certain practices.

For example, if you are a Soviet citizen, and you wanted to buy a Soviet automobile, if you want to pay with rubles, you have got to get on a waiting list, and when you finally get your car delivered 5 or 6 years hence, you have to pay the equivalent of about $7,800. If you can pay hard currency for your automobile, they will deliver it to you today, and sell it to you for about $2,300.

So they recognize it themselves. And I can only say it is probably due to national pride, which in my opinion is false pride at this point.

Mr. CLANCY. The people on the street recognize that value, don't they?

Mr. BLACKBURN. Sure. They are walking around with rubles in their pockets, and there is nothing they can do with them.

Mr. CLANCY. Could you explain a little more in detail as to how these barter transactions hurt the economy of the nations?

Mr. BLACKBURN. Well, a barter transaction ignores basic concepts in a free market. For example, division of labor, comparative costs, these are the determining factors in sales in free markets. When you get into a barter transaction, comparative costs, divisions of labor, and such factors are not involved in the barter. You just get the goods delivered, no matter what the cost to manufacture the goods, and this really represents a disruption of free market forces.

Mr. CLANCY. Don't we sometimes base the value of the goods that we are going to barter for on the value of our own domestic economy?

Mr. BLACKBURN. Sure. We have to consider what it would cost us to produce the same goods at home as compared to what we can buy them for from abroad. And that, of course, is what has brought the American radio manufacturing to a standstill, because we can buy them so much cheaper from the Japanese.

But when you go to bartering, of course, then you also run the risk of the quality that you might receive. You might not get the same quality you would if you manufactured it yourself.

Mr. CLANCY. I would just like to comment at this time, as far as the advancement of technology in the manufacture of machine tools, that I think you will find that in West Germany and in Japan—and I don't know anything about the quality of the machine tools manufactured in the Communist nations—they have advanced tremendously in the past 10 years, and they are making a machine that is very difficult to compete with today at the prices for which they sell. As far as technology, they have done extremely well.

Thank you very much, Mr. Blackburn.

Mr. GREEN. Mr. Archer.

Mr. ARCHER. Mr. Blackburn, I congratulate you on the amount of effort and expertise that has gone into your statement which you presented to the committee today. I think it is going to be most helpful to us.

I noticed in your suggestions that you recommend that we should require full settlement of debt claims awarded to U.S. private investors and to U.S. businesses by the Foreign Claims Settlement Commission before we extend any favored-nation treatment to the Soviets.

Would you not also include in that full settlement of their lend-lease debt to this country?

Mr. BLACKBURN. Well, I would include in that the amount agreed upon between the two Governments as settlement for the lend-lease. The gross value of the lend-lease, as I recall, was something in the neighborhood of $11 billion.

At the same time, I recognize that it was to our common benefit that the Russian Army was keeping the German Army occupied on the Western Front. We did benefit from their involvement and we have to take that into account.

I would say that they certainly should pay us the $700 million some odd that they have agreed to pay us.

Mr. ARCHER. According to your statement, this is not due until the year 2001.

Mr. BLACKBURN. I think that is the final payment on it.

Mr. ARCHER. But do you think it would be appropriate for the full $722 million to be paid prior to the granting of a most-favored-nation treatment?

Mr. BLACKBURN. Yes, I definitely think that before we extend them the MFN status they should pay in full not only the $722 million but also all other debts to the U.S. Government and the American citizens.

Mr. ARCHER. Thank you very much.

Mr. GREEN. Thank you, Mr. Blackburn.

Mr. BLACKBURN. I enjoyed being here.

Mr. GREEN. Our next witness this afternoon is the Honorable Edward I. Koch, a Representative in Congress from New York City.

On behalf of the other committee members and myself, I take pleasure in welcoming you, Mr. Koch.

If you like, your statement in toto will be included in the record at this point.

STATEMENT OF HON. EDWARD I. KOCH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. KOCH. I would like to do that, Mr. Chairman, file my statement and comment briefly. I know you have many witnesses to hear. I will be brief in my remarks, which are intended to highlight the statement.

I am here, Mr. Chairman and members of the committee, in support of the Jackson-Mills-Vanik provision which bears upon the trade legislation that you are considering.

At the outset, I would like to point out that while Jackson-Vanik does have a great impact on the Jewish community in the Soviet Union, it is not limited to the community. It affects any Soviet citizen who is Denied the right to emigrate due to the restrictive policies of the Soviet Union. This includes the tax that the U.S.S.R. has imposed on emigration, the so-called head tax for education, as well as other methods which have been employed to inhibit emigration.

The Soviet Union is obliged under an agreement entered into with the United Nations, to permit free emigration. Every country that signed that agreement is required to permit its citizens to freely emigrate. The Soviet Union ignores this requirement.

It is true that the Jewish minority in the Soviet Union is perhaps more anxious to emigrate than any other group there for several reasons, some of which I would like to bring to your attention.

In 1971 I spent 8 days in the Soviet Union, traveling in two of the major cities, Moscow and Leningrad. At that time I spoke with families that were seeking to emigrate.

The reasons that the Jewish community in particular is under the gun are the following:

There are 120 nationality groups recognized in the Soviet Union under their constitution, and every group has certain rights. They have the right under the Soviet Constitution to provide their own schools and cultural background for their children and to teach in the language of their nationality group, so that, for example, the Bulgodeutsch, which is one group—a very small group—do teach their children in German. That right is guaranteed to them.

There are other groups, as I say, that are smaller than the Jewish group. The Jewish population constitutes about 3 million, and it is the 12th largest in terms of the 120 nationality groupings.

The Jewish group is denied the rights I have cited here. They are not permitted to teach their children in their mother language of Yiddish, while every other group is permitted that right.

The Jewish group is denied some of the restricted privileges, but nevertheless privileges, that other religious groups are permitted to have.

There are seminaries for the training of priests in the Soviet Union. It is not easy to be religious in the Soviet Union, no matter what belief one holds, but it is doubly hard to be an observant Jew in the Soviet Union. Jews are prohibited from maintaining seminaries, and as a result no rabbis are being trained to take the place of the very few elderly rabbis that still exist in the Soviet Union.

My recollection is that in the European parts of the Soviet Union, where most of the Jewish population is located, there are about 11 or 12 rabbis all together.

There is one section of the Soviet Union which has more than that. That is the area of Georgia, where there is a large group of Jews, and for some quixotic reason, the State of Georgia, U.S.S.R., has been different from all of the other states in the Soviet Union on a whole host of aspects, not only vis-a-vis the Jews but also the other people in that particular state.

So the Jews, as a result of the special oppressions to which they have been subjected, desire to leave. It is estimated that at the present time there are about 300,000 Jews that would leave, if they were given the opportunity, but conditions become very difficult for these people once a decision has been made to leave.

The problem is one has to file papers with his factory, and then the government, of course. One has to have character permits, and, as soon as the papers are filed, the person is fired from his position, and placed under the most difficult of circumstances.

There are some people whose names are well known to people across the world because they are famous. One is a ballet star, Mr. Panov, who was the leading male ballet figure in the Kirov Ballet of Leningrad, who was deprived of his right to remain in that profession. His case has received a great deal of attention.

Another aspect of emigration faced by the Jewish community is that there is a place for them to go. The State of Israel has said that they will take any Jew who is permitted to leave. He is accepted in the State of Israel. There is no problem in terms of finding a place to which these peple can go, were they permitted to leave.

Now we get to the issue at hand. The Soviet Union, I suppose in response to the world outcry, not only in the United States but in other countries, has relaxed its restrictions so that an education tax is not currently imposed on potential emigres. It is important to remember that the tax has not been rescinded, only temporarily lifted in an effort by the Soviet Union to soothe world opinion.

Many people who are familiar with this particular aspect of the situation believe that as soon as the Soviet Union gets most-favored-nation treaty status, it will reimpose that tax. That is why I think this Jackson-Vanik-Mills bill is so well written, because it does not single out the Soviet Union. On the contrary, it provides that any country which denies its citizens the right or opportunity to emigrate, or which imposes more than a nominal tax on emigration, is subject to the bills provisions. The best part of the bill is that it is reviewed every 6 months, so that if, in fact, the Soviet Union continues its current policy of permitting Jews to emigrate, then there will be no problem. If the U.S.S.R. closes the gates, however, which it can do then this bill becomes effective, and that special status of most-favored-nation position will likewise be shut off in a comparable manner.

That is why I would urge this committee, should it bring out legislation which would provide most-favored-nation status to the Soviet Union, that the Jackson-Vanik-Mills bill be a part of it.

Thank you.

[Mr. Koch's prepared statement follows:]

STATEMENT OF HON. EDWARD I. KOCH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

I am pleased to appear today before the House Ways and Means Committee in support of the Jackson/Mills-Vanik bill to provide for freedom of emigration as a condition to East-West trade. It is indeed unfortunate that legislation such

as this is necessary, but since the Soviet Government is still harassing that part of its Jewish population seeking to emigrate, passage of this bill is crucial.

Since the Soviet Union is capable of turning emigration on and off like a faucet, we must meet this challenge by retaining the right to turn most-favored-nation treatment on and off in the same way, keyed to what the Soviet Union does in this matter. If they keep their assurances and permit unimpeded emigration, the Jackson/Mills-Vanik bill would not adversely affect trade. If they have misrepresented their position—it will.

This legislation was first introduced as a response to the education tax which the Soviet Government placed on any of their citizens who wished to emigrate. These people were required to pay huge sums of money (ranging from $5000 to $30,000) based on a formula affected by the amount and kind of education received.

Now, however, since March 22nd no one has had to pay the education tax, although this particular law has not been removed from the books. It is simply not being enforced at the present time. It is my belief, however, that this heinous law is not being enforced because of increasing world pressure, particularly by the U.S. Congress, and most important, has been put on the shelf pending the passage here of most-favored-nation legislation.

We must not be fooled by the apparent lifting of this emigration tax because since March 22nd the number and percentage of rejections of applications by Jews to leave Russia has increased. In some areas for every application approved another is denied—in Moscow in a recent one week period while 80 people received exit visas, 64 who had already received permission to leave had their permission revoked. Many others of course were simply refused exit visas altogether. Thus, the Soviet government obviously has means other than the education tax to halt emigration.

According to an open letter to the U.S. Congress made public April 12th in Moscow, over 100 Soviet Jews appealed to the Congress not to be misled by the apparent lifting of the education taxes. Since much of the problem is that the emigration practices are selective and arbitrary, they urged passage of the Jackson/Mills-Vanik legislation to give Congress continued control over assuring more liberalized and fair emigration practices in the Soviet Union.

The open letter to Congress by the 100 Jews also stressed "that there is nothing like free emigration from this country. Just as before, the fate of all applicants for exit visas is not determined by any law or even any published regulations governing emigration. Everyone's fate is determined by unknown people acting on unknown considerations in a totally arbitrary way . . . ." According to these 100 Jews many of the approximately 2,000 people permitted to emigrate each month are those with either little education or low professional skills, or those who are ailing and elderly, from the border and outlying areas. Only about 10% of all Jews who have applied to emigrate over the last year from the "heartland" (that is to say the major cities of Moscow and Leningrad where ⅓ of all the Jews living in the USSR reside) have been allowed to do so as compared with 35–40% from the other areas. The professionals—scientists, engineers, industrial executives, cultural figures and journalists are very frequently barred from emigration.

We also all probably know by now what happens to a Jew when he first applies for his emigration papers—he is often fired from his job, loses his pension, subjected to house searches, arrested on fabricated charges and interrogated by the police. This harassment appears to be intensifying in certain ways. Secret trials to intimidate Jews from seeking to emigrate have been held over the last few months in isolated parts of the Soviet Union which are removed from the metropolitan centers where foreign journalists would have access to them. In the last year approximately nine Jews, located in scattered cities, who have applied to emigrate have been imprisoned. As a result, in these particular cities fear has already reduced the number of Jews applying to emigrate. Harsher sentences are also deterring others from applying to emigrate. Isaac Shkolnic, a mechanic from Vinnitsa was tried for "treason" and "anti-Soviet behavior." The charges were changed at least three times to suit the "evidence" presented in court. His sentence, the harshest since the 1970 Leningrad trials, was 10 years in prison.

All of these facts point toward one need which the pending Trade Reform Act of 1973 does not fulfill. It has no adequate provision attempting to alleviate these emigration problems in the Soviet Union. The bill would give the President authority to grant most-favored-nation treatment and other trade con-

cessions to the Soviet Union and other communist countries if neither the House nor the Senate vetoes such a move within 90 days. If Congress does not veto the measure the Soviet Union would be eligible for credits for up to three years. The U.S.S.R. could, therefore, appear to liberalize their practices during the 90 day period and then revert back to their usual practices.

The Jackson/Mills-Vanik bill takes this problem into account, and provides an excellent solution by denying any non-market economy country most-favored-nation treatment and extension of credits or credit guarantees that denies its citizens the opportunity to emigrate, or imposes more than a nominal tax on emigration or visas. That which makes this bill very workable is the fact that every six months the entire situation is up for review, and if the non-market economy country has changed its emigration policies by allowing freedom of movement, then Congress has the authority to grant most-favored-nation treatment. And, if at any time the the future the country reverts back to its closed emigration practices then Congress would likewise have the authority to cancel the open trade practices.

I'd like to thank you for giving me the opportunity to appear before you today, and I urge you to include the Jackson/Mills-Vanik bill in the Trade Reform Act of 1973.

Mr. GREEN. Thank you very much, Mr. Koch, for coming today.

Mr. Duncan.

Mr. DUNCAN. Thank you.

I have no questions. I would like to thank you for coming to the committee. Certainly you have given us a great deal to think about.

Mr. KOCH. Thank you.

Mr. GREEN. Mr. Clancy.

Mr. CLANCY. I have just one question, Mr. Koch.

It was my understanding that because of world pressure, there was considerable relaxation of their restrictions. Did this meet with your approval, as to what they did?

Mr. KOCH. It is far better than it was. It is my understanding that last year approximately 30,000 Jews were permitted to leave the Soviet Union to go to the State of Israel. I understand that the figure this year, based on those permitted to leave up to now, exceeds that to some extent. Somewhere in the neighborhood of 30,000 to 40,000 it is estimated will be permitted to leave the Soviet Union this year.

There are about 1,000 families whose names have become known to those who are interested in this problem outside of the Soviet Union and they have been told that these thousand families will not be permitted to leave.

These are hard-core cases, from the point of view of the Soviet Union and from the point of view of the families that want to receive them in the State of Israel.

It is hoped that maybe some of these cases will be the subjects of discussion by the President and Mr. Brezhnev, and that some families will be released.

Insofar as what has occurred to date, I applaud that. It obviously does not meet the total need, however, because the total need would be met by removing the restrictions and permitting those people who want to leave to do so. That conditions are better than they were, is certainly true, and this bill, with the Jackson-Vanik amendment would maintain that situation.

Mr. CLANCY. How many families do you estimate would like to leave the Soviet Union?

Mr. KOCH. There are approximately 3 million Jews in the Soviet Union. When I was there I spoke with the members of the Jewish

community in Moscow and Leningrad, with American consulate officials, who, I might add, were very kind and generous in the time that they gave me, and to the newspaper people who were in Moscow. By all estimates at the very least, 10 percent, or 300,000 people, representing about 80,000 families, would leave at that particular moment if possible.

I have spoken since that time however, with other people who have been to the Soviet Union and take a great interest in this, and they believe that in fact almost the entire Soviet Jewish population would leave, given the opportunity, once they saw the difficult restrictions had been lifted. I met a women in this country who was able to get out finally, after about 5 years of being on the list. That 5 years was hell for her and her family. Two young sons were denied the opportunity of going to the university because their parents had applied for emigration, and the Soviet Union said, "We are not going to let you go to the university." They had to give up their jobs, which were as professionals. My recollection is that one was in the chemical field, and his wife was a biology teacher, in the school system. They had to give up their jobs and take positions as common laborers.

So you see it is a difficult decision for someone to make. Not everybody is a hero.

Mr. CLANCY. He is reluctant to apply because of the sanctions that would be imposed, isn't he?

Mr. KOCH. Exactly, and if the sanctions were clearly not to be imposed; if there were this change in the climate, then more would apply.

Mr. CLANCY. Thank you.

Mr. GREEN. Mr. Archer.

Mr. ARCHER. Mr. Koch, I compliment you for your presentation to the committee, and for your knowledge of the subject on which you speak to us.

Is it true that the situation is still so bad in Russia today that there are seven professional Jews that are on a hunger strike at this very moment because they are not permitted to leave?

Mr. KOCH. I can't confirm the hunger strike at the moment, because I don't really know that, but I do know that there are Jews who over the last 3 years, and I am certain that continues up until the present time, strike, and I mean picket in front of official Soviet institutions, which is unheard of.

In the Soviet Union, you do not picket. It is not like going down and picketing the Attorney General here in Washington. You end up in a different institution. And the fact that the Jewish community has shown its defiance of the Soviet Union's very strong response to it is remarkable, and they are keeping that up.

I noticed the other day that 100 people sent a letter to the United States, an open letter. These people are identified. They said that conditions are intolerable, and asked for help.

As I say, when you do that in the Soviet Union, you are taking your life in your hands.

Mr. ARCHER. I heard on one of the radio stations here in Washington this week a news comment that there were seven professionals, Jewish men, I believe, in Russia who were on a hunger strike because they cannot get out, and apparently because they are professionals.

So, apparently the situation is not ameliorated to a great extent, if this announcement on the radio was accurate, and I wondered whether you could confirm that or not.

Mr. KOCH. I can't confirm that announcement. But I can confirm the fact that many people who are professionals have been turned down and told they will not be permitted to leave.

They do not use the education tax at this moment, because they say that they are not applying it. They have not rescinded it formally on their books, and, as I tried to indicate, there is always the danger that they may reapply it.

They simply say you may not leave, for various reasons, one of which would be national security, and that is applied indiscriminately.

Mr. ARCHER. Thank you very much.

Mr. GREEN. Mr. Koch, I want to thank you on behalf of the committee.

I have no questions to ask you. I assure you personally of my support and am happy to join with you in cosponsoring this resolution.

Thank you for coming.

Mr. KOCH. Thank you, Mr. Chairman, and members of the committee.

Mr. GREEN. Our next witness this afternoon is the Honorable Barry M. Goldwater, a Representative in the Congress from the State of California.

You may proceed, if you wish. If you want your remarks put in the record in toto at this point, we will be happy to do that.

STATEMENT OF HON. BARRY M. GOLDWATER, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. GOLDWATER. Thank you, Mr. Chairman.

I would like to request that the full text be placed in the record. In view of your tremendous workload that you face on this issue of foreign trade, I will try to keep my remarks as brief as possible.

It is indeed a tribute to the Ways and Means Committee that despite the complexity of the issues before it, the committee has a coveted reputation for reporting legislation that is concise and clear in its language and intent.

In the days and weeks ahead, I certainly do not envy the long, hard task before you. Regardless of whether a trade bill is reported this year, I am confident that the Ways and Means Committee will give the Congress and the American people new direction in correcting our trade woes.

Mr. Chairman, rather than giving the committee my thoughts on the various trade proposals now being considered, I want to confine my testimony to legislation which I have cosponsored to prohibit most-favored-nation treatment to a nonmarket nation which denies its citizens the right to emigrate.

We are all familiar with the policy that the Soviet Union has toward emigration of its citizens. In order to restrict emigration, the Soviet Government uses a number of devices, including the imposition of visa fees or taxes. This policy mainly affects Soviet Jews, and there is no question that it is anti-Semitic in nature, and certainly in practice.

Of course, Jews have suffered generations of mistreatment at the

hands of the Russians, whether czarist or Communist. It is an old story of intimidation, harassment, rank discrimination, and, all too often, torture and death.

Happily, there have been instances in our history when the U.S. Government was able to successfully intervene in behalf of Russian Jewry during periods of intense persecution.

I am convinced that we now have an opportunity to bring about some permanent changes in this situation. Our method is trade. More than ever before in its history, Russia is seeking to expand its trade. But, in order to become a viable trading nation, the Soviet Union needs and is seeking most-favored-nation treatment.

It is obvious that the Kremlin reacts to any official discussion in this country to MFN. Once our distinguished colleague, Mr. Vanik, began talking about MFN and lining up cosponsors for his bill, the Soviets responded quickly.

There were the usual Kremlin denouncements to save face, but foreign reporters clearly saw a change in the Government's attitude toward Jews wishing to emigrate. This culminated in an announcement less than 3 weeks ago that the infamous education tax would no longer be enforced.

However, we shouldn't operate under any illusions about this move. While the education tax is no longer a criterion, it is still a part of Soviet law. Worse still, Soviet officials have more insidious ways of restricting emigration.

Just 3 weeks after the education tax was removed, as Mr. Koch indicated, an open letter to the U.S. Congress from 100 Soviet Jews asked us not to be misled. The letter stated that the education tax is not the central issue. The main factor is the arbitrary manner in which the Soviet Government determines who can and who cannot emigrate.

Soviet Jews are desperate. They need help. They need our help. They feel very strongly that the only hope lies with this Congress.

The incorporation of emigration-MFN language into trade legislation would be an enormous psychological boost to Soviet Jewry. There is no doubt in their minds that this statutory language is needed to give us an economic lever to bring about more humane emigration practices.

Procedurally, I really have no recommendations as to how you rightfully should proceed to fit in most-favored-nation status into this bill.

I understand that title V of the administration's bill authorizes the President to extend MFN treatment to imports from countries which currently receive column 2 duty treatment. Should this section of the administration's bill receive an endorsement in the committee, possibly the thrust of H.R. 3910–3921 could be included in the language of the section.

Most foreign policy experts agree that if the United States and the Communist countries are to reach a detente, or thaw in the cold war, it will be predicated upon trade expansion and other manifestations of economic relations.

However, we should always keep in mind that Soviet Russia still has a closed economic system. Trade is only an extension of Soviet political endaevors. Then, too, the Russians don't have a great deal to trade. They have some raw materials that we can use. But, on the

balance, they stand to gain because we will be exporting our technology.

It seems to me that we should exact specific concessions from the Russians as a precondition to MFN. Certainly, a priority item should be an ironclad assurance that Russia will make its emigration policies conform to those of non-Communist countries.

No other nation in history has achieved an enlightened policy toward emigration comparable to the United States. We are a nation of immigrants. The right to emigrate is basic to our constitutional system. We have a deep and abiding moral obligation to seek ways to help people who live under a totalitarian regime to emigrate.

I feel very strongly that we in the Congress can and must act positively to force the Soviet Union, through economic measures, to allow its people the freedom to seek a new life in another country.

To this end, I again urge favorable consideration of those bills that were introduced concerning most-favored-nation status to the Soviet Union.

Again, Mr. Chairman, I appreciate your kind indulgence in allowing me to appear before you today. Thank you.

[Mr. Goldwater's prepared statement follows:]

STATEMENT OF HON. BARRY GOLDWATER, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, members of the Ways and Means Committee. In view of the tremendous workload that this distinguished committee faces on the issue of foreign trade, my statement today will be very brief.

I realize, Mr. Chairman, that the committee has been swamped with requests to testify on the various trade bills that have been submitted. Therefore, I am especially grateful that the committee allowed me to appear in person.

It is indeed a tribute to the Ways and Means Committee that despite the complexity of the issues before it, the committee has a coveted reputation for reporting legislation that is concise and clear in its language and intent.

In my judgment, rarely has any committee of the Congress been so challenged in recommending a solution to a critical national problem as this committee is challenged to get our trade situation straightened out.

Somehow we've got to restore this nation to a pre-eminent position in world trade. If not, we will soon find ourselves in the same relationship to the other highly industrialized nations of the world as we were in over a hundred years ago; that is, primarily an agricultural society.

One hundred years ago we could afford this luxury. But, like it or not, today we are a world power, and we've got to act like one.

A world power cannot continue to have a balance of payments deficit. It can ill-afford a cynical attitude toward its currency in foreign monetary capitals. It must not experience shifts in its trade balance from exports in favor of foreign imports.

In the days and weeks ahead I certainly do not envy the long, hard task before you. Regardless of whether a trade bill is reported this year, I am confident that the ways and means committee will give the Congress and the American people new direction in correcting our trade woes.

Mr. Chairman, rather than giving the committee my thoughts on the various trade proposals now being considered, I want to confine my testimony to legislation which I have co-sponsored to prohibit most-favored-nation treatment to a nonmarket nation which denies its citizens the right to emigrate.

Despite some recent discussion to the contrary, I believe that the concept embodied in this legislation—which has been co-sponsored by so many of us—is still vital and deserves favorable consideration.

The great legislative response by our colleagues to the emigration situation is found in twelve bills numbered H.R. 3910 through H.R. 3921. I am a co-sponsor of H.R. 3914.

We are all familiar with the policy that the Soviet Union has toward emigration of its citizens In order to restrict emigration, the Soviet government uses a

number of devices, including the imposition of visa fees or taxes. This policy mainly affects Soviet Jews, and there is no question that it is anti-semitic in nature and practice.

Of course, Jews have suffered generations of mistreatment at the hands of the Russians, whether czarist or communist. It is an old story of intimidation, harassment, rank discrimination, and all too often, torture and death.

Happily, there have been instances in our history when the U.S. Government was able to successfully intervene in behalf of Russian Jewry during periods of intense persecution.

I am convinced that we now have an opportunity to bring about some permanent changes. Our method is trade. More than ever before in its history, Russia is seeking to expand its trade. But, in order to become a viable trading nation, the Soviet Union needs most-favored-nation treatment.

It is obvious that the Kremlin reacts to any official discussion in this country to MFN. Once our distinguished colleague, Mr. Vanik, began talking about MFN and lining up co-sponsors for his bill, the Soviets responded quickly.

There were the usual Kremlin "denouncements" to save face, but foreign reporters clearly saw a change in the government's attitude toward Jews wishing to emigrate. This culminated in an announcement less than three weeks ago that the infamous "education tax" would no longer be enforced.

However, we shouldn't operate under any illusions about this move. While the education tax is no longer a criteria, it is still a part of Soviet law. Worse still, Soviet officials have more insidious ways of restricting emigration.

Just three weeks after the education tax was removed, an open letter to the U.S. Congress from 100 Soviet Jews asked us not to be misled. The letter stated that the education tax is not the central issue. The main factor is the arbitrary manner in which the Soviet government determines who can and who cannot emigrate.

Soviet Jews are desperate. They need help immediately. They feel very strongly that the only hope lies with the Congress. The incorporation of emigration-MFN language itno trade legislation would be an enormous psychological boost to Soviet Jewry. There is no doubt in their mind that this statutory language is needed to give us an economic lever to bring about more humane emigration practices.

Procedurally, I have no recommendation as to how MFN would fit into an omnibus trade bill. I believe that Title V of the administration's bill authorizes the President to extend MFN treatment to imports from countries which currently receive column 2 duty treatment. Should this section of the administration bill receive an endorsement by the committee, possibly the thrust of H.R. 3910–3921 could be included in the language of the section.

Most foreign policy experts agree that if the United States and the communist countries are to reach a detente, or thaw in the cold war, it will be predicated upon trade expansion and other manifestations of economic relations.

However, we should always keep in mind that Soviet Russia still has a closed economic system. Trade is only an extension of Soviet political endeavors. Then too, the Russians don't have a great deal to trade. They have some raw materials that we can use. But, on the balance, they stand to gain because we will be exporting our technology.

It seems to me that we should exact specific concessions from the Russians as a pre-condition to MFN. Certainly, a priority item should be an ironclad assurance that Russia will make its emigration policies conform to those of non-communist nations.

No other nation in history has achieved an enlightened policy toward emigration comparable to the United States. We are a nation of immigrants. The right to emigrate is basic to our constitutional system. We have a deep and abiding moral obligation to seek ways to help people who live under a totalitarian regime to emigrate.

I feel very strongly that we in the Congress can and must act positively to force the Soviet Union through economic measures to allow its people the freedom to seek a new life in another country. To this end I again urge favorable consideration of H.R. 3910 and the companion bills.

Again, Mr. Chairman, and members of the Ways and Means Committee, I appreciate your kind indulgence in allowing me to appear before you today.

Mr. GREEN. Thank you very much, Mr. Goldwater. We are certainly delighted to have you come today. I personally agree with your views and welcome them.

Mr. Clancy.

Mr. CLANCY. I have no questions, Mr. Chairman. I compliment Mr. Goldwater on a fine statement.

Mr. GOLDWATER. Thank you, Mr. Clancy.

Mr. GREEN. Our next and final witness for the day is the Honorable Mr. Lent, Representative from New York. We welcome you to the committee, Mr. Lent.

STATEMENT OF HON. NORMAN F. LENT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. LENT. Mr. Chairman, members of this distinguished committee, I appreciate the opportunity to testify here today, and I want to keep my remarks brief for I fully appreciate your busy schedule.

I come before you to urge that, in your consideration of this important trade legislation, you adopt forceful language barring preferential trade treatment or credits to those nations which deny their citizens the right to emigrate.

Mr. Chairman, I needn't tell you that to endorse de facto the current policies of repression and harassment of some nations by treating them as coequals in important trade matters would be a travesty against human justice.

The freedom of individual movement is one of the most basic of human rights, and to limit that right through both subtle and blatant action is denigrating to the individual human spirit. Certainly, Mr. Chairman, nations which deal wholesale in human repression do not deserve assistance from other freedom-loving countries.

I am particularly hopeful that this committee will be able to pierce the veil of policy statements which have emanated recently from the Soviet Union contending that the repressive Russian exit taxes have already been suspended and we have nothing further to worry about. We know that the so-called education tax is only one in a vast Soviet arsenal of inhibitive weapons aimed at fencing in the thousands of Russian Jews who seek to emigrate. There are many other techniques which we are now told are being used to more quietly, yet just as effectively, wall in Soviet Jews behind Russian borders.

It seems to me, Mr. Chairman, that if Soviet policy regarding emigrees is what they now say it is, and Soviet policymakers have no objection to the emigration of Russian Jews, then they certainly can have no objection to the Congress taking the action that many of us have recommended.

This Nation has always stood for individual freedoms for all peoples of the world. We have, at times, taken drastic military action to preserve these basic freedoms for all people who seek them. We have paid in countless American lives to insure basic human rights for those oppressed in the past. We have imposed stringent economic sanctions against nations which engage in human repression. In short, we have expressed as a nation on countless occasions our abiding support for those who would be free.

I am hopeful that this committee will once again make it clear that this country, which was born out of a quest for individual freedoms, will express its abiding support for that noble aim in a forceful fashion. For if we, truly the land of the free, renounce that aim either directly or indirectly, what hope is there for people whose quest for freedom has just begun.

I urge the committee to adopt the substance of the amendment that the distinguished chairman, my colleague, Mr. Vanik, and a great many other of us have proposed when writing the final bill. Thank you.

Mr. GREEN. Thank you, Mr. Lent, on behalf of members of the committee for giving us your fine statement. This hearing is adjourned until 10 o'clock tomorrow morning.

[Whereupon, at 3:35 p.m., the committee adjourned, to reconvene at 10 a.m., Friday, June 15, 1973.]

TRADE REFORM

FRIDAY, JUNE 15, 1973

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. James A. Burke presiding.

Mr. Burke. The committee will be in order. Our first witness today is the Honorable Vance Hartke, the Senator from Indiana.

Senator, we welcome you to the committee. You may identify yourself and proceed with your testimony.

STATEMENT OF HON. VANCE HARTKE, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator Hartke. Thank you, Mr. Chairman. I am delighted to be here with the principal sponsor of the Burke-Hartke bill.

Mr. Chairman, 3 years ago I stood before Congress and I warned of the international trade and investment crisis which was then beginning to engulf us. At that time, I stated that disorders in our foreign trade, and I quote from my 1971 remarks, "would threaten the livelihood of most Americans and the status of this country as a world industrial leader."

Today, after two devaluations and the loss of thousands of domestic jobs, we are in the very throes of that crisis. Its destructive effects continue unabated because we have failed to adopt a comprehensive course of action which could have restored order in the international marketplace.

The Foreign Trade and Investment Act, which I introduced in 1971 with my colleague, the Honorable James Burke, and which we reintroduced in January of this year, would have averted this crisis had it been enacted into law. It would have provided a new basis for orderly world trade.

With all due deference to my good friend from Massachusetts, I would say in the Senate side we call it the Hartke-Burke bill. Over here you can call it the Burke-Hartke bill.

The Hartke-Burke approach would have controlled the worst practices of transnational firms like the export of U.S. jobs, technology, and capital, as well as permitting American enterprise to compete with imports on an equitable basis, so then as now, only worse. I think those are the keywords, the key phrase.

Taking balance of payments, in 1972 our overall balance-of-payments deficit reached $10.3 billion, and then international speculators against the dollar provided us with a whopping $10 billion in the first quarter of 1973.

When I proposed this legislation in September of 1971, we had just experienced the first trade deficit in this country's balance of trade since 1893. Incidentally, the reason we don't have any figures before that date is that that was the year the first trade figures were kept. Then we had just begun our descent; now we have bottomed out and have started what I consider to be a less than significant rally. Some people say there has been a minor upturn.

Let me explain this minor upswing in our trade account. In 1971, we had a $2.7 billion deficit in our export-import balance, which increased to $6.8 billion in 1972. By the first quarter of this year, we were in the red ink by $920 million, and then in April the corner was finally turned and we achieved a $196 million surplus. But this is a very meager amount which would be wiped out completely if we based our trade account on CIF figures which include insurance and freight, rather than f.o.b. calculations.

I want to point out that the difference occurred as a result of the exports, it was due to an unusually large delivery of aircraft ($120 million) and a rise of $180 million in agricultural exports. These sales will not continue, as indicated by President Nixon in his recent "price freeze" message. Agricultural exports were seasonally high and thus transitory. Also, sharply higher prices for many commodities contributed significantly to the dollar gain in exports. So the "surplus" which really exists only on paper—because of the difference in CIF and f.o.b. figures—is not indicative of a trend, but is an aberration.

What is, however, of prime importance, is the continued increase in imports which rose by 10 percent in the first quarter of 1973, compared to the preceding 3-month period. America's energy crisis and the resultant increase in reliance on foreign oil resources will expand import figures even more and add to new deficits in our trade account. Some of the best experts in this field tell us that the trade deficit in oil alone in 1980 will be in excess of $40 billion.

If American trade deficits are staggering and debilitating, our major trading partners' surpluses in comparison are astronomical and beneficial. France managed to run up a trade surplus of $1.4 billion, while West Germany's $8.5 billion excess was only surpassed by Japan's $9 billion total. The U.S. balance-of-payments deficits have lasted too long. They have risen to extraordinary heights, and have undermined confidence, not only in the dollar but also in paper currencies generally. It is time America stopped financing foreign surplus with her own deficits.

The traditional economic tool for correcting a disequilibrium in the balance-of-payments mechanism has not worked well. No one can say with any assurance that the $2 devaluations will restore the United States to a position of surplus. We cannot afford to wait until the devaluations have, hopefully, brought about the kinds of adjustments that are necessary, because the currency of the largest country of the Western World, which also still serves as the world's reserve currency, cannot be buffeted back and forth by speculators without creating severe strains on the world's monetary and trading structure. New and

more comprehensive measures are needed. The panaceas of the past have not been effective in treating our trade problems.

Now, what is the Hartke-Burke solution?

To meet the huge deficits in the balance of payments and the balance of trade, I propose a system of quantitative import restrictions. Based on the relationship between imports and domestic production in the 1965–69 period, this measure would stabilize imports, preserve domestic industry, and keep hundreds of thousands of jobs in America. Under my plan, imports would continue to grow in concert with domestic production, preserving the 1965–69 base period relationship. Our trading partners would be assured of a steadily expanding market, while our domestic interests would be fully protected.

Other countries make sure that their own markets are secure and protected. It is time we provided the same security for America. You have before you only a partial list of the quantitative restrictions perpetuated on foreign products by our trading partners. Take, for example, the case of Japan on page 3. They have an international tax of 150 to 220 percent on imported whiskey. Compare this with the fact that the United States suffers under a $723.4 million trade deficit in distilled alcohol alone. That amounts to 10.6 percent of the entire $6.8 billion U.S. trade deficit. Last year, we exported a mere 4 million gallons of bourbon. What happens when a fifth reaches Japan. First, they put on a 35-percent GATT duty; then they add their landed costs—stevedoring, freight, insurance, et cetera. If this total, with all these costs, exceeds $16 per bottle, they introduce another 220-percent duty. Below $16, they add a 150-percent tax. This brings the price of a fifth of American bourbon to $20. What has happened in effect is that the Japanese nontariff barriers have done to American spirits what Carrie Nation with an ax and Bible could never have accomplished. This is not just an isolated example, but as you can see from this list, is it one of hundreds of nontariff barriers which discriminate against American products.

I don't know whether you buy film in the marketplace or not. This little film you will find ordinarily in a green package. This little film is in a yellow package. The yellow package film for the 35 millimeter is made by Kodak. Most of their film is made in the United States. This little package, the same film, is made by Fuji. You can buy any one of these in the American market and have them developed here. When you go to Japan, however, the yellow package with the silver container made in America is not permitted to be used. You only can buy Fuji film in Japan.

While we are on that, I might say that the Congress has demonstrated that they have gone on the other side. I brought a few little items of hardware for inspection which you use every day. Over in the Senate dining room there is Sweet and Low in a container. On the bottom it says R. B. Stainless Steel, Japan. This is in the dining room of the Senate. Of course, if you use cream in the U.S. Senate, it comes in the stainless steel cream pitcher which is on every table, made by the same Japanese manufacturer. If you stir it with your spoon, it is no longer made in Japan. It comes from Taiwan.

Now when you go over to the House side, you eat steak while we have to be satisfied with hamburger. You use sharp knives there. Stainless Koreo; this is found in the House of Representatives. Your fork is

stainless steel; made in Taiwan. Of course, in Indiana, we are a little concerned about all this. You see, we had and still have steel mills. Practically every major steel mill in the United States.

I might go ahead and say that some of you people like to go to rock concerts. I have seven children. They enjoy them. The Newport Jazz Festival in New York, "George Wine presents the 20th Annual Newport Jazz Festival, June 29 to July 3."

On the 5th of July, "Wolman Ampitheater, Carnegia Hall, Philharmonic Hall, and the Carnegie Recital Hall," what does it say: not Steinway Pianos, but "Pianos by Yamaha." Carnegie Hall, on July 1, July 4, July 5, New York Musicians Jazz Festival. Walter Bishop, Norman Concert, Jazz at Shea, Roberta Flack "Pianos by Yamaha." None by Steinway.

The truth of it is that many firms and whole industries have been lost to the sudden tide of imports that started in the late 1960's. The personal impact of recent trade figures can be found in high unemployment, lost pensions, and socially and economically weakened American communities.

I frequently mention the city of Chicopee. That is in the home State—Massachusetts—of the cosponsor of this measure. Sickles Electrical Corp. is located there, and it has suffered heavy unemployment due to "runaway plants." The workers and their families have formed what they call a "grandmother troop" which is going out over this country trying to help save jobs for America. These grandmothers are elderly ladies. They worked in Sickles 3 years ago; 3,500 of them. They had pension plans and a successful operation in Chicopee. The entire operation has closed down in Chicopee and moved to Taiwan. These 3,500 grandmothers are out of work. Their jobs are now performed by the Chinese. They pay Taiwan workers 25 cents an hour.

If you talk to these ladies, you understand the impact of what is happening in this country with the sharp reduction in industrial employment. Not only did they lose their paycheck, they lost their insurance benefits and their pension rights. They also lost their dignity. First they went on unemployment compensation until it ran out. Most of them now are on welfare. When you meet with them, thank God, they have not lost their sense of humor—yet. I would think they would be hard-pressed to vote for anyone who supported the President's bill or who opposed the Burke-Hartke bill.

They will be on your doorstep no matter where you live, because they intend to travel all over the United States to make their enthusiasm felt. They are nice ladies. They are pleasant. But they are upset and mad.

So, as I said, the personal impact of recent trade figures can be found in high unemployment, lost pensions, and socially and economically weakened American communities.

What about the multinational corporations?

The postwar era is the age of the giant international company. Today they do about $500 billion of business annually in each other's territories, or about one-sixth of the world's gross product. That is more than the entire gross national product of Japan. These super-sized multination corporations are characterized by a global strategy of investment, production, and distribution.

The multinational company is creating the outlines of a genuine global economy. Their rate of growth is truly phenomenal. It is double that of purely domestic companies. By 1975, nearly 35 percent of the Western world's non-U.S. production will be accounted for by American subsidiaries. The book value of direct investments by the U.S.-based transnationals grew from $32 billion in 1960 to $90 billion in 1971—an increase of 280 percent.

In addition, about $1.5 billion a year has been added through reinvesting the profits from foreign subsidiaries. Foreign portfolio investment in securities is over $19 billion. Together, U.S. foreign direct spending, reinvestment of profits, and portfolio investments amount to $120 billion.

From 1960 to 1970, plant and equipment expenditures by U.S. multinationals rose 60 percent faster than purely domestic firms. Responding in part to favorable tax treatment and America's old line free trade policies, more than 8,000 subsidiaries of American firms have been established overseas. Following this flow of capital and firms is American technology and superior knowhow. Frequently developed at the great expense of American tax dollars, this technology fuels economies of foreign lands at domestic expense.

Foreign direct investment by U.S. companies has been increasing at a rate of 15 percent. On the basis of present trends, this figure will rise to over 20 percent by 1980. By contrast, the GNP of the world's principal industrialized countries will increase at between 3 and 5 percent. If a corporation's sales were to be equated with a nation's output of goods and services, then 54 of the world's 100 biggest money powers would be multinational corporations and only 46 would be countries. General Motors, for example, with a yearly turnover of more than $24 billion was in 15th place on this list, just behind Spain, Sweden and Holland and just before Belgium, Argentina, and Switzerland. Exxon and Ford each made more money than the GNP of Pakistan, Denmark, or Austria.

What are the harmful consequencies? I frankly am not against bigness, per se, but I am vigorously opposed to unregulated bigness that adversely affects the U.S. trading position in the world. Multinational firms export American jobs by the hundreds of thousands, as they move their operations abroad in search of cheaper labor, non-union shops and tax holidays. The net result is American job losses.

Two thousand machinists lost their jobs in the General Electric plant at Utica, N.Y., between 1966 and 1972, as the company phased this operation out of the United States and into its subsidiary in Singapore where labor works for 18 cents an hour. At the same time, General Electric stopped manufacturing radios. Now, nine out of 10 radios sold in America are produced abroad.

In 1971, International Silver exported more than 1,000 steelworkers' jobs from their plant in Meriden-Wallingford, Conn., to Taiwan. The stainless steel flatware formerly made in Connecticut is now imported from International Silver's affiliate in Nationalist China.

As my colleague, Congressman Burke, is well aware, more than 19,000 shoe workers in Massachusetts lost their jobs in the 1960's as American Footwear Industries succumbed to cheaper imports and large conglomerate multinationals like Interco and Genesco which

began producing shoes in France, Belgium, England, Italy, and South America. Spain alone exported $280 million in shoes last year and the United States purchased $210 million or three-fourths of them.

The aggregate data as indicated in a recent U.S. Tariff Commission report, indicate that between 400,000 and 1.3 million jobs were lost by Americans because of the rapid growth in investment and trade by American multinational firms abroad.

In the consumer electronics, footwear, toy, and apparel industries, the search for low-wage labor was a major factor in the decision to invest abroad.

One glance at this list of American multinational firms selling between 40 and 50 percent of their turnover abroad demonstrates the gravity of this problem. In order to facilitate these foreign sales, much of the manufacturing of their products is done overseas resulting in the loss of former American export markets and jobs.

I would like for you to take a look at this chart for a moment and note a few spectaculars on it. Take Exxon, 52 percent worldwide. Their sales and profits come from worldwide operations and are over 50 percent. Caterpillar tractor, one of the most vigorous opponents to the Burke-Hartke bill. I would like to see how much tax they avoid. I do not say "evade," because some of my chamber of commerce friends objected to the fact that I said they were doing something illegal.

I say that they are doing something perfectly legal, but I want to correct this. I wonder if they pay any taxes at all. They said it is in their annual report, but it is not. I want to know how much tax they avoid as a result of this tax loophole of the foreign tax credit.

I might also add that they are trying to convince the public to accept and support this tax subsidy. I don't know how that helps to sell Caterpillar tractors. They urge people to contact their Congressmen and express their opposition to the Burke-Hartke bill. Maybe that is a legitimate expense. I will not pass judgment on it at the moment.

But, Caterpillar tractor sells 53 percent worldwide.

I have nothing against Caterpillar tractors. I think they are good. I just wish they would produce them in the United States and sell them overseas.

Colgate-Palmolive, 55 percent worldwide. American Smelting & Refining, 65 percent in Australia, Peru, and Mexico.

What is the loss of export markets as a result of all this? Once these firms have resettled in foreign countries, avoiding many American taxes and slipping under the tariff barriers of the host country, they begin selling their products in markets formerly served by their American plants. This adds to the U.S. balance-of-payments deficit. The foreign affiliate is run by foreign labor, and since production in the American plant has dropped off or been replaced by the subsidiary, Americans are forced to sacrifice their jobs in order that these superinternational companies can export and expand their profits.

Although most countries strictly regulate and protect their own technology, America has left this matter largely to the discretion of private business. According to the U.S. Tariff Commission's study of multinational firms, these supercompanies dominate the development of new domestic technology. The exports of this technology from multinational corporations outweigh imports by a factor of more than

10 to 1. These industries have been prominent generators of high technology exports from the United States.

One example of this practice is McDonnell-Douglas' sale of the Thor-Delta launch system to the Japanese. The sophisticated technology which went into the construction of this system cost the American taxpayers millions of dollars in research and development funds, now being sold to Japan.

American taxpayers want a fair chance to reap the benefits of their tax dollars spent on American technology. But as fast as the technology for space or electronic equipment is developed and the patent is received, that technology is often transferred abroad with the help of U.S. tax laws.

Now what is the solution that Congressman Burke and I would give you under our bill?

Under my legislation, the President would have the authority to regulate the outflow of funds to other countries for private investment by American citizens or corporations whenever he determines that employment in the United States would be decreased by such a capital transaction. Violations of the act or regulations issued under it would be punished by criminal penalties.

In regard to the loss of American loss of jobs in export markets, at present, our tax laws make an overseas investment more attractive than one in Indiana. I recall when John Connally was Secretary of the present, our tax laws make an overseas investment more attractive tax laws, isn't it more attractive to build a plant in India than in Indiana?"

You know he is a charming person and he said, "It all depends." He can turn a question around to his own benefit.

I said, "Isn't it more advantageous to invest, under our tax laws, in India rather than Indiana?"

He said, "Yes," and that is in the record.

To the extent that the firm does pay taxes to a foreign government, these taxes count as a dollar-for-dollar credit against any Federal tax liability. Profits made in Indiana are taxed when earned. The taxes paid to the State of Indiana can only be taken as a deduction against gross income rather than as a Federal tax credit. My bill will plug both of these gaping loopholes.

For example, taxes on overseas profits of foreign subisidiaries would be taxed as soon as these profits are earned. There would be no tax deferral.

I might point out that the multinational corporations are paying an average tax rate of only 5 percent to the U.S. Treasury, whereas the rest of the American taxpayers in business have to pay at a 48-percent rate.

Third, we will move closer to ending the tax subsidies which encourage U.S. investment abroad and we will consequently cause these taxes to come back to the United States.

As for tax credits, the Hartke-Burke approach would eliminate this and require that foreign taxes on corporate profits be deductible instead of credited on their tax accounts. The depreciation allowances for companies owning business property in foreign lands would be tightened. The allowance would be computed on the basis of actual

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useful life of property to the corporations and on the basis of the straight line accounting method rather than an accelerated method.

Another example, is the Hartke-Burke approach to the income tax breaks for individuals working abroad. U.S. skilled labor is enticed to work abroad by the present tax law. American administrative, technical, and professional personnel are able to work for U.S. subsidiaries abroad without paying taxes on their earnings.

Under Hartke-Burke, the special tax exemption on the earned income of personnel who spend at least 17 out of 18 months overseas working for a foreign subsidiary, or partnership firm of an American company, would be removed.

Concerning the export of American technology, under present law, U.S. corporations are relieved of paying taxes on any income arising from the firm's transfer of a patent or similar right to foreign companies. This encourages U.S. firms to export their technology. Harket-Burke would repeal the tax-free treatment for U.S. companies' incomes from licensing and transferring patents to foreign companies.

Also, under Hartke-Burke, the President would have the discretionary power to limit the export of technology. He could control the granting of licenses to produce a product abroad. Specifically, the President could prohibit any holder of a U.S. patent from producing the patented product abroad or from licensing someone else to produce it overseas. The penalty for violating the statute or regulations issued under it would be to make the patent unenforceable in the U.S. courts. This would permit other producers to make and sell the product in the United States without paying royalties.

In conclusion I think we can say that we cannot ignore nor fail to correct the growing power of these giant multinational concerns. They feel no allegiance to any national entity. They support no government on ideological grounds. They have no qualms about investing in democratic or totalitarian, capitalistic or socialistic, civilian or military governments as long as their profit goals can be realized.

Let me conclude with a reference to public opinion. Sentiment against multinationals runs so high, that the public—by a margin of almost 2 to 1—currently thinks that the Federal Government should discourage, rather than encourage the international expansion of U.S. companies. Many more simply do not buy the idea that corporate growth abroad has increased employment at home. Seven Americans out of ten are convinced that the main reason U.S. firms go abroad is "to take advantage of cheap foreign labor and that this costs jobs here."

In this chart we have the results of a nationwide public opinion survey conducted by the Opinion Research Corp. for businessmen. Forty-two percent of total public opinion is strongly opposed to the expansion of U.S. companies abroad. Even a majority of the managers are opposed to expansion (37 percent opposed against only 30 percent in favor of expansion). Perhaps the most surprising are the results when broken down by party preference. Even the majority of Republican voters are on our side in this controversy. Republicans strongly oppose expansion, 40 percent opposed to 30 percent in favor.

I think that this committee and this Congress should not disappoint even those Republicans, let alone those Independents and Democrats who are even more strongly in favor of the legislation which we have proposed.

So, the Foreign Trade and Investment Act of 1973 is designed to put our industry on an even footing with foreign competition and controlling predatory trade practices and regulating the American make domestic investment just as attractive as investment abroad. By based transnational firms, the Hartke-Burke approach to trade policy will put America back on the path to a world of free and fair trade.

Mr. BURKE. Thank you very much Senator Hartke.

Mr. Rostenkowski will inquire.

Mr. ROSTENKOWSKI. I would just like to welcome the Senator. It is always a pleasure to have him give us his expert testimony. I can certainly see you have done an in-depth study. I am personnally grateful to you, sir.

Senator HARTKE. Thank you.

Mr. BURKE. Mr. Corman.

Mr. CORMAN. I would like to discuss with you for a few minutes one of the difficulties I have when we start thinking about solving our trade problems with quotas.

I realize that from the point of view of our relationship with a foreign country that is the simplest and most effective way to treat the problem rather than relying on tariffs. My concern is what happens within this country in trying to give to American businessmen some equity or protection from a capricous bureaucracy.

With respect to those businessmen who will be affected by the import quotas, what do you anticipate in the way of administering those quotas?

Senator HARTKE. That is not difficult.

Mr. CORMAN. Good, that is the one thing I was worried about.

Senator HARTKE. Let me point out that we have quotas at the present time. I also want to explain what the difference in effect is between quotas and tariffs. Tariffs can be avoided much more easily by an exporting nation such as Japan. For example, after our devaluation, the Japanese moved effectively to subsidize their exports and to provide for different methods of accommodating the increase in cost which was occasioned by the U.S. tariffs.

That is why I am not in favor of tariffs. I think it is an ineffective method of trying to control this operation.

Quotas are not new. We have the Tariff Commission here which could handle it. We can do as we say; set up a new agency to do the same thing which I think should be done in view of the Tariff Commission's failure to perform its function since the passage of the Trade Expansion Act of 1962.

We have, for example, the quota arrangement in steel which I have been very involved in for quite some time. I recall when in 1964 I first proposed to the Finance Committee that we do a study on the question of steel quotas, I faced unanimous opposition in the committee. I didn't have one single person to support me. We had unanimous opposition from the U.S. steel unions. We had unanimous opposition from steel companies.

Before the study was completed, all opposition turned around and we adopted the steel study in toto within about 11 months thereafter.

As a result, we have had a complete change in the rapid increase in the imports of steel. In 1959, the United States imported about 1 million tons of steel. Last year we imported about 18 million tons. If

you remember when Khrushchev was here in 1959, I had the opportunity to listen to him. I heard those famous words which were frequently cast out of context in which he said, "We will bury you," in which he was referring to the field of economics. He said that "By 1975, we will have exceeded you in steel production." That was not considered in 1959 to be a possibility.

I want to point out to you that no longer are we No. 1 in steel production in the world. We are at this time No. 3. Russia is No. 1. They have accomplished their goal 4 years sooner than intended. Japan is second in production. The steel quota system is working.

Let me say that the quota system on textiles is working. The quota system on oil is working. I assure you that it is not nearly as difficult to provide for an administrative decision on the question of settling the quotas as it is to find a method of taking care of 5 percent unemployment in the United States in a period in which productive capacity is allegedly at full capacity.

Mr. CORMAN. Let me try to focus on the specific question. I am not quarreling with the fact that maybe this is what we ought to do. I am concerned with what happens in the American business community if we resort to this.

Let's take steel and the wire products industries. As I understand the facts, about 60 percent of the wire products industries are conducted by people who do not make steel. They have to buy steel from somebody else. Forty percent of the wire products are made by people who also make steel.

Now, if we are going to set up a quota system and provide for only so many tons of import, and maybe that is justified, what are you going to do internally to protect the wire product industries and how are you going to allocate that portion of the imports that come in so that there is equity among the people who rely on those imports for their economic survival?

Senator HARTKE. This is not presenting any great problem at the present time. You are saying that they are going to be frozen out by the manufacturer of steel who also is a processor. Is that what you are claiming?

Mr. CORMAN. Yes; that plus the fact, who gets to buy the quota.

Senator HARTKE. This is not a firm figure, as far as total production. We are not freezing quotas at an unreasonable level. The base period is 1965–69. If there is an increase in the use and the production of wire products in the United States, the amount of steel imported can be increased.

Mr. CORMAN. You are going to import less than the free market would import. Otherwise there would be no quota. How do you decide who gets to buy the allowable imports?

Senator HARTKE. The free market will accomplish this. I don't think you need an administrative agency for this. Do you think that the producers of steel will arbitrarily cut off production only to accommodate a limited number of nonproducers as compared to fabricators?

Mr. CORMAN. That is the existing circumstance according to the wire production people.

Senator HARTKE. I will be glad to look into that. I think if that is the case, they would be subject to the antitrust provisions and also to

the regulations under the Federal Trade Commission. This would be an operation of restraint on trade. This was accomplished back in 1917 when we passed the FTC regulations.

I would think that if you have a case of that kind you have a good case in court and tell them I will be glad to represent them.

Mr. CORMAN. But it is your recommendation that we not concern ourselves with how the quotas are to be administered so far as importers are concerned.

Senator HARTKE. That is right. Let me say to you that I do not think that this is a panacea for all the economic troubles the United States has. But something must be done to correct the eroding economic system.

For a long time—almost 5 years under this administration and I don't excuse the prior one—we have had an opportunity to come forward with some type of program to alleviate the difficulties, and we have not.

With all due respect to what the administration sent up here, they have asked for a Gulf of Tonkin type resolution in trade matters. The only alternative is Hartke-Burke. The worst that has been said about our bill is that it is going to have somewhat of an adverse effect upon the profit structure of these multinationals. I have these figures here. I want to submit them for the record, to demonstrate that these people are not paying their fair share of the tax load.

If you want to be real good to American industry and try to alleviate part of this unemployment, let me call to your attention that this week in Canada they are lowering corporate taxes from 49 to 42 percent. They are allowing a 2-year writeoff to make it possible for their domestic industries to compete more effectively.

In the United States you have automobiles from the nefarious operation called the Canadian Auto Agreement which is a grave injustice to our auto production business. You can provide for the same type of tax relief today if you will adopt the tax provisions of the Burke-Hartke bill which would add $4.6 billion to the Treasury.

If you are not interested in recouping that amount but would rather support the American business community, you can reduce the corporate taxes to 40 percent. The total tax revenue last year was less than $35 billion.

The last figures the Treasury can give us for 1970 were a direct tax erosion of $4.6 billion due to foreign tax credits. Now it is probably $6 billion. I have often thought about tacking onto this measure two amendments. One of them is a corporate tax reduction for strictly American businesses from 48 to 40 percent in the event that you go ahead and pass this bill which would eliminate the foreign tax credits.

What this says in substance is that the American taxpayer is subsidizing the multinational corporation via tax credits. It is strictly a legal raid on the Treasury for which we are paying 48 percent on the domestic scene, as well as unemployment compensation and welfare benefits. There are 5 million people unemployed in the United States while there is full employment in Germany and Japan. The multinational firms are aiding these countries at the expense of the U.S. worker. The representatives of these supercompanies are coming to you with tears dripping down their faces complaining about the fact

that they are being asked to go ahead and pay part of that burden and assume part of the social responsibilities inside the United States.

I say to every chamber of commerce: "Don't come and wail to me about your welfare load when you are condemning the Burke-Hartke bill."

Stalin used to say, "American capitalists will sell the rope to hang themselves," and that is what they are doing.

The House of Representatives passed a minimum wage bill. At the same time, these corporations are running overseas to take advantage of cheap labor. It is a tragedy that the United States permits the exploitation of foreign laborers who work for 18 and 25 cents an hour and do the same work we are paying $3 and $4 an hour for in the United States.

I don't believe anybody in his right mind is going to contend that you will be able to reduce the American workingman to a position where he would have to work for 25 cents an hour. I think that would fall on such utter deaf ears that it is absolutely unthinkable. But, the idea behind this concept has already been adapted inside the United States. Runaway corporations fled the Northeast and in their search for cheaper labor costs located first in the South and then abroad.

To cope with this problem, Congress passed a minimum wage law. We passed a minimum wage law which is based on two theories. One of them is that it taxes a certain amount of money, a minimum amount of money for a man to support himself and his family. The second is humanitarian. No one should take advantage of the economically deprived individual simply because he is willing to work for subsistence wages.

That same principle should apply to foreign workers. We ought to take the next logical step and put a restriction on any goods coming into the United States where those goods were produced at less than the minimum wages which are paid for similar American production.

If it is good for New York and Alabama to have a national minimum wage law, why should it stop at the border? Why, for instance, should we exploit Mexican labor and keep them in a state of poverty. The capital outflows of these supertransnational corporations are keeping many foreign peoples in a national state of underpayment. They sow havoc and reap benefits. The benefits are not coming back to the American consumer in the form of cheaper prices for imports. There are isolated instances of cheaper prices, but generally speaking, I don't think there is a person in America who contends that our price level has held even within the last few months, let alone the last few years. Importers have not passed on their savings to the consumer. A Brazilian pair of shoes, produced for $3, is selling in the American market for $29.95. Who benefits but the retailer?

Mr. BURKE. Have you completed your question?

Mr. CORMAN. My 5 minutes are up.

Mr. BURKE. Mr. Pettis is recognized.

Mr. PETTIS. I was trembling a little bit when you were talking about these Carrie Nation women who were going to be visiting our offices. I was wondering what would happen if they arrive at the same time the League of Women Voters arrive. We may need the Capitol police to help us maintain order.

My question is a rather philosophical one, Senator. I am playing devil's advocate for a moment. What is your counterargument to those who compare Burke-Hartke legislation to the Smoot-Hawley type of legislation of some decades ago and who say that, if we enact this, we will have the same kind of disastrous result?

Senator HARTKE. Anyone who advances that argument, and I hope you haven't, simply doesn't know his economics. This is meaningless propaganda. Smoot-Hawley was a tariff. We have not advocated one single tariff operation.

Smoot-Hawley came in the middle of a depression. If these people want to focus upon a protectionist era in American Government, they ought to look at the period following the Civil War. I don't advocate this at the present time, because we have a world economy which must be considered, but the greatest expansion in the United States came when we had the highest protectionist operation in the whole world following the Civil War to the year 1900.

When a group of 90 top Canadian businessmen were here, I told them: "I will make you a proposition. I will introduce a bill establishing a common market between the United States and Canada, if you will guarantee that the Canadian Government will immediately follow suit and go with us."

They said, "We can't do that." I said, "Why not?" They said, "It would be economic disaster for us." I said, "That is true. What you are telling me is a simple fact of life—that you are not competitive with the United States, that you have put up barriers and are taking advantage of our markets and you don't believe in the free trade concept at all." I would be willing to go into a free complete common market with Europe.

I was the cosponsor of the Trade Expansion Act of 1962. There was a trade adjustment assistance provision in the Trade Expansion Act of 1962, and there wasn't one simple application in the Tariff Commission for 7 years. I complained bitterly about that. We have the most productive work force and business community in the world. I have become fed up hearing people say we are not competitive.

We are too competitive in our business community, freely productive in our labor market. We have been willing to sit back and let other people take advantage of their own inadequacies at our expense. We have been willing to defend the world and give them our market and give them our technology and give them our capital and give them our jobs. Now they complain about the fact that, because we are the reserve currency of the world, we are causing troubles for them. Would we had the trouble of full employment in Germany or the balance of payments surpluses of Germany and Japan!

Mr. PETTIS. I certainly agree with you. We certainly don't have free or fair trade today. Much of the world is taking advantage of our leniency in trade to the detriment of American workers. I don't think we have any differences of opinion here on goals. I think our differences may be on the way to achieve that goal, but we certainly are in a disastrous situation today as far as fair trade is concerned. We don't have fair trade.

Senator HARTKE. That is fair.

Mr. PETTIS. I have exceeded my 5 minutes. Thank you.

Mr. BURKE. Mr. Duncan is recognized.

Mr. DUNCAN. Thank you, Mr. Chairman. I would like to welcome you to the committee, Senator. I thank you for giving us certain information that will be of help to us in this trade expansion legislation.

I want to refer you to, if I may, your first chart. You estimate foreign sales in 1970 of the amount that you have there. What percentage of that is attributable to manufactured products in the United States being sold in foreign countries?

Senator HARTKE. That depends.

Mr. DUNCAN. Let us take Standard Oil, then. How much of it is due to product manufactured in the United States?

Senator HARTKE. Forty-five percent.

Mr. DUNCAN. What about Caterpillar Tractor?

Senator HARTKE. Practically all of their manufactured goods sold abroad are manufactured abroad.

Mr. DUNCAN. In the United States?

Senator HARTKE. No. You see, the foreign earnings, if you will take Caterpillar——

Mr. DUNCAN. But you led us to believe by this chart, Senator, that all of those products, all of those sales, result from runaway plants or plants that manufacture abroad, which isn't true.

Senator HARTKE. I don't intend to leave that impression.

Mr. DUNCAN. That is the impression that you gave me.

Senator HARTKE. Let me say to you, though, so that I am not misunderstood, a great deal of it is. What happens to this is that these companies move abroad and argue that they have to move in order to get into the host country and under its tariffs.

I call for the imposition of quantitative restrictions on foreign imports. Other countries already have them throughout the world. I have provided you with a partial list of them. These companies say they have to move abroad because of the restrictions that are there are nontariff barriers.

So they move into the host countries, reap the benefit of the tax advantage, and then go ahead and take the goods which formerly were shipped out of the United States and start manufacturing them over there. Then they no longer need the domestic operation because the overseas operation provides a better run on investment than the American corporation. They really only pay 5 percent on their foreign investments.

Mr. DUNCAN. I am in agreement with you on many things you say, but this chart is certainly misleading, because I think it is a good thing—the portion of these sales that were manufactured in the United States and sold abroad. Don't you think that is good?

Senator HARTKE. This chart was put together by the Senate Finance Committee.

Mr. DUNCAN. Don't you agree that it is good to manufacture in this country and sell abroad if we can?

Senator HARTKE. If these companies go to manufacture goods, they also must provide for sales and services.

Let me explain to you one of the problems in Japan. You cannot have a sales or service operation for the goods even though you can sell them in Japan. This is hardly fair. You are back to the problem of restrictions on American products.

Mr. DUNCAN. You mentioned that nine out of ten radios or 90 percent of radios sold in the United States are manufactured abroad. How many of those are manufactured by runaway American companies?

Senator HARTKE. I can give you an example from Indiana. There is Westinghouse, RCA, Arvin, Sennit, Magnavox, General Electric, and Setchell-Carlson. There are seven corporations—in Indiana alone—that manufactured radios. None of them are there now.

Mr. DUNCAN. Would you say those radios are manufactured in foreign countries by American companies?

Senator HARTKE. No, because you have invasion by Japanese companies here like Sony and Panasonic and things like that.

Mr. DUNCAN. When Mr. Abel of the AFL-CIO testified before the committee, he indicated that the trouble started, of course, after World War II when we started to help build up these countries but it has become more apparent after the Trade Expansion Act of 1962, and in 1963 it was more apparent then than ever that we were not only in a trade war but we were about to lose the trade war. When did you change your mind on trade?

Senator HARTKE. I never changed my mind. I have always been of the same opinion. In 1962, when the Trade Expansion Act was presented to Congress, it was promoted with the idea that there would be a reduction of trade barriers throughout the world.

If the United States could eliminate all tariff barriers in the Western world, there would be no question about competitive position. There would be no need for our legislation under such circumstances if you remove the special tax benefits. In other words, there is a tax subsidy going to these corporations now. If you go back to the traditional worldwide free trade, we are more than competitive with the rest of the world.

In the hearings of 1962 in which I participated, we were told that the Common Market of Europe would include England and that there would be a reduction in tariff barriers and nontariff barriers. Neither has occurred. They locked us out of about $4 million worth of farm exports.

In addition, when Kennedy round negotiations came up at GATT, we did not benefit. In the whole negotiating procedure, they didn't do anything until about 60 days before the final report was due. Then they panicked. They decided they had to come up with some results. The decision was made to exclude all nontariff barriers in the Kennedy round. They reduced the tariff on left-handed screws and right-handed peanuts.

It was a fiasco. Any good student of international economics will tell you that the Kennedy round was nothing more than a propaganda victory if it was that. The point is, that the rest of these nations have not complied. They have not agreed to live by the so-called rules of free trade. The net effect has been that we now must respond in kind with quantitative restrictions.

I can say, without any fear of contradiction—and I think you will agree—that you cannot have a strong country if you don't have a strong currency. We have a weak currency, and therefore we are a weak country today, financially.

Mr. DUNCAN. I believe in fair trade and free trade. I certainly agree we don't have free and fair trade today. Don't you think the Congress has been negligent in its duty to protect American jobs in the past?

Senator HARTKE. I have tried to do my best. Congressman Burke and I have had this legislation in for 2 years and it was the only bill on the books for most of the time.

Mr. DUNCAN. Don't you think the fact that American companies have gone abroad is because of permissive rights or the rights they have under the laws of the United States?

Senator HARTKE. Sure, and that is what we are trying to correct.

Mr. DUNCAN. Mr. Abel also complained about the 1962 Trade Expansion Act in that it permitted American companies to export components to foreign nations and assemble them and bring them back in, and he said that also caused substantial loss of thousands of American jobs.

A great number of Congressmen, particularly Representatives, voted against that provision. It is now section 807 of the Tariff Code. They were criticized at the time by some labor organizations as being protectionist and isolationist and what have you. So times do change as we move along, don't they?

Senator HARTKE. I was reading Dick Gardner's book last night. He pointed out how we can best help underdeveloped nations. I might say that the use of item 806.30 and 807.00 of the Tariff Schedues have been a great benefit to the multinational corporation. The amount of imports coming in under this provision rose from $953 million in 1966 to $1.84 billion in 1969. This amount $442.6 million, represented the cost of American-made components. I think you and I would find ourselves on the same ground on this issue.

Mr. DUNCAN. Thank you.

Mr. BURKE. Mrs. Griffiths.

Mrs. GRIFFITHS. If the President's bill goes into effect roughly as written, what do you assume will be the chief export of America in 10 years?

Senator HARTKE. I have no idea because no one knows what the President plans to do. This is the greatest "Gulf of Tonkin" type of resolution ever submitted.

If you analyze the provision for adjustment assistance, you realize that the proposed measures are weaker than those of the Trade Expansion Act of 1962—and adjustment assistance has not worked under the 1962 act.

The President has asked Congress to abdicate its constitutional responsibility in the field of foreign trade. He wants complete authority to raise and lower tariffs, put on quotas, take off quotas, to wit, to do anything he wants to do.

Mrs. GRIFFITHS. I know what the President's bill has in it. May I ask you: If your bill and Congressman Burke's goes into effect, what do you assume will be the chief export of America in 10 years?

Senator HARTKE. I think you will have an almost complete elimination of that 5 percent unemployment.

Mrs. GRIFFITHS. What do you assume, if your bill goes into effect as written, is going to be America's chief export in 10 years from today?

Senator HARTKE. We probably still will export agricultural products simply because we are the greatest agricultural producer in the world. I think we would have an extremely high level of manufactured

but not exceed it.
goods for export which would rival the export in agricultural products,

Mrs. GRIFFITHS. What manufactured products?

Senator HARTKE. Production in all areas.

Mrs. GRIFFITHS. Cars?

Senator HARTKE. Yes.

Mrs. GRIFFITHS. To whom?

Senator HARTKE. Western Europe.

Mrs. GRIFFITHS. One of the real problems with exporting American cars is that you have to have a country big enough to turn them around in.

Senator HARTKE. That is true to some extent. That is not true in South America. For example, in Sao Paulo, there is a great need for automobiles and they have very wide boulevards.

Mrs. GRIFFITHS. How many cars do they have? Do you assume we will be exporting TV's and radios?

Senator HARTKE. Yes, and we will have Americans producing them for the people in the United States, too, instead of having them produced by cheaper labor overseas.

Mrs. GRIFFITHS. I would like to say to you that I asked the same question of the Secretary of the Treasury and the Secretary of State—if their bill went into effect, what would be the chief export in 5 years? They didn't know, either.

The real problem with both of these bills is that there doesn't seem to be any grasp about what is about to happen. There is no vision in these bills. There is no understanding of what is about to happen. In my opinion, the chief export of Indiana is going to be those cornfields. It is not just corn. You are really exporting the first inch or two of the soil of America, which is the thing on which we live.

Senator HARTKE. You may know something about the bill, but you don't know much about Indiana. We don't export much corn. We export wheat and soybeans.

Mrs. GRIFFITHS. Are you selling the corn to use in the United States or feeding it to the hogs in Indiana?

Senator HARTKE. You say there is no vision in this bill. We have the best statistics that are available. If you look at the report of the Senate Finance Committee, we have better statistics than they have in the administration at the present time.

Where were the voices of those people when Congressman Burke and I introduced this bill when the sharp decline started in 1971 and our balance of trade went from a surplus to a deficit? We were the only voices here saying it was going to occur—and it did occur. Maybe our vision wasn't there, but somebody in our offices or somebody along the line had the understanding that something bad was happening, and it is here.

Mrs. GRIFFITHS. I didn't say that you have bad vision particularly, but at least the administration has certainly no view of what their bill is going to do. They can't really answer my questions. Now you can't really answer my question, either, on what is going to happen.

It seems to me that what we need is not just some understanding of what is happening in America but an understanding of what is happening in the world.

Senator HARTKE. If you want to look at shoes, the president of the U.S. Shoe Industry is in Cincinnati, Ohio. He closed down the plant

in Columbus because of imports. He went down to Kentucky and employed 350 people. He came back to the Treasury Department and said he could not compete as long as the foreign subsidy is given to the imports of shoes.

He said, "I would like to build a plant which would employ 1,000 people. I will do it in Kentucky or southern Ohio or southern Indiana, but," he said, "I cannot compete with those shoes coming in from Brazil and Spain as long as they will have that tax advantage." He said, "I will have to close my plant in Cincinnati next in order to go ahead." He added, "I can build overseas."

Another example is Alfred Stokely of Stokeley-VanCamp, an Indianapolis outfit—they used to produce pineapples. The pineapple business is now being taken out of Hawaii. They are trying to subsidize production of Hawaiian pineapples there. He came to the Treasury people and asked them what he could do to meet the competition coming in from the Philippines—which is certainly not a bastion of democracy—and Taiwan.

They told him to build a plant in Taiwan and the Philippines. He said, "We don't have the capital to do that." So he is going out of the pineapple canning business. You will have just two people—Del Monte and Dole. That will be your pineapple business.

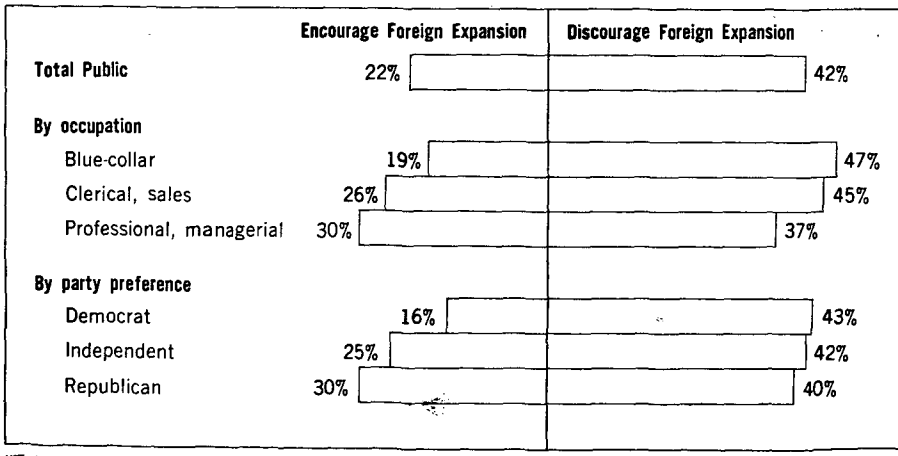
I can take you step by step through the television business in Indiana. In Orleans, Ind., we used to manufacture cabinets for television sets. We now export the lumber from your part of the country and ship it to Japan to manufacture the cabinets. That was an Arvin plant. It has gone straight to Japan.

Mr. BURKE. With reference to your charts here, without objection, we will have those charts included with your testimony, and also this pamphlet that you have given us about the various trade barriers from individual countries.

[The material referred to follows:]

Overall, the Public Favors Curtailment of U.S. Companies' Expansion Abroad by Almost a Two-to-One Margin.

"In your opinion, do you think the federal government should encourage the expansion of U.S. companies abroad, or discourage their expansion?"



"Take no action," "No opinion" omitted.

U.S. Companies Heavily Dependent on Foreign Sales & Earnings

Company	Estimated Foreign Sales 1970 (millions)	Percent of Total	Foreign Earnings (millions)	Percent of Total	Where Sales and Profits Come From
Standard Oil (N.J.)	$8,277	50	$681.2	52	Worldwide
Mobil Oil	3,267	45	246.3	51	Canada, Middle East
ITT	2,673	42	123.6	35	Europe, Latin America
Texaco	2,540	40	NA	NA	Worldwide
Gulf Oil	2,428	45	115.5	21	Middle East, S. America, Canada
Standard Oil of California	1,885	45	209.3	46	Middle East, Indonesia, S. America
Caterpillar Tractor	1,118	53	NA	NA	Export sales worldwide
Occidental Petroleum	1,105	46	NA	NA	Middle East, S. America, Africa
Dow Chemical	771	40	46.4	45	Worldwide
CPC International	692	50	31.1	51	Worldwide
Colgate Palmolive	670	55	NA	NA	Worldwide
National Cash Register	643	45	15.3	51	Worldwide
Englehard Minerals & Chem.	589	40	NA	NA	Britain, Europe, Japan
American Smelting & Refining	467	65	49.0	55	Australia, Peru, Mexico
H.J. Heinz	433	44	16.7	44	Worldwide
Pfizer	412	47	44.6	55	Britain, Europe, Latin America
Schlumberger	341	59	NA	NA	France, Canada
Otis Elevator	301	50	8.4	35	Worldwide
Gillette	289	43	33.0	50	Worldwide
USM	203	46	9.8	98	British Com., Europe, Lat. America
Chesebrough-Pond's	111	43	8.4	40	Europe, Canada, Latin America
Black & Decker	107	42	10.0	50	Export sales

[Prepared by the Congressional Research Service, Library of Congress]

Argentina. Quantitative restrictions (QR): Imports of automotive products, wheeled tractors from 12 to 120 h.p., crawler tractors from 12 to 85 hp. embargoed. Valuation and Taxes (V&T): Nearly all imports except raw materials and capital goods need prior deposit of 40% c.i.f., which is held without interest for 180 days; imported tractors do not enjoy investment tax credit of up to 60% of liability given to domestic makes; tax of 1.5% on c.i.f. value of all imports (0.3% if item is duty free); 4% surcharge on ocean freight charges; consular fee of 1.5% f.o.b. value of import, payable to consulate within whose jurisdiction commercial invoices to be notarized are issued; special steel fund tax of 2–20 pesos per net kilo of iron and steel products; special tax of 4–10% of forest products' c.i.f. value; Executive can establish minimum values on which import duties are levied on various officially designated products; sales tax of 10–20% levied on c.i.f. duty-paid value of various products; excise tax on various products which is specific on some and ad valorem on others. Health, Sanitary and Safety Restrictions (HS&S): Pharmaceuticals, cosmetics subject to prior registration in Argentina.

Australia. QR: Licenses required for some types of machinery, metals, vehicles, clothing. V&T: Sales tax levied on landed value of wide range of industrial and consumer items, as follows: household goods 2½%; general 15%, luxury 25% (tax base for imports is their duty-paid value inflated by 20%). Other Restrictions (QR): Screen-time quotas in New South Wales require 15% of all films shown to be British and 2% Australian; all packaged products subject to arbitrary weights and measures limitations (uniform system due in Nov.). Government Aids (GA): exports of many chemicals subsidized (Australia has not subscribed to GATT declaration banning such subsidies).

Austria. QR: License required for lignite, except bituminous coal; cinematographic film, exposed and developed, except for toy projectors: fish, plastic bags, detergents, shirts (not knitted), lumber, artificial sweeteners, toilet soap, batteries. Quotas restrict penicillin, thyrothrium, antibiotics and medicaments containing antibiotics; wine, except sparkling wines in bottles. V&T: Border taxes ranging from 6.25 to 13% on all imports. Variable Levies (VL): on sugar, starch, and products made of these and other agricultural raw materials, in lieu of customs duties, skimming charges—based on price differentials between threshold and gate prices and consisting of fixed protective element plus a variable levy—may be collected. Currently in force: 20% a.v. plus 549 Austrian schillings per 100 kg. on core binders used in foundry work on basis of starch and dextrine;

20% a.v. plus 525 schillings per 100 kg. on starch-ether soluble in water, and starch esters. Government Procurement (GP): For all products and services, article regulating government purchasing provides that "if circumstances permit, only Austrian products shall be used and Austrian firms shall be engaged." Regulations do not apply to nationalized industries. EFTA members have equal opportunity with domestic firms under Art. 14 of Stockholm Convention. Draft law covering government procurement which eliminates discrimination against foreign firms submitted to parliament; enactment likely. QR: Antidumping procedures on all imports. Government establishes "guiding" or "minimum" prices for products which cause market disruptions. At present, minimum prices in force for cotton yarn, cotton fabrics, woolen fabrics, cardigans and pullovers of wool. Although imports of salt and products containing salt are liberalized, must be approved by Administration of the Austrian Salt Monopoly. State monopoly has sole right to import, produce and sell raw and processed tobacco and products. Industrially-produced raw spirits must be sold to the monopoly.

Barbados. QR: Licenses required for fish, plastic bags, detergents, some pharmaceuticals, shirts (not knitted), lumber, artificial sweeteners, toilet soap, batteries. V&T: Autos, initial registration tax of 20% on c.i.f. value; rum, beer, gasoline, diesel fuel, excise taxes on c.i.f. duty-paid value; clothing (not knitted), minimum c.i.f. value for Customs purposes; all imports except those in following list, surtax of 20% of c.i.f. duty-paid value; polishes, grease, hardware, implements and tools (ex. agricultural), lubricating oil, cosmetics and perfume, photographic appliances and accessories (ex. films), typewritten and parts, turpentine, wood headings and furniture, motor spirit for use in road vehicles, tobacco, snuff, beer and alcoholic beverages, motor vehicles and parts. surtax of 10% of c.i.f. duty-paid value.

Belgium-Luxembourg. QR: Anthracite and coking coal, under quota restriction, licenses required; on broad variety of products, licenses required but freely granted for U.S. goods. Changes may be forthcoming in quota system for coking coal because of short supplies. V&T: Transmission tax or lump-sum tax levied on all imported goods, generally 7% but may vary on certain commodities from 1% to 15% (transmission tax scheduled to be replaced by valued-added tax Jan. 1. 1971); road tax based on fiscal horsepower levied on autos. GP: Belgium: For all products and services, foreign bids may be rejected if "for economic reasons it is essential that the contract should go to Belgian industry, subject however to the price differential not exceeding certain limits." (Price differential reported to be 10% normally.) Luxembourg: Art. 19 (12/29/56) stipulates that "in principle, products of foreign origin shall not be used if producers in Benelux Customs Union are able to supply the same quality at prices which are substantially the same." (Products of Benelux origin believed given 10% margin of preference. License to trade, which foreign bidders must have, issued only to nationals of countries having reciprocal arrangements.)

Brazil. QR: Licenses, based on proof of purchase of like amount of domestic caustic soda, required for caustic soda. Autos and motorboats priced in country-of-origin at above $3,500 incl. accessories, embargoed. Prior authorization for petroleum products required (assures full utilization of domestic production and LAFTA sources of supply before third country imports are allowed). V&T: All products, port improvement tax of 1% levied on c.i.f. value and merchant marine improvement tax of 10% of freight charges; wide variety of processed or manufactured goods, industrialized products tax of 4–30% on c.i.f. duty-paid value; many products, minimum valuation system. GP: On all goods purchased for public account, public entities must give preference to locally manufactured goods and cannot import "nonessential" goods. State trading monopoly for packaged lubricating oil, petroleum, rubber. OR: On motion picture films, exhibitors must show one Brazilian feature for eight non-Brazilian films.

Burma. GP: On products purchased for public account. Government purchasing agencies often issue tender notices with short bid deadlines. Government is sole importer. V&T: Luxury goods taxed 18.75%; standard goods, 12.5%; privileged goods, 6.25%.

Burundi. QR: Licenses required for all imports. V&T: Statistical tax of 3% on all imports.

Cameroon. QR: Licenses required for all imports. For licensing, all trade classified into 3 categories: Franc Zone (free of restrictions); Common Market countries (separate import quotas); all other countries (more restrictive global import quotas); licenses not ordinarily issued for commodities available from Franc Zone; exchange quotas for all imports. V&T: Revenue tax up to 50% on all

imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (discriminatory in that certain countries are exempt from customs duties); additional tax of 5–35% on many products; minimum valuation system for used clothing. GP: Government procurement practices on products purchased for public account. QR: Bilateral trade agreements on various products (such agreements generally provide licensing guarantees to specified amounts of goods).

Canada. QR: Used aircraft prohibited with some exceptions; used autos and other vehicles manufactured before calendar year in which imported, with some exceptions, prohibited. V&T: Arbitrary valuation and surtax on gasoline-type fuels for use in internal combustion engines other than aircraft (surtax is equal to difference between export price and an arbitrary value of 10.5 cents for regular and 12.5 cents for premium per imperial gallon). HS&S: Safety regulations on electrical equipment. OR: Canadian provinces reluctant to carry U.S. liquor brands in Government-operated monopoly stores; canned foods imports permitted only if in cans of sizes established by Canadian Gov't.

Central African Republic. QR: Licenses required and exchange quotas established for all imports (for licensing trade classified in 3 categories—see description under QR for Cameroon); quota set for used clothing; used shirts embargoed. V&T: Revenue tax up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (certain countries exempt from customs duties); additional tax of 5–15% on textiles, men's and used clothing, radios, autos, trucks, eyeglasses; arbitrary valuation on used clothing.

Ceylon. QR: Numerous manufactured articles embargoed; items on Import Schedule 1—drugs, feed additives, agricultural hand tools and implements, fertilizers, petroleum products, surgical bolts and hearing aids, artificial dentures, artificial eyes and limbs, scientific glassware—licensed under quotas at official rate of exchange of 5.95 Ceylon rupees to the dollar; items on Schedule 2 (long list) licensed under quotas and imported at depreciated exchange rate; some 350 other items (Sched. 3), mostly industrial raw materials, machinery, chemicals, on open general license but also imported at depreciated exchange rate; multiple exchange rate practices affect all imports except those in Sched. 1, through a certificate scheme (Foreign Exchange Entitlement Certificates). OR: Drugs and pharmaceutical preparations, must conform to British Pharmacopoeia, Int'l Pharmacopoeia, or the British Pharmacopoeia Code; State trading monopoly for fish, cement, textiles, newsprint, paper and paperboard, petroleum products, caustic soda, other products.

Chad. QR: Licenses required and exchange quotas established for all imports; for licensing, all trade classified into 3 categories (see description under QR for Cameroon). V&T: Revenue tax up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (certain countries exempt from customs duties); additional tax on 5–45% on selected items; arbitrary valuation on used clothing.

Chile. QR: Importers required to register (license) all imports with Central Bank through authorized commercial bank; prior deposit of 15–50% of c.i.f. value on some imports (advance deposit of varying rates required depending on essentiality of product; deposit returned after goods have cleared Customs, and may be used toward payment of customs duties; this requirement being phased out); prior deposit of 10,000% of c.i.f. value on a few imports, including office machinery and public service vehicles; embargo on luxury goods; special ad hoc quotas on numerous products for government procurement and certain preferred activities. V&T: Turnover tax of 8% on c.i.f. duty-paid value for variety of processed or manufactured goods; port improvement tax of 2% on c.i.f. value, and merchant marine improvement tax of 10% of freight charges on all imports.

Congo (Brazzaville). QR: Licenses required and exchange quotas established for most imports; for licensing, all trade is classified into 3 categories (see description under QR for Cameroon). V&T: Import revenue tax of up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (certain countries are exempt from customs duties); additional tax of 5–15% on selected items arbitrary valuation on used clothing: OR: Office National du Commerce is sole buyer and seller of all merchandise destined for "northern regions."

Cyprus. QR: Licenses, generally granted freely, required on certain chemicals and chemical products, textiles and textile products, manufactures of base metals, wood products, and most nonelectrical machinery; other items imported

without restriction from any country other than communist countries of Asia, Albania, and those with which Cyprus has bilateral agreements.
Zone; annual global import quota established for all goods not originating in EEC or from Franc Zone; matches, alcohol, alcoholic beverages, diamonds embargoed. V&T: Discriminatory 3-column tariff provides for 3 categories of countries, each assigned duties at different rate.

Dahomey. QR. Licenses required for all imports originating outside Franc Zone; annual global import quota established for all goods not originating in EEC or from Franc Zone; matches, alcohol, alcoholic beverages, diamonds embargoed. V&T: Discriminatory 3-column tariff provides for 3 categories of countries, each assigned duties at different rate.

Denmark. QR: Licenses required on oysters (except spat); ethyl alcohol or neutral spirits, undenatured, of a strength of 80° or higher; denatured spirits of any strength; ethyl alcohol, undenatured, under 80° V&T: Value-added tax of 12½% on c.i.f. duty-paid value on almost all manufactured goods; in addition, excise tax on c.i.f. value on autos and motorcycles. GP: On all products, discrimination favoring domestic procurement accomplished by administrative action. EFTA members have equal opportunity with domestic firms under Art. 14 of Stockholm Convention. HS&S: State testing organizations for electrical equipment in Denmark, Finland, Norway, Sweden each apply separate standards for electrical equipment and require individual testing in country prior to certifying imports.

Dominican Republic. QR: Certain products subject to exchange quotas; passenger cars valued at more than $2,000 embargoed; wide range of food items and household goods, smaller number of manufactured goods embargoed; wide range importable only under prepaid letter of credit; prior import deposit of 10%, 20%, or 40% of f.o.b. value for 3-month period on wide range of products.

East African Community (See Kenya, Tanzania, Uganda).

Finland. QR: Global quotas on mineral tar, coal distillation products, solvent gasoline, aviation gasoline, bitumen, unwrought silver, gold, platinum; individual licenses required for coal, coke, petroleum and shale oils, gasoline, aviation and heating kerosene, gas-oil and fuel oils, processed foods. V&T: Turnover tax of 12.4% on almost all manufactured goods; in addition, on autos and motorcycles; excise tax of 140% (higher of higher priced cars) of c.i.f. duty-paid value minus 2,500 Finmarks ($595). Excise tax on c.i.f. duty-paid value of alcoholic beverages, confectionery, sugar, matches, auto tires, tobacco products, mineral waters, liquid fuels, certain fats and foods. OR: State trading in alcoholic beverages, crude petroleum, grains; for passenger cars from certain bilateral trading countries, minimum down-payment of 30% with 20 mo. to pay balance and, from other countries, 50% down payment with 12 mo. to pay remainder; compound fertilizers require Ministry of Agriculture permit. HS&S: See HS&S for Denmark.

France, OR: Quantitative restrictions and/or licensing on crystal diodes and triodes including transistors and parts, aircraft and parts, wine, rosin, certain textiles, semiconductors, canned tuna, petroleum products, numerous other goods; quota restrictions on watches, parts. V&T: Annual use tax on passenger cars (standard U.S. cars fall in highest tax bracket liable to payment in first year of $200; European cars generally pay $30); border tax of up to 33% on c.i.f. duty-paid value of most industrial products; excise taxes on whisky, other grain spirits. GP: Administrative practices not codified. French public sector operates effective "Buy French" policy; "absolute priority" given to procurement of domestic products "equivalent" to offered foreign product.

HS&S: Pharmaceutical regulations ostensibly protect public health, but also protect domestic industry; virtual embargo on imports of pharmaceutical specialties packaged for retail sale; severe restrictions on bulk mixtures that cannot be easily analyzed. With few exceptions, "visa"—required before distribution of pharmaceutical specialties packaged for retail sale is permitted—is not granted for imported products.

OR: State monopoly on cigaretts, other manufactured tobacco (following move toward CXT, retail prices of U.S. cigarettes have been increased proportionately more than on comparable domestic brands—contravening undertaking on pricing which U.S. obtained from France in 1947); State trading in coal, paper for periodicals, petroleum products; tripartite accord on electronic equipment (France, W. Germany, U.K. have drawn up accord to facilitate acceptability of quality certification with membership open to all EEC and EFTA

countries; it could lead to discrimination against U.S. goods); prohibition on advertising whisky, other grain spirits (wines, fruit-distilled spirits may be advertised).

Gabon, QR: Licensing and exchange quotas for all imports. For licensing, all trade is classified into 3 categories—Franc Zone and Common Market countries, free of restrictions; Far East, imports not to exceed 10% of total imports from all countries combined during a given year; all other countries, quotas established annually on basis of lists subbmitted by all important importers. V&T: Revenue tax up to 50% on all imports; turnover tax of 10%, on c.i.f. duty-paid value for all dutiable imports (certain countries exempt from customs duties); additional tax of 5-15% on c.i.f. duty-paid value for petroleum fuels, lubricants, firearms; arbitrary valuation on used clothing.

Germany, Fed. Rep. QR: Quotas on certain kinds of: fish, wines, fabrics, household articles, and other items: licenses for all those U.S. nonagricultural commodities in which the U.S. has a significant exporter interest are now being granted automatically and without limit. V&T: Value-added tax of 11% on c.i.f. duty-paid value of industrial imports. OR: Tariff quota on pit coal, briquettes of pit coal and similar solid fuels manufactured from coal except for bunkering of seagoing vessels, and for production of coke under processing contracts (use of imported hard coal throughout W. Germ. is now permitted if qualified consumers can show that they are unable to satisfy requirements by purchases from EEC countries); tripartite accord on electronic equipment (see description from OR for France).

Ghana. QR: Licenses required for most imports. V&T: purchase tax of 5% to 100% on vehicles; sales tax of 11½% on c.i.f. duty-paid value for most imports; excise tax of 2%–75½ a.v. on sales price which includes c.i.f. duty-paid value for selecter luxury consumer goods. OR: Most imports must be handled on 180-day credit terms.

Greece. QR: Licenses required on List A items—products such as cosmetics, textiles. TV receivers, vehicles; licenses required on List B items—such as agricultural, mining, food processing and electrical machinery and spares; used machinery and spares except used earthmoving and roadbuilding equipment; quota for TV receivers. V&T: Turnover tax on all imports of 2.25–8.75%, on c.i.f. duty paid value (rates are 25% more than those on like domestic products, and are applied on c.i.f. duty-paid value which has been uplifted by 20–50%); tax of 10–70% on c.i.f. value for luxury goods; consumption tax of 10–70% on specific rates, or on c.i.f. duty-and-tax-paid value for consumer goods; discriminatory license tax and discriminatory registration tax on motor vehicles.

GP: Principle of nondiscrimination is administratively limited (purchases in excess of $50,000 may be limited to Greek suppliers; no international bidding if purchases can be made from countries with which Greece has bilateral clearing arrangments; foreign firms may be required to bid in association with Greek firm; guarantees of participation, performance applicable to foreign bids may be waived for domestic firms; Law 3215/1955 grants preference of 8% to Greek goods). OR: Maximum permissible length for taxis, 5m., and maximum permissible hp., 20 (Greek hp.). State trading in cigarette paper, kerosene alcohol, matches, salt, playing cards, saccharine, petroleum products. Screen-time quota for motion-picture films. Limit on terms of credit, or advance cash deposit requirements, for all imports (requirement more severe for luxury items, less stringent for products considered essential).

Guyana. QR: Licenses required on alcoholic beverages, cigars, cigarettes, tobacco, matches, soap, detergents, cosmetics, textiles, tires, tubes, cement, various V&T: Special tax, for protection of home industries, on imports of chairs, footwear parts.

Haiti. QR: Licenses required for various products, exchange controls on all products; prior authorization for detergents, plastic articles, firearms & ammunition, rubber heels and soles, cotton fabrics (imports allowed only if domestic production fails to meet local demand); Christmas trees, used clothing, rags, hats, shoes, household linens and furnishings embargoed. OR: State trading in tobacco, matches, soap, detergents, cosmetics, textiles, tires, tubes, cement, various agricultural chemicals, household appliances, wine, beer, whisky, rum, toilet articles, nonagricultural machinery. State-licensed, private monopoly: TV sets and parts, fish, building construction materials.

Iceland. QR: Global quotas for electric transformers, building board, certain furniture, ladies' stockings, brooms and brushes, works of art, reconstituted wood, fishing lines and cords, ropes; licenses required for paperboard cartons

and containers. V&T: Sales tax of 11% on c.i.f. duty-paid value for all products except footwear, aviation gasoline, packaging, fishing equipment, aircraft; special tax on gasoline, tubes, tires. Special foreign exchange fee of 0.5% of declared customs value for cement, timber, reinforcement iron for construction. Foreign exchange fee of 0.5% of import price as stipulated by license for products subject to import licensing. OR: Prior deposit on all imports except petroleum, fishing gear, fertilizers, industrial raw materials (deposit must be placed with bank selling exchange equal to 15–25% of amount of foreign exchange purchased; deposit held for at least 3 months). State trading in tobacco, fertilizers, wine and liquor, perfumes, safety matches.

India. QR: Licensing, exchange control, quota, embargo restrictions on all commercial imports. Special licensing terms for capital goods, heavy electrical plant, machine tools valued at $100,000 or more (such imports permitted if covered by long-term foreign loans or investments, private or governmental; also for maintenance and replacement and purposes requiring small cash payments. V&T: Licensing fees on all commercial imports; discriminatory excise tax on numerous products.

GP: On items purchased for public account, price preference of up to 40% accorded indigenous products. Administrative practices include issuing bid invitation on short deadline, failing to identify source of financing, restricting quotations or specs to British and Indian standards, renegotiating bids. OR: State trading in artificial silk yarn and thread, caustic soda, soda ash, newsprint, cement, fertilizer, petroleum products, mercury, sulfur, tractors, printing and textile machinery, tires and other items determined from time to time; discrimination resulting from bilateral agreements on capital goods and other items; discriminatory import privileges on machine tools and on imports in general; restriction on appointment of foreign-controlled branches or subsidiaries.

Indonesia. QR: Exchange controls on all products; embargo on batik-motif textiles, cigarettes, certain types of tires. V&T: Surcharge of 50–60% based on import duty for all except essential commodities; sales tax rates same for comparable imported and domestically produced goods except for semi-luxury textiles and tires; 1% tax on letters of credit for all products; ½% import tax, on c.i.f. duty-paid value and ½% customs charge, on all products; excess profit levy of 15 rupiah or 250 rupiah per U.S. dollar value on import of a few items to which surcharges do not apply; special retribution tax on most items on GATT schedules. OR: State trading for some essential items; prior deposit for all products.

Ireland. QR: Licenses required for tobacco products; quotas set for superphosphates, certain hosiery and footwear, laminated springs for vehicles, spark plugs and metal components, certain bulbs, brushes, brooms, mops. V&T: Wholesale tax of 10% or 15%, or turnover tax of 2½% on c.i.f. duty-paid value for most imports.

Israel. QR: Licensing under quota for a few imports (countries with which Israel has bilateral agreements are favored in issuing licenses for goods available from these sources). V&T: Purchase tax of 5% to over 100% on c.i.f. duty-paid value for many imports; discriminatory purchase taxes and annual property tax on autos; import surcharge on numerous products. OR: "Mixing" requirements on tractors (25–30% of value of imported wheeled tractors required to be Israeli-produced); prior deposit of 50% of value on all imports.

Italy. QR: Quotas on tetraethyl lead, anti-knock preparations, wine; licenses required for essential oils other than terpeneless, obtained from citrus, cork and products, certain vehicles. V&T: Turnover tax of 4% on c.i.f. duty-paid value on most imports; compensatory tax of 1.2–7.8% on c.i.f. duty-paid value for majority of imports; road tax on autos; administrative service fee (½%) and statistical fee (10 lira per unit) on all imports; excise tax on cigarettes. GP: 30% of Government purchasing reserved to Southern Italy and Islands for development. Ministry of Defense has recourse to foreign products only if domestic sources are unavailable or not suitable to needs. Gov. Depts. do not in principle have relations with foreign firms—only with firms legally established in Italy. QR: Screen-time quota on motion-picture films. State monopolies on cigarettes, nicotine products, salt, matches, flint, cigarette lighters.

Ivory Coast. QR: Quotas established for all imports; goods from France, Franc Zone countries enter freely (separate quotas apply to products from EEC countries and to rest of world); licenses required for all imports (from all countries outside Franc Zone, EEC), embargo on paint, detergents, matches, coffee-husking machines. V&T: Fiscal tax of 10–15% of c.i.f. value and statistical tax of 1% of

c.i.f. value on all imports; value-added tax of 8–43%, normally 18% of duty-paid value, and special duty of 10% on c.i.f. value on most imports; arbitrary valuation for used clothing, footwear, petroleum products, soaps, radio receivers, other items. OR: Discriminatory pricing formula and visa requirements for pharmaceuticals.

Jamaica. QR: Licenses required for many products, including asbestos cement pipes, earthenware pipes, metal structural forms, tiles, roofing materials, cement rubber products, metal furniture, aluminum holloware, garments, hosiery, detergents; embargo on autos with wheelbase of 116″ or over, which prevents import of standardsized U.S. cars.

Japan. QR: Quotas established for coal, gas oils, heavy fuel and raw oils, other petroleum oils, some chemicals and pharmaceuticals, leathers (excl. raw) and products, especially footwear, large turbines, office machinery incl. digital computers and parts, other products; automatic licensing (licenses freely granted but importer must submit imports for approval) for machinery, chemicals, drugs, processed foods, other products, license required for all imports. V&T: Internal tax of 150–220% on high-priced whiskies, brandies, auto (sales) tax of 15–40% and annual road tax of $100–$167 for large U.S.-sized cars, value uplift for customs purposes on a few imported goods, particularly parent/subsidiary transactions.

GP: On 14 categories of goods, including motor vehicles, electronic computers, aircraft, machine tools, agricultural and construction machinery, permission for procurement without open bidding granted by Cabinet Order 336 of Sept. 25, 1963. HS&S: Ban on foods containing unapproved food additives. OR: State trading for tobacco manufactures, alcohol of 90° strength or higher; on certain imports, weights must be indicated in metric measurements only; discriminatory credit restrictions on all imports; discriminatory treatment for premium offered by importers and exporters of several products, such as air conditioners and instant curry; technical licensing requirement for heavy electrical equipment and possibly other products; restrictions on capital investment (many U.S. firms unable to establish facilities in Japan from which to direct sales, service operations because of such restrictions; even obtaining minority interest in a Japanese corporation extremely difficult.

Kenya. QR: Specific licenses required for many products, other imports enter under open general licenses; quotas on certain clothing. GP: Overseas procurement for Government handled through Crown Agents in London, giving British suppliers strong advantage. OR: State trading in dye-in-piece fabrics, khaki drill, colored fabrics, second-hand clothing, soap, detergents, salt, developed 35-mm. cinematographic films.

Korea. QR: About 75 miscellaneous manufactured products embargoed. Quotas maintained on about 55 SITC classifications, including plastics, iron and steel structures, glass, manufactures of metal. All imports subject to licensing, but approval is automatic for most. V&T: Special Customs duty of 70% of "excess" profit on items normally dutiable at 40% or less, and 90% on those over 40% applied to most imports. Commodity tax of 2–70% of landed cost plus applicable duty levied on wide range of items. OR: Prior deposits of from 30–150% of import value required for most imports.

Kuwait. QR: Embargoes in effect on alcoholic beverages, used trucks and buses, spiral weld steel pipe, medicines containing cobalt salts, industrial and medical oxygen gas, magnetizers, ethyl alcohol. Insecticides must be licensed. OR: Trade in asbestos pipe is run by a Government-sanctioned private monopoly.

Malagasy Republic. QR: All imports subject to exchange quotas and licensing. Annual import program provides quotas for specified commodities from EEC countries other than France; global quotas for all other countries outside the Franc Zone. Special quotas apply to batteries for electric accumulators and alcoholic beverages. Prior authorization required for used metal casks and drums, used clothing, alcoholic beverages, used sacks and bags. New sacks and bags also embargoed, and partial embargo covers imports of cement into part of west coast. V&T: Import tax of 0–50% of c.i.f. value on most items. Consumption tax of 10–135% of c.i.f. duty-paid value on tobacco, footwear and alcoholic beverages. There is a charge of 300 francs per metric ton on cement. GP:. Procurement practices are featured by short notification and administrative discrimination. OR: Beer container size is strictly regulated and beer with less than 4% alcohol is prohibited.

Malawi. QR: Discriminatory licensing policy for some products does not require licenses from Sterling countries. GP: Overseas procurement handled through Crown Agents in London, giving British suppliers strong advantage.

Malaysia. V&T: Surtax of 2% c.i.f. on most imports. Trucks and buses of non-Commonwealth origin pay 15% registration fee; Commonwealth suppliers pay none. GP: "Buy National" policy directs public agencies to pay up to 5% more for domestically-made goods. QR: as many as 100 items at any given time temporarily subject to specific licensing or quantitative restrictions. OR: Foreign-made films subject to screen-time quotas.

Malta. QR: Embargoes machinery for producing stockings, refrigeration machinery, motor buses, water pumps, cement floor tiles, basketware of cane, willow or wicker, other items. Steel wool, certain items of mens' and ladies' apparel and electrical wiring accessories subject to licensing.

Mauritania. QR. All goods imported freely from France and Franc Zone countries; special quotas for EEC, global quotas for rest of world. V&T: All imports subject to fiscal tax of 10–15% of c.i.f. value; Standard import tax of 20–30% of c.i.f. plus duty-paid value; turnover tax of 10–22% of c.i.f. value plus all other taxes; and statistical tax which is generally four CFA francs per unit. OR: State trading in percales and guinea cloth.

Netherlands. QR: Various products subject to licensing; however, except for coal and coke, licenses automatically granted to U.S. products. V&T: Most imports pay a value-added tax with general rate of 12%; some necessities pay only 4%. Excise taxes on tobacco products, ethyl/propyl and isopropyl alcohol, beer, wine, petroleum products.

New Zealand. QR: 32% of value of imports subject to quotas or licensing. V&T: Sales tax on wide range of non-essential items: 20% for most; 30% for photo apparatus, watches, telescopes, stereoscopes, cigarette lighters; 40% for motor vehicles, motorcycles.

Nicaragua. QR: Prior authorization required for cotton ginning plants and textile manufacturers, industrial plants for pasteurizing milk, equipment to slaughter cattle and hogs, rubber tires and tubes. V&T: Most products subject to import surcharge of 30% of c.i.f. value.

Niger. QR: Most products subject to exchange quotas and licensing from which Franc Zone countries are exempt; being removed gradually for EEC. No license issued if goods available in Franc Zone. Country and global quotas. Prior authorization on plastic articles, matches and soap. V&T: Taxes on c.i.f. value of all imports: fiscal, 10–15%; statistical, 1%; standard, 25% of c.i.f. duty-paid value (10% for industrial raw material and equipment); turnover, 10–22%. Arbitrary valuation on used clothing. Transaction tax of 10% (c.i.f.) on perfume, cotton, knitted goods, aluminum household utensils. Discriminatory excise taxes on cigarettes.

Nigeria. QR: Many products subject to specific licensing. V&T: Surtax of 6.75% of amount of duty paid on all imports.

Norway. QR: Commercial vessels subject to licensing. V&T: Value-added tax of 20% c.i.f. duty-paid value on nearly all products (11% on capital goods for investment purposes), imports subject to traffic tax from which domestic goods moving in internal trade are exempted; progressive nature of automobile tax weighs more heavily on expensive models; trailers, buses, some motorcycles subject to 25% of tax of c.i.f. duty-paid value plus traffic tax (35% for other motor vehicles). GP: Domestic and EFTA bidders get preference of 15% on all Government purchases. Monopoly control and price fixing on pharmaceutical products. OR: State trading in alcohol, medicines, fishing gear. Binding sole of all shoes must be made of single piece of natural leather, which precludes of artificial leathers such as "corfam." HS&S: Rigid technical standards for electrical items.

Pakistan. QR: Licenses required for private shipments of all but 14 items on Free List. Many products embargoed. U.S. autos virtually embargoed, as they must have landed cost of $2331 or less. V&T: Sales tax of 15% c.i.f. duty-paid value on most products, which are also charged a Defense tax of 25% of sales tax. Surcharge of 25% of customs duty on all except exempted machinery items. Equalization tax on landed cost of industrial raw materials and some other items from cheaper foreign sources is equal to difference between lowest- and highest-priced imports. OR: Remittance restrictions on motion picture films, and varying exchange rates apply to most other imports. State is sole importer of several metals, foods, and artsilk yarns.

Peru, QR: Licenses required for all used machinery and new textile machinery. Indefinite embargo on many products, including footwear, radios, refrigerators, textiles and automobiles. V&T: Arbitrary customs valuation system. Statistical tax of 2% c.i.f. duty-paid value (3% c.i.f. if good is duty-exempt). All products arriving by sea must pay a maritime freight tax of 4% of ocean freight charges.

Most products pay a surcharge of 10% of c.i.f. value. GP: Government agencies and institutions receiving government funds prohibited from importing goods produced domestically. OR: Prior authorization needed for pharmaceuticals, cosmetics, toilet articles, matches.

Poland. State trading in all products; bilateral purchase agreements influence buying practices rather than price, quality, etc. Marketing practices restrict foreign firms' access to potential buyers.

Portugal. QR: Global or bilateral quotas on about 50 items. Licenses required for all shipments valued at more than $87.50. Prior authorization needed for saccharine and foods containing saccharine. Used clothing is embargoed. V&T: Transaction tax of 7% (20% on luxuries) on 140% of c.i.f. duty-paid value of most products. Progressive sales tax on autos is particularly burdensome on higher-priced models. GP: Domestic and EFTA suppliers get preference on all purchases for public account.

Rwanda. QR: All products require licenses. V&T: Fiscal tax of 10–30% and Statistical tax of 3% on c.i.f. value for most imports. Alcoholic beverages, petroleum, tobacco products subject to consumption tax.

Senegal. QR: Exchange quotas allocated to all countries outside Franc Zone; separate quotas for EEC. Certificates required for liberalized imports. Matches, some clothing and certain construction materials embargoed. V&T: Fiscal tax of 10–15% of c.i.f. value, turnover tax of 10–22% of c.i.f. plus all other taxes, statistical tax of four CFA francs apply to all imports. Most others also subject to standard tax of 20 or 30% of c.i.f. plus tariff plus fiscal duty plus statistical tax. Lubricants must pay 15.5–25.5 CFA francs per liter. HS&S: visa (which may be denied) required for pharmaceuticals; fee for visa application is high.

Sierra Leone. QR: A few products require specific licenses. V&T: automobile valuation based on engine size, which discriminates against high horsepower vehicles.

South Africa. OR: Most products require licenses; subject to sales tax of 5, 10 or 20%.

Southern Rhodesia. QR: Many luxury and domestically-produced goods require licenses or have quotas. Light and heavy built-up commercial vehicles embargoed.

Spain. QR: Import declaration required for all liberalized goods. License (generally not granted) required for all used machinery and second quality goods. Motion pictures subject to screen-time quota. Global quotas in effect on about 58 categories. Others subject to bilateral import regime. V&T: Compensatory tax of from 3–15% on c.i.f. duty-paid value. Dubbing taxes on motion pictures (highest on U.S. films). Threatened "abnormal price" actions induce importers to pay prices which cancel out a low-cost producer's advantage. Import deposit of 20% c.i.f. on all products held for six months without interest (Decree in force through Dec. 1970). GP: Imports prohibited from projects involving government funds. Where Spanish products are unavailable, short bid deadlines often have effect of excluding foreign competitors. OR: State trading in certain types of coal, petroleum derivatives, tobacco. Requirement that several synthetic fibers must be imported directly from factory discriminates against middle-man organizations, which must procure licenses.

Sweden. QR: Licenses required for all automobile imports. V&T: Value-added tax of 10 or 14% on c.i.f. duty-paid value of all imports. Sales tax is based on the c.i.f. duty-paid value of certain rugs, gold and silver items, precious stones Certain furs subject to 2–10% tax on c.i.f. duty-paid value. Toilet articles and cosmetics pay a commodity tax of 50% of wholesale price. HS&S: Rigid technical standards for electrical equipment. OR: State trading in wines, spirits.

Switzerland. QR: Licenses needed for trucks, cotton fabrics, jute textiles, clothing, certain carpets, and various minerals and chemicals. Quotas for wine in barrels. V&T: Road taxes and compulsory insurance rates based on horsepower. Turnover tax of 5.4% on c.i.f. duty-paid value of all products. OR: State trading in alcoholic beverages.

Tanzania. QR: Specific licenses required for various products, other imports enter under open general license. OR: State trading for textiles, bicycles, motion-picture films, cement, matches.

Togo. OR: Licenses for all products V&T: Transaction tax of 18% of c.i.f. value plus all taxes. Statistical tax of 1% c.i.f. value Warehouse tax of 1% c.i.f. value. Fiscal stamp tax of 3% of all duties and taxes. Special import tax of ten CFA francs per 100 kg. Luxury tax of 40 CFA francs on textiles, alcoholic beverages, perfumes. Tax of 125 CFA francs per ton of tobacco manufactures, jute goods.

Lighthouse tax of 20 CFA francs per ton. Berthage tax of 125–510 CFA francs per kg.

Trinidad and Tobago. QR: Domestically-produced items subject to strict import quota licensing, and in some cases prohibited Soap, detergents, paper, cement, lead, air conditioners, cotton fabrics and furniture strictly controlled.

Tunisia. QR: Global and bilateral quotas apply to most products. Licenses required for all goods from non-Franc Zone countries. Various goods are completely embargoed. V&T: Production tax of 15.5–19.9% on duty-paid value of imports. Customs formality tax of 1.81% of landed cost of all items. Luxury goods pay consumption tax of 7.5–25% of duty-paid value and a National Defense Fund tax of 10% of either consumption tax or duty, whichever is higher. Perfume, soap, tires, petroleum products, explosives, other items subject to consumption duty of 11–100%. Wide variety of products subject to state trading.

Turkey. QR: All products subject to licensing, with special consideration to items traded with bilateral agreement countries. Quotas on varied items. V&T: All goods imported by sea pay 5% port tax based on c.i.f. plus duty, surtax and customs clearance costs. All imports pay 15% surtax on customs duty, as well as stamp tax of 25% of c.i.f. value. Most pay discriminatory production tax ranging from 10–75% of c.i.f. value plus customs duty, customs surtax, port tax and customs clearing expenses. Foreign motion picture films pay a higher tax (41%) than domestic ones (25%). Automobile surtax varies according to weight and age. OR: Tobacco products, alcoholic beverages, salt, sugar, most agricultural equipment subject to state trading. 50% advance deposit required for goods on liberation list and quota list goods imported against letter of credit. Guarantee deposits of 20, 50, 90 or 120%, depending on import list, required with import application. Smaller deposit (1–10%) on goods imported under certain investment programs.

Uganda. QR: Specific licensing required for many products; other imports enter under open general license; quotas established for motor cars, station wagons, motorcycles; embargo on used clothing. GP: Overseas procurement for Government handled through Crown Agents in London, giving British suppliers strong advantage.

United Arab Republic (Egypt). QR: Impart trade nationalized. About half of all tariff items embargoed. Exchange allocations imposed to meet commitments under bilateral agreements. V&T: Statistical tax of 1% c.i.f. value on all imports except wheat. Revenue tax of 10% on foreign-made non-essential goods, with 5% tax on essential food items. Payment tax of 3% of sum of customs duty, statistical tax, revenue tax and applicable excise taxes applies to all imports. Porterage fee, also. All goods imported through UAR ports pay marine duty of 0.2% of c.i.f. value. Excise duties apply to variety of items, mostly consumer goods.

United Kingdom. QR: License required for coal, coke, and solid fuels, but none are issued. Quotas on cigars, jute cloth, rum, motion picture and TV films. GP: While no procedures have been published, purchasing departments when intending to place orders abroad try to find out whether the products can be obtained on competitive terms within the Comonwealth. Some administrative measure of preference is given to firms in development districts. Preference is also specifically given to computers of U.K. manufacture. EFTA members have equal opportunity with domestic firms under Article 14 of the Stockholm Convention. British Admiralty requires that lumber for which tenders are invited must originate in British Columbia. OR: Tripartite accord on electronic equipment (see description under OR for France).

Upper Volta. QR: License required for all goods outside Franc Zone. EEC goods get preferential treatment. Used clothing embargoed. V&T: All imports subject to 5–20% fiscal tax; temporary development tax of 10% of c.i.f.; statistical tax of 1% c.i.f.; contractural tax of 2.25–25%; temporary maintenance tax of 1.5%; compensatory tax of 3%. OR: Medicaments not appearing in French Codex or authorized by Central Pharmaceutical Service prohibited.

Uruguay. QR: Prior deposits of from 150–400% on private imports exceeding a given percentage (averaging 80%) of past levels. Three-year financing required for most capital goods. V&T: Non-essential goods subject to surcharges of 10–300%; global customs charge of 18%. All imports pay: a port handling fee of $.025 per 100 kilograms of gross weight or $.33 per 100 pesos of valuation; consular invoice charge of 12% f.o.b. value; port charge of 12% c.i.f.; arbitrary customs valuation established for 80% of tariff items.

Yugoslavia. QR: All imports subject either to commodity or exchange quotas, licensing, or exchange control. OR: Commitments to buy from certain supplying countries. End-users of raw materials and semimanufactures used in the ship-

building, electric, textile and food industries given foreign exchange for import of these products in fixed ratio to exports.

Mr. BURKE. May I ask, what is the source of your information on this?

Senator HARTKE. Congressional Research Service.

Mr. BURKE. We will state that when we include it in the record.

I want to commend you, Senator Hartke. I don't feel badly that you call it the Hartke-Burke bill. While you are a guest over here, we will treat you very kindly. I think you have enumerated some of the problems we have in the country. I think you and I have had enough legislative experience to know that we are going to be a bit flexible on this bill, that we are not insisting on every provision in the bill to stay in there if there are places of compromise that we are willing to make, I imagine, along the legislative route.

Those people who have attacked the Burke-Hartke bill who have come before us—not one of them has made one recommendation that will correct the problems that this country is faced with. I was shocked to hear Secretary of the Treasury Shultz state that the devaluation of the dollar was a good thing. Of course, I asked him: If it was such a good thing, why don't we do it again? This kind of broke up the hearing room.

But we are faced with some real problems. Lou and I did recognize them because, looking around the United States, we saw these factories and mills closing down like tenpins. We saw high unemployment. We have seen, since 1965, 1 million permanent jobs eliminated.

The thing that concerns me is the self-annointed free traders. If you look at these people, you will find that they are always expounding their concern about the minority groups in America, about the fact that the blacks and the Puerto Ricans and Chicanos and the rest of them are not employed. Yet you go into the city of New York and you find out that over 150,000 jobs were eliminated since 1965 as a result of our trade policies. We find that they city of New York has a welfare bill of about 12 percent.

We find up in the city of Boston the welfare bill is about 15 percent. The State is going to spend $1 billion this year on welfare. We have over 7 percent unemployment. Some of the cities in Massachusetts have unemployment above 10 percent. These unemployment figures that the U.S. Department of Labor is giving out are not real figures. They are not a breakdown on the true unemployment picture because they classify a person as being employed if he works 1 hour a week.

In other words, if 100,000 people were employed in 1971 and 100,000 people were working 1 day a week in 1973, they are in the same classification. So we have part-time employees all over the Nation who are being classified as being employed, when actually they are not employed because they are employed only part time.

While they are predicting that the unemployment figures are going down, there isn't a State in the Union where the welfare bill isn't going up. So there is kind of an inconsistency here in the facts and figures that the Nation is being faced with.

I want to commend you for your statement here today. It is an excellent statement. It is a good statement. Some people have asked me, "Well, what are you doing with Senator Hartke on this bill?" After your testimony here today—and I have said right along I am

proud to be associated with you on this bill because you are a very courageous man. You deserve a lot of credit, because you and I realize that we are fighting the most powerful group in America, well financed, able to get their stories across in every newspaper almost in the country.

There isn't a week that goes by that some editorial doesn't appear attacking the Burke-Hartke bill. When I write a letter to the editor, trying to give an explanation on our side, they won't give us the space in the paper giving the full explanation. They condense it down. I called the New York Times three or four times to get a letter in their column. They reduced it to 300 or 400 words. Yet week after week, that great newspaper has had the columns attacking the Burke-Hartke bill.

You and I have a fight on our hands. I give you credit because you have a lot of courage. I don't like to use the word "guts," but that is what I have. It is going to take guts for you and me to stand up against this avalanche of propaganda around this country on free trade.

This chart you have given us here on this list of countries geographically explains the protectionist problems of every one of our trading partners. As you pointed out, in Japan, if we were to ship a Pinto car over to Japan that retails for $2,000 here, it would have to retail for almost as high as $6,000 over there.

Is that fair? Is that reciprocal trade? Is that free trade? Of course, it is not. That is what you and I are trying to correct. I give you credit. I commend you for it. I am very proud to be associated with you. For today we will call it the Hartke-Burke bill in honor of you.

Senator HARTKE. Congressman, I want to thank you for your kind words. In spite of the propaganda that has been put out on this, their own poll demonstrates that they are in the minority, which is very significant. By almost 2 to 1 they are losing the battle. I hope Congress is responsive to the desires of the people.

Mr. BURKE. Of course, we are dealing with the most sensitive piece of legislation before Congress this year. What we do, I think, is going to pave the road ahead, whether or not this country is going to be destroyed as far as her industrial complex is concerned, whether or not we wind up as a service-oriented country, or whether we are going to be the great Nation we have been down through the 200 years of our operation.

Let us hope when we have that Bicentennial celebration that it doesn't result in a celebration for our trading partners who have taken away all the jobs and everything else and the dollar is further devalued.

Can you tell me, have you any opinion on why in the first 3 months of this year, $10,200 million more of our money went overseas than came here to this country?

Senator HARTKE. Part of it is the opportunity, of course, for trading. The investment overseas, as I said, is financially overseas. But the second item is that when you take that money overseas, now, if you can get it back into the money market, you can speculate in the money market.

I remember 3 years ago that I said facetiously that I was fearful that gold would go to $100 an ounce. At that time, I didn't really think

it could go that high. I didn't think soybeans would go to $12.50 a bushel, but they are. Some people say gold will be as much as $200 an ounce. If you get into that type of operation overseas, you can see that getting it outside of the United States and into that type of speculation is more advantageous than any type of manufacturing or investment.

Mr. BURKE. Many of the financial papers in the Nation indicated that many of our multinational corporations were involved in the speculation of the devaluation of the dollar. Don't you think this is an outrageous activity for these people to be involved in?

Senator HARTKE. I suppose it may be outrageous, but they will be quick to reply that it is not illegal.

Mr. BURKE. I have heard that answer.

Senator HARTKE. They say, "Look, we have a chance to make a return on our investment. Don't you want American business firms to make that return on their dollars?"

Mr. BURKE. I have heard that answer on TV this week on some of the programs they have had about what is and is not legal. Do you think this is the trouble today?

Senator HARTKE. Not all the multinationals have participated.

Mr. BURKE. I know that. There are some good ones that have not, and I commend them for it.

Senator HARTKE. But there has been a substantial participation by the multinational. If you take the multinationals and the sheiks out of the market, you would not have had much speculation.

Mr. BURKE. We have been trying to get the list of those who did speculate. It is difficult to get them. I predicted if we got that list, it would make the preferred list of J. Pierpoint Morgan before the market crash of 29 look pale by comparison.

Are there any further questions? Thank you for appearing.

Senator HARTKE. Thank you.

Mr. BURKE. Our next witness is the Honorable Sidney R. Yates, a Member of Congress from the State of Illinois.

STATEMENT OF HON. SIDNEY R. YATES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. YATES. Thank you, Mr. Chairman, for the opportunity to appear before the committee and to testify on behalf of the Vanik amendment, the so-called Jackson-Vanik amendment, which would use export control to oppose the denial by any country of the rights of its citizens to emigrate freely. It is our tradition.

May I first apologize for not having prepared the copies of my statement in accordance with the committee rules.

Mr. BURKE. We know of your busy schedule. We know you will submit a statement later that we can all look at.

Mr. YATES. Thank you.

It is in our tradition, the traditions of this country, to support human rights, and it is perfectly proper that we use export controls for that purpose. Certainly it would appear to be in our national interest to improve relations with the Soviet Union. The detente is now taking place; Mr. Brezhnev is coming to this country. I don't be-

lieve that this detente would be placed in jeopardy because of the Vanik amendment.

Mr. Chairman, in April of 1972, the American representative to the United Nations Economic and Social Council, Commission on Human Rights, said:

Freedom of movement has been highly cherished as a human right comparable in value to freedom of conscience and expression. Enjoyment of this right enables the individual freely to choose the society most congenial to his ideals and to pursue his political beliefs or seek economic rewards in harmony with his particular aspirations.

Mr. Chairman, the representative's eloquent statement might well have included as an additional motivating force the desire to practice religion freely. This is the dominant and fervent goal of Soviet Jews today.

The American representative also said in his speech that: It is heartening to note that there has been substantial modification of restrictions on emigration of Soviet Jews and that an increasing number of those desiring to move to other countries have been permitted to do so in the past months. This is a positive trend which should be encouraged and continued. We would urge that remaining restrictions on emigration and travel be eased so that all Soviet citizens who wish to exercise their right to freedom of movement may be permitted to do so.

That, essentially, is the purpose of the Jackson-Vanik amendment: To permit citizens of every country who wish to exercise their right of freedom of movement to do so. It is particularly appropriate, in respect to the Soviet Union, inasmuch as the Soviet Union has signed the Declaration of Human Rights which contains a clause stating it is the right of the citizens of every country to be permitted to emigrate freely to another country.

This, too, appears in the Constitution of the Soviet Union.

The purpose of the amendment is to suggest to the Soviet Union that it adhere to its pledged words. Now, it has been suggested by the administration that the problem can be solved through so-called quiet diplomacy. That is the phrase that has been used.

But certainly quiet diplomacy has not succeeded. Perhaps that diplomacy has been much too quiet because certainly the results have been much too meager. There have been lots of words. There has been very little action.

In the press conference following the trip to Russia of the Secretary of State, Mr. Rogers, and at that time Secretary of Commerce Peter Peterson, dated October 18, 1972, Secretary Peterson was asked the question.

Mr. Secretary, may I follow up with reference to the Jackson amendment? Was there at any time any discussion in any context on the question of Soviet emigration policies in the trade negotiations?

Secretary PETERSON. It was not a subject of formal negotiations or formal discussion in that sense. We find the Soviet Union a careful reader of your media, and they informed us from time to time that they were aware of the fact there were some views on this subject expressed most explicitly in Congress, but it was not a matter of negotiation or intensive discussion on my part at least.

QUESTION. Do you have any reason to be encouraged from their comments?

Secretary PETERSON. I think I should leave that entirely to Secretary Rogers. Mr. Kissinger and the President. I believe they believe with good reason, I am sure, that the quiet diplomacy is the right one.

The fact remains, Mr. Chairman, the problems are not solved. Religious interference goes on with the practice of the Jewish religion in the Soviet Union, and the administration has pointed to the fact that the Soviet Union has temporarily suspended its onerous emigration tax. But that tax has been suspended and not rescinded, and there is every opportunity for the Soviet Union to reimpose it.

As long as it can be reimposed the threat remains that it will be imposed. There are now about 100,000 Jews in the Soviet Union who have declared their intention to leave. There are another estimated 900,000 who would do so if they were free of fear of the consequences of such a declaration.

This committee is aware, I am sure, of the consequences. Those who applied for immigration visas lost their jobs and find themselves unable to get new ones. Students run into impossible redtape situations that keep them out of the universities, and then find themselves drafted into the most menial positions in the army. Some protesters may wind up in mental institutions. Last week a fresh example of this unconscionable treatment came to my attention. Only a few weeks ago, Yevgeny Levich, son of the eminent electrochemist, Benjamin Levich, was taken to the Zabaikal military district even though he is a seriously ill young man. He cannot have been taken there for any reason other than to intimidate him and the thousands of Jews like him who desire to leave the Soviet Union.

This is only one story of the thousands taking place.

The purpose of the Jackson-Vanik amendment is to try to persuade the Soviet Union to live up to its pledged word so that those who wish to leave the Soviet Union may be permitted to do so.

The Soviet Government needs and wants open and full trade with the United States. Obviously, increased trade would be mutually beneficial, but nevertheless, we ought not sacrifice our noble traditions and responsibilities for the sake of financial gain of that kind.

Mr. Chairman, may I point out that there is precedent for taking action through trade channels of this kind. In 1832, a trade treaty between the United States and czarist Russia guaranteed the right of individuals from one country to enter and conduct business in the other "with the same security and protection as natives of the country."

Shortly thereafter, the czarist government entered upon a practice of vicious discriminations against its Jewish citizens, a policy which it carried over to Americans of the Jewish faith who tried to do business under the provisions of the treaty.

Over the years thereafter, protest after protest was made by the Department of State through diplomatic channels and by Jewish leaders in the United States. Almost a century passed without any inclination on the part of the Russian Government to change its policy.

As a result, a determined effort to abrogate the treaty was undertaken. When the House of Representatives on December 13, 1911, passed the Sulzer joint resolution by a vote of 300 to 1, President Taft instructed Secretary of State Knox to notify Russia that the treaty had been rescinded. Essentially, it was a victory for equal justice for American citizens. But it was much more. It showed the Russian Government and the world that the United States was deter-

mined to make clear that religious discrimination was abhorrent to Americans of all faiths.

There have been other cases where trade was used to persuade countries of the injustice of a social position that the countries had taken; for example, the refusal of the United States to conclude a sugar agreement with South Africa and the refusal of the United States to buy chrome from Rhodesia because of internal conditions in those countries.

Now that great principle prevails in this country. Americans continue to abhor religious and other forms of discrimination. The Congress has gone on record to protest discrimination against Soviet Jews and the breach by the Soviet Government of its written international commitments guaranteeing freedom of emigration. Why should not trade agreements between the Soviet Union and the United States seek to achieve this Nation's ideals and principles? I believe that they should.

It is for that reason I urge this committee to adopt this amendment.

Thank you.

Mr. BURKE. Thank you, Congressman Yates.

Mr. Rostenkowski.

Mr. ROSTENOWSKI. I have no questions, but it is certainly a pleasure to have my colleague from Illinois give his testimony before this committee. We know in the great city of Chicago what a hard worker he is and it is always a great in-depth study that he makes when be presents testimony. I am grateful.

Mr. YATES. Thank you, Mr. Rostenkowski, for your very kind comments. I reciprocate.

Mr. CLANCY. I, too, appreciate your statement.

Mr. BURKE. Mr. Duncan.

Mr. DUNCAN. I would like to welcome you to this committee and thank you for your stateent. May I say I agree with your views. They will be helpful to us.

Mr. BURKE. On behalf of the committee, I wish to thank you for your appearance.

Congressman Yates, I concur with everything you said.

Mr. YATES. Thank you.

Mr. BURKE. Our next witness is the Honorable Peter Frelinghuysen, a Member of Congress from the State of New Jersey.

We welcome you.

STATEMENT OF HON. PETER FRELINGHUYSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. FRELINGHUYSEN. Thank you. It is a pleasure to appear before this committee. I had a slightly guilty conscience. I had to appear before the Committee on Committees which was discussing the budgets. When I left, we were discussing that in the past the Appropriations Committees and Way and Means Committee were together and they split up. I would like to have heard the end of that discussion.

The hour I have been sitting here had been an education for me. I have in my formal statement that the Foreign Affairs Committee and the Way and Means Committee might occasionally hold joint hearings. A good deal of the subject matter that you are discussing

now would be of great interest to the Foreign Affairs Committee, so it has been a good experience for me to listen in on some of the testimony that you have had today.

I am appearing before this committee as a member of the House Foreign Affairs Committee and also as chairman of the House Republican Task Force on International Economic Policy. I would like to point out that we in New Jersey have a special interest in encouraging a liberalization of world trading policies. According to the latest figures, New Jersey ranks eighth in the value of exports shipped from the United States. Exports from our State take many forms with over 500 New Jersey firms actively engaged in the export of manufactured goods and materials. It is estimated that one out of four residents of the New Jersey-New York port area depends on the flow of international trade for the economic basis of his livelihood.

I wish to express my support for the Trade Reform Act which you are now considering. This is a very complex, but timely piece of legislation. Should it be approved by the Congress, and in due course I hope it will be, it will establish the basis for needed revisions in the international economic system.

I should like to focus my remarks on those aspects of the legislation with significant foreign policy implications. I shall, therefore, concentrate my comments on the provisions awarding negotiating authority to the President, extending most-favored-nation treatment to Communist countries, and granting preferential tariff treatment to developing nations.

H.R. 6767 represents a marked departure from the type of trade legislation that has been proposed in the past. This reflects the fact that the problems we are currently facing are considerably different. Comprehensive in scope, this legislation seeks to maintain our commitment to an expanding international exchange of goods and services, while at the same time it addresses some immediate problems such as nontariff barriers, domestic market dislocations, and discriminatory trade practices. I particularly welcome the initiatives to explore new trade opportunities in Eastern Europe as well as expanding existing trade with the developing third world.

The time has come when we can no longer deal with international economic problems on a piecemeal basis. We have no choice but to consider the intricate relationship between trade, monetary, and investment matters. As we have seen, recently breakdowns, in the monetary system can make operations in the field of trade and investment more difficult and costly. Higher trade barriers, in turn, tend to vitiate the effectiveness of currency adjustments. At the same time, various Government investment practices have produced distortions in trade patterns. To establish a viable system that can accommodate these concurrent developments requires the kind of flexibility which is inherent in this legislation.

When the Congress enacted the Trade Expansion Act of 1962 the United States held the predominant position in the world economy. Today, economic power has become polycentric. The Common Market, not the United States, is the world's largest trading unit. Japan, through enormous effort and spectacular growth, has become a dynamic force in world trade.

Along with this growth, numerous problems have emerged. Restrictions and other trade barriers, justifiable at one time to protect weak-economies, continue to exist, but in many cases these lack justification. A reluctance to remove these restrictions for domestic policy reasons has limited the principles of an open world economy. The choice for any single nation can no longer be a "protectionist" as opposed to a "free trade" approach to international trade policy. What all nations need is to establish a fair trading system among all trading partners. This can only come about through wide-ranging give and take on the part of everyone involved. Here again, I point to the importance of flexibility. This, above all, will be what our negotiators will need.

Last month I participated, along with other members of Congress, in discussions with members of the European Parliaments in Strasgbourg, France. It was very clear to me from those discussions that the Europeans will be taking a hard line at the bargaining table. If the United States is going to be successful in opening up markets for American products, particularly agriculture, our representatives must have the same type of negotiating authority that our trading partners have by virtue of their parliamentary systems.

This fact underlines the importance of providing the President with the extensive authority necessary to restructure the international economic system. However in granting such powers to the President, the Congress, in my opinion, should recognize the advisability of developing some mechanism to monitor the use of that authority. Congress should have a more prominent role in the forthcoming trade negotiations than previously. In this regard, Mr. Chairman, I highly commend your proposal to establish a joint committee on foreign trade. I would strongly recommend that membership on the committee be expanded to include representatives from the House Foreign Affairs Committee and the Senate Foreign Relations Committee in order to assure coordination of all aspects of U.S. foreign policy.

Since the major emphasis of this round of trade negotiations is going to be on the elusive realm of nontariff barriers, the Congress should ask for a detailed outline of objectives. The testimony by administration witnesses that I have seen on this subject has fallen short of specifying what kinds of agreements are being contemplated in this area. What are their priorities of the administration? I realize the difficulty in establishing a measurement of reciprocity, but the Congress, I feel, should be provided with at least a certain amount of data on the benefits, and sacrifices that are anticipated from various types of NTB negotiation.

These impediments to trade are so inextricably intertwined in a web of domestic social, economic, and political considerations that Congress would benefit by knowing what the executive branch has in mind before they enter into negotiations. In some cases, changes in our domestic statutes and regulations will be required to implement international agreements, and these areas should be identified specifically in advance. The President is asking for advance congressional authority to implement agreements relating to methods of customs valuation, assessment, and marking of origin requirements, but it is not clear what kinds of changes are contemplated, such as the elimination of the American selling price system. This committee could seek this in-

formation and provide it for the rest of the members in its report.

From a foreign policy viewpoint, I am concerned about the provision which would extend—as I interpret it—the terms of some NTB agreements only to countries participating in the negotiations. It is my understanding that it would be at the discretion of the President whether to include other trading partners on a most-favored-nation basis. I think the Congress should stipulate that such agreements be effective on a nonselective, MFN basis. Otherwise, we face the possibility of regional industrial blocs, a prospect which would defect the entire purpose of this legislation.

I support the provision facilitating import relief to industries seriously injured by increased imports, but would urge the committee to give thorough consideration to further expansion of the trade adjustment assistance program. If the United States is going to continue to advance competitively in world markets, we must give more attention to a comprehensive adjustment system, rather than perpetuate industrial inefficiency through continued protection from import competition.

I also recommend the committee provide guidelines for the authorities sought under title IV dealing with trade policy management since these are very wide ranging and intended to be permanent.

The authority to extend most-favored-nation treatment to the Soviet Union, Mainland China and other Communist countries represents a commendable initiative in the direction of more open world trade and cooperation. These nations represent potentially large markets for U.S.-manufactured goods. The demand for manufacturers of primarily a consumer nature is extremely high in many of these countries, and increased trade would be beneficial to our own export expansion efforts and hence our trade account. The experience of our free world competitors, who have already extended most-favored-nation treatment to the Communist bloc, substantiates the growth potential of East-West trade. Their total trade with U.S.S.R. and Eastern Europe totaled approximately $20 billion in 1971, more than 30 times as much as our own. If this provision of the bill were implemented, it is expected that U.S. trade with the U.S.S.R. alone would more than triple over the next 3 years—perhaps to exceed $1.5 billion.

On the import side, we are all aware of the vast natural resources of the Soviet Union and Mainland China. Given the depletion of many of our own resources and the increasing need to import raw materials, it could only be to our advantage to develop viable trading relationships with these countries.

In addition to the economic benefits, trade is an essential part of improving East-West relations across the entire political spectrum. As trading ties grow, they can help reduce tensions, build mutual confidence, and create common interests in dealing with problems through negotiation rather than confrontation. In this regard, the extension of most-favored-nation treatment is crucial to the progress made thus far in improving political relation with the Soviet Union. They feel they have been treated unjustly and see no reason why they should not receive the same treatment from the United States that they receive from other industrial powers of the world. Furthermore, the implementation of the Comprehensive Trade Agreement entered into

with the Soviet Government last year after long and difficult negotiation is contingent upon approval by Congress of this provision.

I urge this committee to consider this provision objectively, in the context of the economic and political benefits it will bring, and support its implementation in the very near future.

Just as the United States can only benefit from an open international trading system with the developed nations, so too will it benefit from freer trade with developing nations. The third world has a vital stake in increased external trade. Only by exporting can these nations earn vitally needed foreign exchange. However, to export, these nations must have access to the markets of the more developed nations. Export earnings, comprising approximately 75 percent of total foreign exchange reserves in most LDC's, represent the purchasing power by which LDC's can buy the capital goods and other manufactures of a high technology, capital-intensive nature, essential to economic development.

Economic development, in turn, will tend to reduce tensions in these societies which result from hunger, high unemployment, disease and alienation, and thus will promote greater internal stability.

Furthermore, increased trade with the developing nations is fully consistent with the objective of restructuring the foreign aid process. By expanding exports and hence increasing foreign exchange earnings, LDC's will grow more independent of foreign economic aid and the burdens of external debt.

It is for these reasons that I fully support the principle of a generalized system of preferences (GSP) to benefit developing nations. However, I believe the provisions in this bill to implement this principle are potentially limiting and recommend that this committee eliminate certain inconsistencies that could place LDC's at an unfair disadvantage. For example, the bill provides that any item on which import relief action has been taken becomes ineligible for GSP. In most cases, however, the relatively small imports from the lesser developed countries have not been the major cause of the market disruption requiring import relief action. In such instances, LDC's must unjustly suffer when the larger imports of the more developed nations have caused the problem. I suggest the bill contain greater flexibility in this regard to make import relief action discriminating and not discriminatory. That is, action should be directed against those nations which have contributed to market disruption, and not against all nations across the board. GSP ineligibility, therefore, should be on a selective basis and implemented only when LDC imports have been a major cause of domestic injury.

One further recommendation I would submit for your consideration is the President's annual report, outlining developments in the trade policy area, provided for in title VII, might well be submitted to the Congress by March 31, 3 months after the year's activities which it covers. I would also urge that the Ways and Means Committee and the Foreign Affairs Committee consider holding joint oversight hearings on this report to determine the trend and progress of U.S. foreign economic policy.

Finally, I wish to emphasize again the importance of this legislation in developing an international economic system in which trade and investment can experience continuous expansion and orderly

growth. I urge your favorable consideration of H.R. 6767, and lend my full support in establishing legislative measures that will benefit all Americans.

Mr. BURKE. Thank you, Congressman.

Now you mentioned the American selling price. Of course, this is about the last chip the American negotiators are going to have. Coming from the State of New Jersey, where the benzoid industries and the rubber industries are highly concentrated, do you feel that we should allow the bill to go through right now the way it is which allows them to abolish the American selling price without getting back something in return such as removing some of these trade barriers we have?

Mr. FRELINGHUYSEN. Mr. Chairman, I don't think anybody is suggesting that anything should be done except on a quid pro quo basis. I would suggest not giving away anything if we are not going to get something in return. I think we need bargaining chips on both sides. We should have a give and take process. I suggest that the American selling price might well be a bargaining chip.

I know there is some sensitivity in making any change in the legislation, but I think that would be entirely appropriate to have that made as a concession on our side in return for concessions on the other side. I think a great deal is at stake . If we don't enter into these negotiations and give our negotiator adequate authority, we could kick off a trade war or have a continuation of the inequities which presently plague the system.

I am sure we agree we need movement to get away from the relationships that have developed and which need attention.

Mr. BURKE. I agree with you there. The only thing that bothers me is under the provisions of the bill we practically give them carte blanche permission to do whatever they want to do and the only steps, with Congress abdicating all of its power and authority in this area, the only thing we have the right to do under the provisions of the bill is to veto it.

The veto of this could be held up by one or two Senators in the other branch where they do not have the rules we have in the House. Once this becomes a fact, I don't know what we could do about it.

Mr. FRELINGHUYSEN. Well, Mr. Chairman, you talk of the proposal to give the administration power to negotiate. I don't consider this any abdication of responsibility. There is no way in which the Congress of the United States could be a negotiating party. I think what your problem is as a member of this committee is to decide the terms under which this authority can be given. That is going to be a difficult problem because it is quite possible you wouldn't accept the exact recommendations of the administration in this area.

Mr. BURKE. What is wrong with having Congress either approve or disapprove what our negotiators have done?

Mr. FRELINGHUYSEN. Well, that is all right as long as you are going to give the negotiators a reasonable opportunity to come up with an agreement. I am afraid that we may not give that authority. To tell you the truth, it does seem to me that some of the alternatives, including your own bill, would make it very difficult, if not impossible, to come up with a meaningful result.

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So, it would be moot whether Congress is going to approve the result.

Mr. BURKE. You know that bill was filed to get the attention of our Government that just ignored the trade policies and trade problems and the conditions were getting so aggravated.

Mr. FRELINGHUYSEN. I don't think anybody is suggesting that these problems be ignored. It is because there are problems that the need for negotiation is urgent. I don't think anybody is suggesting that the problems be put under the rug.

Mr. BURKE. The weakness in the administration's bill is that we are turning all this power over to these negotiators and then the only thing we can do, we can veto it if we do it within 90 days.

You and I, being experienced legislators here, know that it is an impossibility.

Mr. FRELINGHUYSEN. Well, it doesn't worry me at all.

Mr. BURKE. It worries me. I think it worries a lot of other people that Congress should be placed in such a position that they can't do anything about it.

Mr. FRELINGHUYSEN. Well, Mr. Chairman, I don't know why you are suggesting that Congress can do nothing about it. We have the responsibility right now to do something about it.

Mr. BURKE. But the bill says that we can't do anything about it because they have it spelled out very specifically that the only thing we can do is veto it and we have to do it within 90 days. This, to me, doesn't seem to be sufficient time in the first place and in the second place, what is wrong with giving Congress its inherent and traditional right of approval or disapproval?

Mr. FRELINGHUYSEN. Well, I thought we just decided that approval was going to be given, but you objected to the fact that the decision was going to have to be made within 90 days. I think there is adequate opportunity for Congress to disapprove the results of the negotiations.

Mr. BURKE. The provision of the bill says we have 90 days to veto it.

Mr. FRELINGHUYSEN. That gives us a role to play so it doesn't worry me that we will not have an adequate role to play. If we don't like the results, we don't have to approve it.

Mr. BURKE. What is wrong with the negotiators going over there and doing all their negotiating and making agreements and coming back to the U.S. Congress—the elected representatives of the people—and submit those negotiations to the Congress—House and Senate—for approval or disapproval?

Mr. FRELINGHUYSEN. I thought you just told us that there was going to be this kind of opportunity, but we would have to take action within 90 days.

Mr. BURKE. That is not provided in the bill. The only thing they have in here is that we can disapprove it within 90 days.

Mr. FRELINGHUYSEN. It seems to me that is appropriate action for Congress to take.

Mr. BURKE. It is impossible under the legislative procedure in the Senate to disapprove anything for 90 days. A couple of Members can get over there and filibuster for 90 days and hold up the whole Government if we want to.

So, we are whistling in the dark. We are creating the illusion that Congress will have something to say about this. We are giving the

President powers he never had before and at a time when the climate in this country is such that the public are questioning us on whether or not we should give the President any further powers than he has now.

Now, I don't want to get into that subject matter that is being discussed over there, but it seems to me from what we are hearing on television every day we better be very careful what we abdicate here in the Congress.

Mr. FRELINGHUYSEN. I thought you tacitly agreed that there was no alternative, but to give powers to the executive to negotiate if we are to get any results. So, if we are agreed on that——

Mr. BURKE. I am for that. Then I would like to have the negotiators come back to Congress after they have agreed on everything and let us go over it, item by item and country by country.

In other words, if we eliminate the American selling price, which means a tremendous reduction in the tariffs for the rubber industry, and in my district I happen to have the last rubber factory in the area, and if the American selling price is eliminated, that factory closes with 700 employees losing their jobs.

Now, I would like to know what we are going to get back for that. Now, in the State of New Jersey, with the big chemical industry you have there, I would assume that you would be concerned, too.

Mr. FRELINGHUYSEN. I am concerned, but I would certainly not preclude negotiations with respect to the American selling price.

Mr. BURKE. I am for negotiations on the American selling price, but I would like to know what they negotiated when they eliminate it. What did we get back for it?

Mr. FRELINGHUYSEN. I am not sure how much we are disagreeing. We both agree substantial authority is necessary to the Executive if we are to get meaningful negotiations started.

Mr. BURKE. But you are for powers the President never had before and the complete abdication with the exception of the veto provision which is meaningless because the veto section of the bill will never come about.

Mr. FRELINGHUYSEN. I am not calling for abdication. I took exception to that word. I think this is an appropriate exercise of responsibilities by the Executive, because there is no way in which the Congress of the United States could negotiate on trade agreements.

Mr. BURKE. In the trade bill of 1962 that I supported, I voted for it—and I am just as much a free trader as any free trader in this country—we put into that bill the provisions of what they could do and what they couldn't do. At the end of the negotiations, our negotiators told our trading partners over there, now we are going to come back and eliminate the American selling price, but we have to get Congress to do it.

That has been defeated by Congress.

Now, in this bill here, we are saying you have a right to eliminate the American selling price, a carte blanche right to do it and the only thing Congress can do is veto it.

Mr. FRELINGHUYSEN. All I can say is that the Ways and Means Committee has the responsibility of deciding what is in the bill. You can make your recommendations.

Mr. BURKE. This committee is made up of great members. I have respect for each and every one of them. But believe me, their attitude on trade is a lot different than mine. I am outvoted here about 11 to 4.

Mr. FRELINGHUYSEN. I could say I am glad to hear that.

Mr. BURKE. I know you are glad to hear it. You should be up in my district and see some of the unemployment. You would not be as unhappy as you are.

Mr. FRELINGHUYSEN. I am not happy about the unemployment in your district. I am sorry to hear about it.

Mr. BURKE. Everybody is sorry to hear about it, but they are not doing anything about it.

Mr. FRELINGHUYSEN. I would guess that this shouldn't dissuade us from the necessity of giving the Executive substantial authority to negotiate with respect to the trade problems.

Mr. BURKE. I am willing to give him the authority to negotiate, but I am not for giving him the final say on it.

Mr. FRELINGHUYSEN. I think we have exhausted the subject. I understand your point.

Mr. BURKE. After they spell out in the bill how far they can go. Take a country like Argentina where if we ship leather goods they charge us 100 percent tariff, and if they ship theirs to the United States they pay 500 percent tariff. Do you think that is free trade?

Mr. FRELINGHUYSEN. I suppose we would spend 3 hours having you educate me but I doubt if my basic position would be changed one iota. I think it is important that this committee recognize and act promptly to give the executive branch of our Government authority to negotiate with respect to trade problems. Unless we do that we are not going to get out of the predicament that we both recognize the country is in now with regard to trading problems.

Mr. BURKE. I am in favor of that. I also say after they get through with the negotiation and after they get through reducing tariffs and abolishing the American selling price I would like to have Congress approve or disapprove what they have done.

Mr. FRELINGHUYSEN. You make a persuasive case.

Mr. BURKE. I don't know why you don't have the faith and confidence in the U.S. Congress, since you are an American, that they can do that.

Mr. FRELINGUHYSEN. I have great faith in the Congress, and I am proud to be a Member of it.

Mr. BURKE. Why don't you want to have them approve or disapprove what I want the Members to do?

Mr. FRELINGHUYSEN. We have been through this twice. I think the fact that the Senate may take a long time and be longwinded in its discussions of pros and cons doesn't influence me one bit. We can be longwinded in the House also but that is no reason for us not to face up to our responsibilities and give the executive an opportunity to negotiate.

Mr. BURKE. Why not write in the provision that as a result of the negotiations this matter shall be presented to both branches of Congress for approval or disapproval?

Mr. FRELINGHUYSEN. That question should be directed to the Ways and Means Committee. I am not a member. Ask the question to the members of the Ways and Means Committee.

Mr. BURKE. But I recognize your expertise, that you are a member of the Foreign Affairs Committee, and you would like to join with us and give your advice and counsel.

Mr. FRELINGHUYSEN. I hope I have given you some.

Mr. BURKE. You have not said anything about giving Congress the right to approve or disapprove on what the Members do.

Mr. FRELINGHUYSEN. I don't plan to say any more on that subject.

Mr. BURKE. I am glad you don't, but let's hope we are not around here locking the door after they steal the horse.

Mr. Clancy.

Mr. CLANCY. I yield to Mr. Duncan.

Mr. DUNCAN. We have been hearing a lot about giving the President authority at these committee meetings. Burke-Hartke actually gives the President new authority to regulate the outflow of capital for foreign investment and also to limit the export of technology. I was wondering why under Burke-Hartke the President was not required to come back to the Congress for approval?

I take it, though, that you feel that our negotiators should have the authority really to tell our trading partners that we are not going to lie down and be run over. Is that about what you mean?

Mr. FRELINGHUYSEN. I think that is the essential point. We need authority to correct inequities, to make the trading system fairer than it is today.

Mr. DUNCAN. Do you agree that for trade to be free that it also should be fair trade?

Mr. FRELINGHUYSEN. I would certainly like to see it both freer and fairer.

Mr. DUNCAN. Do you think the tools of this proposed legislation can get our trading partners to change their minds on the trade barriers that they have erected against our manufactured products?

Mr. FRELINGHUYSEN. Well, I think the problem that the Ways and Means Committee faces is not to put in so many protectionist devices that it will not give sufficient leeway to negotiate. If there should be limited authority or such tied down authority that we can't get concessions from the other side, we could actually aggravate the present system instead of ameliorating it.

This is my fear, that we will put so many restrictions in that it will be read as protectionist. I think the President's bill itself can be interpreted as overly protectionist. It does give the President considerable authority to tighten up under certain circumstances. What we ought to avoid is to create an atmosphere which will prevent progress in getting a more equitable trading system.

Mr. DUNCAN. I think most of the opposition has been opposed to the President, afraid perhaps that he will lower tariff. What would be your views on the fact of giving him authority to raise the tariffs and not to lower them?

Mr. FRELINGHUYSEN. I don't think tariffs are going to be the essential problem. I think the nontariff barriers are a more important and difficult nut to crack.

Mr. DUNCAN. That has been the fear of most witnesses here.

Mr. FRELINGHUYSEN. I don't think there is going to be unilateral lowering of barriers or further concessions on our side without reciprocal movement on the part of those with whom we are negotiating.

Mr. DUNCAN. You don't think we will have to give up some of our present advantages that we might have?

Mr. FRELINGHUYSEN. No; I think what we are trying to overcome is some of the disadvantages under which we now operate. That is the nature of the problem, basically. We are opposed to the barriers which Japan has erected. We are concerned about the barriers which the Common Market will present, particularly in the field of agricultural products.

It is to try to get a reduction, a mutual reduction of some of these barriers, and to improve our position, that we are proposing to enter into these negotiations.

Mr. DUNCAN. When the Common Market was formed we were told that it was going to be a great outward-looking trade group. Don't you agree it has turned out to be quite an inward-looking group?

Mr. FRELINGHUYSEN. No; I do not. I would be reluctant to see it turn into an inward-looking group. There are inward elements within the community but I think the enlargement of the community has been a good thing. I think our responsibility is to encourage in every way an outward-looking movement on the part of the Common Market such as can result from successful negotiations. It is because we are at a decision point where we could kick off more protectionist, more inward-looking blocs that we are faced with the problem. That is why we have no choice but to trust our Executive to try to prevent that from happening. We seek a result that will allow greater trade in the world markets, and accept the fact that competition is a good thing, as the President said in his message.

Mr. DUNCAN. During the last 6 weeks we have had witness after witness here, American business firms, who had definite proof the market is turning inward instead of outward, and new plans are on the board to discriminate against our manufacturers.

Mr. FRELINGHUYSEN. There is certainly a tendency that way. It is for that reason that negotiations soon are important, and that successful negotiations are of crucial importance. It is because the possibility exists, if we should suddenly decide to try to protect ourselves by increasing our own barriers as a way of coping with the inward looking barriers that others have created, that we would be kicking off an international trade war instead of trying to avoid it.

Mr. DUNCAN. I do thank you very much for your excellent presentation.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Clancy.

Mr. CLANCY. Mr. Frelinghuysen, have you observed a sense of urgency on the part of our trading partners to commence negotiations?

Mr. FRELINGHUYSEN. Well, your question reminds me of your chairman's, Wilbur Mills' statement several months ago now that he didn't think that Europe would really be ready to negotiate meaningfully in September. I am not sure whether they are going to be ready or not. All I am sure of is that it would be helpful if we were in a position to negotiate if they are ready.

It seems to me that there is urgency regarding the problem. The United States should be in a position of emphasizing the fact that it is urgent and doing everything we can to encourage early negotiations.

I am not enough of an authority to know the degree to which others may be ready to negotiate if we are ready. It seems to me we have enough on our own platter in developing the basis for negotiation. If we are in a position, as Mr. Mills pointed out, if we are in a position to move, it may be conducive to movement on the part of our negotiating partners.

Mr. CLANCY. I agree with you. I think that some legislation should be adopted and adopted as quickly as we possibly can.

I was wondering whether or not in your discussions with representatives of foreign nations that they had indicated a willingness to eliminate some of these nontariff barriers that have prohibited our goods from entering their markets, and whether or not they indicated that they would be willing to make concessions.

Mr. FRELINGHUYSEN. As I indicated in my prepared remarks, I think that we can expect some hard bargaining with all of those with whom we will be discussing this problem. But there will be no constructive results unless we are ready to give as well as to take. What I think is important is that we recognize that we should give the President a relatively free hand. I am not suggesting a blank check or anything of that kind. But I think we have no alternative but to give the Executive a relatively free hand to see how much we can get in the way of concessions.

If we go with a very restricted mandate we can't expect the other side to make major concessions. This is what underlines the nature of the problem that you face, in my mind. The mandate that you give the President will, in large measure, determine whether the results are going to be constructive, whether we are going to be able to get major concessions from others.

Mr. CLANCY. Our trading partners at the present time have broad authority to negotiate, do they not?

Mr. FRELINGHUYSEN. I would assume in most cases their authority is much more readily available than would be the President's. Certainly the President doesn't have it without specific legislative action by this Congress this year.

Mr. CLANCY. Now, just one final question. If you were to consider the 1962 Trade Act at this particular time, what recommendations would you make as far as changes?

Mr. FRELINGHUYSEN. I am not enough of an expert to know about the present workings of the 1962 act, of what changes should be made in it. It means to me that what we are faced with now is what kind of new authority to give. This will in effect make a dead letter of the existing legislation. The results of the negotiations will certainly modify very substantially the existing legislation.

Mr. CLANCY. Thank you very much.

Mr. FRELINGHUYSEN. Thank you.

Mr. BURKE. Thank you, Congressman Frelinghuysen. We appreciate your testimony.

It is a policy of the committee today to go over and answer the quorum call and then return here at 20 minutes of 1 o'clock at which time we will hear Congressman Brown if he can be present. Then we understand Congressman Vander Jagt is in the room. If the other two Congressmen are not present at that time we will take whoever is in the room in the order that they appear on the list.

So the committee now stands in recess until 20 minutes before 1 o'clock.

[A recess was taken.]

Mr. ROSTENKOWSKI [presiding]. The committee will come to order.

Our next witness will be Hon. George Brown, Representative from California.

Mr. Brown, welcome to the committee.

STATEMENT OF HON. GEORGE E. BROWN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BROWN. Thank you, Mr. Chairman.

Mr. ROSTENKOWSKI. I am sure that my colleague, Mr. Green, joins me in looking forward to some very significant testimony.

Mr. BROWN. You may look forward to very brief testimony. I have a short statement which I will read. I shall be brief because I am aware of the fact that your committee has been sitting almost continuously since the beginning of this session.

I appreciate this opportunity to appear before you today. I know that you will be giving very careful scrutiny to the bill before you during the markup process which will begin in executive session next Monday. I particularly, however, would like to call to your attention two provisions of the bill.

My first concern is with chapter 2 of title II, which deals with adjustment assistance for workers. I note that Congressman Frelinghuysen commented on this also. The administration proposals do not appear adequate. In fact, the proposed benefit levels fall short of those provided in the Trade Expansion Act of 1962. This is most unfortunate, since adjustment assistance to workers can be an important feature of our overall trade policy. Adjustment assistance provides a human means to deal with the problem of job displacement that can arise as a result of import competition. It can be used either in conjunction with or as a substitute for import limitation, depending on the particular situation.

If I recall correctly adjustment assistance was first proposed in 1954 by David McDonald, who was the president of the United Steelworkers and a member of President Eisenhower's Randall Commission. It was incorporated 8 years later in President Kennedy's Trade Expansion Act of 1962. It is generally recognized that the adjustment assistance provisions of the 1962 legislation have not worked as well as was intended. There exists, I believe, a strong need for improvement in these provisions. The bill before you does offer one improvement insofar as it makes access to adjustment assistance easier. But the program of assistance itself is, I believe, inadequate.

The second point I wish to make concerns chapter 1 of title II relating to "import relief." I was here last week, on Thursday, June 7, when Mr. Jack J. Carlson, president of Kaiser Steel Corp., made some recommendations for changes in this section. Kaiser Steel Corp. employs 8,000 people in my district, but I am not coming before the committee to plead for special protection or for import quotas on steel. Mr. Carlson's testimony, I can assure you, was carefully thought out and was expressly designed to be consistent with the philosophy and principles of the Trade Reform Act. In fact, his proposals would give explicit attention to problems which the administration has indicated that it

meant to deal with in the legislation, but which it failed to adequately provide for.

Mr. Carlson recommends that an industry in a major geographic area of the country should be eligible for relief from import injury on the justifiable basis that the injury is just as real when confined to a major geographic region as when it is widespread throughout the United States. His proposal does not suggest that the criteria of title II be changed or that the geographic industry not be required to make a showing of injury before the Tariff Commission. His proposal would amend the bill in two respects. First, it would make an industry in a major geographic region eligible for relief under title II. Second, Mr. Carlson has advanced some very imaginative suggestions which are designed to provide relief to that geographic sector of the industry without the necessity for the relief to be applied against all imports entering the United States. I believe this to be a substantial improvement in the bill, consistent with the administration's intentions and consistent with the principles of the bill, and I commend these proposals to your consideration.

That is the end of my written statement, gentlemen, but I would just remind you again that the critical situation which Mr. Carlson pointed out had to do with the high level of Japanese imports of steel into the Western United States. This is a matter which despite the voluntary controls has continued to move upward very strongly, much more so than in other regions of the United States.

Of course the economic health of the steel industry to all the western industry is a matter of very great importance. This is why I am taking your time to emphasize the seriousness of this problem and urge your consideration of the proposals that were made by the president of Kaiser Steel.

Thank you again, gentlemen, for this opportunity to appear before you.

Mr. ROSTENKOWSKI. Thank you, Mr. Brown.

Mr. GREEN. No questions. I thank you for coming.

Mr. ROSTENKOWSKI. Mr. Broyhill.

Mr. BROYHILL. No questions.

Mr. ROSTENKOWSKI. Our next witness will be Hon. John Culver, a Representative from Iowa, and a member of the Foreign Affairs Committee.

Welcome to the committee.

STATEMENT OF HON. JOHN C. CULVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. CULVER. I appreciate very much the opportunity to appear today and testify on the Trade Reform Act of 1973.

I would like to address myself to the role of Congress in the forthcoming multinational trade negotiation and speak in support of H.R. 4917, the Trade Adjustment Assistance Organization Act of 1973, which I introduced this year with 44 other House Members of both parties.

In April and May of last year, the Subcommittee on Foreign Economic Policy held 7 days of hearings to examine workable mechanisms for economic conversion as an alternative to trade wars. During these

hearings, the subcommittee received testimony from knowledgeable private witnesses drawn from former Government officials, universities, public interest groups, labor, and business, as well as from key Government officials.

The findings and recommendations of the subcommittee's investigation are contained in its August 29, 1972 report entitled: Trade Adjustment Assistance.

The general consensus reached during the hearings was that trade adjustment assistance in its present form is burial assistance, but that a trade adjustment assistance program could be designed to provide prompt and effective assistance to workers, firms, and communities who need it, at a lower cost to the economy, and without the foreign policy disadvantages of import restrictions.

For the purpose of providing a workable alternative to trade restrictions and trade wars, I introduced H.R. 4917. The bill is based on the recommendations made in the subcommittee's report on adjustment assistance, and is, in my opinion, a reasonable and constructive means of making trade adjustment assistance a workable answer to economic dislocations caused by imports.

Although the subcommittee's hearings and report were conveyed to this committee after their publication, I would at this point like to request that the report be made part of the record at the end of my testimony.

THE NECESSITY FOR A WORKABLE TRADE ADJUSTMENT ASSISTANCE PROGRAM

For the past four decades the United States has pursued a generally outward-looking foreign trade policy—a policy designed to seek expanded trade, from which all nations could benefit economically and politically. The United States did not take this course until after learning, from the hard experience of the depression and Smoot-Hawley tariff years, the grave disadvantages of indiscriminate trade restrictions—political isolationism and retailiatory trade barriers, which in turn forced many American businesses to lay off workers. Since 1934 and the enactment of the Reciprocal Trade Act, and especially after World War II, the United States has encouraged cooperative and interdependent international economic policies.

On balance, the result of our outward-looking foreign economic policy coincided with unparalleled U.S. economic growth, stimulated increased sales abroad, strengthened economic and political relations with foreign countries, and brought an increased standard of living at lower costs to consumers in the developed countries, including the United States.

In recent years, however, there has been growing concern in the United States about our mounting trade and balance-of-payments deficits, combined with an intolerable 5 to 6 percent domestic unemployment rate and runaway inflation. We are confronted with these facts, but have generally been unable to reach a consensus as to their root cause, and more important have, to date, been unable to develop truly constructive solutions.

Some concerned citizens have pointed to unfair trade practices engaged in by foreign companies and governments, which have gone

unchallenged by the Executive. Others have suggested that the roots of our employment and trade difficulties are to be found in our domestic economy, deriving from the lack of ecnomic policies effectively controlling inflation, and the failure to develop and rely on forward-looking economic policies to stimulate innovation, productivity, and vigorous competition.

In spite of these various views, three facts are clear: First, millions of American workers are gripped by the fear that imports are undermining their job security, and they are joined in this fear by diverse industries which feel the pressure of foreign competition. Second, the concerns being voiced by labor and management in the adversely affected sector of our economy are real concerns, and cannot be ignored or answered by resorting to the vague conceptual slogans of either "free trade" or "protectionism." Finally, the post-World War II economic system and era have come to a close, and a new set of domestic and international economic policies, relationships, and institutions need to be developed.

These events are signals that the United States must develop and pursue fresh concepts to meet the problem of economic dislocations caused by imports and further economic interdependence. Signals that new trade legislation must confront the need to provide greater job security and opportunities for American workers, but in a way which is truly humane, effective economically, and consistent with the best interests of the U.S. international role.

Of critical importance will be a vastly improved trade adjustment assistance program.

Unfortunately, the administration does not recognize the critical importance of trade adjustment assistance. At the same time the Defense Department's Office of Economic Adjustment is preparing for a substantial extension of their often successful program of assistance to communities impacted by defense cutbacks, the administration has seen fit to virtually abandon the concept of trade adjustment assistance.

On May 18, the Ways and Means Committee received an excellent statement from Dr. Charles R. Frank, Jr., of the Brookings Institution. In his testimony Dr. Frank presented an incisive analysis of the administration's failure to provide an adequate trade adjustment program for the United States.

The Trade Reform Act of 1973 proposes to decrease worker benefits. Under the current program workers are entitled to a minmum of 52 weeks of trade adjustment allowance and some workers are eligible for up to 91 weeks. The Trade Reform Act would link duration of trade adjustment allowances to the period of eligibility under State unemployment insurance schemes, which in most States is 26 weeks. Since the average worker is unemployed for more than 30 weeks, the great majority of eligible workers will be unemployed for a time without access either to unemployment insurance or trade readjustment allowances. This period will be substantial if the worker is undergoing training which is necessary to help him prepare for a more satisfying and productive job.

The act completely abolishes substantive adjustment assistance to firms and industries. By abolishing this assistance, firms and industries are encouraged to seek relief in the form of quotas and tariffs instead of dealing with the fundamental problem of making them-

selves more competitive. What is needed is a realistic adjustment assistance program for firms to help them become more competitive.

In addition, the Trade Reform Act of 1973 provides inadequate job search and relocation allowances; no provisions for the worker to retain his fringe benefits, medical inusurance, or seniority. Moreover, there is no provision for allowing older workers the option of early retirement; and no provision for an early warning system so that adjustment programs could be initiated before firms and workers actually are in trouble.

Mr. Chairman, the United States deserves a more effective and humane trade adjustment assistance program than the one offered by the administration in the Trade Reform Act of 1973.

The emphasis today must be put on a better delivery system, more substantive assistance and an early warning network to spot in advance those industries and companies which are running into trouble. Then effective Government assistance can be useful before the company is beyond hope, and it can enroll workers into training programs before they are unemployed and their skills become obsolete. The Government must anticipate problems and identify industries which need assistance. But, most important, the assistance must be adequate, practical, and quick. Otherwise, we will always be in a position of doing too little too late and there will be no viable alternative to protectionist tariffs and quotas.

Mr. Chairman, H.R. 4917, the Trade Adjustment Assistance Organization Act of 1973, provides the proper emphasis for an effective trade adjustment assistance program and I hope the Ways and Means Committee will give its concepts favorable consideration as it develops its own legislative proposals.

THE TRADE ADJUSTMENT ASSISTANCE ORGANIZATION ACT OF 1973

H.R. 4197: 1. Sets up an early warning system to spot in advance economic problem areas. This will help the Government begin the necessary adjustment programs before workers, firms, and communities actually experience serious economic hardships.

2. Establishes a single agency to administer the adjustment program under tight time limits in order to minimize the hardship of delayed benefits. The Trade Adjustment Assistance Administration is established since the effective administration and speedier delivery of benefits require a cohesive organization which can provide greater coordination at the Federal and State levels.

3. Establishes relaxed criteria for eligibility, which will expand coverage. Workers and firms are eligible for assistance if they can show that unemployment, underemployment, or threat of unemployment or underemployment has been caused in substantial part by increased imports—without any linkage to trade concessions. Workers are also eligible for assistance when the relocation of their employer to a foreign country causes unemployment or shorter work hours.

4. Provides for assistance to communities, which would be eligible if (*a*) a firm in the community is eligible for assistance and the economic situation of that firm will cause serious economic damage to the community; or (*b*) if the relocation of a firm will cause serious economic injury to the community.

5. Provides for expanded rather than reduced level of benefits and programs for workers.

The readjustment allowance would be raised from 65 percent to 85 percent of the displaced worker's average weekly wage.

In order to encourage workers to seek retraining, payment of the readjustment allowance will continue for the entire period of an accredited retraining program. This will allow workers to complete the extensive training required for the better paying and more secure jobs in technologically advanced industries.

To assist workers, the Trade Adjustment Assistance Administration will develop training programs teaching skills needed for priority economic areas, and provide adequate counseling and job placement services for displaced workers.

6. Provides relocation assistance to any eligible worker (not just heads of households), continuation of health insurance and speeded up retirement, pension, and social security benefits for otherwise eligible displaced workers who are over 60 years of age and who wish to retire.

7. Provides for expanded assistance to firms in the form of interim financing to keep the company operating; loan terms more favorable than existing commercial rates; tax benefits; technical and management assistance; and research and development assistance for moving into areas of production which are more competitive and which would create new job opportunities.

Mr. Chairman, these are the highlights of H.R. 4917, the Trade Adjustment Assistance Organization Act of 1973. I introduced this legislation because it is, in my opinion, a reasonable and constructive approach to making adjustment assistance a workable answer to economic dislocations caused by imports. The bill is, however, susceptible to refinement, and I welcome both the excellent suggestions offered by Dr. Frank and NAM, and the support of such national organizations as the League of Women Voters. Most important, I hope that this committee will carefully consider and improve upon the concepts contained in H.R. 4917 and add their own constructive suggestions.

THE COST OF TRADE ADJUSTMENT ASSISTANCE VERSUS THE COST OF IMPORT RESTRICTIONS

Trade adjustment assistance is designed to provide assistance aimed specifically at the firms and workers who need it at a lower cost to the economy than, and without the foreign policy disadvantages of, import restricting relief, such as increased tariffs and quotas.

It is estimated that an effective trade adjustment assistance program will cost not less than $150 million, nor more than $500 million.

These estimates must be compared to the costs of import restrictions. First, import restrictions can provoke trade wars which could seriously undermine our general economic well-being. As in the 1930's, American jobs and exports will be lost, not gained, because of trade wars. Second, import restrictions damage the U.S. consumer by reducing competition for domestic producers and permitting them to raise prices. Moreover, it is estimated that present U.S. trade restrictions now cost U.S. consumers as much as $7 billion to $15 billion every year.

In short, trade adjustment assistance is far less costly than import restrictions.

ADJUSTMENT ASSISTANCE AND IMPORT SAFEGUARDS

In special situations—where there has been rapid market penetration by imports—trade adjustment assistance should be linked to carefully designed safeguards. This would provide interim protection to industries and workers during difficult transitional periods of adjustment.

These safeguards should be limited in time, with a specified termination date, and designed to facilitate, not deter, the adjustment process. The prerequisite for the imposition of safeguards should be that adjustment is taking place or will commence shortly.

A mix of these two approaches—trade adjustment assistance and safeguards—will provide economic adjustment, and avoid escalating protectionism.

CONGRESS, THE TRADE REFORM ACT OF 1973 AND THE NEW ROUND OF TRADE NEGOTIATIONS

President Nixon has asked the Congress for wide authority to retaliate against restrictions on U.S. exports; levy import surcharges; give tariff preferences to poor countries; negotiate agreements providing equal treatment for imports from Communist countries; lower or raise trade barriers; and other trade rule changes. In its cumulative effect the Trade Reform Act of 1973 would give the President far more authority over the foreign trade of the United States than any President has ever had before.

This delegation of authority comes at a time when the President has been challenging Congress on issues of executive versus legislative power—by claims of executive privilege, by impounding appropriate funds and by numerous vetoes. In addition, the powers the President is asking for represent a double-edged sword since they can be used for protectionist and partisan political interest as well as for statesmanlike reformation of the international trading system.

The Executive, however, must have wide latitude in negotiating tariffs and trade arrangements. Furthermore, many of the actions needed to liberalize world trade rules and improve the U.S. trading position cannot be handled by the Congress.

However, Congress has a vital interest and fundamental role to play in shaping U.S. foreign economic policy, and should, therefore, develop constructive means to exercise their responsibility.

First, the Ways and Means Committee and the Congress should closely scrutinize the Trade and Reform Act of 1973 and provide a reasonable and workable congressional check on those powers which accord the President unusually new and broad authority.

Second, the Congress should form a bipartisan joint committee which would monitor the trade negotiations and the President's use of Congress' grant of authority. This special joint committee would convey the view of the Congress to the President in an effort to better coordinate trade policy during the trade negotiations as well as keep the Congress informed of the negotiations as they proceed.

Mr. Chairman, you are to be commended for taking the first step in establishing such a mechanism when you proposed the creation of a Joint Committee on Foreign Trade drawn from the Ways and Means and Finance Committees. Certainly, the Ways and Means and Finance Committees have critical legislative responsibilities in this area. However, many other Senate and House committees have a strong legitimate interest and can hopefully provide important policy perspectives in understanding the upcoming multilateral trade negotiations.

Thus, a joint Congressional Committee on the Trade Negotiations should be formed. It should be nonlegislative, and, most important, be broad enough to embrace bipartisan representation from committees other than just Ways and Means and Finance, such as the Foreign Affairs, Banking and Currency and Agriculture Committees.

CONCLUSION

First, the Congress must strengthen the Trade Reform Act of 1973 by substantially improving trade adjustment assistance for workers, firms and communities adversely affected by foreign competition. I submit that H.R. 4917—The Trade Adjustment Assistance Organization Act of 1973—provides the right direction for this committee to take in strengthening the Trade Reform Act of 1973.

Second, the Congress should create a Joint Committee on the Trade Negotiations, which is broad enough to embrace bipartisan representation from relevant House and Senate committees.

I again wish to thank the committee for the opportunity to present these views to you today.

Mr. ROSTENKOWSKI. Thank you, Mr. Culver. It is certainly obvious that you have done an in-depth study in our areas. I certainly hope that when we are in our markup session that we will take many of your views into consideration.

Mr. Green?

Mr. GREEN. I can assure you that, as one member of this committee, it is my personal intention to bring to the attention of the committee the recommendations of Mr. Culver. I had occasion last summer to read his report on trade adjustment assistance. I think, first of all, he is to be commended for having a most comprehensive, most thoughtful, and most balanced approach to the whole subject. I want to welcome you today. You have done a great deal of work and made a real contribution to the work of this committee.

Mr. CULVER. Thank you very much.

Mr. ROSTENKOWSKI. Thank you, Mr. Culver.

Mr. CULVER. Thank you, Mr. Chairman.

[The prepared statement of Hon. John C. Culver follows:]

PREPARED STATEMENT OF HON. JOHN C. CULVER

Mr. Chairman, I want to thank you and the members of the Ways and Means Committee for the opportunity to testify before you today on the Trade Reform Act of 1973.

I would like to address myself to the role of Congress in the forthcoming multilateral trade negotiations, and to speak in support of HR 4917—The Trade Adjustment Assistance Organization Act of 1973—which I introduced this year with 44 other House members of both parties.

In April and May of last year, the Subcommittee on Foreign Economic Policy held seven days of hearings to examine workable mechanisms for economic conversion as an alternative to trade wars. During these hearings, the Subcommittee received testimony from knowledgeable private witnesses drawn from former government officials, universities, public interest groups, labor and business, as well as from key government officials.

The findings and recommendations of the Subcommittee's investigation are contained in its August 29, 1972, report entitled: Trade Adjustment Assistance.

The general consensus reached during the hearings was that trade adjustment assistance in its present *form* is burial assistance, but that a trade adjustment assistance program could be designed to provide prompt and effective assistance to workers, firms and communities who need it, at a lower cost to the economy, and without the foreign policy disadvantages of import restrictions.

For the purpose of providing a workable alternative to trade restrictions and trade wars, I introduced HR 4917. The bill is based on the recommendations made in the Subcommittee's report on adjustment assistance, and is, in my opinion, a reasonable and constructive means of making trade adjustment assistance a workable answer to economic dislocations caused by imports.

Although the Subcommittee's hearings and report were conveyed to this Committee after their publication. I would at this point like to request that the report be made part of the record at the end of my testimony.

THE NECESSITY FOR A WORKABLE TRADE ADJUSTMENT ASSISTANCE PROGRAM

For the past four decades the United States has pursued a generally outward-looking foreign trade policy—a policy designed to seek expanded trade, from which all nations could benefit economically and politically. The United States did not take this course until after learning, from the hard experience of the Depression and Smoot-Hawley tariff years, the grave disadvantages of indiscriminate trade restrictions—political isolationism and retaliatory trade barriers, which in turn forced many American businesses to lay off workers. Since 1934 and the enactment of the Reciprocal Trade Act, and especially after World War II, the United States has encouraged cooperative and interdependent international economic policies.

On balance, the result of our outward-looking foreign economic policy coincided with unparalleled US economic growth, stimulated increased sales abroad, strengthened economic and political relations with foreign countries, and brought an increased standard of living at lower costs to consumers in the developed countries, including the United States.

In recent years, however, there has been growing concern in the United States about our mounting trade and balance-of-payments deficits, combined with an intolerable 5 to 6 percent domestic unemployment rate and run-away inflation. We are confronted with these facts, but have generally been unable to reach a consensus as to their root cause, and more important have, to date, been unable to develop truly constructive solutions.

Some concerned citizens have pointed to unfair trade practices engaged in by foreign companies and governments, which have gone unchallenged by the executive. Others have suggested that the root of our employment and trade difficulties are to be found in our domestic economy, deriving from the lack of economic policies effectively controlling inflation, and the failure to develop and rely on forward looking economic policies to stimulate innovation, productivity and vigorous competition.

In spite of these various views three facts are clear. First, millions of American workers are gripped by the fear that imports are undermining their job security, and they are joined in this fear by diverse industries which feel the pressure of foreign competition. Second, the concerns being voiced by labor and management in the adversely affected sectors of our economy are real concerns, and cannot be ignored or answered by resorting to the vague conceptual slogans of either "free trade" or "protectionism." Finally, the post World War II economic system and era have come to a close, and a new set of domestic and international economic policies, relationships and institutions need to be developed.

These events are signals that the United States must develop and pursue fresh concepts to meet the problem of economic dislocations caused by imports and further economic interdependence. Signals that new trade legislation must confront the need to provide greater job security and opportunities for American workers, but in a way which is truly humane, effective economically, and consistent with the best interests of the US international role.

Of critical importance will be a vastly improved trade adjustment assistance program.

THE ADMINISTRATION'S TRADE REFORM ACT OF 1973

Unfortunately, the Administration does not recognize the critical importance of trade adjustment assistance. At the same time the Defense Department's Office of Economic Adjustment is preparing for a substantial extension of their often successful program of assistance to communities impacted by defense cutbacks, the Administration has seen fit to virtually abandon the concept of trade adjustment assistance.

On May 18, the Ways and Means Committee received an excellent statement from Dr. Charles R. Frank, Jr., of the Brookings Institution. In his testimony Dr. Frank presented an incisive analysis of the Administration's failure to provide an adequate trade adjustment program for the United States.

THE TRADE REFORM ACT OF 1973

Proposes to decrease worker benefits. Benefits would be 50 percent of a worker's average weekly wage (compared to the existing 65 percent).

Proposes not only to reduce the level of benefits, but to also lower the duration of benefits. Under the current program, workers are entitled to a minimum of 52 weeks of Trade Adjustment allowance and some workers are eligible for up to 91 weeks. The Trade Reform Act would link duration of trade adjustment allowances to the period of eligibility under State employment insurance schemes, which in most states is 26 weeks. Since the average worker is unemployed for more than 30 weeks, the great majority of eligible workers will be unemployed for a time without access either to unemployment insurance or trade readjustment allowances. This period will be substantial if the worker is undergoing retraining, which is necessary to help him prepare for a more satisfying and productive job.

Completely abolishes substantive adjustment assistance to firms and industries. By abolishing this assistance, firms and industries are encouraged to seek relief in the form of quotas and tariffs instead of dealing with the fundamental problem of making themselves more competitive. What is needed is a realistic adjustment assitance program for firm to help them become more competitive before it is too late.

In addition, the Trade Reform Act of 1973 provides inadequate job search and relocation allowances; no provisions for the worker to retain his fringe benefits, medical insurance or seniority. Moreover, there is no provision for allowing older workers the option of early retirement; and no provision for an early warning system so that adjustment programs could be initiated before firms and workers actually are in trouble.

Mr. Chairman, the United States deserves a more effective and humane trade adjustment assistance program than the one offered by the Administration in the Trade Reform Act of 1973.

The emphasis today must be put on a better delivery system, more substantive assistance and an early warning network to spot in advance those industries and companies which are running into trouble. Then effective government assistance can be useful before the company is beyond hope, and it can enroll workers into training programs before they are unemployed and their skills become obsolete. The government must anticipate problems and identify industries which need assistance. But, most important, the assistance must be adequate, practical and quick. Otherwise, we will always be in a position of doing too little, too late and there will be no viable political alternative to protectionist tariffs and quotas.

Mr. Chairman, H.R. 4917, the Trade Adjustment Assistance Organization Act of 1973, provides the proper emphasis for an effective trade adjustment assistance program and I hope the Ways and Means Committee will give its concepts favorable consideration as it develops its own legislative proposals.

THE TRADE ADJUSTMENT ASSISTANCE ORGANIZATION ACT OF 1973

H.R. 4917

1. Sets up an early warning system to spot in advance economic problem areas. This will help the government begin the necessary adjustment programs before workers, firms and communities actually experience serious economic hardships.

2. Establishes a single agency to administer the adjustment program under tight time limits in order to minimize the hardship of delayed benefits. The Trade Adjustment Assistance Administration is established since the effective administration and speedier delivery of benefits requires a cohesive organization which can provide greater coordination at the Federal and State levels.

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4. Provides for assistance to communities, which would be eligible if (a) a firm in the community is eligible for assistance and the economic situation of that firm will cause serious economic damage to the community; or (b) if the relocation of a firm will cause serious economic injury to the community.

5. Provides for expanded rather than reduced level of benefits and programs for workers—

The readjustment allowance would be raised from 65 percent to 85 percent of the displaced worker's average weekly wage.

In order to encourage workers to seek retraining, payment of the readjustment allowance will continue for the entire period of an accredited retraining program. This will allow workers to complete the extensive training required for the better paying and more secure jobs in technologically advanced industries.

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Mr. Chairman, these are the highlights of H.R. 4917, the Trade Adjustment Assistance Organization Act of 1973. I introduced this legislation because it is, in my opinion, a reasonable and constructive approach to making adjustment assistance a workable answer to economic dislocations caused by imports. The bill is, however, susceptible for refinement, and I welcome both the excellent suggestions offered by Dr. Frank and the NAM, and the support of such national organizations as the League of Women Voters. Most important I hope that this Committee will carefully consider and improve upon the concepts contained in H.R. 4917 and add their own constructive suggestions.

THE COST OF TRADE ADJUSTMENT ASSISTANCE VS. THE COST OF IMPORT RESTRICTIONS

Trade adjustment assistance is designed to provide assistance aimed specifically at the firms and workers who need it at a lower cost to the economy than, and without the foreign policy disadvantages of, import restricting relief, such as increased tariffs and quotas.

It is estimated that an effective trade adjustment assistance program will cost not less than $150, nor more than $500 million.

These estimates must be compared to the costs of import restrictions. First, import restrictions can provoke trade wars which could seriously undermine our general economic well-being. As in the 1930's, American jobs and exports will be lost, not gained, because of trade wars. Second, import restrictions damage the US consumer by reducing competition for domestic producers and permitting them to raise prices. Moreover, it is estimated that present US trade restrictions now cost US consumers as much as $7 to $15 billion every year.

In short, trade adjustment assistance is far less costly than import restrictions.

ADJUSTMENT ASSISTANCE AND IMPORT SAFEGUARDS

In special situations—where there has been rapid market penetration by imports—trade adjustment assistance should be linked to carefully designed safeguards. This would provide interim protection to industries and workers during difficult transitional periods of adjustment.

These safeguards should be limited in time, with a specified termination date, and designed to facilitate, not deter, the adjustment process. The prerequisite for the imposition of safeguards should be that adjustment is taking place or will commence shortly.

A mix of these two approaches—trade adjustment assistance and safeguards—will provide economic adjustment, and avoid escalating protectionism.

CONGRESS, THE TRADE REFORM ACT OF 1973 AND THE NEW ROUND OF TRADE NEGOTIATIONS

President Nixon has asked the Congress for wide authority to retaliate against restrictions on US exports, levy import surcharges, and lower or raise trade barriers among other trade rule changes. In its cumulative effect the Trade Reform Act of 1973 would give the President far more authority over the foreign trade of the United States than any President has ever had before.

This delegation of authority comes at a time when the President has been challenging Congress on issues of executive versus legislative power—by claims of executive privilege, by impounding appropriated funds and by numerous vetoes. In addition, the powers the President is asking for represent a double-edged sword since they can be used for protectionist and partisan political interests as well as for statesmanlike reformation of the international trading system.

The executive, however, must have wide latitude in negotiating tariffs and trade arrangements. Furthermore, many of the actions needed to liberalize world trade rules and improve the US trading position cannot be handled by the Congress.

But the Congress too has a vital interest and fundamental role to play in shaping US foreign economic policy, and should, therefore, develop constructive means to exercise their responsibility.

First, the Ways and Means Committee and the Congress should closely scrutinize the Trade and Reform Act of 1973 and provide a reasonable and workable Congressional check on those powers which accord the President unusaully new and broad authority.

Second, the Congress should form a bipartisan joint committee which would monitor the trade negotiations and the President's use of Congress' grant of authority. This special joint committee would convey the views of the Congress to the President in an effort to better coordinate trade policy during the trade negotiations as well as keep the Congress informed of the negotiations as they proceed.

Mr. Chairman, you are to be commended for taking the first step in establishing such a mechanism when you jointly proposed the creation of a Joint Committee on Foreign Trade drawn from the Ways and Means and Finance Committees. Certainly, the Ways and Means and Finance Committees have critical legislative responsibilities in this area. However, many other Senate and House Committees have a strong legitimate interest and can hopefully provide important policy perspectives in understanding the upcoming multilateral trade negotiations.

Thus, a Joint Congressional Committee on the Trade Negotiations should be formed. It should be non-legislative, and most important, be broad enough to embrace bipartisan representation from Committees other than just Ways and Means and Finance, such as the Foreign Affairs, Banking and Currency and Agriculture Committees.

CONCLUSION

First, the Congress must strengthen the Trade Reform Act of 1973 by substantially improving trade adjustments assistance for workers, firms and communities adversely affected by foreign competition. I submit that HR 4917—the Trade Adjustment Assistance Organization Act of 1973—provides the right direction for this Committee to take in strengthening the Trade Reform Act of 1973.

Second, the Congress should create a Joint Committee on the Trade Negotiations, which is broad enough to embrace bipartisan representation from relevant House and Senate Committees.

[The following was submitted for the record:]

A Summary of the Trade Adjustment Assistance Organizations Act

TITLE I—REORGANIZATION

Since the effective administration of an improved adjustment assistance program requires a cohesive organization which can provide greater coordination at the Federal and state levels, this title transfers the trade adjustment assistance functions of existing Federal agencies to a newly created Trade Adjustment Assistance Administration, which will be in the Labor Department.

This new Administration will absorb all or parts of the following existing offices:

(1) The Office of Trade Adjustment Assistance of the Commerce Department;

(2) The Office of Trade Adjustment Assistance of the Labor Department;

(3) The adjustment assistance functions of the Tariff Commission; and

(4) Other relevant Federal programs.

The Administrator, appointed by the President, will be the chief executive of the Trade Adjustment Assistance Administration. He will be authorized to establish, certify and support training programs, and to coordinate the Administration's activities with local and state bodies.

To help anticipate adjustment problems, identify industries most in need of modernization, establish national economic priorities, and review operations, an Economic Priorities Council will be created. It will consist of twelve members, three from labor, three from industry, three from consumer groups, and the Secretaries of Commerce, Treasury and Labor. Appropriate staff will be provided by the Department of Labor and the Trade Adjustment Administration.

TITLE II—ASSISTANCE

Subtitle A establishes a simple criteria for eligibility for benefits under this Act. This simplified criteria will expand coverage and speed up delivery of benefits. The Secretary of Labor will be responsible for determining the eligibility of workers, companies and communities.

A firm shall be eligible for economic adjustment assistance if it establishes that a significant number or proportion of its workers have become unemployed or underemployed or are threatened with unemployment or underemployment, and that the situation has been caused in substantial party by increased imports of articles competitive with articles produced by the firm without linkage to trade concessions.

Workers shall be eligible for economic adjustment assistance under the same cirteria as firms, as well as in the situation where the relocation or proposed relocation of facilities of the firm to a place outside the United States causes, or threatens to cause unemployment or underemployment.

Communities shall be eligible for economic adjustment assistance if—

(1) a firm in such community is eligible for economic adjustment assistance and the economic situation of the firm has been a substantial cause or threat of serious injury to the economic base of the community, or

(2) if the relocation or proposed relocation of facilities of a firm will be a substantial cause or threat of serious injury to the economic base of the community.

To the extent practicable, joint firm-worker and firm-worker-community adjustment proposals and petitions should be encouraged. Such cooperation would expedite economic readjustment. Lacking such coordinated efforts, the Administrator shall notify the authorized representatives of all parties of pending petitions and adjustment proposals and consult with them in order to develop a coordinated economic adjustment program.

Subtitle B provides for assistance to firms. Companies deemed eligible for assistance will be entitled to make application for the following forms of assistance:

(1) interim financing pending the approval of longer term loan assistance;

(2) loan terms more favorable than existing commercial rates;

(3) technical assistance;

(4) research and development assistance for projects which would create new job opportunities; and

(5) continues existing tax benefits and provides the opportunity for new benefits for those companies whose particular economic circumstances warrant such preferential treatment.

Subtitle C would expand the present adjustment assistance program under the Trade Expansion Act of 1962 by increasing the amount and availability of benefits to eligible workers. To assure maximum equitable coverage and a minimum of hardship, a 60 day time limitation is placed on final determination of eligibility, and the qualification criteria concerning previous work, earnings and head of household status are liberalized so that there is a broad qualification for those workers who have been separated from their jobs. In addition, the readjustment allowance in this Act is raised from 65 percent to 85 percent of the displaced worker's average weekly wage rate.

In order to encourage workers to seek retraining, workers who, in addition to their readjustment allowance, receive assistance from other manpower services—such as state unemployment or retraining programs—will now be eligible to receive 100 percent rather than 75 percent of their former wage. Eligible workers will not, however, be able to receive more than 100 percent of their former wage. Payment of readjustment allowances continues for the entire period of retraining, and the length of the retraining period is left to the determination of the Administration so that the period is adequate to complete the extensive training required for high skilled services and technologically advanced industries. Furthermore, qualified workers will be allowed to pursue technical professional or academic training as well as the traditional vocational training.

To assist workers, the Administration will develop retraining programs teaching skills needed for priority economic areas, and will provide testing, counseling and job placement assistance.

Workers still employed but who can demonstrate that they are threatened by loss of employment in the future will be eligible for retraining programs.

In addition, the Administration will provide relocation assistance, continuation of health insurance, and speeded up retirement, pension and social security benefits for otherwise eligible displaced workers who are over 60 years of age.

Subtitle D provides economic adjustment assistance to communities. Adjustment assistance under this subtitle consists of technical assistance in the development of programs to enable communities to absorb the effects of economic dislocation and maintain a stable economic base by diversifying its industrial base, and wherever possible to reconstitute the local firm and its work force. In addition, the Administration shall submit to, and coordinate the communities adjustment proposal with the agency or agencies it determines to be appropriate for furnishing the technical and financial assistance to carry out the adjustment proposal.

TITLE III—RELOCATION OF FIRMS

This title provides that any firm which relocates facilities outside the United States must apply for all economic adjustment assistance for which its workers are eligible. In addition, such firms are required to offer first choice of future employment opportunities in their other production facilities to individuals at the old location who have been or will be rendered unemployed or underemployed by reason of the relocation of facilities. This should be done in cooperation with the appropriate labor representatives.

TITLE IV—AN EARLY WARNING SYSTEM

In order to have an effective adjustment assistance program there must be a mechanism which can spot in advance economic hardship among industries and workers so the government can then initiate adjustment programs before the hardship actually occurs.

In recognition of this factor, Title IV directs the Trade Adjustment Assistance Administration to develop an integrated system of foreign and economic statistics. In addition, it requires, on a confidential basis, advance notice of corporate decisions to relocate facilities abroad, which would result in a reduction of workers.

92d Congress
2d Session

COMMITTEE PRINT

Culver

TRADE ADJUSTMENT ASSISTANCE

REPORT

OF THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

AUGUST 29, 1972

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*Resigned May 1, 1972.

LETTER OF TRANSMITTAL

COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C., August 29, 1972.

Hon. THOMAS E. MORGAN,
Chairman, Committee on Foreign Affairs, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am submitting a report with recommendations by the Subcommittee on Foreign Economic Policy reflecting its hearings on trade adjustment assistance held earlier this year in April and May.

Because this area of national policy, with its implications for both domestic and foreign policy, bears upon the work and responsibilities of the labor and education committees, the foreign policy committees, and the finance committees, we intend to communicate the findings of this report to those interested committees and to the Congress as a whole.

Needless to say, the complexity and diversity of the issues inherent in trade adjustment assistance did not allow us to cover all their ramifications in full detail, especially those involved in the development of a national productivity policy. Therefore, the primary effort of this report is to highlight the excellent materials and analyses derived from the hearings held, and to point the way toward the development of an effective trade adjustment assistance mechanism.

The subcommittee expresses its appreciation to you for the responsibility you have entrusted to it, and to the many witnesses, in and out of the Government, who generously provided both time and careful preparation to the consideration and study of this difficult, but essential public issue.

Respectfully submitted,

JOHN C. CULVER,
Chairman, Subcommittee on Foreign Economic Policy.

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I. INTRODUCTION

In recent months, there has been growing concern in the United States about our mounting trade and balance of payments deficits combined with a persistent 5–6 percent unemployment rate. Some concerned citizens have pointed to unfair trade practices engaged in by foreign companies and governments, which have gone unchallenged by the Executive. Others have suggested that the root difficulties are to be found in our domestic economy, through lack of economic policies to dampen inflation, and declining innovation, productivity and vigorous competition.

The shift of more and more of our Nation's business, labor and political leaders from an outward looking foreign economic policy to a more protectionist one, and the introduction of legislation which would restrict imports and the activities of American companies abroad, are warning signals that the United States must develop and pursue new ideas and constructive concepts to meet the problems of economic dislocations.

In the last year, the Subcommittee on Foreign Economic Policy held a series of hearings on the domestic and foreign ramifications of U.S. Foreign Economic Policy. We examined successively the economic impact of enlargement of the European Common Market; the international implications of the New Economic Policy; and the state of our politico-economic relationship with our two largest trading partners, Canada and Japan. From these hearings there are a few facts on which a consensus did emerge.

First, to the extent the United States reacts unilaterally in the world economic arena to trade and international monetary problems, we risk incurring foreign political losses which could seriously endanger our country's security and economic well-being.

Second, the concerns being voiced by labor and management in the adversely affected sectors of our economy are real concerns, and cannot be ignored or answered by resorting to the vague conceptual slogans of either "free trade" or "protectionism."

Third, trade adjustment assistance, in its present form, has been employed so ineffectively and inadequately as to have failed to attain economic adjustment. As a result, it has never been given a meaningful test.

In April and May of this year, the Subcommittee on Foreign Economic Policy held seven days of hearings to examine workable mechanisms for economic conversion as an alternative to trade wars. During these hearings, the subcommittee received testimony from knoweldgeable private witnesses drawn from former government officials, universities, public interest groups, labor and business. In addition, the subcommittee heard from key administration witnesses who are at the present time involved in a review of trade adjustment assistance.

Although elements of organized labor have departed from their past support for adjustment assistance as an integral part of an outward looking trade policy, some labor organizations joined the consensus reached during the hearings that what is needed are practical and timely adjustment mechanisms to respond to trade induced unemployment and non-competitive industries on a national basis.

II. MAJOR THEMES: THE NEED FOR A NATIONAL MANPOWER AND INDUSTRIAL POLICY

The United States has for some time been suffering the twin stresses of both inflation and unemployment. In addition, since the 1960's, the United States has faced increasing competition in our domestic as well as world markets from foreign countries which have given strong commitment to manpower training and industrial planning as well as deliberate and affirmative policies which stimulate productivity and international competitiveness.

This situation has resulted, in large part, from: (1) a slackening of productivity, which in turn derives from the lack of adequate training and retraining programs for the growing number of individuals in the Nation who are "technologically unemployable" in the face of jobs which demand new skills; and (2) a failure to develop industrial planning programs which serve to shift industry from less productive areas to those for which there is a need for greatly expanded services and capital investments—health, education, low cost housing, anti-pollution, mass transportation, rural and urban development.

The American economy can no longer afford inflation and unemployment, especially at the same time. It is time to commit the United States to the right of training and retraining opportunities with a job at the end of the line.

We live in an era of "future shock". The social and human costs of economic dislocation caused by rapid technological change, changes in consumer tastes, government programs, international trade, and other factors, make the development of effective adjustment mechanisms imperative where such dislocations occur.

Viewed in the context of all the different factors which can cause economic dislocations, it is hard equitably to justify helping workers suffering unemployment for some reasons while neglecting others whose unemployment arise from different causes equally beyond the workers control. To a firm or worker thrown out of business by impersonal forces, it makes no difference whether the cause is increased imports, or changing technology, or shifts in government programs. Textile firms and workers in the Northeast were probably hurt far more by the internal relocation of their industry to the South than by imports from the Far East. Similarly, the aerospace engineer in California now driving a taxicab can attribute his misfortune to diminution of the U.S. space program, not construction of the Anglo-French Concorde. And the family farmer who leaves his land because he cannot compete with the mechanized efficiency of large corporations may never have even heard of the variable import levy restrictions on his potential exports to the Common Market.

In addition, it is hard to solve the trade adjustment problem in isolation from the general problems of the national economy, for if we

try to solve our inflation by maintaining a high level of unemployment, then trade adjustment assistance programs will be relatively ineffective for both firms and workers, and political pressure for trade restraints will continue to mount.

To deal more effectively with the problems of unemployment, inflation, low productivity, lack of competitiveness, and worker dissatisfaction, the United States must commit itself to the development and implementation of national manpower and industrial planning programs. It is time to develop mechanisms to provide adequate training and retraining opportunities with the genuine prospect of a job at the end of the line for all workers.

With the imminence of new multilateral trade negotiations, it is all the more timely to develop a workable trade adjustment assistance program, which can also serve as a demonstration model for a national manpower and industrial program. Moreover, a strong trade adjustment assistance program will strengthen our position in international economic negotiations as well as fulfill our responsibilities to our domestic economy.

III. TRADE ADJUSTMENT ASSISTANCE

A. THE IMPORTANCE OF TRADE ADJUSTMENT ASSISTANCE

The United States has at least partially adopted the principle that the Nation's economy as a whole should share the cost of any injury resulting from national policy decisions.

The principal mechanism developed thus far for coping with economic dislocations and change, and for bridging foreign and domestic policy conflicts is the Trade Adjustment Program authorized by the Trade Expansion Act of 1962.

The purpose of adjustment assistance is to humanely and effectively correct the economic dislocations set in motion by foreign competition as they adversely affect particular workers and firms. Unfortunately, the existing adjustment assistance program has not, because of substantial procedural and substantive deficiencies, been able equitably to distribute the burdens of foreign competition through effecting the rapid reemployment of dislocated workers and resources into more profitable and productive enterprises.

As a result, it has failed to encourage large segments of the business and labor community to support an outward looking foreign economic policy.

The following sections outline the remedial measures which must be taken to make adjustment assistance the workable program it can be as an alternative to trade wars. Until these modifications become effective, the government must expect continued business and labor criticism of adjustment assistance as nothing but "burial expenses", incapable of substituting for trade restrictions as an assured and effective remedy.[1]

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[1] An essential counterpart of an effective trade adjustment assistance mechanism is reform of the international monetary system to provide greater flexibility in adjusting exchange rates among major currencies. This adjustment mechanism will help make U.S. products more competitive. See page 25, "New Realities and New Directions in United States Foreign Economic Policy," a report by the Subcommittee on Foreign Economic Policy of the Committee on Foreign Affairs, for a more detailed discussion of reform of the international monetary system.

B. IMPORT RESTRICTIONS VS. ADJUSTMENT ASSISTANCE

In the area of trade policy, the two principal types of government intervention are important restrictions to protect workers and firms from the impact of imports, and assistance to help them adjust to that impact. There are several difficulties and inadequacies with the raising of tariffs or imposition of quotas as a remedy for individual firms and groups adversely affected by national trade and investment policies.

First is the foreign economic policy complications import restraints engender. The United States is still the wealthiest and largest industrial nation in the world, and, because of the dynamics of our economy, is far less dependent on foreign trade (roughly 4 percent of our GNP) than are other industrially advanced countries. As a consequence of this position, our trading partners find it difficult to understand why we should resort to protectionist devices. The reaction abroad causes difficulties for our political and security relations generally and takes the form of retaliation against competing U.S. exports, and of resistance to U.S. pressures for removal of tariff and non-tariff barriers against American goods. In addition, there is also the fact that an "escape clause" action by the United States entitles affected foreign nations under the GATT to demand compensating trade concessions or to retaliate in kind. Thus, no net trade or economic advantages accrue to the United States. Moreover, the resulting strained atmosphere jeopardizes the success of any broad-gauged efforts to improve the world trading system, such as the upcoming multilateral trade negotiations scheduled to begin in 1973.

Second, import restraints are designed to alleviate distress in an entire industry and not in individual cases. If average profits, sales volumes, employment, and new investment in a particular industry remain reasonably healthy despite increased imports, there is and should be no provable case for import restraints. Yet, *marginal* firms and workers may be suffering major distress from increased imports.

Finally, and ironically, import restrictions are unlikely to give any lasting benefit to the marginal firms and workers who invoke them. The marginal firm will still have difficulty in attracting capital in competition with its more successful competitors and new productive industries, and yet have no claim on the government for technical and financial assistance to shift its resources to more productive endeavors. Furthermore, its workers will be subject to the same economic uncertainties, yet they will have no claim on the government for retraining and relocation assistance to get themselves into a more secure and economically rewarding line of work.

Trade adjustment assistance was designed to provide assistance aimed specifically at the firms and workers who need it—at lower cost

to the economy than, and without the foreign policy disadvantages of, import restricting relief.[2]

Recommendation

In order to strengthen and solidify our domestic economy and our foreign economic policy, adjustment assistance should have the primary claim on policy attention as a far less disruptive alternative to import restrictions.

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[2] The subcommittee received cost estimates for a reformed trade adjustment assistance program which ranged from approximately $300 million to a half a billion dollars a year. These estimates were contrasted to the estimated $10–$15 billion that U.S. trade restrictions now cost U.S. consumers every year.

C. AN EARLY WARNING SYSTEM [3]

It is not enough to offer substantive assistance to those already displaced. The United States can and should devise an "early warning" or "forecasting" mechanism, which is essential to averting dislocation and unemployment before they occur.

Early warning might make it possible to avoid dislocations entirely in many cases, and to minimize its seriousness in others. A firm about to be, or just beginning to be, affected by foreign competition could be helped to improve its productivity and efficiency, or its product through research and development, or to shift into more expanding and profitable lines of production before it is forced to lay off workers. If the firm itself cannot be effectively assisted, the workers affected could be retrained for new job opportunities, as they are in Sweden, even while they continue in their present employment.

An early warning system cannot be effective, however, without (1) adequate data with which to anticipate problems of adjustment, and (2) effective government-business-labor collaboration.

DATA NEEDS

There is a critical need to reform the basic data system that serves the foreign economic policy decision-making process, and in particular the adjustment process. For example, it was pointed out to the subcommittee that some of the government's current trade data is only from 1966. Furthermore, that the Dictionary of Occupational Titles, published by the Department of Labor, is not kept up to date. As a result, many of the listed jobs no longer exist, while many new jobs are not even listed.

The foreign economic policy process needs more useable economic data on prices, wages, profits, production, and employment as they relate to imports, exports, and foreign investment, and they need comparable information for foreign countries. Such data would serve the needs of the trade and investment decision-making process, and form the basis of a system with which to forecast problems of trade adjustment.

Specifically, five basic types of data are required for any adjustment assistance forecasting. The first type of data is the identification of vulnerable economic sectors in order to permit coordination of adjustment assistance and trade policy before there is dislocation and resulting pressure for restrictive and less socially and economically effective adjustment policies.

The second type of data is notification to the appropriate government agencies of specific company plans to initiate, modify or halt production activity. In order to facilitate the adjustment process,

[3] Mr. Derwinski considers the concept and goal of "early warning" as praiseworthy, but in view of the problems raised on p. 9 of this report, he does not support prenotification of business decisions.

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government employment services must have the fullest possible advance information with respect to reduction in force layoffs, and the demand side of the labor market.

The third type of data is a reporting network to give early warning of skills likely to become surplus. Simlarly, the fourth type of data is that necessary to develop projections of skills likely to be in short supply.

The fifth type of data necessary to an early warning system is connected with the activities of multinational corporations. Corporations should be required to give the appropriate government agencies advance notice of corporate decisions to shift sources of supply and production to foreign countries.

PUBLIC-PRIVATE SECTOR COOPERATION

There is a critical need for effective government-business-labor cooperation in the operation of an early warning mechanism. One of the critical questions in the feasibility of such a program is the willingness of industry to disclose the "early warning" it often has as much as a year in advance of plant closings, new production, or supply shifts. In other countries, notably Sweden, employers feel obligated to notify the manpower agencies immediately when they foresee mass layoffs or hiring additional workers.

Given the nature of our adversary relationship between government and business and labor and our competitive system, many businessmen are hesitant to give necessary advance notice. They feel that premature disclosures of corporate decisions could be harmful not only to the company, but to its relations with the employees as well.

Provision of adequate adjustment assistance benefits and programs for dislocated workers should tend to eliminate employer's fears that workers would quit prematurely if early warning of dislocations were given. With regard to concerns of harm to the competitive and financial well-being of the company, some method will have to be devised to insure that individual company reports are strictly confidential.

Recommendation

The United States can and should devise an early warning system to avert economic dislocations and unemployment before they occur. To be effective, an early warning system needs (1) adequate data with which to anticipate problems of adjustment, and (2) effective government-business-labor cooperation. The executive branch should develop an integrated system of trade and domestic economic statistics under centralized direction. The United States should support the establishment of a similar data bank for international trade and investment statistics under the auspices of the GATT.

For adjustment assistance purposes five specific types of data must be supplied: (1) identification of vulnerable economic sectors; (2) notification to the appropriate government agencies of specific company plans to initiate, modify or halt production activity so that government employment services have advance

information with respect to the status of the labor market; (3) identification of skills likely to become surplus; (4) identification of skills likely to be in short supply; and (5) advance notice of corporate decisions to shift sources of supply and production to foreign countries.

In order to facilitate the operation of an early warning system, the cooperation of industry is essential. Consideration must be given to devising a mechanism which would insure that individual company reports of necessary data are strictly confidential.

D. THE ADMINISTRATIVE PROCESS

For adjustment assistance to be fully effective the economic dislocation must be anticipated or rapidly identified and the resources to assist workers and firms quickly mobilized. This is difficult under the present operational structure where the petitioning and certification processes are separated from the process of delivery of benefits to individual workers and firms. In addition, the adjustment assistance policymakers have had little, if any, budgetary control over the program. As a result, although adjustment assistance emphasizes training and job counseling, adequate funds have not been available for these purposes.

The major administrative problems of the present adjustment assistance program result from delays in (1) the petitioning process, (2) the delivery of benefits, and (3) a failure to deal with the full scope of trade adjustment problems in a coordinated fashion. For example, the present system has been characterized by lack of cooperation between labor, business, and government in terms of notification and coordination of adjustment proposals to facilitate delivery of benefits.[4]

THE PETITIONING PROCESS

The petitioning process has two inherent difficulties which aggravate the already difficult problems of adjustment—a considerable degree of uncertainty in obtaining assistance discourages workers and firms from petitioning, and as a result of the complexity of the petitioning process, the delivery of benefits is usually delayed. The excessive details required in a petition for adjustment assistance before it will be accepted by the Tariff Commission is aggravated by the failure of business in many cases to supply critical data on the grounds of confidentiality, and to notify workers or their representatives of their own petitions for assistance.

THE DELIVERY SYSTEM

An early warning system, liberalization of the eligibility criteria, and simplification of the petitioning process will improve the ability of the program administrators to speed the delivery of assistance, but will not solve the limitations inherent in the delivery system.

First, a favorable decision on a petition is just the beginning step, for under the present program the next step is for the President to determine that the petitioner may apply to the Secretary of Commerce or Secretary of Labor, respectively, for a certificate of eligibility. The second step is the determination by the Secretaries whether to award a certificate of eligibility.

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[4] It should be acknowledged that the administrative maze has its congressional counterparts as well. This whole area of national policy, with its implications for both domestic and foreign policy, is jurisdictionally divided in both Houses of Congress among a diversity of committees. Trade Adjustment Assistance, at a minimum, bears upon the work and responsibilities of the labor and education committees, the foreign policy committees, and the finance committees, and this list can, no doubt, be further extended.

Finally, after certification, workers are remitted to the State employment system for determination of their individual eligibilities and for administration of the adjustment assistance benefits. Since State employment security agencies are preoccupied with the administration of other State and Federal programs, and have their own administrative complexities, they are not adequately prepared to administer and coordinate the delivery of adjustment assistance benefits. For example, the unemployment insurance and employment service activities are, in most cases, functionally separated. This lack of fusion at the State and local levels is aggravated by a lack of coordination at the Federal level.

Firms similarly have had to walk the extra mile in obtaining adjustment assistance after they had been found eligible. Firms have to prepare a detailed adjustment proposal (which the Secretary of Commerce could deny even though the firm had been found eligible), and then abide the outcome of a canvass of concerned Federal agencies to see if assistance is available within the authority, policy, and appropriations of each agency; only in default of the canvass could the Secretary of Commerce himself provide assistance.

It is not surprising the adjustment assistance system has worked poorly. The average delay between job layoff and award of benefits has been 16 months, with the longest period being 39 months. Bearing in mind that the maximum benefit period is normally one year (extendable to 18 months if the worker is in training), this has meant that most workers have received retroactive payments, which exhaust their eligibility, rather than provide real assistance in developing new skills and finding new jobs. Since almost no retraining or relocation benefits have in practice been extended to eligible workers or adjustment assistance to firms, "burial expenses" actually does describe the present adjustment assistance program as it has actually operated.

Recommendation

The degree of uncertainty connected with the petitioning process can be decreased or eliminated by (1) liberalizing the criteria for determining eligibility to apply for adjustment assistance, (2) requiring notification of all affected parties, (3) permitting and encouraging joint firm-worker and firm-community petitions and adjustment proposals, and (4) simplifying the petitioning process. Simplification can be achieved in large part by regulating the Tariff Commission to a factfinding role, and authorizing the President to entrust the eligibility determination to an interagency board. In addition, the data burden on the petitioner should be reduced by having standard forms which require no more information than a minimum of what is necessary to institute the proceedings, and by requiring all affected parties to cooperate in providing essential information.

The effective administration of an improved program of trade adjustment assistance requires a cohesive organization which can provide greater coordination at the Federal and State level of assistance to workers and firms. To this end, the principal responsibility for administering and operating the trade adjustment assistance program should be centralized in an adjustment assistance administration within one of the existing departments. The

administration should have adequate appropriations to operate the trade adjustment assistance program, and a centralized budget authority over other agency expenditures for adjustment assistance purposes.

To help anticipate adjustment problems, identify industries most in need of modernization, establish national economic priorities, and review operations, an advisory council should be established with representatives from labor, industry, consumer groups, and State and Federal government agencies.

Successful administration at the State level requires a consolidation of unemployment insurance and employment service activities. This will not only facilitate the delivery of trade adjustment assistance benefits, but upgrade all their manpower operations. In addition, State agencies that constitute the delivery system should be given greater assistance and support in setting up adjustment assistance programs. For example, sufficient prior notice of impending certifications would assist State agencies so they can effectively administer the program immediately following the issuance of a certification.

E. ELIGIBILITY CRITERIA

There appears to be general agreement that the eligibility criteria for adjustment assistance set up by the Trade Expansion Act of 1962 are far too restrictive for the successful operation of an effective adjustment assistance program.

The major deficiency in present eligibility determinations is the requirement that escape clause criteria, tightened to avoid excessive use of trade restraints, be applied to petitions for adjustment assistance. Since there is no foreign policy need to link wholly internal measures like adjustment assistance to concession engendered increases in imports, it is illogical to require a petitioner for adjustment assistance to show that (a) trade concessions are the major cause of increased imports, and (b) such increased imports are the major cause of serious injury. Yet such is the present law.

The Roth report, the President's 1969 trade message, the Ways and Means 1970 Trade Act Report, and the witnesses before the Subcommittee all concur that adjustment assistance should be available to firms and groups of workers if an increase in imports is a *substantial* cause of serious injury, or threat of injury to a firm or group of workers. Furthermore, the *substantial* cause should be determined without linkage to trade concessions. Insistance on linkage to negotiated trade concessions leaves uncovered any injury that may be caused by unilateral trade actions by foreign governments, either increasing their exports to, or decreasing their imports from, the United States. Under the GATT the United States can either retaliate or demand trade compensation for such unilateral acts, but neither action is of any assistance to affected domestic firms and workers.

Further liberalization of the eligibility criteria has also been suggested along the lines of the Automotive Products Trade Act of 1965 (APTA). Under this agreement, if there was a decline in the U.S. output of the product concerned, and an adverse change (either by increased imports or decreased exports) in the flow of trade with Canada, a direct relationship between the dislocation and operation of the agreement was presumed to exist, subject only to a Presidential finding to the contrary.

Recommendations

The nature of the eligibility criteria must be as simple as possible since if it is unduly complex the likelihood is that there will be a considerable delay in delivery of benefits while time is consumed in collecting the facts required to determine whether the criteria have been met in a particular case.

Adjustment assistance should be available to firms and groups of workers—*without linkage to trade concessions*—if an increase in imports is a *substantial* cause of serious injury, or threat of injury.

In addition, since multinational corporations have sufficient economic resources to initiate economic dislocations, workers should be eligible to receive adjustment assistance if their unemployment is caused by the relocation, or proposed relocation, of facilities to a place outside the United States.

F. ASSISTANCE TO WORKERS

As consumers of imported products and as producers of exported products, most American workers have gained from the expansion of world trade over the last decade and from the restraint on inflation from import competition. Some workers have, however, been hurt by foreign competition. Even in years of a full employment economy, dislocations caused by foreign competition create problems for workers—problems of finding another job, moving to another community, or learning a new skill.

Loss of employment, however, means more than just the loss of current income. The problem of adjustment to foreign competition is also a social problem which involves the loss of seniority rights, health insurance, and pension benefits, and the psychological shock of unemployment and perhaps the forced breaking of strong ties to one's community if relocation is required.

The forms of adjustment assistance to workers under the Trade Expansion Act of 1962 are 52 weeks of trade adjustment allowance at 65 percent of the worker's average weekly wage, provided it does not exceed the average for all manufacturing; another 26 weeks of the allowance if the worker is undergoing training; job assistance consisting of counseling, placement, and retraining under whatever Federal programs are available, and limited financial assistance to help pay for the costs of moving the worker and his family to a new job location. These benefits, which may have looked generous 10 years ago, seem far less so today in light of experience under the adjustment assistance program, not to speak of inflation and the increases in unemployment benefits made available under Federal and State law and the more recent collective bargaining contracts.

An increase in the amount and duration of adjustment assistance is necessary if the program is to serve its purpose.[5]

In addition to the inadequacy of the adjustment allowance benefits, there are several other operational deficiencies in the trade adjustment assistance program for workers.

First, present program criteria fail to make meaningful and equitable distinctions between classes of eligible workers. For example, a

[5] In 1970, the Ways and Means Committee recommended in their Trade Expansion Act that the readjustment allowance be increased from 65 percent of the average weekly manufacturing wage to 75 percent. Some recent bills have also adopted a 10 percent increase, while others would set the allowance at 100 percent of earnings.

During the subcommittee hearings, both the United Auto Workers and the United Steel Workers recommended 100% payment of wages. The UAW, following the AMTRAK precedent, went further and suggested that maintenance of full wages plus any subsequent increases in wage rates, should be assured. They argued that this protection should continue on a time-for-time basis, without limit, equal to the entire duration of the workers' previous employment with the firm affected by foreign competition since it was quite likely that a worker might have been able to continue in that firm for the rest of his life, if not for the national trade policy which caused his dislocation. The Steelworkers recommended that the duration should include a full business cycle to give the laid-off employees an opportunity to find another job. They suggested 3 years with a special provision for older workers that the duration should run until they become eligible for social security.

worker must have been employed at a specified level of earnings for at least half of the three years prior to his separation in order to qualify for a trade readjustment allowance. In addition, only "heads of households" qualify for relocation assistance. These provisions put the emphasis the wrong way since young, recent entrants to the labor market have the lowest community ties and job seniority, and are, therefore, more susceptible to retraining and relocation than older workers.

Second, although injuries due to increased imports may be substantial to a unit and not to the entire parent firm, groups of workers in the unit are not eligible under the present criteria for adjustment assistance.

Third, trade adjustment assistance fails to recognize the special problems of older workers with limited or highly specialized skills. These workers are particularly vulnerable to long term unemployment as a result of job dislocations, and may not be motivated to acquire new skills, nor to take advantage of relocation benefits since they probably have deep ties to the communities in which they live. Moreover, loss of jobs by older workers also means the loss of accompanying seniority, health, and pension rights.

Fourth, the availability and length of training program are not commensurate with the "future shock" of economic change. Under the present program, the length of the retraining period is not sufficient in view of the fact that more extensive training is necessary since the most effective adjustment would be into the technologically advanced and service industries, which may require substantially more than 6 months of training. Moreover, the present retraining program does not provide training programs for workers who are still employed, but threatened with the future loss of their jobs to foreign competition. In addition, the requirement of training for the receipt of trade adjustment allowances does not take into consideration the scope or availability of existing government training programs, which may be severely limited because of budget cuts, and by geographic location.

Fifth, the Nation's system of informing unemployed workers of suitable job openings or of areas of critical skill shortages is backward and inefficient. In large part the Federal-State public employment services have failed to provide adequate job counseling and have tended instead to handle placement in low-skilled, low-payment and short-duration jobs.

Sixth, the subcommittee's hearings revealed that the presumed mobile American labor force is, in fact, understandably reluctant to pull up stakes and break ties with their families and communities even when finding employment demands it. The relocation benefits under the adjustment assistance program compounds this reluctance by not fully recognizing the financial and psychological impact of relocation.[6]

Seventh, because of the administrative complexity which now surrounds the certification of benefits, and the delays encountered as a

[6] During its hearings the subcommittee received the following recommendations to supplement existing relocation payments: (1) job and community prospecting costs should be reimbursable; (2) the public employment service should make available adequate relocation information and provide social and psychological counseling to help the workers and their families adjust themselves to the move; and (3) compensation should be given to workers who wish to relocate, but who will suffer severe financial losses as a consequence of the sale of property under unfavorable market conditions.

result of the administrative tangle in State and local employment services, adjustment assistance is, in most part, retroactive. As a result, when workers finally receive assistance it is the difference between their unemployment compensation and adjustment assistance for a complete period. If their unemployment compensation and adjustment assistance eligibility have expired, they receive nothing more.

Finally, the adjustment assistance program does not adequately consider the provision of benefits in those special situations where workers are unable to take advantage of the regular program of adjustment assistance.

Recommendations

First, an increase in the amount and duration of adjustment assistance is necessary if the program is to serve its purpose.

Second, the requirements concerning previous work and earnings criteria should be liberalized so that there is broad qualification for those who have been separated from adversely affected employment. This would enable more recent entrants to the labor force to be eligible for adjustment benefits.

Third, adjustment assistance should be made available to workers in separate units of multi-plant firms.

Fourth, the adjustment program must be improved so that older workers, whose ability to adjust may be more limited, are assisted in the most equitable and constructive manner. Older workers who wish to remain active in the labor force should be provided the full and perhaps more extensive range of adjustment assistance, such as intensive individual job development programs.

For those older workers who wish to retire from the labor force, they should have the alternative package of benefits that would include acceleration of pension, social security, and medicare benefits without the loss of maximum rights under these programs. Consideration should also be given to a program whereby older workers could be able to elect to receive trade adjustment assistance until they qualify for social security and pension benefits.

Fifth, the Government should assume the responsibility to maintain the eligibility of an adversely affected worker for family health insurance, social security, and unemployment benefits. In addition, new welfare and pension legislation should include portability mechanisms to protect the pension rights and other benefits of workers who have to change jobs.

Sixth, the length of the retraining period should be extended to a period adequate to complete the extensive training required for high skilled services and technologically advanced industries. In addition, workers still employed, but who are threatened by the loss of employment in the future, should be eligible for retraining programs. Since government training programs are, at times, limited in availability, the training requirement for receipt of adjustment allowances should be relaxed. Furthermore, qualified workers should not be limited to vocational training, but should be eligible for grants to pursue technical, professional, or academic training. Finally, since retraining must be the center

focus of adjustment, funds should be available for the full period of retraining. To accomplish this, instead of applying adjustment assistance retroactively, it should be applied prospectively to the training period, and unemployment compensation be extended in adjustment situations to cover the period before retraining begins.

Seventh, a national employment service should be established to expand job training and counseling. With the aid of an early warning system and a nationwide computer system, this manpower service should be able to match workers and jobs, reduce actual and anticipated critical skill vacancies, and help correct geographic imbalances by directing unemployed workers to areas where their skills are needed.

Eighth, more reasonable relocation assistance should be made available to all workers displaced because of foreign competition, not just to heads of household.

Ninth, the program for workers and firms should be improved by instituting administrative and operational changes to speed the delivery of benefits by cutting the administrative complexities now surrounding their certification and delivery.

Finally, in recognition of those special situations where workers are unable to take advantage of the regular adjustment program, a special package of benefits such as extended readjustment allowance payments, health coverage, and intensive job counseling should be available.

G. ASSISTANCE TO FIRMS

A balanced and adequate program of adjustment assistance must include workable provisions designed to help individual firms.

The Trade Expansion Act of 1962 authorizes financial, tax, and technical assistance to firms in the form of loans and loan guarantees for plant modernization and conversion, and, in exceptional circumstances, for working capital; an additional 2 years' tax loss carryback; and cost-sharing for technical assistance for managerial advice, market studies, and research and development to adjust to technological change. As was pointed out in the section on eligibility criteria, the criteria for assistance are the same as for workers and have proved to be equally unworkable. Accordingly, the modifications recommended earlier are essential to a workable adjustment assistance program. In addition, since injuries due to foreign competition may be substantial to a unit and not to the entire parent firm, adjustment assistance should be made available to separate units of multi-plant companies in those cases where the parent company does not have adequate resources to undertake the adjustment process without assistance.

Following determination of eligibility, the firm must overcome another procedural block. In order to receive substantive benefits, the firm must prepare a formal and highly complex "adjustment proposal", which the Secretary of Commerce may not approve unless it gives practical assurance of actually rehabilitating the enterprise.

Once eligible to receive benefits, a firm does not, however, receive substantively adequate assistance. No money is made available for clearing up current debts or for operation during the period following approval of the adjustment proposal submitted by the firm and the actual administration of the long term benefits. The interest rate and duration and other terms on borrowing are also major deficiencies. Loans are made subject to current commercial interest rates, with no grace period for repayment of either interest or capital. And although the firm must be seriously injured to be eligible for assistance, no loans can be made unless the Secretary of Commerce determines that there is reasonable assurance of repayment.

These provisions and restrictions contrast glaringly with terms under which the Agency for International Development (AID) has for foreign policy reasons been authorized for years to extend financial assistance for development purposes. AID loans can be made for up to 40 years at a favorable interest rate of 3 percent and with a 10 year grace period on repayment of principal. Grants can also be made under the AID program, but not under the domestic adjustment assistance program. Bearing in mind that both programs are intended to further U.S. foreign economic policy objectives, a greater comparability of terms and conditions for financial assistance is warranted.

Although a firm is, in essence, the central point in programs of adjustment assistance, present procedures discourage joint petitions by firms and workers.

Recommendations

The eligibility criteria in the Trade Expansion Act of 1962 for adjustment assistance to firms should be amended as previously recommended. In addition, adjustment assistance should be made available to separate units of multi-plant companies in those cases when the parent company does not have adequate resources to undertake the adjustment process without assistance.

A greatly simplified adjustment proposal procedure should be instituted and more technical assistance provided to assist firms in its formulation.

More attractive types of financial assistance should be provided in the form of loans with grace periods for capital repayment and terms more favorable than existing commercial rates. This assistance should be supplemented by interim financing between approval and delivery of benefits.

In addition, new emphasis should be placed on research and development assistance for projects which create new job opportunities and transfer technical manpower skills, technology, and production to meet public needs such as pollution control, transportation, and small community and urban development.

To facilitate effective coordination of planning and delivery, joint petitions of workers, firms and communities should be permitted and encouraged. Such joint petitions should be accompanied by an adjustment proposal.

H. ASSISTANCE TO COMMUNITIES

In the past, hardly any attention has been given to the problem of communities whose economic base is substantially dependent on a dominant employer and taxpayer whose production is vulnerable to foreign competition. Such communities have an obvious interest in preserving their economic base and cannot be expected to endorse a national policy that might impair their ability to maintain essential community services.

Temporary protection of the income of the workers through trade adjustment allowances would protect the consumer purchasing power base of the community only for as long as the affected workers remained eligible to receive adjustment assistance payments. However, it is not economically or socially desirable to keep workers indefinitely on adjustment assistance payments. Nor, in view of the fact that the displaced workers are experienced and have firm attachments to the labor force, would they want to remain idle. With adequate counseling and retraining, they should be able to get back into the labor force quickly, especially if there is a strong national economic environment.

In many cases, relocation assistance will enable a displaced worker to obtain other employment in another city or town. However, the resultant loss of population could also substantially erode the economic base of the community, only to perhaps put pressure on the adequacy of community services in other areas.

Consequently, the adjustment assistance program should be broadened to provide existing economic development programs in a timely and coordinated fashion to trade-impacted communities.

Recommendations

Joint worker-firm-community petitions should be permitted to facilitate coordination of community development projects designed to assist the community to diversify its industrial base, and wherever possible to reconstitute the local firm and its workers injured by foreign competition.

I. LINKING ADJUSTMENT ASSISTANCE AND TEMPORARY ORDERLY MARKETING AGREEMENTS

In special situations—where there has been rapid market penetration by imports—trade adjustment assistance could be linked with temporary orderly marketing agreements to assist sensitive industries during difficult transitional periods of adjustment. Any automatic linking of temporary trade restrictions with adjustment assistance could, however, have the undesired effect of reducing the urgency of adjustment.

Recommendation

In cases where adjustment assistance would unavoidably be an insufficient remedy, the Government should have authority to negotiate orderly marketing agreements. These agreements or arrangements should be limited in time, with a specified termination date, designed to facilitate, not deter, the adjustment process. The *sine qua non* for such an agreement or arrangement should be that adjustment is taking place or will commence shortly on a schedule timed to make it effective within the specified duration period. Furthermore, the orderly marketing agreements should be negotiated under the auspices of the GATT with the participation of both exporting and importing countries.

IV. THE MULTINATIONAL CORPORATION: RESPONSIBILITIES AND ADJUSTMENT ASSISTANCE

Multinational corporations have sufficient economic resources to initiate economic dislocations. A corporate decision to shift production or sources of supply to a subsidiary overseas creates domestic problems of adjustment that are basically the same as those associated with dislocations arising from import competition. The difference is that a multinational corporation is motivated by achieving its "own optimum economic position" and as a result it is itself more economically viable than firms forced out of business because of import competition or their inability to set up facilities abroad to retain a share of foreign markets.

Recommendation

The adjustment assistance program should be modified to take advantage of the unique economic mobility of the multinational corporation.

Multinational corporations should be required to give early notice of sizable economic dislocations to the appropriate government agencies. Concurrent with notification, the corporation should be required to file a petition and plan for adjustment assistance for workers likely to be adversely affected. In addition, the corporation, in cooperation with labor representatives, should give adversely affected workers first choice of future employment opportunities in their other production facilities.

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V. INTERNATIONALIZATION OF TRADE ADJUSTMENT ASSISTANCE

The question of internationalization of trade adjustment assistance was explored by the Subcommittee on Foreign Economic Policy in two senses. First, we undertook a comparative analysis of what other countries may already be doing in this field, from which the United States might benefit. Second, the subcommittee explored the feasibility and desirability of an international "confrontation of adjustment assistance policies."

Turning its attention to the adjustment assistance programs of other industrially advanced nations, the subcommittee found a higher degree of evolution and sophistication than in the United States.

It must be recognized, however, that these countries have undertaken their manpower and industrial programs in an environment characterized by fuller employment than we have had in this country.

Few foreign governments have created special adjustment assistance machinery specifically for economic dislocations attributable to international economic factors. Instead, the subcommittee discovered that foreign programs utilize broad overall manpower and economic policy planning approaches on an industry-wide scale without any attempt to differentiate between causes of economic dislocation.

The key to a successful adjustment program is a clear understanding of the nature of the changes affecting a particular industry and how the program will help industry and workers adapt to change in order to ease the dislocation and improve their contribution to the overall economy. Despite their lack of legislative guidelines, the majority of foreign adjustment programs have a clearer set of objectives than U.S. programs. Their goals are to enhance a particular industry's productive efficiency and marketing effectiveness, and to retrain and re-employ displaced workers into higher skilled and more modern industries by attracting new firms into high unemployment areas and converting declining industries into expanding areas of production.

These goals are effectuated by industrial restructuring or rationalization, as it is commonly called in Europe. Rationalization involves the regrouping of industries into more efficient and productive entities according to private plans or, in some cases, according to government recommendations with government financial assistance.

Given the nature of our competitive system, antitrust laws, and government-business relationships, rationalization as practiced abroad is probably unworkable in the United States. However, a consensus is beginning to emerge, fostered by Secretary of Commerce Peter G. Peterson, that the greatest economic need in the United States is for long-range correlated planning between the private and public sectors to increase productivity and reduce unemployment without setting in motion the upward inflationary spiral. This will demand substantial

modifications in the traditional philosophy of American business-government relationships, but will better facilitate effective economic adjustment.

The subcommittee also recognized that the United States can profitably draw on some of the experiences in Europe with regard to manpower training and continuing education programs. Over the past several years many of the Western European countries, among them Sweden, Denmark, France, and Germany, have been alert to the need for developing a manpower and educational system which continues to provide an individual with the skills which are necessary to the economy, and with the skills necessary for his own personal gratification. They have moved to develop continuing education and training programs which provide their workers with the right to go into a full time training program if they are out of a job or feel that their skill is obsolescing and will result in unemployment. These training programs are free, and, in most cases, the workers receive a living stipend to cover a set percentage of his former wage. Thus, a worker is not left with the choice between pursing a free training and education program and supporting his family.

Second, since a successful program of adjustment assistance should diffuse conflicts surrounding foreign economic policy, and permit foreign trade and investment policy to be administered in a manner consistent with the national interest, other countries should be encouraged to pursue policies of adjustment, thereby limiting the areas of potential conflict between nations. This would be in the U.S. interest as an additional way of surmounting internal impediments to U.S. exports in the markets of our major trading partners. It would also dovetail with our interest in overseas development through trade as well as foreign aid; for as was stated in the Pearson report ("Partners in Development", 1969, p. 91) : "The opposition to liberalization of imports from developing countries will be considerably reduced if generous provisions are made to ease the transfer of factors of production from adversely affected industries." Little appears to have been done on this front in either the OECD or the GATT.

Recommendations

In light of changes in our social, political, and economic structures, it is important for the United States to study how the Europeans' industrial rationalization and manpower systems operate in order to evaluate the competitive forces our own management and labor are facing in international markets, as well as from the standpoint of the restructuring of U.S. adjustment and conversion assistance.

If other countries pursue effective policies of adjustment assistance, it would limit the areas of potential conflicts as a result of economic dislocation, and facilitate elimination or reduction of trade barriers. It is in the common interest of the United States and other major trading nations to place adjusment assistance policies on the agenda for the upcoming multilateral trade negotiations, and to subject them to periodic international review by either the OECD or the GATT.

Mr. ROSTENKOWSKI. Mr. Rees, we welcome you, knowing well the expertise you hold in the importation business.

If you care to summarize or have your statement included in the record, or any way you wish to present your testimony, the committee welcomes you.

STATEMENT OF HON. THOMAS M. REES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. REES. I don't have a written statement. I understand I might be the last witness on the trade bill.

Mr. ROSTENKOWSKI. No, there is one more after you.

Mr. REES. I thought I was going to be able to have that privilege.

Mr. ROSTENKOWSKI. He is only here to refute you.

Mr. REES. I am an exporter by trade. In 1951, I started my own exporting business, Company del Pacifico. I dealt basically with Mexico. I exported and later represented some American firms down there that were desirous of putting American investments in Mexico.

I am a member of the Banking and Currency Committee and serve on the committee's International Finance Subcommittee and Foreign Trade Subcommittee. Trade is an area in which I have had a great deal of interest for the last 20 years.

I would like to start off by commenting on H.R. 3917, which is the proposed amendment to the Trade Assistance Act relating to immigration restrictions of nonmarket countries.

I am a co-author of this amendment. I support it because I think our trade policy should reflect foreign policy. I also believe it should reflect the concepts that we hold in this country and the way we feel about individuals being suppressed and forced to pay outlandish financial charges if they wish to emigrate to another country.

H.R. 3917 really doesn't mention what the triggering mechanism might be. I suspect the committee will be dealing with that in the markup session.

But I would suggest that the triggering mechanism be under the jurisdiction of the executive branch of Government and not the legislative branch. Thus, whenever the President enters into a trade agreement with the most-favored nation treatment, the agreement would be submitted to Congress for a 90-day period. During that 90-day period, Congress could veto the argument if it felt the treaty did not really fit the criteria set down in H.R. 3917.

After that time, though, I don't think Congress should have any powers. Even if supposedly there was a 3-year agreement, I don't think that, legally, the Executive should be forced to bring it back to the legislative branch for approval.

So I think that in drafting that amendment and the triggering mechanism you should have a 3-year renewal; but the final responsibility should be placed with the executive branch. If you don't do that, I think you could get into serious legal problems over what the treaty powers of the President are and what the treaty powers of the Congress might be.

In looking over the Trade Reform Act, I find it to be essentially a good bill. But I think it probably gives too many powers away to the President in many of these negotiations.

Now, title I deals with new negotiations in trade authority. I think that is fine. There is a 5-year authorization being given to the President of the United States under which he can make various negotiations. I think he should have this power.

But I think you get into trouble in title II, which deals with market disruption. I believe that the language relating to market disruption is far too loose because it would allow the President, if he wished, to put very severe restrictions on imports when those imports might not really be responsible for disrupting a local market.

Title II also deals with adjustment assistance, and I think all this language is also very weak. I don't think it properly considers the problem of this country's position in the international economy. You just can't give an unemployed worker an extra 6 months of unemployment insurance. You just can't give a business a few dollars here or there and say: "Well, well, you have been put out of business, here is some money and goodbye." I think we have to have a far broader concept of our own economy and how our own economy is competing with the other countries of the world—not just in 1973 but in 1983 and 1993.

What I would suggest is the development of a readjustment bank. This would be a bank established in each region of the country; for example, in New England, the Middle West, the South, and the West. The purpose of this bank would be to make grants or low interest loans to those industries which are affected by imports, industries where there is a very capital-intensive factor. I think also that we have to start projecting where these factors are going to have impact in the future.

Unfortunately, we wait until an industry is put out of business and then we say: "Isn't this terrible, let's give the unemployed workers 6 months more of unemployment insurance."

This doesn't accomplish anything. But if instead we projected down the line 5, 10, or 15 years to determine those areas where we will not be as competitive as we are now, and started making our changes now, I think it could be far less painful. Also, I think there would be sufficient time to retain workers and management and channel them into other areas that would be more productive to our economy vis-a-vis the world economy.

I would like to just read to you a little testimony given by Mr. William Givens of the Boston Consulting Group before the Banking and Currency Committee several weeks ago. It is my understanding that this group is under contract to the Government of Japan and has been doing economic surveys in Japan. I would like to read to you a little bit of what the group said at the hearing about readjustment assistance in Japan. I had asked a question with regard to the textile industry. In the past, there has been a lot of talk about how the Japanese textile industry is putting our own textile industry out of business. I have many garment workers in my district who have asked me about this.

Here is what the Japanese have projected. Mr. Givens said:

The textile industry, I think, is a very pertinent one. The Japanese Government back in the early 1960's recognized that the Japanese textiles were not going to be able to maintain comparative advantage indefinitely. Even before

Japanese textile imports reached their highest the Japanese Government was already planning with the industry to rationalize and phase down the industry as it matured and as Japan became less competitive in the world market place.

They formed, through Kaidanrem—which is a conglomerate of Japanese businessmen and bankers who watch an industry like the NRA, and project the industry's needs in the future—and through industry organizations, a group which studied how the industry might be rationalized. What they are doing is slowly phasing out the textile industry in Japan.

Mr. Givens' testimony says:

They have been willing to provide very massive amounts of adjustment assistance. In 1973, for example, the amount of subsidy given to the Japanese textile industry for adjustment asssitance exceeded the total amount of Japanese exports to the United States by a very large order of magnitude.

So you can see what the Japanese are doing. They are restructing their economy so they can adjust to what they consider to be future trends in the world market.

I think in the Burke-Hartke bill, we are looking at a situation in the past. We are not looking at the situation in the future. I don't think you can accomplish anything by set quotas in terms of a past year beause you could be overprotecting an industry and not giving it any help at all. This can only last so long and then the industry will go under. I think the best way is to take the projected look, such as the Japanese do.

Here is something else. We also find in Japan that the debt equity ratio is a lot higher than it is here. This means that an industry can borrow a lot more money relative to what their equity might be than an industry in the United States can. Much of this is regulated by the Banks of Japan, which is the equivalent of the Federal Reserve Bank in the United States.

In his testimony Mr. Givens said the Bank of Japan plays a central role in establishing interest rates by industry and determining into what sectors the financial resources would be channeled. So you would find a situation where a bank might wish to make a loan to the unit of a textile industry and the Bank of Japan would say: "Fine, but you have to put so much reserve on that loan." The bank would say: "That is too much, I will not make the loan." The Bank of Japan does not encourage uneconomic industries.

I think that is the approach we should be taking. A regional development bank or a regional adjustment bank, I believe, would be the best group to do that because they could look at these as bank loans, and also at what they expect in a region, what the labor prices are, and what the prices are in the regional economy, national economy, and international economy. By making assistance function that way, I think every nickel we spent on readjustment assistance would be well spent.

I used to work in a shoe factory when I was going to college. The shoe industry is a very labor-intensive industry. But even before we had cheap shoe imports, we had a very high bankruptcy rate because it was easy to get into that industry. Now when shoe factories go bankrupt, it is not because they are inefficient, instead it is claimed that imports are the cause. Regional development banks would take the approach of a bank in differentiating between those specific businesses which are affected by imports and those which are inefficient because

they have lousy management. They would be marginal operators who could differentiate and could also take future projections into consideration when giving adjustment assistance.

Title III deals with unfair trade practices. I think it is a good title. As I said, I believe that title II goes too far, that it gives too much power to the President, that its definition of what is disruptive in a market is perhaps too broad. But I think title III is a fine title.

I know in California we get hurt especially in our citrus industry because both Japan and the Common Market have tariffs against California citrus which are far higher than the tariffs they have against the industry in the Mediterranean and other parts of the world.

We had the situation with Japan vis-a-vis computers where it was impossible to export computers because they would not allow computers to come in.

I really don't think that in the past the executive branch has used the powers it could have in dealing with unfair trade practices.

When I was in the export business, there was nothing but unfair practices at all levels. We got hurt when we tried to export something. We would complain to the Department of Commerce, and the Department of Commerce—which is one of the worst bureaucratic agencies in the Federal Government, if not the worst—would say it couldn't do anything because it didn't have the right.

I think that is a lot of bunk. If a strong executive branch with a strong trade policy wanted to deal with unfair trade practices, it could deal with them very well. If it felt the French were placing tariffs too high against California agricultural prices, it could very well require that all wine bottle labels show ounces rather than be printed with the metric system. This would cause the French wine industry to go crazy. They could put some pressure on Paris, and we might then come to an agreement on citrus.

But we don't do that. You give me any product that is produced in the United States and any country that might be harassing it, and I will tell you exactly what you could do to stop the harassment. Most of this could be done under the flag of health and safety—"to protect the health and safety of the United States, we have to make these regulations on imports coming into this country." That is what other countries use on American products.

Other than Common Market farm policy, most of the restrictions on American foods in Japan and the Common Market relate to health. We do it ourselves with meat imports.

So, in a way, I don't think that the executive branch under either Democratic or Republican administration has done one-tenth of what it could do in real tough negotiation against unfair trade practices against American products.

The Banking and Currency Committee, of which I am a member, is coming out with a bill next week which I think will give us more power in restricting export to other countries. The bill is already written up. It is basically the bill that the President is now asking for in his phase 3½.

What I find, though, is that we are fragmented when it comes to an approach to the export trade. We are as fragmented as Congress is. Here the Ways and Means Committee is dealing with this very im-

portant bill. The Foreign Relations Committee also deals with a small portion of foreign trade. So does the Agriculture Committee. And so does the Banking and Currency Committee. As a result, we really never have a coordinated policy. Each area seems to be going its own way, with relatively little coordination between the monetary people in Treasury and the exporting people in Commerce.

I would like to see greater coordination. We now have the Council on International Economic Policy within the White House. This was created by the Banking and Currency Committee, and we are now giving it more power. We are trying to get the Council to project into the future in order to better determine American trade policy and our position in a world market. But I would like to see more coordination.

Phase 3½ really doesn't fit with what our export policy should be. This approach has always hurt when it comes to our country's exports. I would prefer a positive policy, a lot more help to exporters rather than trying to cut down imports.

When I first started in the export business, I went to the Department of Commerce in Los Angeles and asked them for information. I will tell you the information wasn't worth a darn. None of it ever told me anything about the export business.

What they would give me were trade lists that were not worth anything. For a small operation, one man wanting to go into the export business, they are absolutely no help. And I find that in the ensuing 20 years there really hasn't been much improvement.

There also hasn't been much improvement in terms of embassies servicing the needs of Americans who wish to go into business overseas. I find there is no real credit, the way I would like to see it, available to exporters.

And there has never really been a good census of American industry to find out where we could export in the present world market.

We've spent all of our time trying to prohibit imports. All during that time we had a dollar grossly overvalued in the international market, and our policy, under both Democratic and Republican administrations, was to keep a strong, inflexible dollar. As a result, we lost a great many of our markets because our dollar was overvalued.

While many Members of Congress don't like the devaluation of the dollar, I think it is the best thing that ever happened to this country, because it will make the dollar realistic currency. Also, I find our trade balance is getting better and better because we have a dollar divided up to 26 percent against the yen or Swiss franc. I think all of this has to work together.

If imports are cheap and our dollar is high, why not adjust our dollar so the dollar is realistic and the imports won't be so cheap. We have just done that, we should have done it years ago.

Each agency is working in its own little narrow area.

However, there is one idea for coordination I would like to caution against. There have been proposals to combine the Special Trade Representative Office with the Council on Economic Policy.

Both of these are structured within the White House. Your committee created the Special Trade Representtaive. The Council on Economic Policy was created by the Banking and Currency Committee. I think it would be a mistake to combine the two.

Often in Congress we think we can put everything in a box. If it is foreign trade, put it in that box; and if it is health and welfare, put it in that box. We think we solve the problems by doing that.

But our most fouled-up agencies are the great super-agencies, HEW and HUD. I don't think one hand knows what the other is doing. They should. But we were really putting apples with oranges.

I think you would have the same problem with the Special Trade Representative and the Council on International Economic Policy. The latter is a policy coordinating council, and is supposed to look at what is happening now in trade. If my amendment gets through, the Council will be trying to project into the future on trade.

But you find that the Special Trade Representative is very much a detail shop, a line shop. They are working on a day-to-day basis. They are very nonpolitical because they have to operate through Democratic and Republican administrations.

I think it would be a mistake to coordinate the two because I don't think they fit together. They both deal with international trade, but I think in every other aspect they are completely different. I believe it would be a mistake to allow them to be put together just because it sounds good if they are all coordinated under one person.

I can give you a half dozen differences between the two agencies and their functions, but I suspect that you are well aware of many of them.

Again, in dealing with this bill, if you can do it, I would call for more and more coordination. We are really not utilizing all of what we have. For example, when you look at the activities of the reserve banks in other countries that are export conscious, you just can't compare them with our own almost nonactive Federal Reserve Bank.

I think we have to realize that we are in an international market, in a world market, and we have to adjust to that world market. In adjusting to the world market, we are going to have to do a lot of internal adjustment in our own economy.

I hope that when you consider the markup, you will consider some of these matters and the problems we might be having in the future.

I appreciate very much the opportunity to let me speak about a subject that is of great interest to me.

Mr. ROSTENOWSKI. Thank you, Mr. Rees.

Mr. Green.

Mr. GREEN. I have no questions.

I thank the gentleman for coming. We appreciate your testimony.

Mr. BROYHILL. I would like to express the same sentiment as my colleague from Pennsylvania. Your testimony was most interesting and demonstrated your knowledge of foreign trade.

You mentioned your membership on the Banking and Currency Committee but not your affiliation with the Committee on the District of Columbia and, more specifically, your chairmanship of the Subcommittee on Banking. The gentleman is making a fine contribution to the economic well-being of the Nation's Capital.

Mr. REES. Thank you. I am working on a bill which attempts to rewrite the District of Columbia real estate tax, and for that reason I am trying to remain anonymous.

Mr. BROYHILL. You know I am an unofficial envoy from Ways and Means to the District Committee.

Mr. REES. I was very impressed with the new bill. You want to give full statehood to the District of Columbia even though there may be a positive change in the Senate, but I think this represented a broad view to the people of the District.

Mr. GREEN. I am beginning to wonder about one of the points the gentleman made about mixing apples and oranges.

Mr. ROSTENKOWSKI. Mr. Burke.

Mr. BURKE. I wish to commend my good colleague from the State of California, except where he differs with the Burke-Hartke bill.

I think you understand why the Burke-Hartke bill was filed, to get the attention of officials who were dealing with the trade problems who were ignoring it. We went into two large deficits in trade totaling over $10 billion in 24 months and also two devaluations of the dollar.

It seemed that everybody was ignoring the plight of thousands of people losing jobs.

I know in your own home State the film industry came in there and testified to the effect that over 80,000 people have lost their jobs in the film industry as a result of making films overseas. In fact, I believe somebody was a little concerned about this new relationship we have with China.

I think they felt that they might wind up making western pictures with Chinese cowboys and Indians.

But I appreciate your appearance. I know that you will make a great contribution toward the trade legislation if it is enacted this year.

Mr. REES. I appreciate it. I think the Burke-Hartke bill was absolutely necessary to point out the great deficiencies we have in our trade policy. If we develop a good trade policy, I think your bill will be greatly responsible for that.

Mr. BURKE. Thank you.

Mr. ROSTENKOWSKI. Mr. Vanik.

Mr. VANIK. No questions.

Mr. ROSTENKOWSKI. Thank you, Mr. Rees. Your observations were most valuable.

Mr. REES. Thank you very much.

Mr. ROSTENKOWSKI. Our next witness is a Representative from the State of Michigan, the Honorable Guy Vander Jagt.

We welcome you to the committee, Mr. Vander Jagt. We are looking forward to your testimony.

STATEMENT OF HON. GUY VANDER JAGT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. VANDER JAGT. Thank you very much.

Mr. Chairman and other distinguished members of the House Committee on Ways and Means, I appreciate this opportunity to appear briefly before you to highlight some of my foreign economic policy views pertinent to your current deliberations.

Mr. ROSTENKOWSKI. I might state that you hold the distinguished position of being the last witness in a series of over 300 witnesses that we have taken testimony from.

Mr. VANDER JAGT. Well, I am sure that the committee will look upon me with great favor because of my unique position in that respect.

As a member of the House Committee on Foreign Affairs and its Subcommittee on Foreign Economic Policy, so ably chaired by the next-to-the-last witness, I have come into direct contact with some of the problems and implications in foreign trade that this committee will be considering.

I think it is obvious that America's foreign economic policy affects our national security and defense preparedness; it affects our diplomatic relations and our ability to initiate new international initiatives, and of course it affects our Nation's economic growth and productive efficiency. Moreover, our foreign economic policy is a dominant factor in determining free world strength vis-a-vis the Communist world.

Two major components of America's overall foreign economic policy are first, our international trade policy, and second, the United States taxation of America nationals on income from foreign operations. It is reasonable to conclude, therefore, that the action taken in this trade-tax area by your committee will certainly be one of the most significant legislative events to occur during the 93d Congress. Your decisions and actions will undoubtedly be largely determinative of the ultimate form of any foreign economic legislation to pass in this Congress.

Since its inception in 1934, the trade agreements program has had a fundamental purpose of achieving expanded markets for the products of the United States. There is debate and controversy over whether or not the program has fulfilled its purpose, whether it has benefited or damaged our Nation. Indeed, I have noticed that during the course of these current hearings it has not been uncommon for distinguished trade and tariff experts who, over the years, have a long record of constructive appearances before this committee to remind the committee that if their respective views given in the 1940's, the 1950's, or the 1960's had been heeded, we would not be in our present dire straits in international economic affairs.

There is probably truth to some of their assertions. The trouble is that the assertions have been made by persons holding conflicting views, and this is not an area where both sides can be right; although I believe both sides can be wrong, and I will comment on that very shortly.

It is also interesting to note that major segments in our economy have changed their respective positions on trade policy matters. Erstwhile advocates of liberal trade policies have now become advocates of the most stringent import limitations. Others have switched from the cause of protectionism to the advocacy of freer trade. Some of these 180-degree turns occurred in less than 10 years.

Let me allude briefly to my observation that both sides can be wrong. Here I am referring to the divergent views which on one side opts for legislative enactment of rigidly defined import criteria and on the other side opts for congressional abdication of trade-policy responsibility through an uncontrolled delegation of Executive authority. Both of these opposing views are wrong. They are extreme, unnecessary, and unwise.

With respect to the Congress-do-it-all school, I can recall that one of my boyhood idols of greatness in public office, Michigan's revered Senator Arthur Vandenberg, once told the Senate, "Tariff rate-making in the Congress is an atrocity." Whether the import regulation be by tariff rates, quantity restrictions, or other form of stringent

statutory limitation, I am convinced Congress is not the body best suited to formulate and implement trade policy to obtain expanded markets for American exports. If we legislate protectionism, we trigger retaliation; if we legislate concessions, we abandon our bargaining power.

On the other hand, with respect to the Congress-delegate-it-away school, I am strongly convinced that Congress has not fulfilled its responsibility when it grants unrestrained and unreviewable discretion to a President to formulate and execute trade policy. We have seen the abuse of even less authority in the past when trade policy became an adjunct of diplomacy rather than an integrant of economic policy. We can recall times when international expediency prevailed over equity for American producers in the administration of the trade agreements program.

The office of the Presidency is too demanding to permit the occupant to supervise personally the day-to-day operations of the trade agreements program. For the last three decades the Congress has taken a series of only partially effective steps to safeguard the delegation of trade authority against Presidential neglect and to guarantee that the office charged with trade agreements responsibility would be assured of direct access to the President. It is difficult to achieve this end effectively by statutory language. Even in the face of a provision in the law, its observance likely will depend on the inclinations of the persons involved.

It is for these briefly stated reasons that I conclude both the advocates of stringent statutory prescription of trade policy and the advocates of unrestrained delegation of authority are wrong—both wrong. The courses these advocates propose threaten trade war on the one hand and a stalemate of initiatives on the other hand.

The proper course in my judgment entails the vesting of broad latitude in the Executive insofar as negotiating authority is concerned with greatly strengthened surveillance and review procedures expressly retained by the Congress. The congressional surveillance and review procedures relating to program administration I have in mind would begin with the Executive decision to participate in trade negotiations and would continue through the entire negotiating process to the signing of a protocol and the issuance of a proclamation by the President. But the congressional participation I advocate would not end there; it would continue to maintain surveillance over foreign trade policy matters. The important matter of Executive management and administration of the program would be subject to congressional scrutiny.

It is my specific recommendation that the Committee on Ways and Means should establish a subcommittee to carry out this continuing responsibility. The committee should be authorized the additional professional staff required to support this important undertaking. The general charge to the subcommittee would be to oversee the executive branch's administration of all trade matters with an active program of public hearings, inquiries, consultations, and studies. It should issue periodic reports through the Committee on Ways and Means to the Congress. I urge this subcommittee approach in preference to a joint committee approach because I think actual Member-of-Congress participation and involvement in this process is imperative; and I believe

the House of Representatives and the Ways and Means Committee are where the Members are who can best do this urgent task.

I would point out to the committee that while you have been urged to share a piece of the pie—to share jurisdiction—with other House committees such as Foreign Affairs and Banking and Currency, I am suggesting that you not share it with the Senate in the form of a joint committee, but that you retain it in the House and here as a subcommittee.

Mr. Chairman, with your indulgence, I would like to turn to brief comments on the trade aspects of the administration's legislative proposals now being considered by the Committee on Ways and Means.

The negotiating authority requested by the President is what is necessary to do the job. It is a broad delegation of authority, but it would be conditioned an focused by the congressional participation I have proposed. This negotiating authority is essential in order to develop meaningful negotiations on international economic issues. We urgently need an effective authority to strike down the existing discriminatory trade policies and practices that improperly restrict imports of American produced goods by the other industrialized nations of the world. As we look to overseas sources to supplement our dwindling domestic reserves of natural resources and other raw material needs, it will be imperative that we achieve expanded markets for our exports, first, to avoid a substantially unfavorable balance in our trade account, and second, to restore a balance in our international payments position. I view this negotiating authority as a means of dealing with a broad spectrum of economic, monetary, and fiscal issues. It is neither free tradeism nor protectionism—it is realism. It would give the President the tools necessary to get the job done and we will provide the congressional input to see that it is done.

To my evaluation of this negotiating authority and my conclusion that it represents realism I bring some background of personal experience on which to base my finding. And I think the job does need doing.

I happened to be in Yugoslavia when John Connally was making his economic demands on our European Allies. President Tito reflected to me, "I wondered how long it was going to be before you Americans began making demands."

The point is that we don't demand respect unless we insist upon being treated fairly. No one is going to offer that fair treatment unless we insist upon it.

The administration's proposals to provide worker assistance in the case of temporary import-induced economic disruptions are generally laudable. However, I specifically except from that endorsement the proposal to establish minimum Federal standards for unemployment compensation. To the extent that worker adjustment assistance is required, it should be provided outside the basic Federal-State unemployment insurance system. The existing prerogatives of the respective States to determine benefit levels and benefit duration should be neither impaired nor denied. I would strongly support a sound program of liberalized worker adjustment assistance to import affected workers, but such an expanded program should not become a burden on the present unemployment compensation system. I would

not want to weaken the ability of the unemployment compensation program to do its present important job.

I strongly endorse the proposals to streamline the effectiveness of the Antidumping Act and the countervailing duty laws as well as to create increased Presidential authority to take retaliatory action in the case of discriminations against U.S. exports. It is in these areas that I would expect my recommended congressional surveillance activity to be particularly effective in contributing to proper program administration.

The proposals to promote the opening of trade with the Communist world merit our support. In making this endorsement, I particularly note the procedures provided in the bill for congressional review of such agreements. Properly used, this new and bold authority could make a significant contribution to a constructive moralization of relations with the Soviets and with Red China.

The proposal to abet the economic development of the emerging nations by granting special trade concessions to particular exports of a particular nation merits support and approval. This will permit effective efforts to assist individual countries to advance and develop in a very meaningful way.

I toured seven African nations this past January as the President's representative to promote U.S. investment and trade with Africa. Each head of state I met with indicated to me that in the long haul his country was looking to the United States not so much for aid but in terms of trade to help internal development and economic advancement.

Anything we can do to encourage commerce and trade with the African nations and other emerging nations is important to our own self-interest as well as to the well-being of the other nations involved.

Mr. Chairman, I will now shift from a discussion of trade proposals to tax proposals. My examination of the many proposals affecting the U.S. taxation of foreign source income which are under consideration by the committee, leads me to conclude that their enactment would be unwise and contrary to the best interests of the United States. The more extreme proposals would subject the foreign source income of American companies operating abroad to the destructive thrust of international double taxation. The result would be the elimination of American private enterprise as a factor in international commerce.

The President in his trade message pronounced the existing-law U.S. tax treatment of foreign source income as fundamentally sound; he then proposed three substantive changes. The three proposals were described as relating to the correction of abuse situations involving "tax holidays, runaway plants, and the recovery of startup losses." The euphemistic appellations almost sold the proposals. However, the detail of the proposals as later identified in Treasury Department explanations made it alarmingly clear that the administration was proposing tax changes that went far beyond their descriptions in the Presidential message. The President's pronouncements and the Treasury's proposals proved vastly different from one another. In purporting to deal with alleged but only vaguely defined tax haven or tax shelter abuses but going way beyond such an objective, the Treasury Department was decreeing the demise of American enterprise's overseas operations.

The committee is aware of the technical explanations of these proposals as provided by the Treasury, including a June 11 "clarification of intent" that did more to confirm apprehensions than to clarify an intent to deal only with abuse situations. Hence, I will not attempt to restate those explanations. Permit me to offer only these general observations with respect to the proposals.

The President in his message to the Congress acknowledged that American enterprise does not invest abroad because of tax considerations but because of business opportunities. He went on to say, "Our income taxes are not the cause of our trade problems and tax changes will not solve them." Yet the tax proposals of the administration strike at the very heart of the ability of American business to operate in international commerce but will not strike at the ability of competitor businesses owned by foreign nationals to operate here or abroad. At the very time we propose to lower barriers to international trade, we also propose by tax policy to impair the ability of American business to compete in world commerce. If we follow that unwise course, we are certain to weaken our competitive position at home and abroad as our imports increase and our exports decrease.

This is clearly no time to mount a tax assault on foreign source income of American business. Making foreign investment opportunities less attractive to American enterprise will not foster greater investment in the United States. Never has international commerce been more competitive, and we should not make our nationals less competitive than the nationals of our trading competitors through our tax policies. Serious economic consequences affecting our domestic affairs would certainly result from unwise and misdirected tax policies adversely affecting the overseas operations of U.S. nationals.

In conclusion, our Nation and our people have a great stake in farsighted and aggressive programs and policies to accomplish the twofold goals of (1) the expansion of American export markets and (2) the strengthening of American free enterprise's role in world commerce. Our strategic, diplomatic, and economic security will be substantially conditioned on the success achieved in promoting those foreign economic objectives. Government policy must be a constructive influence in this endeavor to promote America. That policy must be premised on sound economic fact. It should not and cannot give dangerous heed to fallacious reasoning or to economic myths. The wisdom and determination must be ours to discern the proper policies and then to implement them. Let us defer expediency until tomorrow and bite the bullet today. American jobs are involved.

Thank you. And as the anchorman of the long list of witnesses who have offered testimony before this committee during the past several weeks, I think I can safely say that upon our decisions depends the continued economic preeminence of our Nation in the world.

Thank you very much for the privilege of appearing before this committee.

Mr. ROSTENKOWSKI. Thank you, Mr. Vander Jagt.

Mr. Burke.

Mr. BURKE. On this subcommittee that you suggest for the House Ways and Means Committee, would you also give them the right to recommend legislation, report legislation on the House floor?

Mr. VANDER JAGT. I believe the subcommittee's studies could result in legislative recommendations which would be carefully considered and acted on by the full committee.

Mr. BURKE. Well, you have gone a little further than some other people have. I compliment you for that. You haven't gone as far as I would like to have you go.

Do you believe that today is the time and the climate that we should be turning all this power and authority over to the executive department?

Mr. VANDER JAGT. I think the climate today is exactly right for what I propose. That is why my suggestion of greater congressional participation and surveillance is so critically important.

Mr. BURKE. I have been talking to Members of the House and some Members of the Senate. While I know that some members of the committee feel that this bill is going to have clear sailing, I find kind of mixed emotions on the part of freetraders and those who go on the protection side and those who are on my side with the moderate approach.

They are a little doubtful about all these powers. Many of them are looking toward an area whereby Congress will have some opportunity to either write into this bill how far the negotiators can go, rather than have the blank check, or else they feel that the Congress should have the right to either approve or disapprove what our negotiators agree to.

Now, isn't it true that some of these negotiators representing our trading partners have not got the powers that we are going to grant our negotiators?

Mr. VANDER JAGT. Have not got the powers that we are going to grant our negotiators? Most nations trust their negotiators with greater discretionary authority than is contemplated in this proposal. I suspect there would be——

Mr. BURKE. What I mean to say, to abolish all tariffs and reduce them to zero.

Mr. VANDER JAGT. I would suspect that there would be specific instances where our competitors' negotiators would be more limited in their authority than our negotiators. However, I think in general that they will have far more authority than our negotiators traditionally have because of the very structure of their parilamentary government.

In a sense they will be speaking for the parliament as well as for the executive of the countries they represent. So in general I think they have much greater flexibility and authority than our negotiators.

Mr. BURKE. What bothers me is the fact that so many people are opposed to having Congress get another look at this after the negotiators get through. This bothers me some because it is my belief that Congress would more than likely endorse about 90 percent of the things that they do.

In those areas of agreement Congress could approve those actions right off, and then send the negotiators back to the negotiating table to attempt to comproimse on the things they don't agree on.

I don't know why they don't support this type of provision in the bill.

Mr. VANDER JAGT. Mr. Burke, I have a great concern about Con-

gress getting a look at it after the negotiators are through, but I don't think that is sufficient. I think it is too late in many instances to get a look at it after it is through. In my proposal I suggest that Congress be an active participant at the initiation of negotiation in every step along the way. I think that continuing participation is very important.

Mr. BURKE. I think that is necessary to have even with the other proposals that I have in mind, but I would imagine if we are going to establish a good trade policy in this country, that Congress will have to have something to say about these negotiations once these agreements are made. Otherwise, we are going to have the Burke-Hartke bill back here next year.

What concerns me is that the Burke-Hartke bill will go through and they will just wipe out all those trade negotiations. I would rather forestall all that and do the thing properly in the beginning.

In other words, have the negotiators go over there and give them full power and authority. Have an oversight group from the Ways and Means or a group made up from members of the Foreign Affairs, Banking and Currency, and Ways and Means, and keep reporting back to the Congress on what progress has been made.

Then, when they get through and they are ready to sign the final agreement, as they did in the GATT agreement, if you remember, when the GATT agreements were signed our negotiators had packed their bags 24 hours before and were leaving without any agreements.

Suddenly they met again and within 24 hours they agreed to reduce the tariffs on 6,000 items by 50 percent. It was one of the fastest moves ever made in the history of the world, I think. It showed the amazing skill that these people had. Here they had their bags packed. They had thrown up their arms. They said there are no agreements we can enter into, and suddenly they went back into session. Within 24 hours they agreed on 6,000 items to reduce tariffs by 50 percent.

I think we should have learned a lesson from these negotiations. I am for trade expansion. I think it is very necessary in this world of ours, for peace and everything else. But I also recognize that in order for the free world to be strong, the United States has to be strong. When you have the instability of the dollar, as we have witnessed in the past 15 months, devaluations have taken place twice. Of course all the people are talking, are saying devaluation is wonderful, but talk to the average housewife who goes into the grocery store and talk to the party who is trying to buy a house, and you will find out interest rates are going up.

I think the prime interest rates are higher now than they have been since 1921. When interest rates start reaching the heights that they did in 1921, which was prior to the 1929 crash, I think those should be some warning signals that we should watch out for.

So I am hoping that this committee, where you are the last witness, and a very distinguished witness, I hope that this committee can come up with a reasonable bill here that will give us enough flexibility so that we don't lock the door after they steal the horse, the barn door that is. That is usually where they keep the horse.

Thank you.

Mr. ROSTENKOWSKI. Mr. Broyhill.

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Mr. BROYHILL. Mr. Chairman, you did point out that the gentleman from Michigan was the last of some 300 witnesses. It is trite but true to note that he may be the last, but he is by no means least, because he has presented an excellent statement to the committee. I am very much in accord with at least two of the points you made, regarding the possibility of mounting a tax assault on foreign source income and the creation of minimum standards for unemployment compensation. I am wholeheartedly in accord with your position on those points. I commend you for an excellent statement.

Mr. ROSTENKOWSKI. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I want to also join in complimenting your very objective statement. I would like to ask you, in your opinion, would you advocate that the trade bill provide an umbrella far more extensive than is visualized in the President's legislation?

For example, I have deep concern with agricultural trade being the private province of the Department of Agriculture.

It seems to me that we should not separate it out, that it ought to be somewhat within the same umbrella that every other element of trade is in. Do you agree?

Mr. VANDER JAGT. I share the gentleman's concern in the important area of agriculture. Even beyond that I don't think the trade negotiations can be carried out without taking into account the whole economic, diplomatic, and international situation.

Mr. VANIK. The fear of so many people is that we are going to trade off things, particularly with the European Common Market, trade off the lifelbood of certain manufacturing products as a trade-off for agricultural concessions. In the present situation of world shortage, it seems as though agriculture could sort of find its own way.

Now, how do you feel about export controls?

The President talked about it the other day. I was rather happy that he did, because I feel that it is time that we concern ourselves with the possibilities of exporting ourselves, agriculturally, into want. Do you feel, or are you in accord with this concept of somehow giving the American people a first priority on American productivity?

Mr. VANDER JAGT. I think particularly at this time, with the situation that we face, that export controls in some feed grain areas——

Mr. VANIK. In your judgment should that be in this bill somehow?

Mr. VANDER JAGT. I don't know whether or not it should be in the bill, but in my judgment this committee should look at it as a very potential inclusion within the legislation. I think it possibly has a great deal of merit given the inflationary conditions that we face.

Mr. VANIK. Since what we talk about largely in trade is what the nations extend to each other by way of credits, do you feel we can work out an effective comprehensive trade program in this committee's bill if we provide no direction to the Export-Import Bank, which seems to go willy-nilly on its own, granting credits to whomsoever it may choose on whatever terms it may choose?

Mr. VANDER JAGT. Absolutely not. There must be direction in terms of trade legislation to the Export-Import Bank in the overall.

Mr. VANIK. Do you agree that we ought to give some direction as to the credits? The credits are a part of the negotiation and probably the fundamental part.

Mr. VANDER JAGT. Absolutely.

Mr. VANIK. My next question is: You say that this is not time for an assault on foreign source income.

But you are aware of the polls that indicate that most of the American people are deeply concerned about the multinationals and the multinational tax question.

In light of the $100 billion, or whatever it is, that is abroad, now moving around in money markets, we have reached a point where we can't really control the affairs of this country. This has really developed through the tax programs which permitted the accumulation.

Now, your statement also ignores the manipulation, the high degree of manipulation, that is attributed to the multinationals, particularly preceding the last two devaluations.

Now, do you think that it is a healthy thing to have this tremendous capital accumulation going on outside of the country by so-called American citizens, who are not very patriotic when it comes to paying taxes?

I judge the patriotism of the American, not by the flag he wears in his lapel, but by the check he sends into the Treasury Department by April 15. I think that is the real test of patriotism.

From your statement, do you feel what the President suggested is too harsh?

Mr. VANDER JAGT. Not with what the President suggested but with Treasury's interpretation.

Mr. VANIK. I agree with that.

Do you believe that dollars invested abroad by American multinationals produce more jobs in America and more dollars in the United States? Do you think that capital invested abroad by Americans is more productive of jobs in the United States than capital invested in the United States?

Mr. VANDER JAGT. I think dollars invested abroad by U.S. companies or multinational companies do, in fact, create jobs in the United States.

Mr. VANIK. Do you contend that they create jobs to a greater extent than the dollars investment in the United States?

Mr. VANDER JAGT. Obviously, if you were going to invest $100 million in Mexico to make shoes or $100 million in the United States to make shoes, it would create more jobs were it built in the United States, but given the competitive situation and the international situation, it doesn't boil down to a choice of will it be built in Mexico or the United States, since it can't be competitive in the United States, can we by investing it in Mexico create jobs in the United States by the shipping of supplies, and so forth. Under the proper economic climate and incentives there is not a shortage of capital.

Mr. VANIK. Excepting that you have a capital-short economy so that whatever is invested abroad comes about at the deprivation of a very needed investment in the United States that is crying for it. I find a great part of American enterprise has to borrow money from the Japanese and others in order to carry on enterprise.

Mr. VANDER JAGT. I would contend perhaps in disagreement with the gentleman that investment abroad in fact generates capital, leading to the prosperity of the business and enabling it to generate profits that can be repatriated and invested in the United States as well as in other nations.

I certainly would agree with the gentleman if it were a choice of do we do it here or there, it would be better to do it here.

Mr. VANIK. That is what I am suggesting. At this time we have little choice about where we have to put it.

I want to thank the gentleman for his fine presentation. I appreciate the recommendations you have made.There is a lot of merit to them. I want to thank you for it.

Mr. VANDER JAGT. I thank the gentleman.

Mr. VANIK. Mr. Chairman, I would like to have the record left open at this point so that I may insert exchanges of correspondence I have had with the Office of the Special Representative for Trade Negotiations.

Mr. ROSTENKOWSKI. Without objection, the gentleman's request is granted.

[The material referred to follows:]

U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., May 29, 1973.

Mr. WILLIAM D. EBERLE,
Special Representative for Trade Negotiations, Council on International Economic Policy, Washington, D.C.

DEAR MR. EBERLE: On page 158 of the "Briefing Materials Prepared for the Use of the Committee on Ways and Means in Connection with Hearings on the Subject of Foreign Trade and Tariffs," released in May of this year, there is a listing of "practices generally considered as subsidies by the governments accepting the 1960 declaration (relating to GATT).

In that listing, there is the statement that such items include:

> in respect of government export credit guarantees, the charging of premiums at rates which are manifestly inadequate to cover the long-term operating costs and losses of the credit insurance institutions.
>
> The grant by governments (or special institutions controlled by governments) of export credit at rates below those which they have to pay in order to obtain the funds so employed.

In light of the somewhat subsidized credit programs of the Export-Import Bank and OPIC, and, in a sense, DISC, would it be the interpretation of the Office of the Special Trade Representative that the United States may, in fact, be violating these practices "generally considered as subsidies by the governments accepting the 1960 declaration"? And is the Office's intention that such similar practices by foreign governments be subject to elimination by negotiation?

Thank you for your assistance in answering these questions prior to the time that the Ways and Means Committee begins its executive consideration of H.R. 6767.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, D.C., June 15, 1973.

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

DEAR CONGRESSMAN VANIK: This is in response to your letter of May 29, 1973. requesting the views of this office on whether the DISC provisions, OPIC and the programs of the Export-Import Bank are contrary to the subsidy provisions of the GATT and whether it is our intention to subject similar programs of other countries to negotiations with a view to the elimination of such practices.

The DISC is not inconsistent with United States international obligations as currently embodied in the language of the General Agreement on Tariffs and Trade and as applied in the practice of nations. To show that the DISC is inconsistent, it would have to be shown that it constitutes a subsidy on the export

of non-primary products resulting in lower prices for export than for the domestic market. A decision adverse to DISC on this issue would result in application of the General Agreement subsidy obligations on a broader scale than ever before. Many other countries have practices which are similar to DISC, although in many cases they are farther-reaching and result in an exemption from tax. For example, some countries exempt from tax the sales income of foreign subsidiaries; in addition, dividends from the foreign subsidiaries are not taxed to the parent. Some countries rebate, or allow special reserves or deductions, for the expenses of establishing export markets. Others grant special tax incentives for capital investment which result in exports. Because these longstanding practices are so widespread, we question whether the General Agreement, as amended, was ever intended to encompass them. We favor, however, a thorough deliberative international study of income taxation affecting exports, so that proper principles and standards can emerge to govern the taxation of foreign sales income and pricing rules governing export sales. This investigation has begun to some extent in the Working Group on Subsidies of the GATT's Committee on Trade in Industrial Products.

There is no question of OPIC programs being inconsistent with United States obligations under Article XVI of the GATT. OPIC provides insurance for investors against expropriation, war and inconvertibility with respect to investments in developing countries. This insurance is not commercially available. It makes the investment possible in a high risk situation. Article XVI of the GATT clearly does not apply to ths program of investment insurance.

It is the opinion of this office that the Export-Import Bank's credit and insurance practices are in conformity with present United States obligations under the GATT. Taken as an average, the Export-Import Bank does not provide credit at rates below the cost of money to the Bank. The Bank normally provides credit at 6 percent. Although 6 percent is a lower interest rate than that provideded by private U.S. institutions for commercial loans of comparable maturity at this time, the average effective cost of money to the Bank is less than 6 percent. The Bank's insurance and guarantee programs are currently self-sustaining. The Export-Import Bank's practices could not be considered as subsidy measures inconsistent with Article XVI of the GATT.

The United States has expressed dissatisfaction in general with the adequacy of present GATT rules on export subsidies. The U.S. objective now being given consideration in the GATT Working Group on Subsidies is to tighten-up the subsidy rules. As a first step, the Working Group is attempting to define what constitutes an export subsidy and possible supplementng this definition by establishing a more definitive and expanded list of illegal practices. Export financing is within the subject matter of this Working Group.

Sincerely,

JOHN H. JACKSON,
Acting Special Representative.

U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., May 31, 1973.

MR. WILLIAM D. EBERLE,
Special Representative for Trade Negotiations, Council on International Economic Policy, Washington, D.C.

DEAR MR. EBERLE: In H.R. 6767, the Trade Reform Act of 1973, Title IV of that bill provides the President with additional authority for international trade policy management and correction of balance of payments problems. In particular, Section 401 (c) (d) indicate that the President can apply restrictions on imports on a selected basis.

In reading Article XIII of the General Agreement on Tariffs and Trade, it is stated:

> No prohibition or restriction shall be applied by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted.

In the Council on International Economic Policy's report of this spring, it was noted that all too often the obligations of the contracting parties to GATT are only given lip service. In light of the apparent contradictions between Title

IV of H.R. 6767 and existing provisions of the GATT agreement, is the intention of the United States to seek a modification of the GATT agreement so that all countries are afforded the right—or are the provisions of Title IV of H.R. 6767 intended to be a unilateral action on the part of the United States?

In the General Agreement on Tariffs and Trade, Article XVI, relating to subsidies, states that:

> If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the contracting parties in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the contracting parties, the possibility of limiting the subsidization.

Could you please provide my office with a list of all such notifications which the United States has received or requested from its GATT partners. In addition, to the extent of many exports of European countries receive a rebate on the value added tax assessed on the domestic production of those goods, should it not be the position of the United States Government that a rebate of VAT taxes constitutes a form of subsidy detrimental to American exports to those European countries, and which encourages exports from those European countries?

Your assistance in answering these questions prior to the beginning of Executive Sessions on the Trade Bill in the Ways and Means Committee will be appreciated.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, June 15, 1973.

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

DEAR CONGRESSMAN VANIK: This is in response to your letter of May 31, 1973, asking several questions in connection with the proposed Trade Reform Act of 1973, H.R. 6767.

Your first question relates to the balance of payments authority contained in section 401 of the bill. No provision of the proposed Trade Reform Act *requires* actions on the part of the United States which are inconsistent with United States obligations under the General Agreement on Tariffs and Trade. Section 401 of the trade bill would, however, authorize the imposition of selective measures for balance of payments purposes. Selective measures could be used in either the case of a United States balance of payments deficit or where the United States imposed a surcharge or quota as part of an international cooperative action. In this latter case, U.S. action would be allowed or recommended by the International Monetary Fund, and, under rules to be negotiated, the United States selective action would in each case be fully consistent with internationally agreed rules.

The resort by the United States to a selective surcharge or quota when the U.S. is in deficit need not be contrary to Articles I or XIII, respectively, as they are currently drafted. It is possible, for example, to envision exempting less developed countries from a balance of payments measure under a GATT waiver. It is the hope of the Administration that any other circumstances that justify the imposition of a selective balance of payments measure would be covered by the new rules which will be the subject of international negotiation, but since it was felt desirable not to foreclose options at this stage of the negotiations for reform, the bill has been drafted in a manner that could authorize an action which is technically inconsistent with current international obligations.

To repeat, there is nothing in section 401 of the proposed Trade Reform Act which would require the President to take actions inconsistent with U.S. international obligations. In any case it is true that the President will take into con-

sideration the relationship of any proposed action under section 401 of the international obligations of the United States.

The second question raised in your letter concerns notifications in accordance with Article XVI, paragraph 1, of the GATT. Pursuant to procedures adopted in 1962 GATT contracting parties that maintain subsidies are required every three years to respond to a questionnaire. Any changes are to be submitted annually. The most recent full responses were made in 1971 by the European Economic Community and by the following countries: Australia, Austria, Belgium, Canada, Czechoslovakia, Denmark, Finland, France, Germany, Italy, Japan, Kenya, Norway, Poland, South Africa, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The third question raised by your letter refers to the United States position on the value added tax. The General Agreement on Tariffs and Trade (GATT) permits countries to exempt exported products from domestic consumption taxes and to rebate to exporters such taxes as may have been collected on the exported product. These GATT provisions apply to all consumption tax systems, whether a retail sales tax, a value-added tax, or a wholesale tax. It is a universally accepted concept (incorporated in our own federal and state laws), that since exports are not consumed in the country of production, they should not be subject to consumption taxes in the country of production.

The United States has expressed concern, however, that countries whose fiscal systems rely less heavily than others on consumption taxes may under certain circumstances be disadvantaged by these differences in fiscal systems in light of the GATT provisions. While attention has been focused on the value-added tax, this concern applies also to other consumption tax systems such as the manufacturers' tax in Canada and the commodity tax in Japan.

While there are deficiencies in the GATT provisions on tax adjustments in international trade, neither the United States nor any other country has been able to come forward with any practical proposals for amendments. All attempts within the U.S. Government to develop formal proposals for consideration in international forums failed for three reasons:

1. Any limitation on border tax adjustments would affect the United States as well as others. Although the effect of any limitation on the United States would be less significant than on many other countries, implementation of any limitation would be much more difficult in the United States because most of the U.S. taxes which would be affected are levied at the state and local level and at the retail stage where no adjustment is made at the border.

2. Any effort to obtain greater latitude for the United States, for example, allowing an adjustment for corporate income taxes, could be emulated by others and any advantage gained would be offset.

3. Any proposal which would be self-serving for the United States at the expense of others would not be acceptable and hence would not have any support. The rationale of other countries in this respect has been made quite clear. They do not consider border tax adjustments unfair and state they would have no objections to the United States adopting a TVA and a border tax adjustment system similar to theirs.

A more thorough discussion of this issue, a study prepared by the Executive Branch at the request of the Chairman, Subcommittee on International Trade, Committee on Finance, is enclosed.

Sincerely,

JOHN H. JACKSON,
Acting Special Representative.

Enclosure.

TAX ADJUSTMENTS IN INTERNATIONAL TRADE: GATT PROVISIONS AND EEC PRACTICES

This paper was prepared by the Executive Branch at the request of the Chairman, Subcommittee on International Trade, Committee on Finance, United States Senate

I. INTRODUCTION

Some American businessmen have expressed concern that their competitive positions, both in their home market and in markets abroad, have been disadvantaged because other countries levy heavy consumption taxes on imports and grant exemptions or rebates of such taxes on their exports. They do not

consider the levying of consumption taxes on imports into the United States and exemption or rebate on export of American consumption taxes as comparable because such taxes are collected at relatively low rates, are primarily collected by state and local governments rather than the Federal Government, and are not as visible as systems in other countries. Although virtually all countries have a general consumption tax system with the inevitable levy on imports and rebate or exemption on exports, the complaints by our businessmen are primarily voiced in terms of tax adjustments on goods in Europe—specifically the tax-on-value added. Many of these businessmen also believe that the direct tax burden (corporate income tax) in Europe is much lighter than it is in the United States, and since the provisions of the General Agreement on Tariffs and Trade (GATT) permit tax adjustments on imports and exports for consumption taxes but not for income taxes, American producers are disadvantaged.

This paper explores GATT provisions on tax adjustments for imports and exports, tax adjustments on traded goods in the European Economic Community, direct and indirect taxes and tax shifting, assumptions, corporate profits taxes among the major trading countries, efforts to resolve the issue, and the relationship between the remission on exports of indirect taxes and countervailing duties.

II. GATT PROVISIONS

Application of Domestic Taxes to Imports

The GATT prohibits levying on imported products any "internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products" (Article III:2) and enjoins the use of such internal taxes in such a manner as to afford protection to domestic products.[1] The GATT allows countries to impose on imported products (at the time of importation or subsequently) all consumption taxes up to the amount which would have been imposed on those products had they been produced and sold domestically; the GATT prohibits imposing internal taxes on imported products in excess of internal taxes on like domestic products.

Countries have traditionally imposed domestic consumption taxes on imports. Provisions similar to those in the GATT have been used in commercial treaties and agreements for over a hundred years and were contained in bilateral trade agreements between the United States and other countries from almost the beginning of the reciprocal trade agreements program in 1934. This concept was carried over into the GATT in 1947, as proposed by the United States and other countries reflecting the practical view that governments and businessmen would not have accepted procedures which exempted competing imported goods from consumption taxes imposed on similar domestic goods.[2]

Countries apply the GATT provisions in accordance with their own domestic consumption tax systems. In countries where multistage consumption taxes are levied on all transactions, whether wholesale or retail, such as under the tax-on-value added which is imposed at the same rate on imported and domestic goods (discussed in later paragraphs), the tax is levied on imports at the border and on subsequent transactions. In countries without multistage taxes, domestic consumption taxes are usually levied on imports at the import stage, if that corresponds to the stage at which the tax is imposed domestically, or at stages subse-

[1] A similar prohibition in Article II (see Annex for text) relates only to items contained in the schedules of concessions, bound against increase in duties or other charges. Items not so bound are not covered by Article II. Articles II and III, when read together, suggest that the drafters of the GATT may have had in mind the fact that, unlike tariffs, internal taxes are generally not the subject of traditional trade negotiations and it is therefore important to ensure that protection is achieved by tariffs rather than internal taxes.

[2] The records of the Committee on Finance indicate the difficulties which can arise when a country deviates from this practice. As indicated in the Report of the President's Commission on International Trade and Investment Policy (GPO, July 1971, footnote at 105), the United States attempted a limited type of border tax adjustments freeze early in the trade agreements program. The United States inserted provisions in three early bilateral agreements (with Brazil, Colombia and Cuba) negotiated under the 1934 Reciprocal Trade Agreements Act freezing internal taxes on imported products with respect to which tariff concessions had been granted. Practical problems emerged almost immediately, however, and the policy was abandoned in 1935. Subsequent agreements contained a provision permitting either party to apply to imports a tax equivalent to any internal tax imposed on products produced and sold domestically. See Extending the Reciprocal Trade Agreements Act, Hearings before the Committee on Finance, United States Senate, 75th Congress, 1st Session, at 39.

quent to the import stage. The Canadian Federal 12 percent manufactures sales tax and provincial retail sales taxes, the United States Federal and state excise taxes and state and local retail sales taxes in 46 states and the District of Columbia, and the British purchase tax (collected at the wholesale stage) are all imposed on imports in the same manner and rate as they are imposed on domestic products. They may be less visible to the foreign exporter if they are collected subsequent to the import stage. The GATT provisions on tax treatment of imports apply to all consumption tax systems without regard to their form.

The purpose of taxing imports—whether at the time of importation or subsequently—is to ensure that foreign products do not receive more favorable tax treatment than similar domestic products. To exempt imported goods from such consumption taxes or to levy such taxes at a lower rate on imported goods would discriminate against domestic products in favor of imports.

Tax adjustments on imports are permitted under GATT only for taxes on products, that is, consumption taxes. The GATT prohibits levying any tax on imported products to compensate for direct taxes, including income taxes, levied on domestic producers. The provision is apparently based on the assumption that income taxes are "paid" by the legal tax payer, whereas consumption taxes are "paid" by the consumer.

Tax Treatment of Exports—"Indirect" Taxes

The GATT permits countries to exempt exported products from domestic consumption taxes and to rebate to exporters such taxes as may have been collected on the exported product. This principle was originally suggested by the United States in September 1946 in its Suggested Charter for an International Trade Organization (ITO) of the United Nations.[3]

The GATT was negotiated the following year, based on the commercial policy provisions of the draft ITO charter, as an interim multilateral trade agreement pending the establishment of the ITO. However, the United States was concerned in 1947 about the ability of some of its agricultural procedures to compete in the world market without benefit of export subsidies. Under these circumstances, the GATT export subsidy provisions were limited to a notification and consultation procedure. Since the original GATT allowed export subsidization, there was at that time no reason for the GATT to specifically note that the exemption or rebate on exports of consumption taxes could not be considered to be a subsidy.

Nevertheless there was a recognition of this principle in the antidumping and countervailing duty article of the GATT (Article VI:4). This article, unchanged since 1947, provides that any consumption tax exemption or rebate on exports shall not be the basis for imposing antidumping or countervailing duties. Our own Antidumping Act, 1921, contains a similar legislated provision. The Act specifically directs the Secretary of the Treasury, in his calculations of dumping margins (usually the difference between purchase price and home market price), to add to the purchase price "the amount of any taxes imposed in the country of exportation upon the manufacturer, producer, or seller, in respect to the manufacture, production or sale of the merchandise, which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States." (19 U.S.C. 162.) The Congress presumably did not consider the rebate to exporters of production or sales taxes as contributing to the margin of dumping but rather considered such rebates to be a legitimate procedure which does not contribute to unfair price discrimination.

The GATT provisions permitting rebates of domestic consumption taxes were made more explicit in 1957, following a major Review Session of the GATT Contracting Parties, in Ad Article XVI.[4] The principle was repeated in connection with new provisions which came into effect in 1962 among the major trading countries prohibiting the granting of subsidies on nonprimary products, including a prohibition of the exemption or rebate on exports of domestic charges or taxes *other than* domstic consumption taxes (see below).

It is a universally accepted concept—incorporated in our own domestic law—that since exports are not consumed in the country of production, they should not be subject to consumption taxes in the country of production.

It should be noted that in accordance with the GATT provisions concerning consumption tax treatment of exports, the United States exempts from or re-

[3] Article 25 : 2. Text contained in Annex.

[4] "The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy."

bates on exported products all state and local sales taxes (46 states and the District of Columbia), as well as Federal and state excise taxes on those exported products. Throughout most of the post-World War II period, our Federal excise taxes were imposed on a wide range of products,[5] often at relatively high rates. Only a few products are subject to Federal excise tax today.

Even in interstate trade within the United States it is customary to exempt from state consumption taxes or rebate such taxes to manufacturers of "exports" to other tsates.

Tax Treatment of Exports—"Direct" Taxes

As noted earlier, the major trading countries agreed in the GATT not to grant export subsidies on nonprimary products and defined subsidies to include rebates to exporters of direct (income) taxes and social security taxes.

This provision came into effect in 1962 after the major trading countries entered into a "Declaration Giving Effect to the Provisions of Article XVI:4." This Declaration was developed in a Working Party on Subsidies whose report noted that the governments prepared to accept the Declaration "agree that, for the purpose of that declaration, these practices generally are to be considered as subsidies." Among those listed were:

"(c) The remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises;

"(d) The exemption, in respect of exported goods, of charges or taxes, other than charges in connection with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respect of exported goods, of amounts exceeding those effectively levied at one or several stages on these goods in the form of indirect taxes or of charges in connection with importation or in both forms."

Some countries accepting the Declaration had rebated on exports part or all of their employers' social security taxes (France) and part or all of their corporate income taxes (Japan). The Declaration clarified which taxes would be eligible for adjustment on export.

III. EEC PRACTICES

The European Economic Community (EEC) Council of Ministers decided in 1964 to harmonize by 1970 its member states' consumption tax systems along the lines of the French tax-on-value added (TVA, or "taxe sur la valeur adjoutée"). The TVA, in use in France since 1954, has also been adopted by Germany, Ireland, Italy, the Netherlands, Luxembourg, Belgium, Denmark and Sweden and Norway. The United Kingdom, Austria, and Finland have announced their intention to adopt the TVA system in 1973. The TVA has or will replace in all of these countries a previous national general consumption tax system. These countries have long relied on consumption taxes as important fiscal tools and have for many years made adjustments for these taxes on imports and exports.

The TVA is a consumption or sales tax collected each time a good (whether a raw material, semiprocessed or finished product) is sold, but the tax base at each stage is only the value added by the seller. While the TVA tax base can be computed in different ways, countries currently applying the TVA have chosen the simplest alternative. Under the TVA a businessman has a gross tax liability each month of the total amount of his sales times the tax rate, say 10 percent. His invoices to his customers show this 10 percent as a part of the purchase price. From this gross liability he deducts TVA he paid on his purchases. His suppliers will have itemized the TVA payments on their invoices to him. His net TVA liability is the difference between the two figures. If the tax paid by him on his purchases (a credit) exceeds the tax paid to him on his sales (a debit), he may apply to the authorities for a refund or carry over the net credit to succeeding months.

For example, when a manufacturer buys $10,000 worth of materials and sells products worth $20,000 in a particular month, the difference—$10,000—is the added value for the firm's product or products in that month. At a 10 percent

[5] For example, alcoholic beverages, tobacco products, motor vehicles and parts, tires and tubes, business machines, household applicanes, firearms, fur articles, motor fuels, coal and coke, copper, lumber, vegetable oils and seeds, jewelry, luggage, musical instruments, radios, sporting goods, cosmetics, photographs and phonograph records, television sets, sugar, and refrigerating equipment.

TVA rate, his net TVA tax liability is $1,000 whether or not the firm made a profit in that month. This process is repeated throughout the distribution chain until the product is sold at retail to the final consumer. Since the individual consumer cannot deduct the TVA, the process ends there.

The net tax base (and also the revenue) resulting from all these transactions is the equivalent of that under a retail sales tax at the same ad valorem tax rate. It differs from a retail sales tax principally in that the government gets part of the revenue ultimately paid by the consumer at the earlier stages of production and distribution and therefore it reduces the possibility of tax evasion at the retail stage. Setting aside for the moment the complex question of tax shifting, the TVA does not enter into the cost structure until the final sales to the individual consumer. Until then it is a tax item which accompanies each sale and is kept separate both in the sales invoices and in the firm's books.

Imports enter the TVA cycle at the border. The tax rate is the same as the rate on the similar domestic product, and is payable at importation, unlike retail sales taxes where most imports are not taxed until sold to an individual consumer.[6] The importer treats the TVA paid on imports as any other purchase he makes for his firm. The tax he has paid on his imports is included in his tax credits along with the tax he pays on his domestic purchases. If he sells the imported product, he collects TVA from his customer and remits to the tax authorities the difference between tax on his purchases and tax on his sales at the end of the month. If he uses the imported product, for example a machine tool, in his business, the tax process for the machine tool is completed at the end of the month when the firm treats the TVA paid at time of importation as a tax credit against the debits of the taxes it collects on its sales.

Provided the tax authorities possess adequate means of control to prevent the tax-free sale of an import to an individual consumer, it is unnecessary under the TVA to make tax adjustments at the border on imports. Collection after the import stage would have the advantage of reducing the number of tax collectors at the border but the disadvantage of facilitating tax evasion. Sweden gave serious consideration to exempting products from TVA at the time of importation, but ultimately decided for tax control reasons to make tax adjustments at the time of importation.

Exports under a TVA system are exempt from tax, as are exports under retail sales tax systems. Therefore, there is no TVA tax refund on exports. As for the tax the exporter paid to his domestic suppliers for the materials used to produce the exported product, he treats them in the same manner as all of the TVA he pays to his suppliers, that is, as a credit for his end-of-the-month accounting to the tax authorities: he omits from the total sales on which tax is due the value of his exports since he had not collected the TVA from his foreign customer. There is thus no inherent incentive in the TVA system for him to export his product rather than sell it in the domestic market. (The possibility of some backward tax shifting—and thus some possible incentive—is discussed below.) In France, most exporters have elected to operate under a system whereby they may make tax exempt purchases of goods and materials for export production up to the value of the exports in the previous year. This type of tax treatment of exports is materially similar to that of state retail sales tax systems in the United States.

IV. DIRECT AND INDIRECT TAXES: TAX SHIFTING ASSUMPTIONS AND CORPORATE PROFITS TAXES

There is no record of any discussion by the drafters of the GATT of the economic assumptions underlying the differing treatment accorded to direct and indirect taxes on exports and imports. However, the GATT provisions were written as if increases in indirect taxes were fully reflected in the price of goods (i.e., fully shifted forward) while increases in direct taxes were fully absorbed by producers (or shifted back to factors of production), having no effect on prices. If these assumptions are correct, the GATT provisions would equalize the amount indirect taxes levied on competing domestic and imported goods; would avoid granting an incentive to exports by the rebate of (or credit for) taxes not re-

[6] Some have argued that the TVA collected at the time of importation should be levied on an f.o.b. basis, not, as at present, on the c.i.f. duty-paid value. In a TVA system if the tax collected at the border is lower because the valuation base is lower, the importer will simply have a smaller tax credit with which to offset his tax debit. The full c.i.f. duty-paid value of the product—plus the importer's markup—is the valuation base for the next transaction, that is, the sale by the importer to his customer. U.S. consumption taxes are also levied on imports on a c.i.f. duty-paid value.

flected in prices, and would avoid distortions arising from differing direct tax systems. Under such circumstances, the GATT provisions would be trade neutral.

Few people—even European tax authorities—would argue such absolutes. It is generally recognized that the degree of tax shifting for both consumption and profits or other direct taxes depends primarily on the demand for the product, actions of the monetary authorities, the stage of the business cycle and the degree of competition among producers of the goods. Some economists also hold the view that increases in selective consumption taxes are much more easily shifted forward than increases in general consumption taxes. To the extent consumption taxes are not fully shifted forward, and direct taxes are partially shifted forward, countries may derive some trade benefit from the GATT provisions on border taxes, but it is not known how large or how lasting such benefits may be. Relative prices among countries, on which trade advantages largely depend, are subject to a mix of forces and undergo constant change. These advantages, if any, can be erased by a currency appreciation as well as differential rates of inflation, productivity changes and even shifts in tastes. After a time, the first effects of the change may be offset to an indeterminate degree by these other factors. In short, it is impossible to measure the extent of the shifting and its effect on trade in a way which can be used for comparative country analysis. Moreover, there seems no practical way to settle the tax shifting question and quantify effects which the GATT provisions may have on a country's trading position.

It is generally recognized that trade effects can result under certain circumstances when a country changes its tax adjustments on traded goods, as follows:

1. *Equal increases in the level of domestic consumption taxes and adjustments on traded goods.*—This change can affect trade to the extent that the tax increase is not fully shifted forward to the consumer, although the treatment of traded goods assumes full forward shifting.

2. *An increase in the amount of adjustment at the border (to make up for an "insufficient" adjustment) with no change in the domestic consumption tax.*—This type of change can affect trade favorably from the point of view of the country making the change. Such changes discourage imports and promote exports.

3. *A change in the mix of taxes whereby a nonadjustable direct tax is replaced by an adjustable indirect tax.*—An example would be a reduction of a payroll tax or corporate income tax matched by an increase in a consumption tax, either in the form of a higher rate or more comprehensive coverage under a TVA or retail sales tax. This change could have an effect on trade similar to an exchange rate adjustment on trade account.[7]

4. *A change from one type of consumption tax system to another.*—Depending on the extent of undercompensation or overcompensation under the old and new systems, this type of change can also discourage imports and promote exports. A prime example of this type of change is the shift in Germany from a cascade-type gross turnover tax to the tax-on-value added in 1969. The undercompensation in tax adjustments for imports and exports was removed. According to an OECD study, the change raised the average rebate on exports 0.6 percentage points and the average compensating tax on imports 2.4 percentage points while the overall tax "burden" on German goods remained more or less unchanged. The change was similar to a small devaluation of the Deutsche Mark on trade account. This can also go in an opposite direction if the country had been overcompensating, as in the case of Italy.

Corporate Income Taxes in Europe and the United States

It is sometimes said that the United States has high corporate income taxes and European countries have high consumption taxes, and that because the GATT rules permit the rebate of consumption taxes but not of corporate income taxes, the United States is disadvantaged by the GATT rules.

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[7] Some observers have noted another possible theoretical advantage from reducing or eliminating a direct tax such as the corporate income tax and replacing it with a consumption tax such as the tax-on-value added. It has been noted that the TVA taxes the factors of production at the same rate, unlike the corporate income tax which is a tax on the return to capital only. To the extent that the TVA would encourage capital investment, productivity would be increased over time and a country's competitive position in world markets could be improved.

In fact, both have high income taxes, especially in the business sector, and in addition the European countries have higher consumption taxes and higher employer's social security taxes than the United States does.

The corporate income tax in most European countries accounts for a smaller proportion of gross national product (GNP) than it does in the United States—between 1.5 and 2.5 percent of GNP (at market prices) in 1966 in France, Germany, Italy, the Netherlands, and Sweden, compared to 4.6 percent in the United States (and 5.1 percent in the United Kingdom). The difference is largely a reflection of the fact that the corporate sector is relatively smaller in those countries. Corporate *profits* in those countries, as a percentage of GNP, also account for about half those of the United States (see Table). This is so because a larger portion of European national output arises in sectors of the economy that are largely unincorporated, and because of the differing forms of business structures in Europe. For example, only about 2.4 percent of the more than 2 million enterprises in Germany in 1967 were organized in some corporate form, compared to 13 percent in the United States.

Both statutory and effective corporate tax rates appear to be generally at similar levels for the United States and the European countries, except Belgium which had a somewhat lower statutory rate. The equivalent data for Japan suggest a corporate tax burden equal to or higher than that in the United States.

In addition, employers' contributions to social security—also not considered proper for rebate on exports (or imposition on imports) for countries accepting this GATT provision—are significantly higher in Europe than in the United States. In 1967, such taxes as a percentage of GNP (market prices) were over 10 percent in France, about 6 percent in Belgium, 5.2 percent in Germany, 2 percent in Japan and 1.8 percent in the United States. The low figure for the United States is partly a reflection of the private pension plans to which our companies contribute.

From the above data, it is impossible to estimate what the effects on a country's trading position would be if GATT provisions were altered to permit the rebate of direct taxes. The ultimate result on a country's trading position would depend on such factors as the size of the rebate, the state of demand for the product, the stage of the business cycle at home and abroad, and the degree of competition among domestic and foreign producers of the good. In addition, competition in trade occurs not at the level of national economies but at the level of individual business firms and specific products. Therefore, the data also do not indicate whether a change in the GATT rules to permit rebate of profits tax to a specific American firm in its exports of a specific product would help or hurt that firm in competition with foreign firms receiving similar rebates. Rebates for direct taxes would necessarily be imprecise, thus affording opportunities for undetected or for competitive overcompensation.

A broad analysis of the equity of the GATT provisions requires not only an examination of relative corporate tax burdens, but a study of the nature and level of total taxation and government expenditures. A large part of tax receipts (some of which are levied on imports) finance government services which have the effect of conferring benefits on domestic producers, which may lower production costs.

TABLE.—CORPORATE PROFITS AND DIRECT CORPORATE TAXES AS A PERCENT OF GNP, CORPORATE TAXES AS A PERCENT OF CORPORATE PROFITS AND STATUTORY CORPORATE INCOME TAX RATES IN THE UNITED STATES AND SELECTED EUROPEAN COUNTRIES, 1966

[In percent]

	Belgium	France	Germany	Italy	Netherlands	Sweden	United Kingdom	United States
Direct taxes on corporations as a percent of GNP	1.9	1.9	[1] 1.6	1.8	2.6	2.1	[1] 5.1	[1] 4.6
Corporate profits as a percent of GNP	5.5	4.6	3.6	4.6	NA	4.8	11.4	10.5
Direct corporate taxes as a percent of corporate profits	35.2	42.5	[1] 44.2	39.1	NA	43.6	[1] 45.2	[1] 43.4
National statutory corporate income tax rates	30.0	50.0	[2] 51.0–15.0	[3] [4] 29.9–38.8–15	[5] 43–46	[6] 40	[7] 40	[8] 22–48

[1] Based on corporate income taxes only.

[2] The Basic rate of 51 percent is applicalbe to undistributed corporate profits; the rate is reduced to 15 percent on dist ibutions. As part of the firm's profits must be retained to pay the tax on the distributed portion, and is thereby subject to the 51-percent rate, the minimum effective rate is actually about 26 percent. There are also local income taxes.

[3] This represents the range of rates applicable to income from the employment of capital and labor (business activities). There are also local surcharges which range between an average of 11.93 percent and 13.80 percent so that the total tax on business activities ranges between 29.93 percent and 38.80 percent.

[4] In addition to the tax on business activities, there is a tax on corporate profits. The 15 percent rate is applicable to income in excess of 6 percent of net worth. This tax is increased by local surcharges which raise the effective to about 18 percent.

[5] On profits not exceeding f.50,000 the rate is 43 percent plus 15 percent of the excess over f. 40,000. The rate on profits in excess of f.50,000 is 46 percent.

[6] In addition to the national corporate tax, there is a local tax levied in communities where the corporation has a permanent establishment. The local rate, which varies from year to year and from community to community edpending on local needs, averages about 20 percent. As the local rate is deducted from income subject to the national tax the overall effective rate of national and local corporate income taxes is about 52 percent.

[7] The 1965 Finance Act which became applicable in April 1966 changed the method of taxing corporate profits and reduced the overall corporate rate from 55 percent to 40 percent. Part of the corporate income earned in calendar 1966 was subject to the higher rate.

[8] A normal tax of 22 percent is levied on all taxable income and a surtax of 26 percent on taxable income above $25,000.

Source: The computed percentages were largely derived from data in Yearbook of National Accounts Statistics, 1967 Statistical Office of the United Nations, New York, 1968. The Belgium, French, German, Italian and Dutch statutory rates were obtained from: Corporate Taxation in the Common Market, Guides to European Taxation, vol. 11, International Bureau of Fiscal Documentation, Amsterdam, The Netherlands, 1968.

V. EFFORTS TO RESOLVE THE ISSUE

While there are deficiencies in the GATT provisions on border tax adjustments, neither the United States nor any other country has been able to come forward with any practical proposals for amendments. In an effort to direct attention to this issue, the United States initiated a comprehensive study in the OECD in 1963 and brought up the subject for extensive discussion in the GATT during 1968–70.

Considerable time and effort was devoted to the study of the issue within the U.S. Government in consultation with the private sector during the OECD and GATT discussions. All attempts to develop formal proposals for consideration during those discussions failed for three reasons:

1. Any limitation on border tax adjustments would affect the United States as well as others. Although the effect of any limitation on the United States would be less significant than on many other countries, implementation of any limitation would be much more difficult in the United States because most of the U.S. taxes which would be affected are levied at the state and local level and at the retail stage where no adjustment is made at the border.

2. Any effort to obtain greater latitude for the United States, for example, allowing an adjustment for corporate income taxes, could be emulated by others and any advantage gained would be offset.

3. Any proposal which would be self-serving for the United States at the expense of others would not be acceptable and hence would not have any support. The rationale of other countries in this respect has been made quite clear. They do not consider border tax adjustments unfair and state they would have no objections to the United States adopting a TVA and a border tax adjustment system similar to theirs.

The one accomplishment arising from the long consideration of this subject was the establishment within the GATT of a consultation procedure for changes in border tax adjustments.

VI. REBATES OF INDIRECT TAXES AND THE COUNTERVAILING DUTY STATUTE

Under administrative precedents dating back to 1897, the Treasury Department has generally not construed the rebate, remission or exemption on exports of ordinary indirect taxes (consumption taxes on goods) to be a "bounty or grant" within the meaning of our countervailing duty statute (Section 303, Tariff Act of 1930; 19 U.S.C.A. 1303). These precedents have been applied as a general rule with regard to all consumption taxes on goods. The precedents are based on the principle that since exports are not consumed in the country of production, they should not be subject to consumption taxes in that country. The theory has been that the application of countervailing duties to the rebate of consumption taxes would have the effect of double taxation of the product, since the United States would not only impose its own indirect taxes, such as Federal and state excise taxes and state and local sales taxes, but would also collect, through the use of the countervailing duty, the indirect tax imposed by the exporting country on domestically consumed goods.

The Treasury Department has not applied these precedents to tax "rebates" in excess of taxes collected on the exported product. If, for example, the foreign exporter has paid $1 in excise taxes on a product he exports to the United States but receives a rebate of $1.20 on exportation, under long-established administrative precedents of the Treasury Department the imported merchandise would be subject to a countervailing duty of $0.20.

A new issue arose in 1967 in the Italian transmission tower case. Up to that time Treasury precedents were based on the assumption that indirect taxes rebated on export had been imposed on the product and that the tax burden on the Department investigation of Italian transmission tower exports revealed that this product benefitted from a number of rebates (under Italian Law 639) of indirect taxes which had not been imposed on the product being exported or its components but rather were taxes on general overhead purchases, unrelated to the specific product, such as mortgage taxes, advertising and publicity taxes and Government license fees. To the extent that such taxes were rebated, the Treasury Department found that they constituted a "bounty or grant" under the countervailing duty statute (T.D. 67–102). The Customs Court decision of September 13, 1971, (*American Express Co.* v. *United States, C.D. 4266*) upheld the Treasury Department finding. The Court of Customs and Patent

Appeals has affirmed the Customs Court's finding. The Treasury Department has subsequently imposed countervailing duties on a range of Italian products benefitting from Law 639 rebates.

Judicial Interpretations

Considerable confusion has arisen in the countervailing duty field over the interpretation of two early Supreme Court opinions, in which there are *dicta* referring to the term "bounty or grant" as applying to *all* tax rebates, including rebates of indirect taxes. [*Downs* v. *United States*, 113 F. 144 (1902), aff'd 187 U.S. 496 (1903); *Nicholas & Co.* v. *United States*, 7 Ct. Cust. Appls. 97 (1916), aff'd 249 U.S. 34 (1919).] However, the *holdings* of the Supreme Court in these two decisions, as distinguished from the *dicta*, were that overrebates constitute a "bounty or grant" to the extent of the overrebate. As implied from the earlier discussion, the Treasury Department for more than half a century in its administrative decisions has applied the *Downs* and *Nicholas* opinions in accordance with the holdings rather than the dicta. Recent opinions of the Court of Customs and Patent Appeals in *Hammond Lead Products, Inc.* v. *United States*, 63 Cust. Ct. 316, C.D. 3915 (1969); rev'd 58 C.C.P.A. 129 C.A.D. 1017 (1971) and of the Customs Court in *American Express Co.* v. *United States*, C.D. 4266 (decided September 13, 1971), in dicta, have restated the *dicta* of the *Downs* and *Nicholas* opinions. It cannot be predicted how the courts will finally resolve this issue

CONCLUSIONS

The applicability of a statute such as the countervailing duty law, basically unchanged since the early part of this century, to all consumption taxes, including the very complex tax-on-value added, requires a careful analysis. Moreover, the situation may be further complicated by the decisions which will ultimately be rendered by the courts in the countervailing duty cases presently being litigated on appeal.

The Treasury Department is examining the countervailing duty law from the standpoint of its overall impact on the present world trade situation. This study is focusing on the problems discussed earlier, in addition to an overall review of the administration of this law.

Extract From Suggested Charter for UN ITO 25:2

"Except as provided in paragraph 3 of this Article, no Member shall grant, directly or indirectly, any subsidy on the exportation of any product, or establish or maintain any other system which results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market, due allowance being made for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability. The preceding sentence shall not be construed to prevent any Member from exempting exported products from duties or taxes imposed in respect of like products when consumed domestically or from remitting such duties or taxes which have accrued."

Extracts From the General Agreement on Tariffs and Trade

Article II 2(a)

"a charge equivalent to an internal tax imposed consistently with the provisions of paragraph 2 of Article III in respect of the like domestic product or in respect of an article from which the imported product has been manufactured or produced in whole or in part;"

Article III

"1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

"2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.

"3. With respect to any existing internal tax which is inconsistent with the provisions of paragraph 2, but which is specifically authorized under a trade agreement, in force on April 10, 1947, in which the import duty on the taxed product is bound against increase, the contracting party imposing the tax shall be free to postpone the application of the provisions of paragraph 2 to such tax until such time as it can obtain release from the obligations of such trade agreement in order to permit the increase of such duty to the extent necessary to compensate for the elimination of the protective element of the tax."

Article VI

"4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes."

Article XVI

Subsidies

Section A—Subsidies in General

"1. If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory. It shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.

Section B—Additional Provisions on Export Subsidies

"2. The contracting parties recognize that the granting by a contracting party of a subsidy on the export of any product may have harmful effects for other contracting parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of this Agreement.

"3. Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affected or may be affecting such trade in the product.

"4. Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price changed for the like product to buyers in the domestic market. Until 31 December 1957 no contracting party shall extend the scope of any such subsidization beyond that existing on 1 January 1955 by the introduction of new, or the extension of existing, subsidies.

"5. The CONTRACTING PARTIES shall review the operation of the provisions of this Article from time to time with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties."

Mr. ROSTENKOWSKI. Mr. Burke.

Mr. BURKE. Senator Hartke was testifying here today, and he indicated that if we were to close the fat tax loophole the foreign investors have, that this would result in a savings of about $4.5 billion, and as a result of that savings, they could then turn around and reduce the

corporate tax here in America from about 48 percent down to as low as 40 percent.

If this is true, do you think this would help domestic industry and improve the employment conditions in the country?

Mr. VANDER JAGT. First, I must say that I don't agree with Mr. Hartke's description of it as a fat tax loophole.

Mr. BURKE. Fat cat tax loophole. No, that is my characterization, not his. I am sorry. I didn't mean to attribute that to him. I have been saying that right along.

Mr. VANDER JAGT. Whether it be fat cat or fat hat, I would respectfully not agree with that characterization of it. I am afraid it could easily be a case, and I suspect in some instances it would, that you could kill the goose that lays the golden egg, and there would be no income to be taxed at all. I think expecting our businesses to be competitive in a time of tough competition with other foreign businesses and subject them to a double taxation, that their competitors are not subjected to, is putting an unendurable barrier on them. It is like having Dick Butkis ride Secretariat in a race, and I am not sure we can stand that kind of a handicap.

Mr. BURKE. But this would be a 16 percent reduction in taxes for domestic corporations. This would be a tremendous windfall for them which certainly would put them in a more competitive position to manufacture their goods and meet the foreign competition.

Mr. VANDER JAGT. That would be assuming the goose kept laying the eggs, that we would then get the $4.5 billion, and I am not sure that is a proper assumption.

Mr. BURKE. If they get a 16-percent reduction in their domestic taxes, I don't see how that can do anything else but happen.

Mr. VANDER JAGT. I misunderstood the gentleman. I thought what the gentleman was saying was that the revenue produced by taxing foreign-source income would be $4.5 billion, and then we would use that revenue pickup to reduce the domestic taxation. Is that not what the gentleman was saying?

Mr. BURKE. Yes.

Mr. VANDER JAGT. Then I say that if you subject U.S. foreign operations to that double taxation, that handicap will put many American enterprises out of business at home and abroad. It is doubtful that the $4.5 billion in increased revenues would be realized. I am not sure that the case you described would materialize. I am not sure that American business can remain competitive being subjected to a double taxation.

Mr. BURKE. How long do you think that these multinational corporations should be allowed to defer their profits when they don't return them to the United States, how many years?

Mr. VANDER JAGT. I think putting a date on that is within the particular expertise of this committee. I would have no opinion on that at this time.

Mr. BURKE. Can you give us a ball park figure? Do you think they should be allowed to go 25 years, 20 years, 15, 5, or 10?

Mr. VANDER JAGT. I would place myself on the wisdom of the committee.

Mr. BURKE. Of course you realize, too, that the reason a lot of these multinational corporations say they go overseas is because they can't ship the goods into those markets. So if this is true, aren't we

continuing the incentive for these countries that continue to keep their trade barriers up to keep our goods out by having the better part of two worlds?

They are able to get our investments over there and tax them and keep their people working and everything else by setting up a trade barrier?

For instance, Chrysler Corp. is over in Japan now building the Colt car. They are also importing it back to the United States in competition with other American cars. They are enjoying the multinational tax break as a result. I can't understand why this is such a good thing for the country. Maybe you can explain it.

Mr. VANDER JAGT. I think the gentleman is absolutely correct that where a barrier imposed by a foreign country makes it only, the only way that we can penetrate that barrier is to build a plant within that foreign country, that that is exactly the kind of barrier that should be removed and that I hope will be removed under the authority of this legislation. There is no question in my mind that that is one of the President's objections.

Mr. BURKE. Isn't it true that if they continue to expand their foreign investments and never return the money to this country, that they are contributing further to the imbalance of payments?

Mr. VANDER JAGT. I am not sure I understood the gentleman's question there.

Mr. BURKE. Multinational corporation goes abroad. Say they make $1 million profit in 1973. If they decide not to send that $1 million back and instead build another textile or shoe plant or plant to build radios and transistors, isn't that contributing to the imbalance of payments?

Mr. VANDER JAGT. Well, no, I don't think so at all. I think most of the studies that have been made in this area would indicate that every time there is an expansion or a step forward that that releases the whole flow of exports from the United States in those stages of the business operating there.

I think it is helpful to our balance-of-payments situation.

Mr. BURKE. If the money does not come back, how does it help?

Mr. VANDER JAGT. By our being able to sell products to the company that is manufacturing whatever it is manufacturing. Also, Mr. Burke, the record clearly indicates that foreign-source earnings are repatriated.

Mr. BURKE. But we are not selling the products. We are manufacturing them over there and the profits are not coming back. They are deferring the profits and investing them further for further plant expansion over there.

Mr. VANDER JAGT. The industry that I am most familiar with is the automobile industry, coming from Michigan. Each time there is an automobile plant constructed in a foreign country, in the initial stages it is tremendous for business in Michigan in terms of the sale of tools and dies and all of the other things that go into the construction of a plant, and then later on parts.

Mr. BURKE. That is on the initial outlay.

Mr. VANDER JAGT. And continuing then with parts.

Mr. BURKE. Well, the history of that is just starting. Maybe 5 or 10 years from now we will hear a different story. Maybe I am wrong,

and maybe you are right. But the facts don't seem to support your side of the argument of what has happened during the past 2 years.

Mr. VANDER JAGT. There is no question, Mr. Burke, that we have reached the point where the United States is in a bad competitive position in terms of international competition. I know we both are searching for a way in which to make U.S. products more competitive on the international market.

Mr. BURKE. The only answer that the administration has given us is that the devaluation has done such a tremendous job. How the devaluation of the dollar and lessening the stability of the dollar around the world is helpful, I can't see it. Maybe I didn't study the right economics in life, but I have always felt that the stability of the dollar was very important worldwide and here in the Nation.

Do you think that the devaluation of the dollar stops at the shoreline?

Mr. VANDER JAGT. Absolutely not. I agree with you that the stability of the dollar is of the utmost importance, not only to us, but to the whole world. I think devaluation in some senses has, indeed, been helpful in making us more competitive. As I mentioned in my prepared statement, I just returned from Africa a couple of months ago. There we have already seen the impact of the previous devaluations, where, for the first time in a number of U.S. products we have become, we have a better selling price than our competitors. That includes automobiles.

That last step that made us more competitive was directly attributable to the devaluation of the dollar, so that improved our position.

Mr. BURKE. How long do you think that bandaid will keep the wound closed?

Mr. VANDER JAGT. I don't think the devaluation of the dollar is a permanent solution. That is why I sincerely hope that this committee in its wisdom enacts the kind of legislation which will give us the authority to correct the inequities and barriers that do exist in terms of the selling of American products.

Mr. BURKE. What bothers me further is the way some people come in here and so deliberately—not you—like the Secretary of the Treasury, this shocked me, when he explained what a wonderful thing the devaluation was.

Will the housewife be compelled to have a wheelbarrow to load it up with dollars to buy her groceries?

I think you have gone farther than most people. I would like to bring you a little farther along.

Mr. ROSTENKOWSKI. Thank you, Mr. Vander Jagt.

This concludes the testimony on the subject of public hearings on foreign trade and tariffs. The record of this hearing will remain open for the submission of data, statistics, and so forth, which have been requested and for statements, until the close of business June 22, 1973. 1973.

All witnesses who have been asked to submit additional information in the course of their interrogation and have not done so are strongly urged to submit the data at the earliest possible moment so that these hearings can be published as soon as possible.

The committee will now adjourn until Monday morning at 10 a.m., when it will begin to mark up the foreign trade legislation in accord-

ance with the notice which has been sent to all members of this committee.

[The following material was submitted for inclusion in the record:]

U.S. SENATE,
Washington, D.C., April 18, 1973.

Chairman WILBUR MILLS,
House Ways and Means Committee.

DEAR MR. CHAIRMAN: Attached for your consideration is an exchange of correspondence I have had with the Administration on a simple and relatively uncontroversial suggestion that art works and paintings that are sent abroad for sale and not sold be allowed to return to the United States duty free.

I do feel that this suggestion could help our balance of payments in a small way and commend it to your attention for possible incorporation in the Trade Reform Act of 1973 which is now before your Committee.

With warm regards,

Sincerely,

JACOB K. JAVITS.

DEPUTY SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS,
Washington, D.C., April 9, 1973.

Hon. JACOB K. JAVITS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR JAVITS: Peter Flanigan referred your letter of March 29 to me, forwarding the suggestion of Nathaniel L. Goldstein that provisions be made in proposed trade legislation that art works and paintings, which are sent abroad for sale and then not sold, be accorded duty free entry on return to the United States. Unfortunately, by the time this reached me it was too late to consider for inclusion in the Administration's proposed legislation.

The suggestion seems worthwhile. We will be prepared to respond if the issue is raised in hearings.

Sincerely,

WILLIAM R. PEARCE,

A BILL To amend the Tariff Schedules of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Schedule 8, part I of the Tariff Schedules of the United States (28 F.R., part II, August 17, 1963; 77A Stat; 19 USC sec 1202) is amended by inserting after item 801.00 the following new item:

" 801.05	Articles returned to the United States after having been exported to be sold abroad, when returned by or for the account of the person who exported them from the United States without having been sold and without having been advanced in value or improved in condition by any process of manufacture or other means while abroad.	Free	Free.

REPORT ON BILL TO AMEND SCHEDULE 8, PART 1, TARIFF SCHEDULES OF THE UNITED STATES

A. PURPOSE

The purpose of the Bill is to provide that articles exported from the United States to be sold abroad, but reimported because they remain unsold, shall be accorded duty free treatment in certain instances.

B. STATEMENT

Insofar as articles exported and returned are concerned, the Tariff Schedules of the United States provide that in the absence of a specific provision to the contrary, the tariff status of an article is not affected by the fact that it was previously imported into the customs territory of the United States whether or not the duty was paid upon such previous importation.

There is no specific provision for imported articles which were subsequently exported for purposes of sale abroad and thereafter returned to the United States to the person who exported them due to the fact that the articles remained unsold.

There are specific provisions in the Tariff Schedules of the United States for the duty free entry, under certain conditions, of: (1) imported articles subsequently exported under lease to a foreign manufacturer and returned to the United States; (2) imported articles subsequently exported, but reimported for failure to meet sample or specifications abroad; (3) imported articles returned after being exported for temporary use abroad solely for exhibition, examination or experimentation for scientific or educational purposes, exhibition in connection with any circus or menagerie, or exhibition or use at any public exposition, fair or conference; and (4) imported horses temporarily exported for purposes of racing abroad.

Under the present law, no one can send property abroad for sale on consignment or at auction with reserve without being subject to duty if the property is reimported unsold.

In order to facilitate the sale of articles abroad on consignment or at auction, the Bill would insert a new duty free tariff classification provision, item 801.05, in Schedule 8 of the Tariff Schedules of the United States. This provision would permit duty free entry for articles returned to the United States, after having been exported if (1) exported to be sold abroad; (2) reimported without having advanced in value or improved in condition by any process of manufacture or by other means while abroad; (3) reimported for the reason that such articles were not sold; and (4) reimported by or for the account of the person who exported them from the United States.

STATEMENT OF HON. CHARLES S. GUBSER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman: I appreciate the opportunity of presenting my views on the Trade Reform Act of 1973. The district which I represent contains one of the most important electronic manufacturing centers in the country. The electronic industry and other firms in my Congressional District are vitally concerned with the expansion of world trade and the promotion of a greater market for goods manufactured in my Cngressional District.

I am deeply concerned with Section 203 of H.R. 6767 ("The Trade Reform Act of 1973") which authorizes the President to suspend, in whole or in part, the application of Items 806.30 or 807.00 of the Tariff Schedules of the U.S. These Items of the Tariff Schedule reflect what has long been the U.S. practice to help both our Industry and our employees: Encouraging the use of U.S.-made parts in products which are processed or assembled abroad, by charging duty only on the value added in the foreign country.

The loss of these tariff items will significantly reduce domestic employment, decrease both domestic and international competitiveness of U.S.-made products, result in a deterioration in the U.S. balance of trade, and seriously threaten our world-wide marketing leadership. I urge the deletion of subsection 203(a)(2) to avoid action which could cause the disappearance of Items 806.30 or 807.00 of the U.S. Tariff Schedules.

To illustrate my point, manufacturers of solid state (semiconductors) products represent one of the prime users of Items 806.30 and 807.00. This high technology industry is characterized by vigorous international competition. By heavy reliance on these tariff provisions, the U.S. semiconductor industry's favorable balance of world trade has grown from $32.4 million in 1963 to approximately $200 million in 1972.

This positive contribution to the United States trade surplus represent the strong competitive position of the United States semiconductor industry in the world market place and is the result of America's lead in technology, reduction of selling prices year after year, and the industry's world-wide assembly and marketing operations.

In addition, semiconductors have become the essential building blocks for the products of other major U.S. industries, such as computers, aircraft, missiles, calculators, and a wide range of consumer electronic products. Recent technological advances by U.S. semiconductor manufacturers are likely to bring the manufacture of watches and calculators back to the U.S. The continued health of the U.S. semiconductor industry and its ability rapidly to provide more advanced and cheaper semiconductors are thus crucial, not only to the semiconductor industry itself, but also to other vital sectors of the American economy.

If Items 806.30 and 807.00 are repealed or suspended, the manufacturers of

most electronic products affected by these Items tell us that in the great majority of cases they will be forced to reduce employment in their U.S. operations. This contention is supported by the conclusions of the U.S. Tariff Commission in their report entitled "Economic Factors Affecting the Use of Items 807.00 and 806.30 . . ." (1970—No. 332–61).

". . . Repeal would probably result in only a modest number of jobs returned to the U.S., which likely would be more than offset by the loss of jobs among workers now producing components for exports and those who further process the imported products." (Page 233)

". . . Repeal to these provisions would result in an adverse effect on the U.S. balance of trade. On the one hand, experts of U.S. materials for use under the provisions would be reduced by a smaller amount, probably not more than $30–$50 million. Thus, the net *effect of repeal would be a $150–$200 million deterioration in the U.S. balance of trade.*" (Page 232) (Emphasis supplied)

In summary, repeal of these provisions would cause a decline in U.S. production and U.S. employment; real would make worse the U.S. net trade balance and the U.S. balance of payments deficit. The competitive position of U.S. producers would deteriorate to the direct advantage of foreign producers. A more serious general consequence could be the loss of U.S. technological leadership in the world in the many electronic areas which would be affected by an elimination or adverse modification of these tariff items.

Therefore, I urge the retention of Items 806.30 and 807.00 through the deletion of subsection 203(a)(2) of H.R. 6767.

The Treasury Department has suggested two major changes in the treatment of foreign source income arising from controlled foreign corporations ("CFC's") located in so-called tax holiday countries or shipping a significant volume of their production to the United States.

I believe that enactment of these proposals would provide no benefits to the United States with the possible but not assured exception of some limited increase in short-term revenues collected by the Federal Government. Their enactment would, on the other hand, clearly put U. S. corporations in a weaker competitive position with foreign firms in world markets, because no other major country taxes undistributed foreign earnings.

Taxation or unditributed earnings under either proposal would lead to increased costs to the American corporation either directly or through additional borrowing. This adds to the problems of meeting foreign competition, and to the burden of raising capital for domestic production and employment.

These tax proposals would also damage U. S. participation in foreign markets where joint ventures with local interests are involved. Faced with problems arising from the proposed tax legislation, many such interests would team up with non-U. S. companies, thereby seriously reducing U. S. companies' ability to compete in such markets.

Investment incentives (including tax holidays) are granted in most countries. To ignore the world system or to bar U. S. manufacturers from benefiting from such incentives would put any U. S. subsidiary in an unfair and extremely disadvantageous position in serving the local market in which the plant is located or third country markets throughout the world. U. S. manufacturing subsidiaries must be in a position to benefit from the same tax provisions that are available to our foreign competitors, including foreign competitors heavily engaged in selling to the U. S. market.

Future growth in foreign markets for electronic products is projected to be more rapid than in the United States. American companies should be encouraged to participate in this growth. Reducing their ability to compete will restrict their ability to contribute increased earnings, tax-revenues, job opportunities, and enhancement of their technological bases.

Therefore, I urge that your Committee recommendations not subject American firms to the discriminatory tax measures which have been proposed. To do so would put them at a severe disadvantage compared to foreign firms, which would not be subjected to these discriminatory tax burdens.

The last item I wish to stress is the need in H.R. 6767 to provide for on-going consultation between the U. S. Trade Negotiators and affected labor, agricultural, industry and business groups. During the long, complex and highly technical negotiations of the Kennedy Round, the U. S. negotiating team, unlike its foreign counterparts, did not keep closely in touch with U. S. industry, labor and other affected groups and, thus, was frequently placed at a disadvantage. I believe that the President's negotiators should mandatorily, and at regular intervals

throughout the bargaining and its preparations, be required to consult on matters of substantive objectives and progress with all who are legitimately concerned in the end-results of the process. By the very nature of their selective workings, trade distorting devices and practices have unequal effects on differing industries and consumers; these, in particular, should be continuously kept within the attention of our negotiators. To avoid this in the future, I recommend that language be added to Title I of H.R. 6767, which would ensure that consultation continues during the negotiating process.

In closing, I wish to thank you, Mr. Chairman, and your committee, for providing me with this opportunity to present my views.

STATEMENT OF HON. JAMES A. HALEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman and members of the subcommittee, I would like to express to you my support for H.R. 5413, which I introduced to provide an orderly market sharing agreement for fruits and vegetables. Enactment of this legislation is needed if we are to insure that our fruit and vegetable growers are to remain in business and are to maintain the capacity to feed a large segment of the people of the U.S.

At a time when domestic markets have expanded, fruit and vegetable growers in Florida have witnessed a significant encroachment on the U.S. marketplace by imports of these crops from foreign, low wage-rate nations such as Mexico. For example, from 1965 to 1971 imports of cucumbers from Mexico increased over 4½ times but the acreage planted in cucumbers in Florida during this same period dropped from 15,300 to 14,100 acres. During this same period, imports of tomatoes more than doubled while the Florida acreage of tomatoes harvested dropped from 51,400 to 40,700 acres. Imports of fresh strawberries from Mexico increased during this period by more than 8½ times while the acreage of strawberries harvested decreased from 2,300 to 1,600 acres. There is simply no question but that foreign imports of fruits and vegetables are seriously jeopardizing our domestic producers. If this trend is permitted to continue the nation will become dependent upon foreign imports of these food crops at the economic expense and likely disaster of many U.S. growers.

In the past the Department of Agriculture has contended that progress in restraining tomato imports from Mexico, for example, was being made through the implementation of voluntary self-imposed restraints by the Mexican government. However, Florida growers can bear witness to the fact that whatever progress that may have been made has been very slight and could be destroyed at any time the Mexicans find it expedient to flood the U.S. markets with their produce.

Therefore, Mr. Chairman, to insure stability in the marketing of fruits and vegetables in this country, I strongly urge you and the other Members of this Committee to include in any trade legislation you ultimately report to the House provisions of H.R. 5413, which will simply establish an orderly market sharing agreement with other nations based on an historical representative sampling of what their share of the market should be.

STATEMENT OF HON. SILVIO O. CONTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

H.R. 421: DUTY FREE IMPORTATION OF UPHOLSTERY REGULATORS, ETC.

Mr. Chairman, it gives me great pleasure to appear before you and the distinguished members of the committee in support of H.R. 421.

This bill would remove the import duty from upholstery regulators, upholsterer's regulating needles, and upholsterer's pins. This legislation has been favorably acted on in the 91st and 92d Congresses. However, because of the attachment of unrelated amendments in the Senate and because of the lateness of action on the bill, it died in the rush to adjournment in both cases.

It is important to note that these implements are not manufactured in the United States. For this reason, the removal of the duty would have no harmful

effect on domestic industry. On the other hand, the very existence of the duty does have an adverse effect on domestic industry. These implements are necessary for the manufacture of furniture and automobile seats, and, while the duty raises an insignificant amount of revenue, it does impose an unreasonable burden on these businesses.

In our present consideration of the need for changes in our trade laws and the harmful effect of these laws on domestic industry, we must not overlook those cases where unnecessary import duties harm, rather than protect, our domestic industries. I believe that this particular duty is an example of one of these cases. In past years, the responsible Government agencies have reviewed this legislation and endorsed it. The Departments of State, the Treasury, Commerce, and Labor and the Special Representative for Trade Negotiations in the Executive Office of the President have all given favorable reports on the legislation. No objections have been reported from any other source.

Favorable action on this legislation would have a positive impact on the entire upholstery industry. I respectfully ask that the committee favorably report this legislation for the consideration of the House at the earliest possible time.

Thank you, Mr. Chairman.

STATEMENT OF HON. BENJAMIN S. ROSENTHAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you, Mr. Chairman, for allowing me to testify before this committee concerning those provisions of the pending legislation which would grant most-favored-nation status to the Soviet Union. I am a co-sponsor of the Mills-Vanik legislation which "prohibits most-favored-nation status to any non-market economy country which denies to its citizens the right to emigrate or which imposes more than nominal fees upon its citizens."

As chairman of the Subcommittee on Europe which includes the Soviet Union in its jurisdiction. I considered these problems carefully and for some time. I also travelled late last year to the Soviet Union where I have discussed the problem of Soviet Jews with Soviet officials, with Americans and other foregin observers, and with Soviet Jews themselves. My conclusion: 1972 was a setback for Soviet Jews despite the record-high emigration to Israel.

Soviet officials seemed determined to treat the status of their Jewish citizens as an "internal" problem. In order to prevent emigration, the Soviet Union has posed a number of barriers and discriminatory practices against its Jewish citizens. These include various forms of harassment and intimidation, and geographical discrimination.

Although the exit tax, directed primarily at retaining the intelligencia, has been suspended as of March, 1973, there is no guarantee that it won't be reinstated or that other equally abhorrent means of limiting emigration will not continue to restrict emigration of various nationalities. Emigration practices still remain discriminatory and arbitrary. Our greatest error, in my judgment, would be to limit our attention to the education tax which came into existence last August. It would be an exceedingly unfortunate diversion of our attention from the real problems of human rights in the Soviet Union were we to accept a suspension of the tax, whether real or not, as a solution to this problem.

Also, it would be short-sighted were we to believe that this is a problem affecting Jews alone. There are several hundred nationalities in the Soviet Union who face similar or identical restrictions on emigration as do Soviet Jews. The tragedy is that, aside from the Jews and the ethnic Germans whose cause the Bonn government has effectively aided, no one speaks for these other nationalities. Our efforts therefore, are really on behalf of many thousands of Soviet citizens who cannot speak for themselves.

I would like to give the Committee one example of how other forms of discrimination and harrassment, more subtle than the exit tax, operate against Jews in the Soviet Union today.

Of those Jews who have been allowed to emigrate over the last year on the basis of "family reunion"—the only legally recognized basis for emigration from the country—about 85% came from border areas of the U.S.S.R., where only 15%-20% of all Soviet Jews live. Only 10%-15% of those Jews who were allowed to emigrate came from the Russian "heartland" (i.e., the Ukraine, the Russian Republic, and White Russia. This area includes the main cities Moscow and Leningrad.)

Eighty-five percent of the Jewish population lives in the Russian heartland. This geographic distribution of emigration reflects a policy of Soviet authorities to restrict heavy emigration of Jews from the main centers and direct emigration permission to those areas judged harder to assimilate and control.

I don't believe the Soviets will try to eliminate emigration, but through their discriminatory practices, they will continue to try to limit the exit of highly educated Jews.

University graduates who apply for emigration usually lose their jobs immediately. They are forced to support themselves with part-time menial jobs. They are subject to the Soviet laws against "idleness", even though they have been deprived of their livelihood by the government. Their greatest problem is the uncertainty of knowing if they will ever be allowed to emigrate. They also suffer harassment while they wait.

No single issue shows the diversity of history and of social and political values between our country and the Soviet Union as the question of emigration of Soviet Jews. Although our support of Soviet Jewish emigration serves to widen the gap between western and communist ideology, we cannot turn our backs on a moral conviction which the United States has upheld since as early as 1869 when Ulysses S. Grant intervened with czarist authorities to halt expulsion of Jews—that each individual has the right to freedom of worship.

I believe that the Soviets seriously misunderstand our political system by ignoring Congressional response to the legitimate outrage of groups in America which have taken up the cause of Soviet Jewry. I am convinced that improved trade ties are useful to both countries and to the cause of world peace. But both the President and the Soviets must understand that normal relations between our countries cannot proceed while Jews and others in the Soviet Union are harassed and prevented, by whatever means, from exercising their right to emigration.

An important long-range goal for the United States today is to strengthen ties between the Soviet Union and the West so that channels of communication access (through trade as well as other means) remain open and improvable. It is equally important, however, to represent the proper concern of our citizens about the injustices of Soviet society today, particularly on fundamental issues of human rights. Allowing the Soviet Union, and ourselves for that matter, the luxury of continued isolation from each other may hurt both countries and the cause of world peace. Yet ignoring the legitimate concerns of our own citizens about those policies is a form of political self-isolation in which elected officials cannot afford to indulge.

The Soviet Union today faces severe political pressures from its attempts to enter the modernized industrial and technological world of the late 20th century. Increased trade with the United States is part of this Soviet process of opening its gates to Western ways. This proposed increase of trade is also part of the threat which the Soviet government perceives from this modernization process. The United States must make realistic but hard-headed judgements about how much flexibility exists within the Soviet government for these changes and then pursue policies calculated to maintain and to develop further that capacity for free movement of peoples and ideas.

The most effective means the United States has to deal with the USSR on the problem of emigration is through economic leverage. Not only would the Soviet Union greatly benefit from improved trade conditions but the United States would find such conditions favorable in addition to achieving its goals of liberalized emigration. United States negotiators should propose emigration rights for Soviet Jews to incorporate these principles:

1. The opportunity to apply for exit visas in *all geographic regions* of the Soviet Union without fear of sanction or reprisal by Soviet authorities.
2. The availability of all relevant visa application rules and procedures in published and public form.
3. The maintenance of all normal employment, dwelling, pension, and related economic, social and civil rights and benefits for visa applicants.
4. Amnesty for visa applicants who have been imprisoned or otherwise confined by reason of having applied for emigration.
5. The maintenance of a significant level of permits to emigrate distributed among *all geographic regions and occupational* groups of the Soviet Union.

The Soviet Union is now giving very high priority to widened commercial relations with the U.S. It would not be an overstatement to say that this priority is viewed as an imperative. The Soviet economy badly needs the advantages of

Western technological knowhow, both to improve the capacity of its industrial sector in the long run and, for more immediate impact, to meet the growing demands of its consumers. The U.S. also stands to gain from expanded trade through greater access to the Soviet Union's vast resources in raw materials and energy.

There is also great disparity between the two economies which underscores the urgency felt by the Soviet leadership for more commercial ties with the West. Statistics show that Soviet productivity is lower, their consumption is lower, and the quality of their consumer goods is lower. Soviet consumers are aware of the disparity in quality and therefore seek foreign goods.

Obviously, the situation provides commercial opportunities for the United States. Given the Soviet imperative for more trade with the U.S. and the considerable American economic advantage, an increase in trade would, according to the Department of Commerce, result in a bilateral balance of trade very favorable to the U.S. for the immediate future, especially in machinery and grains. Access to valuable Soviet raw materials is also important to our country. The prospect for joint ventures for the exploitation of natural gas could reap large benefits to the U.S. not only to the entrepreneurs in charge but also to the American economy which needs additional energy sources. The impact of increased trade would be greater, however, in the Soviet Union than in the U.S. In our talks in Moscow, Soviet officials expressed a desire to maintain and accelerate the rapid increase in trade between the two countries, and emphasized that both sides will benefit from the increase.

They regard the Soviet trade position as somewhat handicapped now for three reasons: First, the Soviet Union does not have most favored nation status. Second, for more than two decades, Soviet-American trade has been so minimal that it can be said that little trading experiences now exist between our countries. Developing such experience takes time. Third, the Soviet Union has an unfavorable balance of trade with the United States.

Obviously there is great divergence in views between the U.S. and the Soviet Union. We clearly view the question of freedom of emigration differently. Yet economic involvement has always served to mitigate political and ideological problems. Let's use the Soviet need for American trade as a means to give Soviet Jews that which they so desperately desire and so richly deserve.

STATEMENT OF HON. BURT L. TALCOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. TALCOTT. Mr. Chairman, this summer, the Committee on Ways and Means is considering the passage of landmark trade legislation which will significantly affect the course of America's economic relations with her fellow nations for many years to come. I am glad that the Committee has decided to take action on this vital subject because I believe that there is a present pressing need for a new American foreign agricultural trade policy which will be reasonable, fair, and dynamic. Clearly, it must not be based upon the selfish aspirations of any particular area or industry but, rather, it must strive to protect the jobs of Americans whose source of livelihood is being removed or impaired by overseas competition.

I favor, and we should strive, for truly reciprocal trade with all nations, but it must be done with proper restraints necessary to prevent serious injury caused by extraordinary impact of cheap foreign competition.

Today, I will address the plight of agricultural producers, especially those engaged in the production of strawberries, mushrooms and artichokes which present typical examples of problems affecting the economic backbone of our California district. It must be remembered, nevertheless, that this problem of foreign competition faces people throughout the nation and affects many other products like beans, apples, melons, onions, peas and tomatoes, to name only a few. The production of this variety and abundance has made the United States truly the "land of plenty" and her people the best nourished in the world.

In recent years, imports of strawberries, artichokes and mushrooms have greatly increased and, in the process, have been usurping American markets away from domestic farmers. For example, the imports of fresh strawberries, primarily from Mexico, has increased by 137 percent since the 1966–67 seasons Mushroom imports from Japan and Taiwan and artichoke shipments, mainly from Spain, have risen more than two and a half times since the late sixties

What has caused this unfortunate situation? The growing flood of certain foreign agricultural imports has, first of all, shown that the present tariff schedules which impose ad valorem tariffs of between 10 to 15 percent on these items are obviously not sufficient to protect American domestic producers in these cases. California fruit and vegetable producers have found, to their increasing dismay, that they cannot remain competitive with imports from countries that have very low wage rates as well as other costs of production.

Domestic producers and shippers are subject to high labor costs, including workers compensation, minimum wage requirements, social security, and other prevailing benefits for laborers which, although well-intentioned, are very costly. Frequently these benefits are non-existent in foreign countries. These items tend to 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 compared to our own. Strict domestic rules regarding the use of insecticides and in complying with the provisions of the Wholesome Food Act also greatly increase production costs. It is unreasonable to impose upon the domestic agricultural producer fixed and escalating labor and processing costs created mainly by governmental mandate without the benefit of some protection against foreign imports.

Moreover, the production of agricultural products, particularly fresh fruits and vegetables, is quite different from any other industry. For some commodities, the growing season is very short. The producer has only a few weeks to market his product and due to the high perishability of most items, storage is impractical. These production and marketing costs are relatively high and it prevents the producer from averaging his profit or loss over long periods of time. Another important factor is that the very nature of agricultural production does not lend itself to long periods of price stability. Producers are entitled to higher prices at certain times in order to compensate for losses due to market gluts and the vagaries of weather. Thus, if the farmer is suddenly faced with unreasonable foreign competition, there is little likelihood that he will be able to recover later. Therefore "dumping" of cheap foreign products in large quantities at the very peak of the domestic harvest or production must be minimized.

Finally, the great technological advantages once enjoyed by American producers are disappearing. Many new techniques are obtained and utilized by our foreign competitors, most of whom have received their knowledge through U.S. government assistance programs such as A.I.D. which provides U.S. capital and technicians abroad, or through education in the United States itself.

Realizing that the world trade picture is presently changing, and that adjustments in marketing circumstances undoubtedly will occur in the future, I firmly oppose any action that would encourage the importation of more foreign agricultural products into this country from low-wage nations without adequate protection.

An increase of cheaply-produced products at the present time would be at the direct expense of agricultural interests of my district, California and the United States. Any temporary economies which might be realized by the consumer would be more than offset by increased costs of another nature, including the economic displacement of persons engaged in agricultural production.

The efforts of our government to achieve reasonable business agreements with our trading partners has been largely futile. Such efforts will continue to be futile until our government endorses a strong, coherent and comprehensive policy in the area of import control for fruits and vegetables—one that does not work against the interests of the American employee or his employer. Adustments of national policies must be made, both with respect to the importation of cheap foreign goods and with respect to our needs to expand our agricultural labor force by one means or another.

The decline in our fruit and vegetable production as a direct result of foreign competition means a loss to California which will run into the millions of dollars unless this problem is properly contained by appropriate Congressional action. California, as an important agricultural state, can scarcely afford this economic loss and neither can the Nation.

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

I am grateful to the Committee on Ways and Means for its consideration of the serious problems confronting us in the future foreign trade area and I am hopeful that my statement, together with the information submitted by other similarly affected industries, will provide you with sufficient assistance in the drafting of a legislative proposal which will adequately address itself to our problems and provide a realistic foreign trade policy for the benefit of all Americans.

Thank you.

STATEMENT OF HON. GLENN M. ANDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, I appreciate this opportunity to present testimony to the Ways and Means Committee on behalf of H.R. 3347, the "Domestic Dog and Cat Animal Protection Act of 1973," which I introduced on January 31.

Briefly, my bill would prohibit the importation into the United States of animal products—such as skins—derived from commercially-raised dogs and cats. In addition, this proposal would prevent the interstate shipment of such products.

Mr. Chairman, the need for such legislation was brought to my attention by a report from the Foreign Agricultural Service of the United States Department of Agriculture that a group of businessmen in Venezuela planned to commercially raise cats, slaughter them, and then export the skins and other products to the United States for sale.

In addition to the skins, which reportedly would bring 50 cents each in the United States, these people planned to sell the gut for sutures and strings for musical instruments, and to market the feet for good-luck charms.

This is not an isolated case. A South African businessman announced a plan to raise dogs for importation of dog skins into the United States. However, the public outcry led the South African Government to amend its Animal Protection Act to specifically prohibit the slaughtering of domestic dogs for financial gain.

However, existing U.S. laws and regulations would not stop this operation.

This utter disregard for domestic cats and dogs must be challenged by the Congress, and the factory-farming of cats and dogs for pelts—merely to satisfy human vanity—must be halted.

By timely action, Congress could prevent the burgeoning of inhumane foreign industries built around the raising of domestic dogs and cats for slaughter.

For this reason, I introduced H.R. 3347, which would prohibit the importation of dog and cat skins, etc., and interstate commerce in such products. My bill would levy a $10,000 fine for the first violation and $20,000 for the conviction of a second offense.

Mr. Chairman, I personally believe that those who would slaughter cats and dogs for profit have grossly misjudged the American people, if they expect us to buy cat and dog skin products. However, I also believe that such an act, as I have proposed, would discourage the beginning of such a business before it has had an opportunity to slaughter any dogs and cats. Such an act would lay to rest any visions of marketing dog and cat products in the United States.

Mr. Chairman, I would like to submit for the record the initial report of the Foreign Agricultural Service regarding the Venezuelan operation, a follow-up letter confirming the facts in that report, and a news article from Coro, Venezuela, on this topic.

FOREIGN AGRICULTURAL SERVICE,
December 29, 1971.

From: Caracas.
Subject: Venezuela: Commercial Cat Production in Venezuela.

In a move that may leave some cat lovers with a queasy feeling, a group in the northwestern state of Falcon has announced plans to begin commercial production of cats. Such production is being spurred by reports that prepared cat skins bring about 50 cents each in the U.S. There are also plans to sell the gut for sutures and strings for musical instruments, and the feet for good-luck charms (rabbits' feet have no special properties in Venezuela—here the good luck comes from a cat's paw).

As an extra twist to this already unusual venture, the group plans to raise mice as feed for the cats. And, because only skins, paws, and guts of the cats have commercial value here, the meat will be fed to the mice.

Since the plans are to start with only ten thousand cats as compared to twenty thousand mice, and because mice multiply much more rapidly than cats, the enterprise is looking for markets for its mice in research facilities. Waste from this operation will be used as fertilizer in fruit orchards in nearby areas.

Initial investment in this enterprise will probably be about Bs200,000 ($44,000), and since the animals are feeding on each other, upkeep should be minimal. Eventually the operation should provide employment to about one hundred people in the Coro Area.

Comment Because this whole proposal has an air of unreality about it we checked its authenticity with the Ministry of Agriculture (MAC). There we were told that not only was this a legitimate enterprise, but that the Director of Livestock Programs in MAC was starting an operation to raise burros for *their* skins.

DONALD M. NELSON, Jr.,
Assistant Agricultural Attache.

U.S. DEPARTMENT OF AGRICULTURE,
FOREIGN AGRICULTURAL SERVICE,
Washington, D.C., March 1, 1973.

Col. MILTON M. KAUFMANN, USAFR,
Washington Director,
Committee for Human Legislation,
Washington, D.C.

DEAR COLONEL KAUFMANN: I am sorry about the delay in sending this letter. After I talked to you, I was hit by the flu bug and today is my first day in the office since.

As we discussed, I was Agricultural Attache in Venezuala when the report on the cat raising enterprise was filed. For the record, all facts in that report and in the following details were substantiated with the Venezuelan Ministry of Agriculture before any reports were filed.

The events which occurred were that the plant was established in the State of Falcon, as outlined in our first report and for the purpose detailed in that report. At the time, I had discussions with contacts in the Ministry of Agriculture. They informed me that there were no provisions in Venezuelan law by which such an enterprise could be legally stopped. However, they stated that their local people in Falcon had been instructed to keep a very close watch on the firm.

About a month later, the firm was closed up and legal action taken locally against the owner. The same contacts advised me that their local surveillance had caught the firm selling a cat carcass to a local housewife as a "rabbit." This, of course, was illegal and provided the Venezuelan authorities with the legal right to take action against the firm which they did immediately.

I hope this gives you the information you requested.

Sincerely,

ROBERT S. FITZSIMMONDS,
Chief, Foreign Marketing Branch,
Fruit and Vegetable Division.

[From the Daily Journal, Feb. 2, 1972]

CAT SLAUGHTERHOUSE PLANNED BY CITY OF CORO BUSINESSMEN

(By Misael Salazar Ieidenz)

CORO—This city, lying in the sandy irridescence that surrounds it and her colonial past—much of whose architecture remains intact—will be the center of a new, unusual industry.

A group of concerned citizens, confronting the scarce industrial possibilities that have existed in the region for the past four centuries, decided to found an enterprise that would exploit on a large scale the breeding of cats.

This idea is expected to change drastically the economic situation of the inhabitants who up until now have been receiving income off the money that trickles down from the National Budget and from the tourist industry that has only recently begun.

The company formed by Drs. Mario Jacobo Penso, Raul Lopez Lilo, Ruben Henriquez Garcia, Arnaldo Curiel and Jose Angel Jimenez, and banker Yamil Rufanal Eblen, plans to start the industry with 10 thousand cats. The skins of these animals will be sold in the United States and Europe for $50 after having been processed.

DERIVATIVES

On the other hand, in this line of business there will also be a demand for derivatives that come from the breeding of cats. The insides of the cats, commonly known as "cat gut," are used in the fabrication of surgical thread and for guitar strings. The entrepreneurs also feel that the paws of the cats can be used to make "good luck" key rings and that certain bones may be used for amulets,

It is also believed that the hair from some of these animals will serve in the making of fine artists' brushes.

Banker Yamil Rujana Eblen is the vice-president of the Regional Development Bank and is also a well-known businessman.

He explained that the cat breeding project has received offers of economic backing from various sectors, including businessman Jose Henriquez Morales, who has already offered $125 thousand for the cat business.

NOVEL IDEA

In reality, he explained, the creation of a novel industry is being tried, because the cats will be fed mice and the mice will be fed with the meat of the same cats.

He went on to explain that once the cats' parts which are to be fabricated have been processed, the carcasses that remain will be used to feed a breed of 20 thousand mice whose raising will be begun at the same time. With these rodents the problem of feeding the cats will be resolved. The importation of 20 to 30 thousand mice, which have been brought in by the biological departments of the national universities and the Venezuelan Institute of Scientific Investigations in the past will be avoided, he added.

REPRODUCTION CYCLES

Drs. Mario Jacobo Penso, Ruben Henriquez Garcia, Arnaldo Curiel and Raul Lopez Lilo explained that the native cats reproduce every 90 days and have a litter ranging in size from 3 to 9 kittens.

At the same time the mice reproduce every 21 days a litter of from 6 to 9 offspring.

"As the growth of both present certain special geometric characteristics. If we initiate the breeding of 10 thousand cats, the 20 thousand mice will allow us to feed all of the animals and we would guarantee in this manner, at a minimum cost, the operation of the industry," they explained.

CANNING PLANT

"On the other hand, they explained. "If we are left with an excess of mice, we could in the immediate future install a canning plant for mouse meat, which will be used as food for house cats in the whole country."

They added that the left-overs of the cats and the mice will be made into fertilizer of prime quality to supply, in immediate condition, the onion, tomato and pepper plantations that are found on the perimeters of the city.

Also, they explained, the heads of the mice, dissected, will serve to make tie clips.

Dr. Felix Vargas Graterol, ex-General Secretary of Government, and a person linked with the political and economic sectors of the country, was named the legal counsel of the company which will breed the cats. Referring to the possibilities of this industry, he noted that it will give employment to at least 100 people and to many veterinary and para-veterinary personnel.

The same characteristics of the company, he said, that in the beginning were taken with less seriousness than they should have been, will foster other industries, among them tourism, "because there will be many tourists who come to observe our original industrial process."

LOW COSTS

Dr. Jose Angel Jimenez, one of the businessmen, explained that the costs of production of this industry will be minimal. Equally, the costs of marketing

will be reduced. He indicated that a skilled worker makes Bs 15 a day, or $3 more or less. The climate is ideal in allowing production all year long and the city of Coro has a temperature (average) of 28 centigrades.

The industries that are located in Coro, he said "will be capable of producing 12 months a year, because of the climate, the abundance of water, and the transport roads which connect Coro with the rest of the country."

Dr. Ramon Antonio Medina, the governor of Falcon State, referring to the cat industry, said that his government is ready to give moral and economic support to all of those industries that show their feasibility.

"We believe," he said, "that since we are giving a great push to tourism, constructing projects and bettering the general condition of the state, we also have the obligation to support all of the industries that may operate in Falcon."

Since introducing H.R. 3347, I have received considerable support for the bill from all across the country. Letters of support have come in from concerned individuals and conservation groups, as well as from humane societies. I would like to present a sampling of these letters for the Committee's consideration.

LAGUNA HILLS, CALIF.,
March 2, 1973.

Representative GLENN ANDERSON,
San Pedro, Calif.

DEAR GLENN: I feel I can call you that, knowing you since your start in politics in Hawthorne, however that is beside the point.

I think it is wonderful your stand in politics, but one step more the interest in *Cats and Dogs*, in belonging to the Canine and Feline Clubs of Leisure Hills want you to know we will certainly be for the "Ways and Means" Committee in assisting in passing the bill you are Backing and we have quite a population of animals here, and are very interested in their welfare.

In renewing my name, I was Jack Swatman's secretary until the office closed, keep up the good work.

Sincerely,

VIVIAN MACDONALD,
Secretary Laguna Hills Cat Club.

CITIZENS FOR CONSERVATION,
Walnut Creek, Calif., March 14, 1973.

Hon. GLENN M. ANDERSON,
U.S. Congressman,
Washington, D.C.

DEAR CONGRESSMAN ANDERSON: We want to thank you for the introduction of H.R. 3347 which would prohibit the importation of cat and dog skins. We agree with you when you said, "I believe that such an Act would discourage the beginning of such a business, before it has an opportunity to slaughter dogs and cats."

It is to be truly civilized to take such a stand, as animals do not vote, and only conscience dictates this splendid Act.

Sincerely,

H. S. MAYS,
Vice President.

PALM SPRINGS ANIMAL PROTECTIVE ASSOCIATION, INC.,
Palm Springs, Calif.

DEAR MRS. ANDERSON: Inclosed is a petition in regard to your bill. If this organization can help you further, please let us know. Another petition is being completed and will follow in a few days.

Yours truly,

MS. MILDRED MOGLOWSKY, *President.*

PETITION SPONSORED BY PALM SPRINGS ANIMAL PROTECTION ASSOCIATION, INC.

I am opposed to the slaughter of dogs and cats and the ensuing import of their pelts for coats and other garments.

I hereby support Congressman Glenn Anderson's legislative fight against this cruel commercial activity.

(42 signatures).

ATLANTA HUMANE SOCIETY,
Atlanta, Ga., February 26, 1973.

Hon. GLENN M. ANDERSON,
House of Representatives,
Washington, D.C.

DEAR SIR: As you can imagine, the article entitled "A (Shaggy?) Cat Story" that appeared in the February 24, 1973 issue of the National Observer, has created quite a stir among many of our members.

We wholeheartedly support your efforts to prohibit importation of cat and dog skins into the United States. We would appreciate additional information on your *Domestic Dog and Cat Protection Act* so that we might inform our members so they may write their Representatives and Senators to support this greatly needed legislation.

Certainly the word "humane" means more than just protection and care of animals. We do not wish to see human suffering through economic depression anywhere, and we support efforts on the part of local inhabitants to help themselves, but I believe these individuals in Venezuela are not thinking in proper perspective with the beliefs of the great majority of mankind.

Thank you for your efforts and watchfulness on behalf of "those who cannot speak for themselves".

Sincerely,

DAVID W. DREESEN, D.V.M.,
Executive Director.

I am especially pleased to have the endorsement of the furrier industry for my proposal. The President of the American Fur Merchants Association, Inc., Joseph E. Poser, wrote, "The Association is pleased to endorse H.R. 3347 in order to prohibit the importation of dogs and cats raised commercially for their skins, and to prohibit such skins from being introduced into interstate commerce. . . ." I have also received the following letter from Mr. Irvin H. Hecht of the Associated Fur Manufacturers, Inc.

ASSOCIATED FUR MANUFACTURERS, INC.,
New York, N.Y., March 21, 1973.

Hon. GLENN M. ANDERSON,
House Office Building,
Washington, D.C.

DEAR MR. ANDERSON: Pursuant to your letter of March 9, 1973, re: Bill H.R. 3347, I, as Executive Vice-President, convened the Executive Committees of the Fur Conservation Institute of America, and the American Fur Industries. These organizations represent all segments of the Fur Industry, including labor.

You have the wholehearted support of these organizations to prohibit the importation into the United States of animal products derived from commercially raised cats and dogs.

If you deem it necessary, a Committee from our organizations will meet with you in Washington, to further support your Bill.

Very truly yours,

IRVIN H. HECHT,
Executive Vice-President.

Mr. Chairman, I strongly urge this distinguished Committee to give favorable consideration to the inclusion of my proposal to prohibit the importation of commercially-raised dog and cat skins in the very important trade legislation now before you. I believe that there is a demonstrated need for such a provision, and I am not aware of any opposition to it.

Again, thank you very much for this opportunity to present testimony on behalf of H.R. 3347, the Domestic Dog and Cat Animal Protection Act of 1973.

STATEMENT OF HON. HERMAN BADILLO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I appreciate being afforded the opportunity to submit this statement in connection with the Trade Reform Act of 1973. I intend to address myself to the Freedom of Emigration amendment—also known as the Mills-

Vanik amendment—and, particularly, to the vicious campaign by the U.S.S.R. to impede and prevent Jewish citizens to emigrate to Israel and elsewhere.

Historically, Jewish citizens in the Soviet Union have been the victims of the most brutal and sustained campaigns of harrassment, intimidation and persecution, whether under the Russian tsars or the present communist rulers. Among the many problems which have continuously plagued the Russian Jewish community has been the restriction placed on the freedom of travel and emigration. In some eras Jews have been prevented from residing in certain areas of the Soviet Union and have been the victims of forced expulsion. Today they are callously denied the right of free emigration.

EDUCATION TAX

Especially reprehensible is the ill-conceived effort to restrict Jewish emigration through the imposition of a tax or levy on prospective immigrants on the basis of their education and profession. This education tax, which often amounts to tens of thousands of dollars, requires a person to not only sell all of his wordly possessions but frequently forces him and his family to commit "economic crimes".

International public pressure—spurred to a considerable extent by the initiatives taken by the United States Congress in condemning this odious policy—achieved some modest success when the Soviet Union indicated that it was relaxing the offensive tax policy and, for a while, there was some substantial emigration. Although the President finally addressed himself to this grave issue, he apparently decided to focus only on the issue of the education tax. It would seem that Mr. Nixon has chosen to ignore the more vital and basic issue of the freedom of emigration. It must be clearly understood that the education tax is simply one facet of the overall problem and the fact remains that Jewish citizens do not have an automatic right to leave their country, whether for a brief holiday or to take up permanent residence in some other land.

REPRESSIVE MEASURES AGAINST JEWISH VISA APPLICANTS

At the present time there is no opportunity to make application for exit visas in all geographic regions of the Soviet Union without the fear of some form of sanction or reprisal by Soviet authorities. The educated and skilled—as well as the elderly and ill—continue to be deterred from seeking to leave the U.S.S.R. Those who are courageous enough to even apply for exit documents are economically, socially and culturally isolated and are singled out for particularly prejudicial treatment. In some instances they are tried on a variety of trumped-up charges and imprisoned for a considerable number of years. Those do not suffer this extreme fate are frequently fired from their positions, are forced to discontinue their educations, are required to live in a state of constant fear and apprehension, are denied their cultural and religious identity and are scrapped by their dictatorial leaders.

An example of the repressive measures being employed by the Soviet authorities is the case of Mr. Yevgeny Levich, a Soviet Jew who has sought permission to emigrate to Israel. Mr. Levich is 25 years of age and is reported to be seriously ill with cancer. Although he was declared to be medically unfit for military service, he was taken while enroute to a Moscow hospital where he was receiving treatment and inducted into the Soviet armed forces. He has subsequently been assigned to a remote area—the Zabaikal Military District—in the eastern part of the Soviet Union near the Sino-Soviet border. At this point Mr. Levich's eventual fate is only a question mark. His plight is just one of the countless thousands being endured by Soviet Jews who sek to emigrate to other countries.

ISSUE OF MOST-FAVORED-NATION STATUS

In light of this grave situation, Mr. Chairman, I cannot see how in good conscience the United States can extend most-favored-nation status to a country which pursues such repressive policies. I am afraid that, to do so, would be interpreted as tacit approval for the continuation of the poorly conceived campaign to stifle Jewish emigration from the Soviet Union. It is clear that the United States and other members of the family of free nations must continue to press for the rights of unhampered, free emigration and the end to the discriminatory

and repressive treatment of those who would seek to emigrate. Further, we must not be deceived by the Soviet Union's ploy of periodically adjusting the education tax but must work to ensure that the more fundamental problem of free emigration is finally resolved.

As the United States and the U.S.S.R. increasingly move toward rapproachment, no effort can be spared in removing the restrictions on the free movement of people just as similar action is being considered to facilitate the free movement of goods and commodities. Certainly there can be no justification for extending credit or investment guarantees to any nation which would deny its citizens the right or opportunity to emigrate or to otherwise capriciously restrict their freedom of movement through the imposition of exhorbitant taxes or levies or the employment of policies which would intimidate them. Further, in order to avoid any possible misunderstandings or erroneous interpretations by either the executive branch and/or any trading partner, it is imperative that it be clearly spelled-out in the trade legislation currently being considered by this Committee that privileged trade status will not be granted to countries which pursue policies and attitudes which currently prevail in the Soviet Union. I believe the position of the Congress is very clear on this point inasmuch as over 77 per cent of the Senate has sponsored the Jackson measure and over 64 per cent of the House has sponsored the Mills-Vanik Freedom of Emigration Act.

Although exact figures are not available, it is reported that more than 100,000 affidavits have been requested and received by Jews in the U.S.S.R. who desire to emigrate. Their fate—both their daily lives in the Soviet Union while awaiting visa issuance as well as the possibility of their emigratng to Israel and elsewhere—very much rests in our hands. We must take affirmative action to insure that they will not be victimized or denied the right to emigrate. By denying most-favored-nation status to nations which extort excessive and unreasonable fees or taxes from visa applicants and by requiring an accounting of these countries' policies toward those seeking to emigrate, the Congress will be able to offer visible proof that we will no longer tolerate tactics employed against Soviet Jews. We will be able to provide forceful evidence of America's moral concern and indignation over the problem of the emigration rights of Jews in the Soviet Union.

I urge the Committee to give this issue its fullest and most careful consideration and include the provisions I have discussed in the trade reform legislation.

Thank you.

STATEMENT OF HON. ROBERT F. DRINAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. Chairman, members of the committee, we consider H.R. 6767, the Trade Reform Act of 1973, in especially interesting circumstances. I hardly need review for this Committee the growing awareness in Congress that we have too trustingly and too readily delegated our legislative powers to the Executive, and that the time has now come for Congress to reassert its proper Constitutional role. While in some areas the facts of Presidential usurpation of Congressional power may accord with the charges, in many other areas the truth is that Congress has been a willing partner in the changes which have taken place.

Nonetheless, the delegation of various powers to the President in this trade legislation is too far reaching. I am fully aware that the time is long past when it is feasible to consider in Congress a line-by-line setting of tariff rates. I am fully aware that administrative expertise should be brought to bear on such matters. I am fully aware of the negotiating flexibility that the President genuinely needs. My position is that Congress must be brought more closely into a partnership with the President in decisions vitally affecting the nation's economic and social health. H.R. 6767 goes entirely too far and we would be well advised to restrict and hedge the delegations so completely proposed.

I wish to address myself to two outstanding questions among the many issues posed by the Trade Reform Act of 1973. First, I will discuss the constitutionality of the delegation of trade-related powers to the Executive in H.R. 6767. Second, I will treat the issue of Soviet-American trade, the proposal of H.R. 6767 to grant most-favored nation (MFN) treatment to the Soviet Union, and the questions of basic human rights and freedoms that arise in the context of Soviet-American trade.

I. CONSTITUTIONALITY OF DELEGATION

Despite the views of some that the doctrine of non-delegability has lost whatever force it once may have had, that issue rises inevitably, at the beginning and we disserve ourselves as Representatives and the public by failing to confront it. Chief Justice Hughes succinctly summarized the question in 1935 when he wrote:

"The question whether such a delegation of legislative power is permitted by the Constitution is not answered by the argument that it should be assumed that the President has acted, and will act, for what he believes to be the public good. The point is not one of motives but of constitutional authority, for which the best of motives is not a substitute." [*Panama Refining Co.* v. *Ryan*, 293 U.S. 388, 420 (1935).]

Chief Justice Hughes, speaking for a nearly unanimous Court, continued:

"The Congress manifestly is not permitted to abdicate, or to transfer to others, the essential legislative functions with which it is thus vested. Undoubtedly legislation must often be adapted to complex conditions involving a host of details with which the national legislature cannot deal directly. The Constitution has never been regarded as denying to the Congress the necessary resources of flexibility and practicality, which will enable it to perform its "function in laying down policies and establishing standards, while leaving to selected instrumentalities the making of subordinate rules within prescribed limits and the determination of facts to which the policy as declared by the legislature is to apply. Without capacity to give authorizations of that sort we should have the anomaly of a legislative power which in many circumstances calling for its exertion would be but a futility. But the constant recognition of the necessity and validity of such provisions, and the wide range of administrative authority which has been developed by means of them, cannot be allowed to obscure the limitations of the authority to delegate, if our constitutional system is to be maintained." [*Id.*, at 42.]

The practice of delegation in tariff legislation goes back at least to Section 9 of the Act of July 14, 1832, which authorized the Secretary of the Treasury to establish from time to time such rules and regulations, not inconsistent with the laws of the United States, as the President should think proper, to secure a just, faithful, and impartial appraisal of all goods entering the country. *Field v. Clark*, [143 U.S. 649 (1891] sustained an 1890 Act under which Congress delegated authority to the President to exempt some imports from the imposition of the duties set by the statute, upon his finding that such an exemption was necessary for reciprocity between the other nation and the United States. In other words, the President was empowered to determine when concessions promised by another country could be equivalent in value to those made by his own order. In the Court's view, the statute simply provided for the implementation of a legislative provision when the President ascertained the existence of objective fact. [*Id.*, 692, 693.]

Closer in principle to the present legislation was the Tariff Act of 1922 which was sustained in *Hampton & Co. v. United States*, 276 U.S. 394 (1928). The Act authorized the President to raise or to lower the rates of statutory duties to a maximum of 50 percent if he determined, after a Tariff Commission investigation, that the rates set by the statute did not equalize the costs of production between the United States and the principal competing country. Said Chief Justice Taft for the Court:

"If Congress shall lay down by legislative act an intelligible principle to which the person or body authorized to fix such rates is directed to conform, such legislative action is not a forbidden delegation of legislative power. If it is thought wise to vary the customs duties according to changing conditions of production at home and abroad, it may authorize the Chief Executive to carry out this purpose. . . ." [*Id.*, 409.]

Now, it is quite true that in both the *Hampton & Co.*, *supra*, and *Field* v. *Clark*, *supra*, the delegating statute fixed upon the President the power to change tariff rates upon the determination of certain objective facts, in the latter that concessions by the other country would combined with reduced rates equal the old rates, in the former that rate which would equalize the costs of production between the United States and the other country. It would certainly stretch the precedents thus adduced to argue point blank for the validity of the powers delegated in this bill upon the standards contained within its borders. Thus, the

President is authorized to promote "the purposes of this Act" [Sec. 101] by negotiating rate reductions. But "the purposes of this Act" as stated in Sec. 2 are far from being stated in objective form or in any manner which can be calibrated and indeed it is no doubt true that they are incapable of being formulated and expressed in such a way. But Sec. 2(a) states that the President is to act "to develop an open, non-discriminatory and fair world economic system through reform of international trade rules . . . ." And subsection (b) is worth quoting in full:

"To facilitate international cooperation in economic affairs for the purpose of providing a means of solving international economic problems, furthering peace and raising standards of living throughout the world."

These and the other goals set out in the statement of purposes are fine ideals and they should certainly be adhered to by both Congress and the Executive in formulating trade policy. But they *are* goals and ideas; they do not set out a discernible standard, a rule, a measuring stick by which it can be determined whether the President is or is not complying with Congressional policy. We must be extraordinarily careful in this respect, particularly in light of the Court's decision in *United States* v. *Bush & Co.*, 310 U.S. 371 (1940). There the Court in effect placed beyond judicial review a presidential setting of rates pursuant to Congressional authorization to the same degree as if Congress had itself enacted the changed rates. Within the numerical limits on rate changes, H.R. 6767 leaves the President at large to determine the changes he will negotiate and put into effect, unfettered by standards which mean anything. We might, with Chief Justice Hughes, say that if these provisions be valid,

"it would be idle to pretend that anything would be left of limitations upon the power of the Congress to delegate its law-making function. The reasoning of the many decisions we have reviewed would be made vacuous and their distinctions nugatory. Instead of performing its law-making function, the Congress could at will and as to such subjects as it chose transfer that function to the President or other officer or to an administrative body. The question is not of the intrinsic importance of the particular statute before us, but of the constitutional processes of legislation which are an essential part of our system of government." [*Panama Refining Co.* v. *Ryan*, *supra*, 430]

We deal in this bill not only with reduction of rates, of course, but in subsequent sections with reduction of nontariff barriers and with conferral of most-favored nation status, both actions to be taken pursuant to the statement of purposes which I quoted above, both subject to the same objections of delegation. In that respect, I notice, the Administration has purported to cater somewhat to our sensitivities and put into the bill provisions for one-House vetoes of his actions. But on that score and even without reaching the Cinstitutional objections which some lawyers and scholars have raised about this type of legislative oversight, two things should be said. First, the provision for one-House veto does nothing whatsoever about the basic problem of constitutionality. If we cannot delegate, we cannot delegate with a reservation to do something about the exercise of the power we have delegated. Second, placing the burden upon Congress either to accept *in toto* what the President has negotiated or contrarily to kill it all by passage of a resolution of disapproval strikes me as a deliberately cumbersome form of oversight to impose on Congress, a form of hamstringing which we should reject in favor of keeping an affirmative power to approve, reject, or modify. Let the President negotiate and then come to us. We can behave with as great a degree of consideration of the national interest as the President. There is no reason why this Congress cannot legislate so that we have these affirmative powers of approval, rejection or modification.

For many years the Congress did delegate its powers over tariff rates and did so beyond what the Supreme Court would have sustained. I am willing to yield on the Constitutional issue with regard to circumscribed rate reductions because historical practice would appear to have sustained what the courts have had no occasion to consider. But we cannot add on nontariff barriers and most-favored nation treatment. What are immediately objectionable are the cumulative delegations which are spread through this bill. This is especially true if we look behind the purported goal to reduce trade barriers and promote greater and more beneficial world trade and glimpse the protectionism that is just off stage. Title II of this bill provides simplified procedures for the accomplishment of the imposition of rates and other barriers on the importation of goods into this country. The President's message is quite clear on this.

"I recommend," he said, "a less restrictive test for invoking import restraints. Today restraints are authorized only when the Tariff Commission finds that imports are the "major cause' of serious infury or threat thereof to a domestic industry, meaning that their impact must be larger than that of all other causes combined. Under my proposal, restraints would "be authorized when import competition was the 'primary cause' of such injury, meaning that it must only be the largest single cause. In addition, the present requirement that injury must result from a previous tariff concession would be dropped.

"I also recommend a new method for determning whether imports actually are the primary cause of serious injury to domestic producers. Under my proposal, a finding of 'market disruption' would constitute *prima facie* evidence of that fact. Market disruption would be defined as occurring when imports are substantial, are rising rapidly both absolutely and as a percentage of total domestic consumption, and are offered at prices substantially below those of competing domestic products."

Significantly, I think, these provisions are not coupled with any reservation to Congress of any power to veto these upward revisions of tariff barriers. I realize the President is currently promoting himself as a champion of freer trade, but the Administration's policies with regard to oil import quotas and its subservience to the parochial economic self-interest of big business interests give me pause. And we do not know what future Presidents may do.

We are simply asking for trouble if we hand over a blank check. It is far more advisable for Congress to establish a statutory mechanism by which Congress would act affirmatively to approve or to modify presidential proposals in this area before they would go into effect. Let us not re-enact another war powers controversy all over again when we have it in our power in the beginning to structure the bill so as to give Congress a meaningful role.

II. THE CHARACTER OF SOVIET-AMERICAN TRADE

In his report, *U.S.-Soviet Commercial Relationships in a New Era,* former Secretary of Commerce Peter G. Peterson quoted Alexander Hamilton as saying that "the spirit of commerce has a tendency to soften the hearts of man and to extinguish those inflammable rumors which have so often kindled into wars."

So it is that in some quarters the prospects of increased trade between the United States and the Soviet Union are being viewed as a panacea for the many issues, ideologies, and interests that have separated the United States and Russia. Amid this rosy glow of optimism, I would like to express a few words of caution.

The points that I wish to make, Mr. Chairman, are that East-West trade must be viewed as being essentially political in character; that this trade constitutes a form of political leverage not to be ignored by the United States; that expansion of Soviet-American trade is realistically insignificant in narrow economic terms beside potential diplomatic and political benefits to be gained; and that what is needed is significant improvement in East-West relations, not just a reversable—and modest—expansion of increased trade. In connection with this last goal, I will argue that it is in the vital interest of not only our country but the community of nations as well that the Soviet Union be held to universally accepted standards of basic human rights nd freedoms. I will specifically, although not exclusively, focus on the so-called Jckson-Mills-Vanik bill, of which I am a sponsor, and the question of the emigration of Soviet Jews.

*Current U.S.-Soviet Trade**

While U.S.-Soviet trade has experienced a rapid increase in the past two years, it still amounts to less than 1 percent of all U.S. foreign trade. In 1971, the U.S.-Soviet trade turnover totaled less than $200 million, with $160 million of this amount American exports. As a result of the controversial "wheat deal", trade turnover rose to $640 million in 1972. Of this sum the Soviet Union imported $545 million in U.S. goods, while the Russian exports to the U.S. amounted to only $95 million.

The jump in trade to $550 million last year is not an accurate index of any growth trend, for it resulted principally from the possibly one-shot wheat deal, itself a result of a disastrous crop failure in the Soviet Union and the subsequent

*The primary source for this section is: U.S.-Soviet Commercial Relations: The Interplay of Economics, Technology Transfer, and Diplomacy; U.S. House of Representatives Committee on Foreign Affairs, Committee Print, June 10, 1973.

threat of a severe food and feed shortage in that country. In this isolated case, the United States was the "seller of last resort" in the Soviet view.

Even with the $550 million figure, American trade with the Soviet Union was dwarfed by comparison to that with our major Western European trading partners or Japan, and was in fact less than our trade with Spain and Israel, for example, to whom the United States exported $972 million and $558 million worth of goods, respectively.

Nature of Soviet-American Trade

U.S.-Soviet trade is likely to be characterized by "technology transfer", by which the technology-intensive goods and services of the United States will be exported to relatively backward sectors of the Soviet economy. In partial return, the Soviet Union will export to the United States primarily basic resources, including energy resources, either in the form of direct exports of raw materials or in the form of joint U.S.-Soviet ventures, with the U.S. supplying development capital and technological expertise, possibly including management services. Because the chronic Soviet shortage of hard foreign currencies, potential Soviet-American trade will require substantial U.S. financing.

In truth, the Soviet Union has much to gain from us, while we have little to gain from them, at least in strictly economic terms. At the present time a number of Soviet "import needs" can be identified that depend on a heavy influx of Western technology. Among these "needs" are areas where the United States appears to have a substantial technological advantage: large-scale petroleum and natural gas extraction, transmission, and distribution systems; management control systems utilizing computer facilities; mass production machinery; "agribusiness" systems; and tourist systems.

By way of contrast, there is at the present time very little that the Soviet Union has to offer the United States other than basic resources and unfinished products. Among potential Soviet exports are: petroleum, natural gas, palladium, copper, chrome, zinc and timber—as well as such items as furs, vodka, and caviar.

The long-term potential for growth in Soviet-American trade will be sharply limited by the inability of the Soviet Union to match its heavy, and expensive, import needs with sufficient exports to afford a reasonable balance of payments situation. Last year alone the inbalance of U.S.-Soviet trade was $440 million in favor of the U.S., and this deficit is likely to be the same in 1973, because of the carry-over of massive grain purchases. There are ways to increase Soviet dollar earnings, involving, for example, increasing sales of gold, increasing non-trade income from tourism and shipping, and increasing sales of industrial goods abroad. In this last category, Soviet efforts will be hampered by a lack of Soviet marketing facilities, the dubious repute in which the quality of Soviet industrial goods are generally held, and the compelling domestic demands upon the already strained Soviet consumer economy.

As a result of the limits upon Soviet export growth, and the shortage for foreign currency, it is apparent that the only way that the Soviets will be able to meet their great import needs will be through securing very large amounts of foreign long-term financing. Private institutions in the United States have shown considerable reluctance to make long-term financing deals in the face of the uncertainties of future U.S.-Soviet relations. Thus the brunt of the necessary financing will fall upon government sponsored agencies, principally the Export-Import bank. Financing, credit guarantees, and insurance may also come from the Commodity Credit Corporation and, conceivably, the Overseas Private Investment Corporation.

On a strictly economic basis, the Soviet Union will not be able to afford the massive Soviet-American trade that some look forward to. A political decision will be required to make this trade happen. It must be decided if the many economic risks of Soviet trade—I point to long-term financing agreements and the many risks inherent in natural gas exploration in Siberia as only two of many examples—can be justified sufficiently by potential political/diplomatic gains. If we are to subsidize Soviet imports and thus Soviet economic development, then these subsidies must be viewed as a kind of foreign aid, and must logically be subject to the same political considerations that surround our foreign aid determinations.

The importance of Soviet-American "technology transfer" to the Soviet Union should not be underestimated, despite its many impediments. A recent authoritative Soviet projection suggests a level of imports from advanced countries which implies a U.S.-U.S.S.R. trade turnover in 1980 of as much as $5 billion annually.

The increasing demands of the Soviet consumer, and the need to modernize seriously backward segments of the Soviet economy suggest that the Soviet Union has a great stake in seeing the fruition of Soviet-American "technology transfer." The stake of U.S.-U.S.S.R. trade, as perceived by the government of the Soviet Union, gives the United States valuable diplomatic as well as economic leverage. This potential must be utilized, not only for our own benefit, but for the larger benefit of the community of nations.

Administration Proposals for Soviet-American Trade

As its part of an apparent bargain struck in Moscow during the summit of May, 1972, the Administration appears to have received Soviet agreement on a tentative resolution of the outstanding dispute over Soviet Lend-Lease debts in return for a pledge to secure an extension of most-favored-nation treatment to the Soviet Union and the repeal of the Johnson Debt Default Act. The Johnson Debt Default Act of 1934 placed certain limitations on private long-term loans to foreign governments found to be in default of obligations to the United States. While this Act has been interpreted as allowing private commercial credits and government loans (such as from Eximbank), its repeal would remove another impediment to Soviet-American trade.

The Administration has proposed to this Committee, in the form of the "Trade Reform Act of 1973," that the Soviet Union be granted MFN status and that the Johnson Act be repealed. In addition, the Export-Import Bank has requested another $10 billion in lending authority from Congress, thus increasing its total authority from $20 billion to $30 billion. This increase is necessary if the Eximbank is to be able to meet the financing requirements for Soviet-American trade.

These proposals represent very substantial trade concessions for the benefit of the Soviet Union. Under the present circumstances I oppose granting MFN to the Soviet Union and I oppose increases in Eximbank lending authority. While I entirely concur with the basic intent of increased trade between the United States and the Soviet Union, I cannot accept these proposals unless certain preconditions are met.

Equal Treatment

One of the arguments used by the Administration and by representatives of the government of the Soviet Union is that most-favored-nation treatment is accorded to all but a handful of U.S. trading partners, and that without MFN, as is the present situation, the Soviet Union is the victim of trade discrimination. It is argued that MFN is necessary so that the Soviet Union can receive "equal treatment" in trade.

I believe that the Soviet Union should receive equal treatment in our trade policy. What I object to is the fact that to date the Soviet Union has received not equal treatment, but *preferential* treatment. Such preferential treatment is unjustifiable on economic grounds. Already the Soviets have bought American grain at bargain prices. The Soviets have received American loans at preferential rates. The Soviets have consistently refused to comply with accepted norms for securing Eximbank financing. And, the Soviet Union is hoping to receive preferential treatement for resource development as well.

Last year the Soviet Union reaped a $300 million windfall in the ill-reputed grain deal. In the summer of 1972 the Soviet Union purchased about one-fourth of the total American wheat crop—440 million bushels. The price paid by the Soviet was approximately $1.63 per bushel, while the U.S. domestic price was as high as $2.49 per bushel. The Department of Agriculture made direct subsidy payments to grain exporters totalling $300 million during the period of the deal. Transportation subsidies amounted to over $400 million.

Insofar as the United States was the only country in the world able to meet the Soviet demand for wheat, this $300 million subsidy is very difficult to justify. While the Soviet Union was a clear winner in the deal since they got American wheat at cut-rate prices, the losers were equally clearly the American taxpayer and consumer, who saw tax money go into subsidizing this wheat deal while suffering the further indignity of paying for the deal with higher prices at the supermarket.

The Soviet Union has received preferential treatment from Eximbank. In March of this year Eximbank announced that it had made three agreements to provide $101 million worth of credit for $225 million worth of export sales to Russia. Included within these three agreements were funds to finance the construction of a truck plant and a dish-producing plant in the Soviet Union, as well as financing for purchases of 500 submersible electric pumping units.

For each of these agreements, the Soviet Union received financing at the favorable rate of 6 percent. By way of contrast, when the state of Israel needed financing of $50 million for construction of 11,000 homes for lower and middle-income families, the Agency for International Development announced in a press release (February 16, 1972) that it had secured a guaranteed loan from American institutions at the rate of 7½ percent. Why is it then that the Soviet Union should consistently get 6 percent interest rates while other countries, such as Israel, must pay the higher rate of 7½ percent?

Such preferential treatment shows every sign of continuing. The multi-billion dollar 25-year deal for the development of Siberian natural gas resources is a compelling example. In the first place, the agreement in principle calls for a price of $1.25 cents for each thousand cubic feet of Soviet natural gas—well above even the recently increased price of American natural gas. Export-Import bank financing would be required for the natural gas deal. Apparently the Soviet Union is to receive preferential treatment in this Eximbank deal as well.

While the project is in progress no payments ("progress payments") will be required, according to published reports. An extended repayment period might be granted. And, according to the New York Times of April 4, 1973 (p. 67), Soviet officials have been reluctant to meet basic terms and disclosure regulations required for Eximbank financing. In particular, the Soviet Union is reported to be balking at disclosure of its amount of foreign indebtedness as well as its gold stock holdings. This information is a standard prerequisite for Eximbank loans, since countries, like individuals, need to know what the borrower's assets are when they wish to make a loan.

In addition, the larger point to be made is that most of the proposed Soviet-American deals are of long-term nature, trading American resources now for future I.O.U.'s.

Unless the Soviet Union agrees to these commonly accepted procedures, the United States will be forced to either grant a waiver—another example of preferential treatment—or to possibly lose the whole deal.

The point I wish to make here, Mr. Chairman, is that the Soviet Union's desire for "equal treatment" is primarily rhetorical. What they seem to want in fact is preferential treatment, and to date this is what they have received. We should not be so blinded by the potential benefits of Soviet-American trade—which are real and desirable—as to forsake economic common sense and reasoned self-interest in our trade policies.

More important, Mr. Chairman, is that this question of "equal treatment" reflects on the Soviet Union's desire to be granted MFN treatment. The Soviets have repeatedly stressed the state-to-state aspects of MFN as opposed to the economic implications. The Soviet leaders seem to regard MFN as a symbol of good faith and friendship. This is entirely understandable, for it is generally agreed that MFN would have only a marginal impact on Soviet exports. As I stated previously, the preponderance of anticipated Soviet exports are basic resources and relatively unprocessed goods. As our tariff structure is so formulated as to penalize a product the more it is processed, Soviet exports, which fall at the lower end of the tariff scale, would not be heavily impacted by the discriminatory non-MFN tariff rates. MFN would acquire significance only if the Soviet Union began to export significant quantities of manufactured goods. Again, as I suggested earlier, this occurrance is unlikely—at least in the near future.

Thus, once removing the dubious "equal treatment" argument, we must acknowledge that MFN is in fact a political issue. It is not terribly important in economic terms. It is important in political terms. If we are to grant Soviets preferential trade treatment, and if MFN is political in character, then I believe that the United States has every good reason to insist that political considerations be included in the granting of MFN, and that the United States attempt to receive substantive political concessions in return for our granting a political benefit, MFN.

In fact, the only way that the United States can come out at least equal in the balance sheet with the Soviet Union in the proposed trade deals is if the political advantages secured through this trade are sufficient to overcome economic imbalance currently slanted in favor of the Soviets.

Human Rights and Trade

What I am asking, in essence, is that in return for preferential treatment and other trade favors currently contemplated, the United States act to ensure

Soviet compliance with the basic human rights and freedoms enumerated in a number of duly constituted internationally accepted agreements, to which the Soviet Union is a party, principally the United Nations Universal Declaration of Human Rights. Article 13, Paragraph 2 of this Declaration calls for the right of any person to emigrate or leave any country, including his own.

While the issue of emigration is paramount in any discussion of the rights systematically denied Soviet citizens by their government, I wish to make it clear that emigration alone is not the exclusive focus of my concern. The Soviet denial of the right to freely emigrate to its Jewish citizens is only part of a whole pattern of repression. I believe it is in our interests, that it is important to the safey of this nation as well as that of the whole community of nations, that our government attempt to achieve certain changes in the Soviet system that will bring it in harmony with universally accepted norms.

Freedom of information, freedom to practice religion, the rule of law, consent of the governed, and the freedom to emigrate—these are all moral objectives that I believe must be considered in our dealings with the Soviet Union. These moral considerations are wholly proper to the conduct of our foreign policy, for they are the fundamental principles upon which our nation is based. Our concern must extend beyond narrow economic considerations. Rather, we have both a moral duty, and a legal right—in the form of the United Nations Universal Declaration of Human Rights, to attempt to exert what leverage we have upon the Soviet Union so as to humanize that closed and repressive society.

The emigration of Soviet Jews is the most glaring denial of rights. While the now-infamous "education" tax has been relaxed, we should not be lulled into confusing this motion for progress. Pervasive restrictions against the emigration of Soviet Jews remain in force, and while the education tax is not being implemented, it is still on the books.

Emigration policies are at once arbitrary and capricious and at the same time callously discriminatory. A letter from 100 Soviet Jews to Congress in April contained this statement:

"We would like to state that there is nothing like free emigration in this country. Just as before, the fate of all applicants for exit visas is not determined by any law or even any published regulations governing emigration. Everyone's fate is determined by unknown people acting on unknown considerations in a totally arbitrary way...

"It is not the education tax, but this arbitrariness that remains the chief method used by the Soviet authorities in their selective emigration policy."

Most of the Jews allowed to leave the Soviet Union are people without professional skills, often pensioners, and more often than not from border areas within the Soviet Union where the population has generally more difficult for the State to forcibly assimilate. Educated Jews from "Old Russia"—White Russia, the Ukraine, and the Russian Republic—have a far more difficult time obtaining permission to leave. About 85% of those who have been allowed to emigrate come from the border areas of the U.S.S.R.—where only 15–20 percent of Jews live. In contrast, only ten percent of Jews living in the "heartland" or Russia—where the great majority of Jews live—have been granted permission to leave. As always, educated Jews continue to face greater obstacles to emigrating than their uneducated brethren.

Jews wishing to emigrate are still the victims of harassment and repression. They are often fired from their jobs, separated from their families, deprived of the means to an income, socially ostracized, imprisoned, subject to search and trumped-up arrest. Occasionally, they pay even heavier prices for the simple desire to emigrate—years in prisons, labor camps, or "mental hospitals."

It has been argued that the question of Soviet emigration policies is a "Jewish" issue. Nothing could be further from the truth. Freedom for Soviet Jews—is an *American* issue, squarely in the American tradition of support for oppressed minorities.

As a former Secretary of State James G. Blaine said in formally justifying a diplomatic intervention into the internal concerns of a foreign nation, "the domestic policy of a state toward its own subjects may be at variance with the larger principles of humanity."

The American government has acted in behalf of Soviet Jews before—first in 1869 when President Ulysses S. Grant intervened with Czarist authorities to seek the prevention of the contemplated expulsion of 20,000 Jews from an area of southwestern Russia. 10 other American Presidents, according to Dr. William Korey, Director of the B'Nai Brith United Nations Office, have "intervened

directly or indirectly on behalf of Russian Jewry in the past 100 years." Nor have such humanitarian interventions been levied only in behalf of Jews, for efforts in behalf of Irish and Armenians were, in Dr. Korey's words, a "distinctive feature of the American diplomatic landscape during the nineteen and early twentieth centuries."

On at least four occasions the Congress has acted to help Soviet Jews, first in 1879 when the House of Representatives adopted a resolution criticizing Czarist policies denying Jews the right to own real estate. Particularly noteworthy in the context of the contemporary debate was the Congressional termination of an 80-year-old Russian-American commercial treaty on December 6, 1911, an effort largely sparked by the "desperate plight of Soviet Jews," again according to Dr. Korey. Then, as now, the Secretary of State (Philander Knox) argued for the "quiet diplomacy" approach.

As I noted earlier, it has been argued in some quarters that Soviet-American trade is somehow inviolate and removed from "political" considerations. The whole approach of this—and previous—Administrations makes a mockery of this argument that trade and politics do not mix.

The philosophy behind this Administration's commendable desire for improved Soviet-American relations is the "linkage" theory of foreign relations. Abundant evidence, in the forms of words and deeds supports the contention that "linkage" is the dominant motif of our policies toward the Soviet Union. The trade agreement with the Soviet Union is inextricably linked to other diplomatic endeavors—the SALT Treaty, the accord on offensive strategic weapons, cultural and maritime agreements, and the like. As Dr. Kissinger said in a Congressional briefing in June, 1972:

"We hoped that the Soviet Union would acquire a stake in a wide spectrum of negotiations and that it would become convinced that its interests would be best served if the entire process unfolded. We have sought, in short, to create a vested interest in mutual restraint.

". . . The SALT agreement does not stand alone, isolated and incongruous in the relationship of hostility, vulnerable at any moment to the shock of some sudden crisis. It stands, rather, linked organically to a chain of agreements and to a broad understanding about international conduct appropriate to the dangers of the nuclear age."

The Administration is attempting not to accomplish "isolated and incongruous" agreements, but to construct a network of initiatives, ranging the gamut of diplomatic and economic policy. This is not a new policy for this country. In fact, one of the dominant characteristics of American economic policies toward the Soviet Union and other Communist nations has been the utilization of economic means for political ends. At the height of the Cold War, economic leverage has been used to isolate and penalize Communist countries, who were then viewed as enemies.

Today's approach is better, but the "linkage" theory continues in force now as then. It is not inconsistent to link trade, diplomacy, and politics. It is, however, positively foolish in my view if these issues are not linked, especially in the context of a developing Soviet-American trade that offers little in the way of economic advantages to the United States—with what advantages there are being of a very long-run nature.

We should use the leverage that trade gives us not only for our own sake, but for the benefit of the community of civilized nations, and for the benefit to the basic rights and freedoms of mankind.

Soviet spokesmen have also criticized the Jackson-Mills-Vanik bill by claiming it to be an intolerable "interference" in the internal affairs of another country. To be sure, this is a delicate issue, and the United States would be well advised not to attempt to seek too steep a political price for trade. But, as I have already suggested, our history is full of "interventions"—good and bad—in the internal affairs of foreign nations. Virtually every day in the course of the diplomatic interchange between nations, our country "interferes" to one extent or another with the internal affairs of other nations.

For that matter, the recent history of the Soviet Union is even more strikingly marked by such "interventions." It seems that here again, as with the "nonpreferential treatment" argument in favor of MFN, the Soviets wish to have their cake and eat it too. "Interference" is only bad, it seems, when they are on the receiving end. Yet we are to conveniently look the other way when the Soviets heavyhandedly "meddle" in the affairs of Eastern Europe (witness Czechoslo-

vakia) and other nations throughout the world. This "interference" argument is nonsense.

We have also been the recipients of "scare tactics" on the part of the Soviet Union. It has been ominously suggested that if the Soviet Union is not granted MFN that the whole detente may fall apart. This claim is scarcely credible. For as I have noted earlier, in economic terms MFN will not be significant for many years to come, if then. This fact in itself testifies to the political character of Soviet-American trade. More important, one must question whether a refusal to grant the Soviets MFN, or a delay in granting MFN of a year or two, is really going to be sufficient cause for the Soviets to break the arduously accomplished chain of improved relations with the United States.

After all, when President Nixon took the provocative action of bombing Hanoi and Haiphong and mining Haiphong harbor, the Soviets did absolutely nothing to protect the threatened survival of a closely allied fellow-Communist nation. What they did do was to entertain the "aggressor" (in their view) in the Kremlin. If the bombing of North Vietnam and the mining of Haiphong harbor did not damage the detente, it is very difficult to accept the argument that we will return to the worst of the Cold War if the United States fails to grant the Soviets a privilege, MFN, that has essentially only psychological value.

I believe that if necessary, the detente, which is surely to be desired, can survive a delay in granting MFN. It can also survive our requirement for its granting that the Soviets receive equal, not preferential treatment, and that the Soviets respect international agreements, chiefly the United Naions Universal Declaration of Human Rights. Specifically, I believe that the detente can survive required guarantees that Soviet Jews will be free to emigrate. I believe that Soviet violations of United Nations agreements and denials of basic human rights and freedoms are far more disruptive of international relations than our refusal—or delay—in granting MFN could possibly be.

The Soviets argue that tariffs are discriminatory and that granting of MFN should be normal and automatic. At the same time we should consider the U.N. Universal Declaration of Human Rights to be "normal and automatic," as well as enforceable. Far more people are hurt by the Soviet Union's abrogation of human rights than could be hurt through denial of MFN.

The Administration commonly argues that we should handle problems of Soviet Jewish emigration and other denials of basic rights and freedoms through "quiet diplomacy." This is a specious argument, in my view, and is in essence playing the Soviets game. Ours is an open and democratic society. Surely it is not inconsistent for the American government to encourage public debate and discourse on these vital issues. "Quiet diplomacy" is another way of saying that the issue should be swept under the rug.

But it is hardly suprising that the Administration should make this argument. For "quite diplomacy" has been the emblem of the manner in which this Administration has circumvented Congress in making vast trade agreements with the Soviet government and then expecting Congress to be a ready and willing "rubber stamp."

I have spoken earlier in my testimony of the excessive discretionary authority that would be granted the Executive by the President's Trade Reform Act of 1973. The Administration's studied neglect of Congress in negotiating East-West trade is further evidence that discretionary authority must be curbed.

No effect was made to involve Congress in U.S.-Soviet trade negotiations, despite such statements as this from the Report of former Secretary of Commerce Peterson in *U.S.-Soviet Commercial Relationships in a New Era:*

"Of critical importance in our efforts will be the new legislation needed to equip American negotiators with the tools for constructing a new, open and fair world trading system. Defining the negotiating authority we need will require close collaboration with the Congress. In the international negotiations undertaken with this authority, our intention will be to construct a new trading system to take the place of the old."

Despite these commendable words, the President has made a deal of critical importance with the Soviet Union and has now presented it to Congress, more or less as a *fait accompli*, on a take-it-or-leave-it basis.

From all appearances, the President made a deal with the Soviet government to trade a settlement of Lend-Lease for MFN in return. Is Congress under any obligation to accept this deal? I do not think so, for Congress clearly has the power to grant MFN, not the President. But the Soviets seem to think that they have made a deal, and now the Administration comes to Congress, bat in

hand, saying that they made a deal and now Congress has to back them up. The fact that the Administration has come begging to Congress is a tacit admission that the President went beyond executive perogative in making the MFN/Lend-Lease deal, that the President does not solely have the power to fulfill the deal, and that now the President wants us—Congress—to bail him out.

We should not feel bound by the Administration's agreement to grant the Soviets MFN. After all, Congress was not consulted, and the President went beyond the powers delegated him by Congress. What is more, the Administration has given preferential treatment to the Soviets—in the form of favorable interest rates, special lending treatment, and the oil and grain deals. Who has gained? The Soviet Union. Who has suffered? The American consumer and taxpayer, and our traditional allies, who don't receive special favors.

Given such an example of discretionary abuse as this, what basis there for us to give the President complete trust? The President wants greatly expanded discretionary power, but to date he has used this power to excess. What we need is an open debate of the many and complex and important questions surrounding the whole issue of foreign trade, not a blank check giveaway of our power to the President. Already the President has wasted potential leverage in dealing with the Soviets through abuse of discretionary power and through precipitous sacrificing of U.S. interests. If Congress gives the President the sweeping discretionary authority he has requested, then we are deserving of the scorne that is heaped upon Congress in much of the country. We have precious few powers left. To dilute them further through an overboard grant of authority to the President would be a grave and perhaps irreversible error.

The Soviet Union should be supplied credit at market rates, not at bargain-basement rates. The Soviets should not receive special trade preferences. If the Soviets are to receive special trade preferences. If the Soviets are to receive MFN and are thereby able to expand their industrial exports to the United States in the long run, then we should require them to honor their international treaty obligations to the United Nations even if they do not choose to honor them as *moral* issues.

I urge the Members of this distinguished Committee to give careful scrutiny to the President's request for greatly expanded discretionary authority, and to give their support to the Jackson-Mills-Vanik bill which has been sponsored by overwhelming majorities of both the House and Senate.

And when considering the provisions of the Jackson-Mills-Vanik bill as well as other issues of basic human rights and freedoms, I urge you to consider that freedom of emigration for Soviet Jews requires more than a lifting of the "education tax." Other factors that must be taken into account are:

(1) The opportunity for Soviet Jews from all regions of the Soviet Union to apply for exit visas without fear of sanction or reprisal by the Soviet authorities;

(2) The availability of all relevant visa application rules and procedures in published and public form;

(3) The maintenance of all normal employment, dwelling, pension, and related economic, social and civil rights and benefits for visa applicants;

(4) An amnesty for visa applicants who have been imprisoned or otherwise confined by reason of having applied for emigration;

(5) The maintenance of a significant level of permits to emigrate distributed among all geographic regions and occupational groups of the Soviet Union.

These provisions need not be formulated in such a way as to impose an intolerable imposition upon the Soviet government. But they must be considered if our efforts to help the Jews of Russia are to be effective.

I believe that there is no greater goal before mankind than the relaxation of world tensions and the eventual realization of world peace. The developing commercial ties between the Soviet Union and the United States offer hope for improvements in a wide range of relations between our country and Russia. But we should not confuse superficial appearances of improved relations for genuine and lasting accomplishments. In our dealings with the Soviet Union we should not forsake our national interests, we should not deny the moral principles upon which our nation was founded, and we should not ignore the basic rights and freedoms of all peoples in the world as enumerated in universally accepted international declarations and obligations.

True peace and mutually advantageous trade between the Soviet Union and the other nations of the western world will require significant changes in the Soviet system. We cannot presume to see these changes occur overnight, but neither should we forsake opportunities when we have them to speed their accomplishment.

STATEMENT OF HON. ELIZABETH HOLTZMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I wholeheartedly support the Mills-Vanik bill (H.R. 3910) as part of a basic American commitment to the cause of fundamental human rights, and in particular to the cause of religious freedom for the Soviet Jews. I support this legislation which is designed to prohibit most-favored-nation status to any non-market-economy nation which denies to its citizens the right to emigrate or which imposes more than nominal exit fees upon its citizens.

The plight of Jews seeking to emigrate from the Soviet Union is one which has disturbed me enormously and caused concern throughout the world. In 1959 during a trip to the Soviet Union and last year during a stay in Israel, I had an opportunity to learn of this religious persecution and discrimination first-hand. Increasing numbers of Jews, at great personal risk to themselves and with heroic persistance, have sought to settle in Israel. What was once a small stream of emigrants has grown rapidly in recent years. Aided by the compelling pressure of world opinion, the number of Soviet Jews reaching Israel has risen from pust over 1,000 in 1970 to 14,000 in 1971, to over 31,000 in 1972. It is vigorously expressed outside opinion which has led to this dramatic change, and it is clear that it must continue lest anti-semitic policies be pursued with impunity.

The difficulties faced by those seeking to emigrate have been formidable. In August, 1972 the Soviet Union began to impose high exit fees on educated Soviet citizens. This "diploma tax" meant that a prospective emigrant might be forced to pay as much as $30,000 before he would be allowed to leave. It is true that this education tax has been waived or suspended for some, but it is still on the books. Despite pronouncements to the contrary, curbs on emigration remain, and exit visas are still being granted only on a highly selective basis. A Soviet Jew applies for an exit visa knowing that he faces the loss of his job and the intimidation of his family, and not knowing if or when his visa will be forthcoming. Harassment can take a variety of forms including military induction, trumped up criminal charges and imprisonment in concentration camps. Even as Mr. Bezhnev tries to reassure the Congress that emigration restrictions have been abandoned, Jews seeking to leave for Israel are being picked up in dragnets. If Mr. Brezhnev's claims that emigration is not being stifled are true, then he can have no legitimate objection to this legislation.

Increased East-West trades as part of an overall detente is long overdue. Properly handled it could strengthen peaceful ties between our two countries. We must not, however, pursue such a policy if it means turning our backs on the repression of the Soviet Jews. We have learned long ago that economic policy is not morally neutral. If we give special trade concessions to a country that is violating fundamental human rights, we condone those violations.

Soviet repression of the Jews cannot be dismissed as a mere internal matter. The world has learned through the bitter experience of Nazi Germany the cost of ignoring such persecution. We cannot, as a nation founded on the principle of religious liberty, fuel naked anti-semitism by a broad scale trade policy. The assault on Jews in the Soviet Union is wide spread. It includes the closing of synagogues, the desecration of cemeteries, the prohibition of religious study and the imposition of religious quotas at educational institutions. While all of this has been going on this Administration has done little to protest. The Congress must be determined to do all that it can to aid the Soviet Jews in their efforts to seek freedom to practice their religious traditions and adhere to their cultural heritage. It is my hope that the passage of the Mills-Vanik bill will make this abundantly clear to the Soviet leaders.

STATEMENT OF HON. RON DE LUGO, DELEGATE FROM THE VIRGIN ISLANDS

Dear Mr. Chairman and distinguished members of the committee. I appreciate this opportunity to testify regarding the "Trade Reform Act of 1973". The basic purposes of this proposed legislation are essential if the United States is to correct the imbalances in trade that lead to last year's $6.4 billion deficit. The type of reforms proposed are also necessary in order to permit the President to negotiate effectively with the 76 nations which now have tariffs and other restrictions against free trade with the United States.

However, it is critically important that in granting new negotiating authority, or in changing our present tariff structure, that the interests of the Virgin

Islands and our other Insular Possessions which lie outside the United States customs territory, are fully considered. It would indeed be ironic if in pursuing worthy policies to improve this nation's international trading position the needs of our citizens in the Insular Possessions were not adequately protected.

The economy of the Virgin Islands in recent years has shown gratifying growth and vitality, and has increased the standard of living of our citizens.

Much of this recent prosperity has been founded on the rapid expansion of the tourist industry. There is, however, an unfortunate temptation on the part of some commentators to consider tourism as a panacea for all of the economic needs of the territory, and to overlook or minimize the importance of a broad-based economy made possible by the duty-free treatment which certain products from the Virgin Islands enjoy. In this context it should be noted that the preferences of tourists are notoriously fickle, and what may be popular this year will not necessarily be so next. Likewise, the industry is subject to sharp fluctuations which are directly related to the state of the economy in the tourists' country of origin.

Tourism does not have a boundless potential for economic growth, especially in an area with limited land space such as the Virgin Islands. Thus continuing popularity and related development can eventually lessen the quality of the very things which attracted tourists in the first instance. In addition, the Virgin Islands tourist industry could be seriously threatened competition from Cuba should relations with that country improve in the future. It is also important to bear in mind that it provides a type of occupation which traditionally pays low wages.

The development of the Virgin Islands watch industry is an example of the type of activity which is so essential to the present and future well-being of our people.

The assemblying of watching now employs over 1,100 Virgin Islanders and this industry paid $3,363,000 in wages in 1972, as well as $3,200,000 in corporate income taxes in that same year. This is the largest manufacturing activity in the territory and ranks third in total employment after building construction and the tourist trade.

However, its significance is far greater than that suggested by statistics. It is a type of employment particularly well-suited to the talents of women, and thus has given a new independence and dignity to our female population. Young women can find skilled and well-paying jobs in the watch industry at the time they finish their secondary education, and thereby avoid the former prospect of becoming domestic servants with long hours of manual labor at low wages.

In these times of energy shortages and increasing threats to environmental quality, it is important to recognize the advantage of labor intensive industries to an area such as the Virgin Islands, which possesses minimal mineral resources, and still maintains its original and unspoiled natural heritage. Such industries have modest energy demands, and do not create air or water pollution or produce waste or noxious by-products. They are an ideal source of employment for a region which lacks raw materials but is rich in a skilled and industrious population.

A similar activity is the fabricating of woolen goods. While not large it is an important source of employment in the Virgin Islands. As this Committee is aware, legislation has been introduced which would drastically cut back the amount of woolen cloth which could be imported from the Virgin Islands. However, the United States woolen textile industry is presently enjoying the most prosperous period experienced in the last twenty years, and many mills are unable to keep up with their orders. In such a situation the importation of the Virgin Islands wool production is so small as to be hardly noticeable. Under present conditions woolen textiles imported from the territory will not cause the loss of a single job in the domestic woolen textile industry or bring about any other dislocation.

The development of these and similar industries have been made possible mainly through the implementation of the provisions contained in general head note 3(a) of the Tariff Schedules of the United States effective August 31, 1963. Under this headnote, items grown or produced in a U.S. insular possession are free of duty when imported into the customs territory of the United States, provided they do not contain foreign materials equivalent to more than 50 percent of the total value.

Senate Report 1679 of the 89th Congress, Second Session, states that this provision, "not only provided uniformity of treatment among the possessions

but it was calculated to, and in effect has, stimulated the development of light industries in the possessions. The development of light industry has helped the economy of the possessions, particularly the Virgin Islands, where numerous new businesses have been established to produce or assemble various articles for free shipment to the United States."

It is vitally important to the maintenance and growth of the Virgin Islands economic and social welfare, that the development of labor intensive light industry made possible by the Congressional intent expressed in general head note 3(a), not be jeopardized. Thus, it is my hope that this committee, in granting authority to the President to negotiate new trade and tariff agreements will provide adequate safeguards and Congressional review procedures which will prevent any unilateral or inadvertent action by the Executive which would frustrate the will of the Congress to permit our insular possessions to develop viable and self-sustaining economies.

Thank you very much.

STATEMENT OF HIGH CHIEF A. U. FUIMAONO, DELEGATE-AT-LARGE, GOVERNMENT AMERICAN SAMOA

On behalf of the People of American Samoa, I respectfully urge this Committee to include in the trade bill a provision to remedy a serious problem affecting the economic development of American Samoa, an insular posession of the United States. That problem concerns the operation of General Headnote 3(a) of the Tariff Schedules which exempts products from the insular possessions (other than Puerto Rico) from U.S. customs duties, so long as the foreign content of those products does not exceed 50% of their total value. This provision was first adopted by the Customs Simplification Act of 1954. Its purpose was to stimulate the economic development of, and provide uniformity of tariff treatment for, the insular possessions.

This provision has led to a significant development of light industries in the American Virgin Islands and in Guam. American Samoa, however, has been largely excluded from sharing in the benefits of General Headnote 3(a), because it is remote from the regular shipping and air routes. Consequently, transportation costs in obtaining raw materials and in shipping products to the United States, are very high. Yet, for purposes of the 50% foreign-content limitation in General Headnote 3(a), Customs treats the cost of transporting foreign materials to an insular possession as part of the foreign content of the finished product—*even if paid to an American carrier.* This seriously impairs the attractiveness of any investment in American Samoa, since the transportation-cost element forms a much higher percentage of the foreign-content value of American Samoan products than the products of other possessions.

The extent of economic development in American Samoa since 1954 consists primarily of a tuna cannery business and a small watch manufacturing plant. In addition, after protracted negotiations, a new type of light industry was induced to come to American Samoa last year. Peter J. Brennan, Inc. was formed to manufacture men's knitted slacks for sale in the United States. In many respects, this is a prototype operation. The Samoan people are highly skilled in the manual dexterity required for such an operation. Accordingly, very limited training in the labor force is needed to produce an efficient worker. Peter J. Brennan, Inc. has created 185 jobs in American Samoa, whereas in the preceding 10-year period, a total of 55 new jobs were created in the industrial sector. Virtually all of Brennan's transportation is done by American carriers.

However, the fact that Customs includes transportation costs in computing the 50% foreign-content limitation threatens to make these products fully dutiable. Should that happen, the Brennan operation would be forced to close and its 185 employees in American Somoa, together with some 30 employees in the United States, would be out of work. This would be a severe, perhaps mortal, blow to the whole economic development program of American Samoa. It is crucial to note in that respect that *the present unemployment rate in American Samoa exceeds 20%.* (The total island population is about 28,000).

Other potential investors are waiting to see whether the Brennan operation will prove successful. If it fails, they would most certainly look elsewhere—probably to a foreign country, to make their investments.

It is ironic that General Headnote 3(a) prescribes a special rule whereby duty-free foreign materials are not included in determining the value of

foreign materials for purposes of the 50% test, while, at the same time, the transportation charges attributable to a United States carrier are treated as foreign. We frankly do not see any logic in treating payments to American carriers as part of the foreign content.

On the basis of the foregoing, we urge the Committee to amend General Headnote 3(a) in the context of Title VI of H.R. 6767 to exclude transportation costs paid to a United States carrier from the computation of the value of foreign materials included in products from American Samoa. This, we believe, is fully consistent with the policy of encouraging the economic development of the insular possessions, while recognizing the particular inaccessibility of American Samoa. It is also consistent with the policy of encouraging the use of American carriers in international trade. In addition, such a special rule would tend to stabilize Federal appropriations for American Samoa and would help the balance-of-payments position of the United States.

[Whereupon, at 2:22 p.m., the public hearings on Trade Reform were concluded.]