THE TRADE REFORM ACT OF 1973

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

ON

H.R. 10710

AN ACT TO PROMOTE THE DEVELOPMENT OF AN OPEN, NONDISCRIMINATORY, AND FAIR WORLD ECONOMIC SYSTEM, TO STIMULATE THE ECONOMIC GROWTH OF THE UNITED STATES, AND FOR OTHER PURPOSES

MARCH 4, 5, 6, 7, 21, 22, 25, 26, 27, 28, 29, APRIL 1, 2, 3, 4, 5, 8, 9, AND 10, 1974

PART 2

Administration Witnesses—Departments of State, Agriculture, Commerce, and Labor

(March 6 and 7, 1974)

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THE TRADE REFORM ACT OF 1973

WEDNESDAY, MARCH 6, 1974

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2221, Dirksen Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Talmadge, Hartke, Ribicoff, Bentsen, Bennett, Curtis, Fannin, Hansen, Dole, Packwood, and Roth.

The CHAIRMAN. The hearing will come to order.

We are fortunate to have with us today three dedicated public servants, all members of the President's Cabinet: Hon. Earl L. Butz, Secretary of Agriculture; Frederick B. Dent, Secretary of Commerce; and Peter J. Brennan, Secretary of Labor.

I suggest that in order to expedite the hearing each of the three Cabinet members appearing today present his statement—they can abbreviate if they care to do so—and at the conclusion of the statements, we will address such questions as we have to the witnesses.

Secretary Butz has indicated that he has a firm commitment to be elsewhere at 12:30. So I would hope that we could try to dispose of the testimony of all three of these very fine public servants during this morning's session.

I will first call on Secretary of Agriculture, Mr. Butz.

STATEMENT OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE

Secretary BUTZ. Thank you very much, Mr. Chairman. I appreciate the opportunity to testify on this bill because Agriculture has such a tremendous stake in foreign trade and in expanded foreign trade.

I have a longer statement that I will give, Mr. Chairman. I will try to abstract it and ask that the statement itself may be placed in the record.

The CHAIRMAN. OK.

AGRICULTURE AND THE TRADE BILL

Secretary BUTZ. I think agriculture needs this bill for three primary reasons: First, to take full advantage of the growth potential of the Nation's agriculture; second, to help generate economic expansion, which trade will do; and third, to reduce our trade deficit through expanded agricultural exports. We have a surplus in our agricultural trade in recent years, and we want to see that grow.

Our foreign exports in the last year went to unprecedented levels. They were $13 billion last fiscal year. It appears that our exports will increase to $20 billion in fiscal year 1974.

Only yesterday in staff meeting I had the little release in which we predicted a $20 billion total agricultural export in 1974, and I said the new slogan is $25 billion by 1975, and that is a pretty big jump, but at least it is a slogan.

Exports have increased so dramatically that the public is sometimes blaming our high level of ag-exports for its food price problems, and sometimes call for export controls. And that pressure rears its ugly head from time to time and I think we need to examine that from the head on also.

I would like to suggest briefly four reasons why we need this legislation. The first one is that an interdependent world demands a rational trading system. I think the confusion we have had in wheat recently, for example, and the panic over soybeans a year ago when we did in fact impose export controls—I think with very unfortunate results—and the chaos we are having in oil, all these demonstrate the fact that we are an interdependent world and we do need a rational trading system. We feel this trade bill will permit us to move away from the rapidly accelerating bilaterism which is developing in trading patterns, and move toward multinational trading patterns.

Second, rational trade holds a solution to food security. We hear a lot about food security these days around the world, and especially with with the food deficit nations and those nations that have to buy a lot of their foods. The question of food security came up at the recent FAO conference in Rome last fall, in which your colleague, Senator Curtis, was present, and a great deal of discussion was devoted to this question of food security.

It is our feeling that we can tackle that problem head-on best if we have a rational system of trade that encourages production. After all, the key to food security is production, and we have the best chance of getting full utilization of America's tremendous agricultural production resources if we have a rational trading pattern that permits us to have access to that. That is the second reason that we think this bill is important for agriculture.

The third reason is that we must secure market access for the long term. At the present time, of course, it is not difficult to sell anything we have. The question is not really in finding markets right now. It is finding the supply for the markets. But down the road we recognize that if America is going to continue to produce fully, America must have access to the food and fiber markets of the world. And we feel that the long-term access can best be guaranteed by authority to negotiate a rational trading pattern as would be contemplated under this legislation.

The fourth reason is that a strong agricultural trade gives continuing benefits to the economy, and I think that is fairly obvious because of the fallout that occurs from agricultural trade because of the contribution it makes toward a favorable balance of payments.

In 1973, for example, our total agricultural exports produced $17.7 billion worth of sales abroad. That was a record figure. And when we subtract from our agricultural imports of noncompetitive items such as

coffee, tea, rubber, bananas, and sugar, things of that nature, we still had a record agricultural trade balance on the plus side of $9.3 billion.

By an odd coincidence, that was exactly the cost of the imported petroleum in 1973, and I guess it could be argued therefore that this net agricultural trade surplus we had in 1973 went a long ways toward paying for the many things we opted to import and was a major factor in producing a positive balance of trade overall in 1973.

And there are many other fallouts that come from full agricultural exports: The full employment in the economy; the added jobs that take place; the opportunity to use our agricultural plant at capacity, which I think is important because if we can use it at capacity, we are a lower unit cost producer of food and fiber in this country than if we did not have a full level of opportunity to export.

For example, if our farmers are constrained to, let us say, 80 percent of their capacity, as has been true in many cases in recent years, they are a higher unit cost producer. Fixed costs are associated with those acres not in production. But if farmers can bring their full plant into production and if we can utilize those acres as we are now utilizing them, to meet the export market, it means a lower average unit cost producing agriculture than otherwise, and therefore, it is to the interest of the American consumer to have a vigorous export market for American agricultural products.

These are some of the things at stake, some of the reasons why agriculture has an interest in having the opportunity to negotiate freer trade—to do what we can to reduce the barriers that do exist and that, in the absence of negotiations, will continue to exist, to expanded agricultural trade.

There are some specific things in the bill, Mr. Chairman, that will be in my statement here, that we would like to call attention to, that I think would be a matter of record, and I will not take time to discuss them right now.

On the other hand, we receive some criticism in this country for efforts to free up access of others to our own markets, especially in the dairy market. In the last year on three or four occasions, we have had special proclamations by the President which have permitted easing of the import restrictions on dairy products, and I am referring specifically to dried skim milk, to cheese, and to butter and butter oil. And just the other day he again announced permission to import 150 pounds of dried skim milk between now and June 30.

These are situations in which we do, in fact, have a short supply of products in this country, and we have permitted those things to come in to meet those short supply situations.

I have taken the positions that when we go into negotiations here we are prepared to put our section 22 import restrictions on the negotiating table, that we are not going to give them away for free. I think we have to recognize that we—and we in agriculture do recognize—that if we go into multinational negotiations in this country, we must be prepared to make some concessions to get concessions.

I simply want to make that statement before this group here. I have made that statement before international groups and I have made it in Europe, and I think it is a sound position to take. It does not mean that we are going to sell any particular sector of American

agriculture down the river, but I am convinced that our farmers in this country can be competitive with the farmers any place in the world. There are provisions in this bill relating to countervailing duties in the case of subsidized shipments to this country.

In the case of dairy products, I have taken the position that if we can use those things intelligently and properly and effectively, it will keep our farmers competitive with farmers anywhere in the world. I think our farmers can compete adequately with the French dairy farmer. They cannot compete with the French Government. But I am sure that if we have the ability to negotiate the additional elbow room that this legislation would provide, that we can negotiate reduced trade barriers to our products around the world for the benefit of American agriculture, and in a broader sense, for the benefit of America.

Mr. Chairman, that concludes my statement.

The CHAIRMAN. Thank you very much, Mr. Secretary.

[The prepared statement of Secretary Butz follows. Hearing continues on p. 382.]

PREPARED STATEMENT OF THE HONORABLE EARL L. BUTZ, SECRETARY OF AGRICULTURE

It is a privilege to come before this group in support of the Trade Reform Act of 1973. My belief that this is one of the most important pieces of economic legislation to come before the Congress in recent years has been reinforced by events since I expressed that view before the House Ways and Means Committee last May 11.

At that time, I told your Congressional colleagues that we need this bill for three primary reasons:

To take full advantage of the growth potential of this country's agriculture;
To help generate economic expansion, and
To reduce our trade deficit through expanded agricultural exports.

We have witnessed a rush of change in world commerce since last May—most dramatically in the case of oil—and this has been true in agriculture as well. In the wake of world crop shortfalls in 1972, the concerns of the trading nations have broadened to include access to supply as well as access to markets. Frantic demand for some agricultural commodities has bid prices to all-time highs. We have seen price controls on food in our own country, and export controls on some farm products in this and other countries.

At the same time, U.S. farm exports have surged to unprecedented records—almost $13 billion last fiscal year and an anticipated $20 billion in the current fiscal year.

The public has reacted by blaming our high level of agricultural exports for its food price problems and by calling for export controls. You probably are also wondering why agriculture wants to negotiate freer trade when it has had all it can do to meet current export demand. Why does agriculture want this legislation?

I'd like to suggest four reasons why we want it, and why we need to negotiate more than ever in this period of uncertainty in world trade.

1. AN INTERDEPENDENT WORLD DEMANDS A RATIONAL TRADING SYSTEM

The confusion in wheat, the panic over soybeans and the chaos in oil the past year have demonstrated what we all have known, but perhaps not faced; that no country can go it alone any longer. Combinations of more people and more income have brought standards of living, whether based on extra rice in the bowl or a second car in the garage, that are beyond the capacity of any single country to supply domestically.

This world is interdependent. To function, it requires a rational use of resources in which each country produces what it produces best, and production is distributed through a system of trade in which producers have equal access to demand and consumers have equal access to supply.

It is plain that such a system does not now exist. It is equally plain, to me at least, that the multilateral trade negotiations in Geneva, with 101 nations taking part, offer what may be the last chance to move toward such a system and away from today's accelerating bilateralism and regionalism in what appears to have become a "hog rassle" for the world's resources.

U.S. agriculture, U.S. industry and the U.S. consumer all have a big stake in negotiating a more rational trading world. The United States needs to go into these negotiations with the strong hand that the Trade Reform Act will provide.

2. RATIONAL TRADE HOLDS THE SOLUTION TO FOOD SECURITY

As I have suggested, an immediate concern of our people and those of other lands is the assurance of an adequate food supply—that their requirements will continue to be met, and met fairly. This is an important matter and one which should certainly be explored in the forthcoming negotiations. And it is another reason why I consider this legislation so vital—because it will give us the flexibility we need to go out and do a proper job for the American people, in cooperation with our trading partners.

It is all too easy, in a period of agricultural supple pressure, to look for quick and seemingly straightforward solutions—but all too often such solutions only aggravate the situation over the longer-run. We have seen this demonstrated in our recent experiences with price controls on meat and export controls on soybeans. In both cases, controls proved to be counter-productive—they did not help increase production, which is the only true solution when supplies are short, and they did disturb and distort the marketing system for those supplies that were available. Let's face it—we in this country live in a price-oriented economy, and when we tamper with the price-setting mechanism of the marketplace we usually lose far more than we gain.

Production, not control, is the key to supply, and, short of state control of agriculture, the key to production is the pull of the market. And even state control of agriculture doesn't seem to get the job done. American farmers this year will plant and harvest 40 million acres more than they did two years ago, and they are doing it in response to market demand. If we are to feed increasing numbers of people on finite expanses of land, I believe our first objective in negotiations must be to continue to move toward a more rational use of the world's agricultural resources, one in which each country produces what it can produce best because market competition demands it.

Stockpiling policy is another aspect of food security which must also be faced during the course of negotiation. Food reserves are important. Such questions as how they are to be acquired, where stored, and how dispensed must be explored. But we must remember that the answers begin with production. To talk of building up reserves before we have talked of how to make sense in production is to put the cart before the horse.

I believe as strongly as ever that we should go into these negotiations seeking a solution that is compatible with free market principles; a system that stimulates production where it is most economical to do so; one that seeks to unclog marketing and distribution bottlenecks that make for short supplies; one that encourages a frank interchange of production and buying intentions as a guide to farm output; and one that fosters an equitable sharing of reserve stock burdens for both commercial and food aid contingencies. The Trade Reform Act will give us the flexibility we need to do this.

3. WE MUST SECURE MARKET ACCESS FOR THE LONG-TERM

For the time being food security, not market expansion, has become a dominant theme. Nevertheless, we should not permit the distractions of this hectic period to let us take our eye off the original goal in international negotiations. That is the goal of freer trade, based on comparative advantage in the market. It is the only goal that offers a highly competitive U.S. agriculture the chance to realize its full potential for growth—because that growth lies in exports, among the more than 3 billion increasingly affluent consumers who live beyond our borders.

We still need to negotiate for freer agricultural trade in the midst of a $20-billion export year because this level of agricultural trade is not guaranteed. It is the history of world agriculture that supply problems are temporary. The conditions that produced the dramatic upsurge in our exports are transitory. World crop production has turned upward—to a record last year and what

we anticipate will be another record this year. There are prospects for stock rebuilding to begin in some commodities this year and more in the next. When the cycle of shortfalls, depletion and rebuilding is completed, U.S. agriculture may be facing the same competition as before the world droughts of 1972, and, unless they can be removed, facing the same trade barriers that have placed a heavy and accelerated drag on the export of U.S. agricultural products.

I believe we must attack border protection first; get rid of those nontariff barriers and let prices do the job they are meant to do—that of signaling both producers and consumers how to bring supply and demand into line. I also recognize that the domestic farm programs of our major customers are at the root of the problem. However, it is completely unrealistic to think that the European Community—or the United States for that matter—would make domestic policies the primary focus of negotiations. Thus, let's start with the border measures—and the export subsidies. If progress can be made on border measures first, this could involve changes in internal price supports and methods of maintaining farm income which would also merit international discussion.

That is why we need to negotiate on agricultural trade now, even though agricultural exports are breaking all records.

4. A STRONG AGRICULTURAL TRADE GIVES CONTINUING BENEFITS TO THE ECONOMY

We need the Trade Reform Act to give the United States a firm international posture and dollar stability in this era of confusion and uncertainty in world trade. The shortages, the price increases across almost the whole range of raw materials—agricultural and industrial—have set countries to pondering new currency and export-import control schemes to conserve or create foreign exchange. If we are to avoid a proliferation of these restrictions on trade, we need to signal our trading partners that the United States is eager and ready to follow through on its commitment to join other nations in search of a more open and rational trading world.

At the same time, we need a continuing high level of U.S. agricultural exports in the face of rising prices to bolster our own ability to import the oil, bauxite, tin, rubber and other raw materials that we must have from foreign sources.

Agriculture has consistently made positive contributions to the nation's balance of trade. It was the increase in agricultural exports that put the U.S. trade balance in the black in calendar year 1973—for the first time since 1970.

The figures show that agricultural exports of $17.7 billion produced a record agricultural trade balance of $9.3 billion. This remarkable contribution more than offset the deficit of $7.6 billion in non-agricultural trade. It gave this country a favorable trade balance of $1.7 billion, certainly a sharp contrast to the $6.4 billion deficit in 1972.

I might add that we estimate an agricultural trade surplus in the current fiscal year of $10 billion or more. That will pay for a lot of imports of raw materials and of the consumers goods that we have come to depend on to maintain our standard of living.

The benefits of a strong agricultural trade are not confined to the international arena. Agricultural exports make direct, if little publicized, contributions to the domestic economy.

The most obvious benefits, and certainly the most welcome to those of us in agriculture, are the benefits to farmers.

Exports have given the farmer opportunity to use all of his land and all of his machinery—capital investments that cost the same whether fully used or not. The increase in exports brought more than 25 million additional acres of cropland into production in 1973, and expansion by another 17 million acres is expected in 1974. The harvest from 85 million acres—one in every four acres cropped—went into export in fiscal 1973.

Farmers realized more than $25 billion in net farm income in 1973. That is a new record, and one-fifth of this return came from agricultural exports. The record income represents an increase of $5 billion over 1972, and one-half of that increase is traceable to farm exports.

There have been benefits too, for the 200 million or more Americans who don't farm. Consumers benefit when export-oriented agricultural policies stimulate the general economy, provide jobs off the farm, and reduce tax costs. Even more importantly, despite the sharp price increases this past extraordinary year, the American consumer's best chance to get the most product for the least cost still lies in the freeing up of worldwide agricultural trade, so that our agricultural plant can operate at full capacity on a continuing basis.

Agricultural exports in fiscal 1973 generated almost $29 billion in gross national product. That includes $11.7 billion as the value of the exports to the farmer and more than $17 billion worth of business for non-farm entrepreneurs and employees in such fields as transportation, storage, handling, and marketing. Sixty percent of the economic gain from these exports occurred off the farm.

This means that American agriculture today must be looked at as a growth sector for the entire economy. In a healthy economy people are moving from one job to another all the time. To accommodate this kind of flux in the labor market we need growing sectors in the economy. We need the kind of growth an export-oriented agricultural sector can stimulate.

More than 450,000 non-farm jobs in fiscal 1973 were related to the assembling, processing, and distribution of agricultural commodities for export. Add to that the farm workers required to produce for export, and the total is close to one million jobs related to producing and shipping agricultural exports alone.

Export-related jobs are not confined to the obvious areas of tilling the increased acres or handling and shipping the products for export. They reach far into the employment structure in industries which produce the supplies and equipment needed by growers and distributors of agricultural goods. Remember, too, that with additional income, U.S. farmers can buy more household appliances, more building supplies, more automobiles, and pay off more loans.

Finally, there are the reduced costs for the taxpayer. The substantial rise in exports has enabled the farmer to depend on the market for his living. This has brought changes in the domestic farm program that are expected to have cut program costs by $3.5 billion in two years by the end of 1974. Costs were $4 billion in 1972. They were down to $2.6 billion last year, and we are estimating less than one-half billion dollars in 1974.

Those are some of the things at stake in negotiations on agricultural trade. If the United States is to profit from these negotiations by achieving for agriculture the opportunity to attain its full growth, we must have the provisions of the Trade Reform Act of 1973.

As a brief review, the bill would give the President broadened authority to raise or lower tariffs when negotiating trade agreements. It also would authorize him to negotiate on all non-tariff barriers, which have become a proliferating crippler of agricultural trade.

At the same time, the proposed Act contains carefully prescribed procedures to be followed in negotiating on our own agricultural restrictions. Public hearings would have to be held, and, most importantly, any part of the negotiated outcome that would require change in the domestic law would have to come back to Congress for review. Here, we would expect the burden of proof to be on us, to show that substantial benefits for U.S. agriculture would result from any concessions we offered.

An important part of the process of preparing for and conducting negotiations will be the consultation procedures prescribed by Section 135 of the Trade Reform Act. These procedures include the establishment of several advisory committees to represent U.S. agricultural interests throughout the course of the negotiations. We think this process will be a fruitful one, and have already begun developing plans to put it into operation at the appropriate time.

This bill in its present form does present problems with respect to a few key issues—for example Title IV—but for the most part these have been addressed by others testifying before me. I do want to comment briefly on a couple of matters, however. One of these has to do with the coverage of farm workers under the adjustment assistance provisions of Title II. We in the administration intended that farm workers would be covered in the adjustment assistance program on the same basis as workers in other sections of the economy. We hope that the Senate Finance Committee report will reflect this.

More troublesome is the question of how the sector provisions of Section 102(c) are to be related to the goal of overall reciprocity in the negotiations. The goal of achieving market access for individual product sectors will not necessarily be achieved by sectoral negotiations, and in the case of agriculture almost certainly will not. As you may know, it has been my position throughout that this time around agricultural negotiations should not be separated from industrial negotiations. I simply do not believe we will get maximum benefit from these negotiations unless we are in a position to negotiate agriculture and industry on an integrated basis so as to achieve an overall balance of concessions. I hope that one of the results of your work on this bill will be a clarifi-

cation of this Section to provide our negotiators with the kind of flexibility they must have in order to obtain the desired results.

Naturally, we expect to go into the negotiations prepared to offer to liberalize in return for liberalization from others. That is the essence of negotiations. But, I can assure you that we will not give anything away.

Judging from the reaction since the bill was first introduced in the House, there seems to be concern, particularly in the dairy industry, that this will not be the case.

Our dairy situation has had a long history of import problems. Under the dairy price support program, the price of milk to producers is supported through Government purchases of milk products at announced prices. When supplies of domestic dairy products are in excess of commercial demand, imports of dairy products would add to the surplus, resulting in the Government being required to make larger purchases under the dairy price support program. Therefore, nearly all dairy imports have been controlled by means of import quotas established under the authority of Section 22 of the Agricultural Adjustment Act, as amended.

In the past, the surplus of domestically produced milk has normally run about 5 billion pounds a year. However, last year domestic supplies of some dairy products were below commercial demand, and there were repeated spot shortages of dairy products in food processing industries. It has been possible to increase dairy import quotas temporarily without disrupting the market and causing support program interference and several such actions have been taken.

This has drawn a predictable, understandable, reaction from dairymen. However, the heart of the dairy import problem lies not in the administration of quotas, but in the artificially low price structure of imported dairy products. Large production and export subsidies and some other devices employed by a number of countries, particularly those in the European Community, destroy any competitive edge created by productivity and efficiency of American dairy producers. These same devices distort trade and put our farmers in competition not with foreign products but with foreign governments.

If, in the multilateral trade negotiations, we can persuade our trading partners to rationalize the international trading rules regarding export subsidies, and limit or terminate those subsidies, it should be possible to substantially reduce or eliminate the problems created for our dairy industry by artificially priced imports here.

Certainly, this Administration is prepared to put the matter of quotas on the negotiating table, and just as certainly we are not going to give them away except for a return benefit and under conditions of fully fair competition. Furthermore, we will still have available a number of mechanisms, including countervailing duties, to protect our farmers against unfair import competition.

I have tried, in these few minutes, to suggest that the world trading system must be revised if there is to be a workable approach to security in food and other resources. I have indicated what a strong agricultural trade means to this country—in terms of farm income; in terms of efficient production of food for our own use; in terms of jobs and a healthy economy, and in terms of the foreign exchange needed to buy freely in the world market.

This legislation—the Trade Reform Act of 1973—is necessary if we are to create that more rational trading system and have the benefits which it can bestow, I urge its prompt enactment.

The CHAIRMAN. Secretary Dent.

STATEMENT OF HON. FREDERICK B. DENT, SECRETARY OF COMMERCE

Secretary DENT. Mr. Chairman, members of the committee, I appreciate this opportunity to appear before the committee to express my views on H.R. 10710, the Trade Reform Act of 1973.

TRADE BILL NECESSARY TO DEAL WITH RECENT EVENTS

As we are all aware, some rather major events have occurred since the administration forwarded its proposed trade legislation to the Congress last spring, particularly the energy problem and the oil embargo, as well as the strengthening of the dollar relative to the

currencies of our trade partners. We have carefully reevaluated the trade bill and the need for trade negotiation in the context of present events. It is my firm belief that the trade bill and trade negotiations are more necessary than ever to deal with our recent difficulties. An improved framework for trade relations will help deal more effectively with new problems as they arise.

First, the United States will need to export more to pay for what we buy. The United States trade position did improve in 1973 as the result of a record-setting export performance, but prospects for 1974 are at best uncertain. The merchandise trade balance shifted from a deficit of $6.4 billion in 1972 to a $1.7 billion surplus position this year. Exports, excluding military grant-aid, expanded by 42 percent, three times the rate of advance recorded in 1972, to $70 billion. Imports climbed 24 percent, only slightly faster than in the preceding year, to $69 billion. Higher prices, reflecting inflation and currency revaluations, contrbuted heavily to the rise in U.S. foreign trade values.

Several factors accounted for the huge export gain: (1) a strong acceleration in foreign economic activity; (2) increased U.S. competitiveness due to the monetary realignments of the past 2 years; (3) unusually heavy demand for U.S. farm products due to shortages abroad; and (4) the attraction of high world commodity prices which made exporting of some products especially profitable in view of domestic price controls. Most of the import increase reflected higher prices. The volume of our foreign purchases was retarded by the currency shifts, which made other countries' goods more expensive, and by the slowdown in the U.S. economy as the year progressed.

The trade outlook for 1974 is extremely cloudy because of the uncertain effects of the energy crisis. It now appears that the U.S. trade balance may shift back to a deficit position. But we are gratified that the January figures show a surplus of $644 million. While exports are expected to advance, the import increase is likely to be much larger due to the sharply higher cost of petroleum from abroad. Export expansion in 1974 will be substantially slower than last year's spectacular gain as economic growth in our major markets will be reduced. At the same time, however, sales of farm commodities should continue strong for some time and product shortages abroad could stimulate demand for some U.S. goods. While the anticipated rise in the petroleum import bill will swell the value of our foreign purchases, arrivals of other products from abroad may be restrained by a further slowing of the U.S. economy and the demand-dampening effects of higher foreign prices.

Consequently, we need the authority presently incorporated in the Trade Reform Act to obtain greater market access abroad for our exports.

Second, other countries in seeking ways to finance their greater energy costs may be tempted to restrict imports of other goods while artificially encouraging exports through subsidies or other means. Not only will the trade bill provide the legal tools for combating unfair or unreasonable trade practices, but it also will enable U.S. participation in multilateral negotiations designed to continue progress toward liberalization and reform of the international economic system. Moreover, enactment of the Trade Reform Act is necessary to give credibility and authority to our negotiators in international forums dealing with trade matters.

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Certainly, we do not want to repeat the type of shortsighted, restrictive approaches of the thirties, which resulted in decreased trade and worldwide depression. But, if the trade bill is delayed, then we risk other countries' relying on unilateral measures designed to promote their own self interest rather than seeking multilateral solutions to common problems which would be beneficial to all nations.

One of the major characteristics of the world economy at present is the prevalence of tight supply—demand situations and record price levels in many of the major internationally traded basic raw materials and foodstuffs. While the present period of widespread supply difficulties will surely abate, short supplies and rising prices of some commodities can be expected intermittently. These new issues will likely cause a shift in international concern from solely an emphasis on market access to one including equitable access to supplies. While equitable market opportunities for U.S. products remains our main trade policy objective, it can be anticipated that no longer will the issue of market access be considered in international forums without concurrent consideration of equitable access to supplies.

The problems raised by short supplies impact the international economic system on several fronts. Solutions reside in international cooperation and consultations, and not through shortsighted unilateral actions. Unilateral restrictive trade or monetary actions which are taken to relieve domestic economic problems caused by short supplies will adversely affect the economies of other countries. Offsetting measures by the affected countries are likely to follow, the result of which is that every country loses. Such consequences can best be precluded if national policies are taken in concert with accepted international norms or agreed procedures.

In considering the wide range of new multilateral approaches to the problem of short supplies, including a more effective code of general principles governing short-supply situations and regularized multilateral consultation procedures, it must be kept in mind that the United States is both a major raw material supplier and a major consumer and any limitations we seek to impose on the export control actions of other countries in the context of an international code of conduct would affect our own freedom of action.

Tariff authority as well as authority for nontariff barriers has been discussed at length, Mr. Chairman. Both of these we consider to be essential in this legislation.

Tariff Authority

Let me now turn to the trade bill itself, focusing on those features which are of special interest to the Department of Commerce. With one or two exceptions, the bill as passed by the House of Representatives has emerged as a responsive and constructive answer to the complex trade policy objectives that the United States should seek to achieve in the forthcoming round of new trade negotiations.

In the area of tariffs, we believe that authority to eliminate, reduce, or increase duties on all products in the context of negotiated agreements is needed to deal with two main problem areas. The first is the tariff disadvantage U.S. exporters face in competing with European producers in European markets where internal tariffs on the movement of industrial products within that market are being eliminated,

but continue to apply to third country suppliers. The European Community is also expanding its network of preferential arrangements with countries in the Mediterranean area, Africa, and elsewhere. A major reduction of tariffs provides the most practicable approach for offsetting the erosion of the most-favored-nation keystone of the postwar trading system which until recent years protected U.S. exporters against tariff discrimination in foreign markets.

The second relates to the high tariffs on some products that all of our major trading partners still maintain to varying degrees, especially those on products where our exports would have a competitive edge if high tariffs were reduced.

The tariff reduction authority contained in the bill is somewhat less than we have requested; however, it does contain sufficient negotiating authority to achieve a substantial reduction in tariff levels worldwide and to work toward greater market access for U.S. products abroad.

Nontariff Barriers

Concerted efforts will also be required to reduce or eliminate nontariffs barriers to trade, commonly known as NTB's, NTB's, such as import licensing systems, discriminatory standards or procurement regulations, advertising or packaging laws, and so forth, are more effective in many ways than tariffs in barring U.S. exports from foreign markets, diminishing the benefits of reciprocal trade concessions and preventing the further development of open and nondiscriminatory trade among nations.

I believe that the multilateral approach to negotiations on NTB's will open up new opportunities for finding solutions to the very difficult question of how to deal with trade barriers that are embodied in a wide range of national laws, regulations and administrative practices. While we hope to accomplish as much as possible in this area during the period scheduled for the current negotiations, past experience tells us that negotiations on nontariff barriers must realistically be viewed in a longer time frame for maximum results.

It should be possible to negotiate and implement some important NTB agreements within the 5-year time limit imposed by the bill, such as codes on standards and licensing and Government procurement practices. But we must also recognize the inherent complexity and difficulty of dealing with practices that are imbedded in complex national laws and involve important domestic constituencies. We feel, therefore, that these negotiations should be viewed as only the beginning of a continuous process. Since section 102 insures close and continual involvement of the Congress in the negotiations and implementation of NTB agreements, it could be argued that there is no need to place a time limitation on this particular authority.

Government-Industry Consultations

One aspect of the forthcoming negotiations, in which I have a particularly strong interest, involves the establishment of a joint consultation program between Government negotiators and domestic industries to assure that the views of American industry are fully considered from the early preparatory stages to the final agreements.

Ambassador Eberle and I agreed many months ago that there was a need for a closer and more effective industry-Government relationship than has existed in previous negotiations. Anticipating the congressional interest that has been reflected in section 135, we initiated a joint three-stage program to develop an adequate mechanism for such mutual consultations. The first two stages took place between June and September 1973 and encompassed a series of 18 briefings for some 600 participants at both the policy and technical levels of U.S. industry. We solicited their views and recommendations on how to establish an effective consultative mechanism. We also asked them to nominate representatives from their industries whom they consider particularly well qualified to represent their views in the consultation process.

We are now embarking on the third stage. Formal advisory committees are being established under the provisions of the Federal Advisory Committee Act. The structure we are establishing provides for one overall Policy Advisory Committee composed of chief executives from industry as policy-level advisers for American industry as a whole. In addition, there will also be some 26 Technical Advisory Committees covering the various sectors of U.S. industry. We are convinced that the experience and expertise which these industry advisers will bring to Government decisionmaking will greatly assist our negotiators in their efforts to obtain maximum benefits for the United States in the negotiating process.

Of course, these industry advisory committees constitute only one aspect of the extensive public input which we will be seeking prior to entering into trade negotiations. The bill, as passed by the House, contains provisions for an overall public advisory committee, Tariff Commission advice based on public hearings and public hearings before an agency or interagency committee designated by the President.

Import Relief and Safeguard Measures

Another important features of this bill is the significant relaxation of the relatively stringent domestic eligibility criteria for import relief. Under the existing TEA rules of eligibility for "escape clause" relief, almost two-thirds of the petitioning industries have failed to meet the qualifying test. I think we can all agree that the present TEA import relief measures are inadequate to deal with those disruptions to certain American manufacturers which are caused by injurious increases of imports resulting from changing patterns of international trade. More realistic eligibility criteria for safeguard relief are necessary under present conditions, and of course will be needed even more perhaps to meet the new conditions of competition following completion of the proposed trade negotiations.

While the new round of negotiations and further trade liberalization will undoubtedly bring benefits to American exporters, producers, and consumers, it is also important to recognize that some industries may encounter individual hardships in making timely adjustment to the increased import competition that may arise in certain sectors as the liberalization procedures take effect. I consider that the easier access to the escape clause provided by the TRA is vital if we are to provide assurances to U.S. industry that they will be safeguarded against unforeseen disruptions from imports as trade barriers are reduced.

In addition to the need for a more effective domestic procedure to guard against disruptions caused by changing patterns of international trade, it is also important that new arrangements be developed at the international level to deal with such problems. As part of the upcoming trade negotiations, we will seek better international rules to cope with rapid changes in foreign trade patterns and sudden inflows of particular products from abroad. It is generally recognized by the nations of the world that we need to develop a multilateral safeguard system—one that would operate in a more equitable manner.

Adjustment Assistance

In view of the fact that an integral part of import relief is the adjustment of our domestic industries, I would like to comment briefly on the program of assistance to firms included in chapter 3, title II. I believe that the new provisions provide for a sound program of aid to import-impacted American manufacturers. Those provisions should eliminate the main problems which have hampered accomplishment of similar objectives under current law. The simple and more objective qualifying criteria will make it easier to identify immediate problems and to apply sound measures that will help industrial firms improve their operations. It should be understood that we intend to provide quick assistance to firms whose difficulties clearly stem from import competition and that we do not intend that firms experiencing declining sales and production as a consequence of seasonal and cyclical forces or because of changing domestic competition should receive trade adjustment assistance. In addition to this program, the President proposed on February 19 the Economic Adjustment Act of 1974 which will provide, among other benefits, further Federal assistance to help industries adjust to foreign competition.

Trade with Nonmarket Economy Countries

As you know, the bill as originally drafted would have made it possible to expand significantly our trade with nonmarket economy countries.

There are two basic economic advantages to the United States in extending nondiscriminatory treatment to imports from nonmarket economy countries. First, it will normalize our commercial relations with these countries. We have strong reasons to believe that once normal commercial relations are established, the nonmarket economy countries will increase their purchases from the United States, thus maintaining the large contribution which this trade has already made to our balance of payments, and creating new jobs for Americans as new exports are developed.

Second, we anticipate extending nondiscriminatory tariff treatment in the context of trade agreements or trade protocols. These agreements would benefit U.S. firms engaged in East-West trade through measures for the improvement of U.S. Government commercial representation in the local country and provision for reciprocal credits, arbitration, patent and copyright protection, and business facilities. Also, these agreements would resolve other barriers to trade such as outstanding financial claims and bond obligations.

With regard to restrictions on credit, I would point out that most other western industrial countries have found normal export credit policies necessary for expanding their trade with nonmarket economy countries in view of the foreign exchange shortage in the Soviet Union and Eastern European countries. Credits have been used to encourage such trade because these countries have continually seen their exports to the East exceed imports.

Denial of U.S. credit for the purchase of eligible items will be less harmful to the nonmarket economy countries—who can get similar goods elsewhere—than to the United States, which stands to lose significant sales to foreign competitors. The result, of course, would mean that potential American jobs would go to other countries willing and able to finance exports to the U.S.S.R. and Eastern European countries. The extension of U.S. Government supported credits for East-West trade, on the other hand, would allow U.S. businessmen to sell, at interest rates which are competitive with those offered elsewhere in the West.

In summary, improved economic and commercial relations with the nonmarket economy countries can contribute to our balance of trade, given their strong desire to import U.S.-made manufactured goods, such U.S. exports are, of course, subject to controls on items involving our national security. Furthermore, increased East-West trade could provide new sources of energy and other raw materials, as well as more employment opportunity for American labor. I would urge therefore that this committee eliminate the restrictions placed on the authority of title IV by the House of Representatives that would reduce rather than expand trade with nonmarket economy countries.

Secretary DENT. Thank you, Mr. Chairman.

(A letter sent from Secretary Dent to the Chairman follows:)

THE SECRETARY OF COMMERCE,
Washington, D.C., February 26, 1974.

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with my letter of December 12, 1973, I am enclosing a table presenting monthly f.o.b. and c.i.f. import data for the entire year 1973. This table is similar to that which I sent you with the above letter covering data through September 1973. However, the estimated f.o.b. and c.i.f. data (and charges) in the enclosed table were derived utilizing the new factors developed from the same survey covering annual data for the year 1972 (as contrasted to the factors used in the prior table which were based on the 1971 sample survey). As you know, effective with the January 1974 statistics, the import data will be compiled and published monthly on a c.i.f. and f.o.b. (f.a.s.) foreign port of exportation valuation basis as well as on the traditional Customs valuation basis.

I am also sending you updated tables showing data through the latest months available on government-assisted exports (similar to those sent you with my letter of December 12, 1973).

As indicated in my prior letter, should Mr. Best have any questions concerning the f.o.b./c.i.f. data, it is suggested that he contact Mr. Leonard R. Jackson, Chief, Foreign Trade Division, Bureau of the Census (763-5342). Should he have any questions concerning the data on government-assisted exports, he should contact Miss Frances Hall, Director, International Trade Analysis Staff, Department of Commerce (967-3857).

Sincerely,

FREDERICK B. DENT,
Secretary of Commerce.

Enclosures.

ESTIMATES OF F.O.B., FOREIGN PORT, OF EXPORT VALUES, C.I.F., U.S. PORT, OF UNLADING VALUES, AND VALUE OF CHARGES (INSURANCE AND FREIGHT COSTS TO U.S. PORT OF UNLADING) FOR U.S. GENERAL IMPORTS, BY MONTH (JANUARY-DECEMBER 1973)

[In millions of dollars]

Period	Values as published in U.S. import statistics [1]	Estimated f.o.b. foreign port, of export values [2]	Estimated c.i.f., U.S. port, of unlading values [3]	Estimated charges [4]
January	5,406.5	5,368.6	5,725.5	356.9
February	4,958.0	4,923.3	5,250.5	327.2
March	5,600.9	5,561.7	5,931.4	369.7
April	5,348.6	5,311.2	5,664.2	353.0
May	6,033.4	5,991.2	6,389.4	398.2
June	5,900.7	5,859.4	6,248.8	389.4
July	5,651.8	5,612.2	5,985.3	373.1
August	5,997.4	5,955.4	6,351.2	395.8
September	5,286.3	5,249.3	5,598.2	348.9
October	6,373.3	6,328.7	6,749.3	420.6
November	6,787.2	6,739.7	7,187.6	447.9
December	5,777.3	5,736.9	6,118.2	381.3

[1] Defined as the value required by law for customs purposes, which in most instances is the value of the commodities at the principal markets in the exporting country which may or may not reflect the invoice values for the individual transactions involved.
[2] Defined as the cost (to the U.S. importer) of the commodities at the foreign port of exportation.
[3] Defined as the cost (to the U.S. importer) of the commodities at the foreign port of exportation, plus insurance and freight to the U.S. port of unlading, regardless of whether earned by a U.S. or a foreign firm.
[4] Estimated c.i.f. imports less estimated f.o.b. imports.

SELECTED U.S. GOVERNMENT-ASSISTED EXPORTS AND DISBURSEMENTS, BY MONTHS, 1973

[In millions of dollars]

Month	Military grant-aid shipments [1]	Military sales shipments [2 3]	Disbursements for export under CCC credits [3]
January	41.8	58	86.5
February	36.6	65	87.9
March	52.9	86	144.5
April	35.3	83	123.9
May	41.0	98	137.5
June	38.5	122	119.9
July	66.1	137	51.4
August	31.9	84	41.5
September	56.6	90	38.0
October	34.2	115	32.7
November	36.6	185	30.7
December	44.0	160	18.0

[1] Exports actually moved 2 months prior to the month reported.
[2] Covers "special category" and "nonspecial category" shipments valued at $20,000 and over.
[3] Includes goods which may have been shipped in months other than those indicated.

SPECIAL ANNOUNCEMENTS

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ESTIMATED VALUES FOR U.S. EXPORTS UNDER THE FOREIGN ASSISTANCE ACT AND PUBLIC LAW 480

The export statistics published by the Bureau of the Census are intended to measure the physical movement of all merchandise out of the U.S. customs area, except that to the U.S. Armed Forces abroad for their own use without regard to method of financing. To meet a need for estimates of the value of that part of our total exports which moves under the Foreign Assistance Act and Public Law 480, the following information on exports financed under these programs has been assembled from data developed by the three agencies responsible for the major programs. The 1965–1972 annual and half-year totals and the half-year total and available quarterly figures for 1973 are presented in the following table.

These statistics are compiled by the agencies for various uses in connection with the administration, control, and review of their programs. They are not, therefore, entirely comparable with data obtained from the export declarations filed by shippers with the Bureau of Customs, which are the source documents for the export statistics published by the Bureau of the Census.

They may differ to some extent, for example, in valuation, shipping period, and destination. Values for agricultural commodities are estimated from bills of lading received by the operating division for the programs in the Department of Agriculture. These preliminary estimates are made independently of values submitted to the Bureau of the Census and only approximate the export value. The disbursement figures from the Agency for International Development (AID) sometimes include advances of funds prior to the physical export of commodities; they may also include expenditures which postdate shipments by weeks or months.

Steps have been taken by the Department of Agriculture to make the data presented below as comparable as possible with the Census export figures. Adjustments in the data are made as a result of accounting reviews, refunds against previous expenditures, receipt of additional information from operating offices, etc. These revisions in program statistics may be made many months after the goods are exported.

With these numerous limitations, estimated values are presented below for shipments or disbursements under the three major U.S. programs:

1. The values of military grant-aid shipments are acquisition costs furnished by the Department of Defense, to which the Bureau of the Census has added 5 percent for estimated transportation costs from the point of manufacture to the port for commodities other than aircraft and watercraft under their own power and parcel post shipments. Beginning February 1966, these figures were included with the export data tabulated by the Bureau of the Census 2 months following the month of shipment. In 1965 and prior years, they were added with a lag of 1 month. They are published monthly in the Bureau of the Census Report FT 900 Export and Import Merchandise Trade as "Department of Defense (DOD) Military Assistance Program—Grant-Aid Shipments."

2. Statistics for export of agricultural commodities under Public Law 480. "Agricultural Trade Development and Assistance Act of 1954," as amended, are compiled by the Department of Agriculture and published quarterly in the monthly report, *Foreign Agricultural Trade of the United States.* A large but generally declining part of the shipments under P.L. 480 represents sales to friendly countries with payment in their currencies. Exports of agricultural commodities under long-term financing in dollars or convertible currencies have expanded sharply since the program was initiated in 1962 as an intermediate step between sales for foreign currencies and competitive dollar sales. The initial payment in dollars or convertible currency, when required, is included in the total of exports under long-term dollar and convertible foreign currency credit sales and foreign currency sales. Donations include shipments under this act by voluntary relief agencies as well as government-to-government donations for disaster and other relief. Barter transactions include shipments in exchange for strategic goods for U.S. stockpiles. Agricultural goods shipped under AID barter transactions are included in the AID total.

3. Disbursements by AID represent expenditures for goods purchased in the United States for export to countries receiving our economic assistance. These data are issued semiannually and published regularly in the Agency for International Development publication. *Operations Report.* The figures presented in tht report include in the current data some transactions from prior periods and some expenditures for commodities to be exported later.

The information below is presented in this publication in the final month of each calendar quarter.

Source: U.S. Foreign Trade, *Highlight of Exports and Imports,* December 1973, Bureau of the Census.

TOTAL U.S. DOMESTIC AND FOREIGN MERCHANDISE EXPORTS AND ESTIMATED EXPORTS FINANCED UNDER THE FOREIGN ASSISTANCE ACT AND PUBLIC LAW 480

[In millions of dollars]

Period	Total U.S. export values	Foreign Assistance Act		Public Law 480				
		Military grant-aid	AID loans and grants	Total	Sales for foreign currencies	Long-term-dollar and convertible foreign currency credit sales	Donations	Barter for strategic materials
1965								
Total	27,521	779	1,140	1,323	899	152	253	19
January-June	13,331	473	575	686	455	91	127	13
July-December	14,290	306	565	637	444	61	126	6
1966								
Total	30,430	940	1,186	1,306	815	239	211	41
January-June	15,080	507	546	702	422	121	133	26
July-December	15,350	434	640	603	393	118	78	14
1967								
Total	31,622	592	1,300	1,229	736	193	287	13
January-June	15,998	273	709	667	411	60	188	8
July-December	15,624	319	591	562	325	133	99	5
1968								
Total	34,636	573	1,056	1,178	540	384	251	3
January-June	16,986	260	552	720	398	166	155	1
July-December	17,650	313	504	458	142	218	96	2
1969								
Total	38,006	674	993	1,021	337	428	256	0
January-June	18,058	321	510	580	202	209	169	0
July-December	19,948	353	483	441	135	219	87	0
1970								
Total	43,224	565	957	1,021	276	490	255	0
January-June	21,694	281	493	590	178	258	154	0
July-December	21,530	284	464	431	98	232	101	0
1971								
Total	44,130	581	915	982	174	518	290	0
January-June	22,807	285	507	588	101	309	178	0
July-December	21,323	296	408	394	73	209	112	0
1972								
Total	49,778	560	658	1,065	70	618	377	0
January-June	24,204	274	384	661	69	325	267	0
July-December	25,574	285	274	404	1	293	110	0
1973								
January-June	33,206	246	373	543	4	360	179	0
July-September	17,227	155	(1)	93	(2)	74	19	0

Note: Figures are provisional, and are not adjusted for seasonal variation. The data above exclude insurance and freight on U.S. exports, whether earned by a U.S. or a foreign firm. Data may not add due to rounding. For 1965 through 1967, figures have been adjusted to include exports of silver ore and bullion, which were excluded from published U.S. statistics prior to 1968.

[1] Data are not available.
[2] Less than $500,000.

Source: Prepared by the International Trade Analysis Staff, International Economic Policy and Research.

Table E-1. Domestic and Foreign Merchandise and Department of Defense Military Assistance Program Grant-Aid Shipments: 1962 to Date

In millions of dollars

Period	Total exports			Exports, excluding Department of Defense shipments[1]		
	Domestic and foreign, including Department of Defense shipments	Domestic, including Department of Defense shipments	Department of Defense shipments[1]	Domestic and foreign, seasonally adjusted[2]	Domestic and foreign, unadjusted	Domestic, unadjusted
1973 calendar year total	71,314.0	70,223.0	515.6	70,785.4	70,798.4	69,707.4
January	4,773.6	4,704.1	41.8	4,961.0	4,731.8	4,662.3
February	4,902.9	4,833.3	36.6	5,066.8	4,866.2	4,796.6
March	5,975.1	5,879.8	52.9	5,378.9	5,922.2	5,826.9
April	5,596.1	5,492.1	35.3	5,487.3	5,560.8	5,456.8
May	6,061.8	5,965.8	41.0	5,600.7	6,020.8	5,924.8
June	5,896.4	5,792.9	38.5	5,777.6	5,857.9	5,754.4
July	5,392.2	5,310.5	66.1	5,873.5	5,326.1	5,244.4
August	5,819.3	5,716.0	31.9	6,013.5	5,787.4	5,684.1
September	6,015.6	5,936.5	56.6	6,448.4	5,959.0	5,879.9
October	6,783.5	6,668.1	34.2	6,431.6	6,749.3	6,633.9
November	7,127.7	7,037.8	36.6	6,819.0	7,091.1	7,001.3
December	6,969.7	6,886.0	44.0	6,927.1	6,925.7	6,842.0
1972 calendar year total	49,778.2	48,978.6	559.6	49,233.9	49,218.6	48,419.1
January	3,864.4	3,815.6	57.9	4,074.3	3,806.6	3,757.7
February	3,816.4	3,759.4	38.4	3,823.9	3,778.0	3,721.0
March	4,344.8	4,285.1	39.5	3,868.5	4,305.3	4,245.6
April	3,938.4	3,863.3	50.0	3,820.4	3,888.4	3,813.3
May	4,189.3	4,123.4	52.7	3,881.6	4,136.6	4,070.7
June	4,050.7	3,977.8	36.0	3,971.0	4,014.7	3,941.8
July	3,742.9	3,684.4	66.1	4,074.1	3,676.9	3,618.3
August	3,979.8	3,909.5	45.6	4,196.5	3,934.2	3,863.9
September	4,006.6	3,936.6	43.2	4,176.4	3,963.4	3,893.4
October	4,508.5	4,447.2	67.5	4,316.3	4,441.0	4,379.7
November	4,613.5	4,527.2	30.6	4,472.9	4,582.9	4,496.6
December	4,722.7	4,649.2	32.1	4,558.0	4,690.6	4,617.1
1971 calendar year total	44,129.9	43,491.8	581.3	43,606.1	43,548.6	42,910.5
January	3,530.4	3,482.2	50.5	3,601.3	3,479.9	3,431.7
February	3,559.4	3,502.8	31.3	3,694.5	3,528.2	3,471.6
March	4,155.9	4,106.6	48.1	3,789.5	4,107.8	4,058.5
April	3,856.5	3,792.7	44.0	3,630.7	3,812.6	3,748.7
May	3,963.5	3,904.3	56.9	3,746.3	3,906.6	3,847.4
June	3,741.1	3,680.2	54.5	3,672.3	3,686.6	3,625.8
July	3,395.7	3,350.4	57.7	3,572.8	3,338.1	3,292.7
August	3,423.8	3,376.7	57.6	3,666.5	3,366.2	3,319.0
September	4,259.5	4,205.3	39.8	4,486.8	4,219.8	4,165.6
October	2,891.1	2,838.9	65.4	2,668.8	2,825.7	2,773.5
November	3,264.5	3,220.1	43.2	3,195.7	3,221.3	3,177.0
December	4,088.4	4,031.5	32.5	3,880.9	4,055.9	3,999.1
1970 calendar year total	43,224.0	42,590.1	564.7	42,729.2	42,659.3	42,025.4

Table E-1. Domestic and Foreign Merchandise and Department of Defense Military Assistance Program Grant-Aid Shipments: 1962 to Date

In millions of dollars

Period	Total exports			Exports, excluding Department of Defense shipments[1]		
	Domestic and foreign, including Department of Defense shipments	Domestic, including Department of Defense shipments	Department of Defense shipments[1]	Domestic and foreign, seasonally adjusted[2]	Domestic and foreign, unadjusted	Domestic, unadjusted
January	3,290.6	3,248.1	60.4	3,405.6	3,230.2	3,187.6
February	3,430.8	3,378.3	43.9	3,546.5	3,386.9	3,334.4
March	3,619.1	3,580.1	42.3	3,375.0	3,576.8	3,537.9
April	3,647.3	3,592.3	49.4	3,410.0	3,597.9	3,542.8
May	3,939.8	3,878.6	33.7	3,660.9	3,906.2	3,844.9
June	3,766.4	3,718.9	51.7	3,726.9	3,714.6	3,667.2
July	3,596.7	3,535.1	42.7	3,703.6	3,554.0	3,492.4
August	3,304.7	3,255.4	40.9	3,591.4	3,263.9	3,214.5
September	3,373.5	3,320.9	38.9	3,552.7	3,334.6	3,282.0
October	3,974.5	3,901.7	58.6	3,688.0	3,915.9	3,843.1
November	3,544.9	3,495.8	50.7	3,499.4	3,494.2	3,445.1
December	3,735.8	3,685.0	51.7	3,569.2	3,684.1	3,633.3
1969 calendar year total	38,005.6	37,461.6	673.9	37,288.7	37,331.7	36,787.7
January	2,112.3	2,072.4	54.6	2,160.7	2,057.6	2,017.8
February	2,194.1	2,161.9	34.4	2,266.1	2,159.8	2,127.5
March	3,419.3	3,374.1	51.3	3,188.2	3,368.0	3,322.8
April	3,564.1	3,514.8	59.0	3,318.3	3,505.1	3,455.8
May	3,599.6	3,555.0	51.5	3,267.7	3,548.1	3,503.5
June	3,168.2	3,120.8	70.1	3,179.2	3,098.1	3,050.7
July	3,042.6	3,000.2	47.7	3,182.0	2,994.9	2,952.6
August	3,213.2	3,160.2	61.8	3,366.1	3,151.3	3,098.4
September	3,183.7	3,140.5	73.3	3,340.9	3,110.4	3,067.2
October	3,618.2	3,574.3	55.5	3,342.1	3,562.7	3,518.7
November	3,469.2	3,417.4	56.0	3,397.8	3,413.2	3,361.4
December	3,421.0	3,370.0	58.6	3,279.8	3,362.4	3,311.4
1968[3]	34,635.9	34,199.0	573.1	34,092.4	34,062.8	33,626.0
1967[3]	31,526.2	31,142.1	591.9	31,011.3	30,934.4	30,550.2
1966[3]	30,319.6	29,883.9	940.5	29,403.1	29,379.2	28,943.5
1965[3]	[4]27,469.6	[4]27,126.7	778.8	[4]26,529.8	[4]26,690.8	[4]26,347.9
1964[3]	26,508.3	26,155.9	818.2	25,610.7	25,690.1	25,337.8
1963[3]	23,347.3	23,062.4	919.9	22,410.1	22,427.3	22,142.6
1962[3]	21,700.0	21,430.6	727.4	21,022.3	20,972.6	20,703.2

[1]Represents only export shipments from the United States and differ from DOD Military Assistance Program Grant-Aid shipment figures under this program as follows: a) Transfers of the material procured outside the United States and transfers from DOD overseas stocks are excluded from export shipments. b) Export value is f.a.s., whereas DOD value, in most instances, is f.o.b., point of origin. c) Effective with the February 1966 statistics, data for shipments reported by the DOD for a given month are included in Bureau of the Census reports in the second month subsequent to the month reported by the DOD. Data for shipments reported by the DOD were excluded from January 1966 statistics. [2]Data reflect adjustments for seasonal and working-day variation and do not necessarily add to annual unadjusted totals. [3]Excludes information on shipments of silver ore, base bullion (including sweepings, waste, and scrap), and refined bullion. Information on exports of silver in these forms was published in the appendix to the January 1969 issue of this report. [4]Revised to reflect corrections first incorporated in data presented in the 1965 edition of Foreign Commerce and Navigation of the United States.

The CHAIRMAN. Now we will hear from Hon. Peter J. Brennan, Secretary of Labor.

STATEMENT OF HON. PETER J. BRENNAN, SECRETARY OF LABOR

PROTECTIVE TRADE BARRIERS

Secretary BRENNAN. Mr. Chairman, members of the Finance Committee. I am here, Mr. Chairman, to support the trade reform bill. I am interested in the protection that our workers will gain by this bill.

In these days of uncertainty, nations are tempted to try to solve their problems at the expense of their neighbors. But arithmetic tells us that all nations cannot solve their problems at the expense of all other nations; and history tells us that "beggar-thy-neighbor" policies are followed by—

Trade wars and retaliation; shrinking markets abroad; higher prices at home; and shrinking job opportunities.

I have little sympathy for those who assure us that the United States is no longer able to compete in world markets and who urge that we huddle behind protective barriers. If the dollar is competitively priced in foreign markets and if we secure fair treatment abroad for our products, workers have little to fear from expanded trade. What is needed is not a retreat from the rest of the world but a framework for fair trade and for mutual cooperation. That is what this act seeks to provide. Previous witnesses have dealt with the broad reasons which make this legislation urgent. I endorse this legislation because I do not believe that the way for the United States to maintain a high employment economy is to hide behind trade barriers.

EMPLOYMENT SITUATION—ADJUSTMENT ASSISTANCE

Before discussing those specific aspects of H.R. 10710 of most direct concern to the Department of Labor, I would like to say a few words about the employment situation.

Total employment in January stood at 85.8 million, essentially unchanged for the third straight month. Over the past 12 months, employment has risen by 3 million. Nonagricultural payroll employment in January declined by 260,000—seasonally adjusted—though the total was still 2.1 million above its year ago level.

I am very much concerned about unemployment which, as you know, has risen in the last few months. The causes of unemployment are always difficult to identify, and especially so today because of our energy problems. We cannot tell with any precision how much of the current unemployment results from energy shortages, but we believe it to be substantial. January data, for example, show employment declines in gasoline retailing and in air transportation, probably a direct result of fuel shortages. Employment has also declined in industries where demand is affected by actual or anticipated shortages of fuel. Examples are automobile manufacturing and hotels and motels. As a consequence, we have proposed to the Congress measures to extend the general unemployment insurance system and have taken steps to improve our manpower programs.

We are concerned today not simply with the current developments but with the longer term considerations which the trade bill addresses.

We should understand that trade expansion improves the standard of living for most Americans and offers the benefits of increased national income. It may cause job displacements for some. In that context, the effects of expanding trade are similar to the effects of automation or technological change or increased domestic competition.

The crucial point to be kept in mind in examining the relationship of trade and employment is that while the impact on total employment is small there may be problems, of varying degrees, for particular groups of workers in adjusting to a different set of employment opportunities. Adjustment to change is never painless, but our economy is remarkably resilient and capable of adapting. For example, the economy regularly absorbs the changes induced by productivity increases and a growing labor force. On average, labor productivity increases annually by about 3 percent and the labor force by about 1.7 percent. If the economy made no adjustment to the annual productivity and labor force increases, about 4.7 percent of the labor force would be added to the rolls of the unemployed each year. This does not happen because the economy does adjust to change. The economy's ability to absorb workers displaced by changes in trade is indicated by the fact that increasing imports have been paralleled by increases in domestic employment over the last 20 years. Changes in the overall unemployment rate appear to be unrelated to changes in the volume of imports.

The job of Government, it seems to me, is to secure for us the benefits of expanded trade, providing assistance and protection to individuals who may be adversely affected by such trade expansion. Under H.R. 10710 workers will receive increased protection and assistance from the proposed revisions in the industrywide escape clause procedure and an improved program of adjustment assistance. I will deal with adjustment assistance first.

Special provisions for assisting trade displaced workers are justified because of the displacement of those few losses from a broad Government policy which benefits the entire economy. It is probably fair to say that the existing program of assistance to workers adversely affected by trade is unsatisfactory.

Under the current program, one, relatively few workers have been able to establish their eligibility. None from 1962 to late 1969 and only 44,000 since 1969.

Two, benefits have often come too late to be of assistance in the adjustment process. In some cases, benefits have not been paid until 2 years after layoff.

Three, the maximum cash benefit is low, 65 percent of the average weekly wage in manufacturing, about $111 a week in 1974.

H.R. 10710, offers important improvements in the trade adjustment assistance program for workers. It eases access to the program and accelerates the process of investigation and determination. Cash allowances are increased and the package of benefits is improved.

Under this bill, section 222, the Secretary of Labor will provide adjustment assistance to workers of a particular firm producing articles like, or directly competitive with imports, if he determines that a significant number, or proportion, of workers have been totally, or partially, separated, or threatened with separation; that sales or production, or both, of the firm, or subdivision, have declined; and that

increased competitive imports have contributed importantly to such separation and to the decline in sales or production.

Under the revised procedures of H.R. 10710, it is not our intention to provide trade adjustment assistance to workers whose unemployment, or underemployment, is clearly the result of normal seasonal or cyclical factors, or of shifts in technology or of domestic competition. Our regular unemployment insurance and manpower programs are designed to deal with such displacement problems.

It is our intention to use trade adjustment systems to deal quickly and effectively with job displacements to which competitive imports contributed importantly. The provisions of H.R. 10710 compress and speed the determination of eligibility.

Worker petitions will be filed, not with the Tariff Commission, but directly with the Secretary of Labor, who will be responsible for completing the entire process of investigation, determination, and certification within the 60-day period.

A simpler test will permit the individual worker, within the group certified, to become eligible for benefits if he was inadversely affected, employment with a single firm for 26 weeks out of 52 weeks preceding his or her separation.

Weekly cash payments to eligible workers are increased substantially under the bill. A worker could receive payments equal to 70 percent of his average weekly wage for the first 26 weeks of his unemployment and 65 percent for the next 26 weeks of any subsequent period for which he is eligible up to a ceiling equal to 100 percent of the average weekly wage in manufacturing.

If the worker is in a training program, he may receive up to an additional 26 weeks, if necessary, to complete the program. If he is over 60 years old and remains unemployed, he may receive an additional 13 weeks of cash payments or a total of 65 weeks of cash benefits.

The present law has similar provisions for the duration of payments but the amounts are limited to 65 percent of the worker's average weekly wage, or 65 percent of the average weekly wage in manufacturing, whichever is less. Thus, under the Trade Expansion Act, the weekly maximum payment in 1974 would be about $111 a week compared with $170 a week possible under the Trade Reform Act.

The bill provides additional services for displaced workers. For example, any adversely affected worker who has been totally separated and cannot be expected to secure suitable employment in the commuting area in which he resides may receive a job search allowance of up to $500 to cover 80 percent of the cost of necessary job search expenses to assist him in obtaining employment in the United States. When he relocates to take a job, he will receive relocation allowances consisting of 80 percent of the reasonable and necessary expenses incurred in transportation or transporting himself and his family and their household effects to the new job location, plus a lump-sum cash payment equal to three times the worker's average wage up to $500.

Relocation allowances would no longer be limited to heads of households, but only one relocation allowance per family would be allowed for the same relocation. Workers would be able to receive certain remedial health services, if necessary to obtain employment, in addition to counseling, testing, and placement services. They would also be eligible for training in situations where suitable employment could not otherwise be provided.

Industrywide Escape Clause Procedure

Though I have dealt at some length with worker adjustment assistance, I do not want to leave the impression that such assistance is the only means for dealing with serious injury to domestic industry and workers arising from competition. Workers affected by imports will also be protected by the changes in the industrywide escape clause incorporated in title II of H.R. 10710.

We recognize that there will be situations involving industrywide injury where sole reliance on adjustment assistance is not practical. For such situations, the bill provides a greatly improved industry escape clause procedure which may be initiated by workers, as well as management. Thus, workers in industries being seriously injured by imports may find it in their best interest to file for industrywide escape clause relief.

There is no requirement in this bill that increased imports be caused by previous trade agreement concession. Rather, there is a more direct test that increased imports have been a substantial cause or threat of serious injury to a domestic industry. Under this procedure, industries seriously injured or threatened with serious injury from increasing imports may petition for increased tariffs for import quotas, or for the negotiation of orderly marketing arrangements.

While other witnesses are testifying in some detail about these procedures, I want to emphasize that these escape clause changes are an important part of the measures which will be available to protect American workers against serious injury from increased competitive imports, The revised escape clause procedure requires consideration of the steps that have been taken, or could be taken, by an industry, including workers and firms, to adjust to import competition. The Department of Labor will have the responsibility, when an escape clause petition is filed with the Tariff Commission, to determine the number of workers in that petitioning industry likely to be certified as eligible to receive adjustment assistance, and the ability of existing programs to meet the adjustment needs of these workers.

This information will be considered by the President in deciding his course of action if the Tariff Commission finds that increased imports are causing, or threatening to cause, serious injury to the industry. It is my judgment that the improved safeguard provisions in this bill afford American workers and industries reasonable and effective remedies for problems which may arise from increased imports.

The more effective procedures for industrywide relief and adjustment should reduce the vulnerability of workers to sudden surges of imports. Together with the general provisions of the Trade Reform Act, they provide a framework in which we can expand the opportunities for trade and enhance the growth of the American economy.

Thank you, Mr. Chairman.

The Chairman. Thank you very much. In line with our policy of occasionally reversing the order of questioning, we will start at the far end of the table today. Senator Bentsen.

Senator Bentsen. I have no questions at this time. Thank you, Mr. Chairman. I reserve my time till later, if I may.

The Chairman. Fine. Senator Roth would be next, Senator Gravel, and then Senator Packwood. I would suggest we limit ourselves, hopefully, to 7 minutes each this morning. At 11:15 the Senate starts vot-

ing. That will give each Senator a chance, perhaps, to ask a few questions and he can submit others for the record. Let me ask you, gentlemen, those of you who testified, could we come back at 3:30 this afternoon in case we do not finish this morning?

Secretary DENT. We can come at any time you specify, Mr. Chairman.

Secretary BUTZ. Yes, sir.

The CHAIRMAN. OK, I would suggest that, after we have this morning session, that those who want to ask more questions could come back this afternoon.

Senator PACKWOOD. Is it your intention, Mr. Chairman, when we go to vote on cloture, to adjourn and not come back this morning?

The CHAIRMAN. That is what I thought we might do. We will try to accommodate you, if you have some problems.

Senator BENNETT. The Republican members of the committee are meeting with the Secretary of HEW in his office at 12:30 which means we would have to leave here at 12:10.

Senator PACKWOOD. I am just trying to find out what our schedule is for the morning. We will adjourn for the cloture vote and not come back until the afternoon?

The CHAIRMAN. That is what I thought we could do to accommodate everybody. I'm certain these gentlemen could make good use of that time between when we go to vote this morning and the time we come back this afternoon.

ACCESS TO SUPPLY

Senator PACKWOOD. Secretary Dent, in your statement you made reference to the fact that in international negotiations in the future we are concerned, not only with markets, but access to supply, and that foreign countries would have the same concern, probably, about access to supply in this country, including agricultural supply.

Secretary DENT. When we talk in terms of supply, it is supplies of raw materials, agricultural commodities, yes, sir.

Senator PACKWOOD. Let me address this question, then, to Secretary Butz. Mr. Secretary, you would agree with his comment about concern of access to supply both for us and for foreign countries in our own markets?

Secretary BUTZ. Yes, sir, I certainly would. We have taken a very strong stand in agriculture that, subject to national security considerations, of course, that foreign countries must have access to supplies in this market.

Senator PACKWOOD. Now, in terms of agriculture, what do you mean, subject to national security precautions?

Secretary BUTZ. Well, it certainly does not mean the same thing as it does for strategic raw materials. I think, well, obviously, we will not want to get in a stance where we actually run short of food products in this country. We are not at that point in spite of allegations that have been made. But I think it is clear to everybody if we came to a situation where we were actually going to run short of a physical supply of food to meet our domestic needs, that would be a threat to national security.

Senator PACKWOOD. Well, let me take it step by step. Would you say that, as far as any kind of agricultural product, that, to the extent that

we will not have enough to take care of our domestic needs, that would be beyond the peril point and we should embargo exports?

Secretary BUTZ. Yes, if you have any good way of defining what is enough. I guess you always have to define that in terms of a price.

Senator PACKWOOD. Well, I am defining enough in the sense that we simply are not producing enough to take care of what we would normally consume at a rational price.

Secretary BUTZ. You say at a rational price——

Senator PACKWOOD. I assume there is an end to everything and if bread got to $20 a loaf, no matter how much wheat we exported, there would be enough bread in this country. I am talking about a rational price.

Secretary BUTZ. Yes, if you can define a rational price. But at the present time, coming back to wheat and this scare we have had on the shortage of wheat in this country, the current wheat situation of course does not relate to the present price of bread. The present price of bread, at 40 cents retail, on the average, for a 1 pound loaf of bread here, contains a farm price of about 8 cents worth of wheat at the present time. Frankly I do not get concerned about that.

Senator PACKWOOD. Well, let me put it in terms of specific quantities, then. We are going to grow about 2.1 billion bushels of wheat this year, assuming nothing goes wrong. We normally use 700 to 800 million bushels. If, by chance, we had a tremendous crop failure or a drought, and we could only produce 500 or 600 million bushels of wheat, what should be our policy at that state on the export of wheat?

Secretary BUTZ. Well, you have postulated something that is beyond the realm of probability. It is inconceivable that we would have a wheat crop that short. If we had a wheat crop that fell, let us say 200 or 300 million bushels short of our projected 2.1 billion bushels of wheat, it still would be in excess of the wheat crop we produced in 1973 where our crop, then, was about 1.7 billion bushels. We contemplate an increase this year of 400 million bushels over that wheat crop.

Senator PACKWOOD. Why did we embargo soybean exports for a few months?

Secretary BUTZ. Well, that is a good question. In retrospect I think this was not a wise decision. On the other hand, at that time, there was tremendous consumer pressure which developed as a result of rising food prices, rising meat prices. This related to the rising price of protein supplement, which is one of the ingredients that produces——

Senator PACKWOOD. Was there a relationship between the rising in protein and in the soybean prices and the increase in meat——

Secretary BUTZ. In the long run, there had to be a relationship to it. In the short run not, because of the lag in producing meat.

Senator PACKWOOD. Because of what, excuse me?

Secretary BUTZ. Because of the lag in producing meat, I said, in the long run there had to be a relationship between the cost of protein supplement and the cost of meat. In a particular week, there was no particular relationship because it takes longer than that to produce meat. In the case of beef, it takes several months. Two years, in some cases, as you know, to get beef on the market.

But coming back to your initial question, we have had this tremendous consumer insistence that we do something about food prices and soybeans were the most visible item.

Senator BENTSEN. Mr. Chairman, could we turn on the microphone so the audience can hear what the Secretary is saying.

Secretary BUTZ. You mean that we had this off all morning?

[General laughter.]

Senator PACKWOOD. Mr. Secretary, what I am driving at is where we say we are going to limit our export of agricultural products, is it only when they are literally in short supply, that we do not have enough to take care of our normal use, or is it where they started to drive prices up because they are simply in shorter supply than usual. Give me your idea of whether you have a total export freedom of agricultural products, no matter what the consequences, or, if not that, where do you draw the line?

Secretary BUTZ. Well, I think that depends partly on your price philosophy, Senator. As you know, we have had a lot of pressure to limit exports of wheat in recent months, and your State is an important wheat producing State, an important wheat exporting State. If we had acceded to the pressure to limit exports on wheat, let us say, some months ago, I think we would have done a couple of things.

One is it would have discouraged the additional planting of spring wheat, where wheat farmers have indicated their intentions now to increase their plantings of spring wheat rather substantially, I think by 16 percent. I am not sure about that figure. A very substantial increase in acreage of spring wheat on top of a heavy increase in planting fall wheat. I think had we imposed export restrictions, this would have been a signal back to our producers that they should not increase their plantings of spring wheat. So you would simply aggravate the problem down the road.

Second, had we done that, you would have had some reduction in the price of wheat internally here as a result of that Government action. But look what the market has done in recent weeks. I think in a relatively free market you have a self-correcting mechanism and the price of wheat has come down rather substantially in the last few weeks. It has dropped, with the exception of last Friday, it has dropped the limit in the last 4 or 5 days.

Senator PACKWOOD. Where is it, by the way?

Secretary BUTZ. Well, the wheat dropped 20 cents yesterday again. The price, the current price of wheat is down to $5.40, about $5.40. It was down the limit again yesterday.

Senator PACKWOOD. Come back to the question now.

Secretary BUTZ. What I am saying, though, is that a free market system has built within it certain self-correcting mechanisms, and, I think, we are seeing that operate right now.

Senator PACKWOOD. Well, again, I want to come back to the question I was posing, and I was not one of those that asked for an embargo on wheat. We are under tremendous pressure now to embargo scrap iron because its price is going up in foreign competitors, and this is not so much your bailiwick as Secretary Dent's. Foreign buyers are purchasing at a high price, forcing the price up here. Should that be a concern, whether it be wheat or scrap, or should we just say we have reached the place where there is not adequate wheat here to take care of us. There is not enough soybean to feed our beef. We will let export demands go on unabated no matter what the effect may be on the price.

Secretary BUTZ. Well, I think you pose a very difficult question there. You say until we have reached the point that we don't have enough internally. We let it go on until it has an exhorbitant effect on price. I think the amount we need domestically varies with the price. It varies inversely with price. That is the function of price. I think we are seeing that operate right now in petroleum fuel. The demand for gasoline itself has diminished some as the result of the higher price. That is a function of price and I think it is a function of price in agricultural commodities too.

Senator PACKWOOD. My time is up.

Senator BENTSEN. Mr. Chairman, I have had a chance to review some of this testimony now and I would like to recover my position in the pecking order, if I can.

The CHAIRMAN. I think I took the Senator by surprise, so, if there is no objection, we will turn to Senator Bentsen.

CAPITAL SHORTAGE IN WORLD MARKETS

Senator BENTSEN. Secretary Dent, I am concerned about what we are facing in terms of a capital shortage in world markets and how this is going to affect American industry and its competitive position with the Europeans and the Japanese. I noticed a statement the other day of the steel industry saying that they were going to have to give up part of their markets to the Europeans and the Japanese because of their difficulty in raising capital. And yet I looked at the situation that Mr. Townsend testified on before our committee; he said that the capital market in this country is such that Avon products is valued over a billion dollars higher than the entire stock of Alcoa. And we have a situation where McDonald hamburgers is valued at about $2.1 billion in the market and $200 million book value and United States Steel at about $2.4 billion in market value and about $3.6 billion in book value.

In other words, we are short on steel and long on hamburgers and we can raise the money for hamburger plants but we cannot raise it for steel plants. What do you think we ought to be doing in the way of capital markets in trying to assist U.S. industries in strengthening their competitive position?

Secretary DENT. I think that the most important thing that we can do is to let the free market determine values. The Government has never gotten the presidents of the hamburger chains out of bed protesting the increase in price of hamburgers but we have seen the influence of Government almost continually operating in the steel market area. And it has been the repression of prices which has repressed profits, that has resulted in that industry being unable to attract the capital necessary for its own expansion.

The steel industry competes in a worldwide market in which approximately 70 percent of the steel sold around the world is either subsidized by government or directly owned by the government, as in Great Britain. For these reasons our domestic industry needs support, either in being permitted to operate far more independently than it has in the past or in having public funds put into it, and I certainly would recommend the former and not the latter.

Senator BENTSEN. Well, I would agree with you, Mr. Secretary, as far as the infusion of funds is concerned, but it would seem to me that

there would be other things that we could do, perhaps with the tax structure itself, in encouraging effective capital and venture capital in this country.

Secretary DENT. When I talk about government influence, I am talking about the rate of depreciation. I am also talking about the rate of tax credit. We need to consider a total cash flow of an industry and this, the cash flow, not profits by itself, has been the difficulty with respect to the inability of the steel industry to expand and be able to satisfy the full demands of this country.

Senator BENTSEN. When they tell me it takes an estimated $25,000 just to create a new job in manufacturing, and I am also told that for example Bethlehem Steel will need $2 million, $3 million, $4 million a year from now until 1980 just to refurnish obsolete facilities and to be in a competitive position. I think we are facing a problem which should concern all of us as far as future growth and the creation of jobs which are necessary in this country are concerned.

TYING AGRICULTURE WITH INDUSTRY IN NEGOTIATIONS

Secretary Butz, I would like, if I may to ask you a question concerning the problem we have in keeping agriculture and industry together in these negotiations. The Europeans have traditionally wanted to segregate the two, and in the last Kennedy round we did not make much progress as far as agriculture was concerned. The French left the negotiations for almost a year. They did not even participate because of this.

Is it your position that the two, industry and agriculture, must be tied together in our negotiations? If we do not prevail in that position, do you think that we have enough leverage to obtain significant concessions if we were to just deal on the agriculture points by themselves?

Secretary BUTZ. Well, to answer your first question first, I think that industry and agriculture must be kept tied together, and I think we should not compartmentalize them as we enter the negotiations. I think it is clear when you consider that agriculture itself last year produced a surplus in trade of nearly $10 billion. As a matter of fact, this fiscal year it will have exceeded $10 billion surplus.

The European Community, held together largely by the common agricultural policy, as they call it, is trying to insist on compartmentalizing agriculture so that we simply make our concessions in the agricultural sector all by itself, and we are opposed to that. I think that happened in the so-called Kennedy Round. I think agriculture lost severely in the Kennedy Round.

I would think that agricultural trade is now at a much higher threshold of importance and significance than it was during the time of the Kennedy negotiations, and our position is that we simply must be in the total arena when we are receiving concessions on agriculture.

Senator BENTSEN. Thank you, Mr. Secretary.

ADJUSTMENT ASSISTANCE

Now, Secretary Brennan, I would like to ask you about the problems stemming from trade adjustment. Can the trade adjustment problem be delineated or set apart, from the general problems of adjustment

in our labor market? I was looking over the series of criteria and tests in your testimony, and a number of them appear to have subjective judgment involved.

Should the program be designed as part of a manpower economic conversion policy that treats dislocations regardless of cost?

I noticed earlier in your testimony, too, you were talking about how difficult it was to point out those jobs that were lost because of the energy shortage, and I am concerned that the same problem is true of those resulting from trade dislocation.

Secretary BRENNAN. Well, yes, Senator, that is so. However, as I stated in my testimony, the present procedure for giving protection to workers who are dislocated and lose their jobs due to foreign competition has not been adequate. As with the energy crisis, we have not been able to get the exact number of people who have become unemployed. We are trying, but it is not an easy job, and it is also not easy to pin down figures on people being dislocated due to foreign competition.

We do feel, though, that there should be assistance to the workers that are affected as well as to management in any bill that would broaden or expand our trade with foreign countries for the good of the overall economy, even though that expansion may affect some of the people.

We are hoping the energy problem is something we can overcome soon, and this will bring people back on their jobs. So I think there is a little difference there, Senator. The only thing they may have in common is how do we find the exact figures on the people unemployed due to these causes. As for unemployment or adjustment, many of the trade affected people are of an advanced age. It is not easy for them to go into another job. We feel that with the new manpower bill we can train them for other jobs, but I think the record shows this is not an easy accomplishment.

Senator BENTSEN. Thank you, Mr. Chairman.

I would like to submit, if I may, some questions in writing to Secretary Dent, if the chairman would agree to that.

The CHAIRMAN. Yes; that is agreeable.

[The questions and answers referred to follow:]

ANSWER TO QUESTIONS BY SENATOR BENTSEN SUBMITTED FOR THE RECORD OF HEARINGS ON H.R. 10710 BY THE DEPARTMENT OF COMMERCE

1. ADVISORY COMMITTEE FOR TRADE NEGOTIATIONS

Question. Almost 3 million Puerto Ricans are represented in the U.S. Congress by only one (1), non-voting member of the House of Representatives. In light of this fact, has any thought been given by you to the advisability of assuring that Puerto Rico has a voice in providing policy and technical advice regarding trade negotiations by participating in the Advisory Committee for Trade Negotiations proposed in Title I, Chapter 3, Section 135 of H.R. 10710?

Answer. As you know, the overall Advisory Committee for Trade Negotiations proposed in subsection (b) of Section 135 differs from the more narrowly-focused industry product sector advisory committees, envisaged in subsection (c) of the same Section. The industry product committees form the basis of the joint STR/Commerce Industry Consultations in Support of Multilateral Trade Negotiations that I have described in my testimony.

The stated purpose of the overall Advisory Committee for Trade Negotiations to be established by the President is to "seek information and advice from representative elements of the private sector . . ." Thus, membership on this Committee by Puerto Ricans from the private sector may not meet the desires of the Puerto Rican Government that its views be taken fully into account in develop-

ing U.S. negotiating objectives and bargaining positions. We are most willing to work with Puerto Rican officials as well as the officials of any other state who wish to assure that they have an opportunity to provide information and advice concerning the negotiations.

Regarding the industry advisory committees encompassed in the STR/Commerce consultations program, I wish to repeat the assurances previously given to the Commonwealth's Secretary of Commerce and representatives of its Chamber of Commerce that we would welcome nominations of Puerto Rican manufacturers for participation in our joint program.

2. QUALIFYING FOR IMPORT RELIEF AND ADJUSTMENT ASSISTANCE

Question. The Commonwealth of Puerto Rico is particularly concerned about the anticipated negative impact on its economy due to the tariff and nontariff trade concessions of H.R 10710. This impact is of a distinct nature and magnitude than that which could affect the whole mainland industry. Accordingly, has consideration been given to providing a different interpretation and application of the definitions of "serious," "significant" and "substantial" cause, injury, etc. . . . as presented under Title II of H.R. 10710, to the Puerto Rican case? Is it your view that a special provision regarding these definitions and Puerto Rico should be written into the legislation?

Answer. The question implies that Puerto Rican industries should receive import relief under criteria that are less stringent than those applying to other U.S. industries faced with import competition. In determining whether to provide import relief the President would be obliged, under the TRA, to take into account all considerations he deems relevant and these would include special circumstances involving impact on particular regions such as Puerto Rico. This approach continues procedures followed in import relief cases under the TEA. Therefore, it would not seem necessary to make special provision in the statute for the interests of Puerto Rican industries, nor do we believe it would be desirable since it would be inequitable to industries in other states where import competition may have a regional impact.

3. PREFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

Question. As per Title V, Sec. 501, steps may be taken to grant preferential treatment to developing countries in their trade relations with the U.S.A. Has consideration been given to the possible adverse effects that this preferential treatment would have on the economy of the Commonwealth of Puerto Rico, particularly in the case of the apparel manufacturing industry?

Answer. While recognizing that Puerto Rico is within the customs territory of the United States and therefore that its industry is in the same position as other domestic producers with respect to the possible impact of granting tariff preferences to developing countries, we appreciate the particular concerns of Puerto Rico over the possible impact on its industries.

The granting of such preferences is not intended to impair the development of Puerto Rico's economy. Moreover, prior to designating any article as eligible for preferential treatment, the President will publish and furnish the Tariff Commission with a list of proposed eligible articles, and the Tariff Commission must provide advice to the President as to the probable economic effects on domestic industries (which includes Puerto Rican industries) producing like or directly competitive articles and on consumers of granting duty-free preferential treatment on each article proposed for eligibility. The President must also seek information and advice from Executive Branch departments and other appropriate sources on the list of eligible articles and provide for public hearings. We believe these procedures will provide an adequate opportunity for Puerto Rican producers to make known their concern about the effect of granting preferences on any particular product or industry sector including the apparel industry of Puerto Rico.

The CHAIRMAN. For those Senators who cannot be here this afternoon, I will be glad to ask any questions for them they may wish.

Senator Dole?

Senator DOLE. Thank you, Mr. Chairman. I apologize to the witnesses for being late. We had an Agriculture meeting this morning.

Secretary BUTZ. That is a very good alibi, Senator.

[General laughter.]

Fertilizer Shortages

Senator Dole. I direct my questions to Secretary Butz. There are great pressures now for free trade, and of course, we understand the value of agriculture exports to the world economy, and our own. It has really been the saviour as far as our economy is concerned in the balance of payments and many other things. And there is, of course, great hope for the farmer because of expanded exports.

Now, farmers, of course, resist export controls or quotas or embargoes on their products. At the same time, I can see developing from these farmers a desire for export controls on fertilizer. In other words, some would like to have it both ways.

Does the Secretary have the feeling I think he has that we should not impose those controls or quotas? This might also apply to Secretary of Commerce. But there is a resolution being introduced to impose controls because of the shortage of fertilizer on the American farm.

Secretary Butz. Yes, you are quite right, and this pressure is growing.

On the other hand, I think we have to maintain a consistent position. We were in fact experiencing heavy export shipments of fertilizers in the last quarter of 1973, in part, at least, because of the imposition of domestic price ceilings on fertilizer prices domestically which made the foreign market much more attractive than the domestic market.

Before those price ceilings were raised by the Cost of Living Counsel, Dr. Dunlop and I both met with the leaders in the fertilizer industry and received from them a firm pledge that they would in fact divert a substantial share of shipments that might otherwise have gone abroad to the domestic market in the first quarter of 1974, in return for having price ceilings lifted.

They have followed through with that commitment very nicely, even though foreign fertilizer prices have risen still more and the foreign market is at this moment a more attractive market than the domestic market. But I think that we have to be consistent. If we are going to insist upon no export controls on products we have to sell abroad, I think we have to take exactly the same position with respect to supplies that might likewise go abroad.

Difficulty in Obtaining Tubular Goods for Oil and Gas Wells

Senator Dole. I do not want to repeat anything and I would only ask one question of Secretary Dent. We have discussed this earlier. There is a major difficulty in obtaining tubular goods for use in more exploration and drilling for oil and gas in Kansas, Texas and other places. One time it was suggested—in fact, I think I offered an amendment which was carried by the Senate and later deleted in conference, that we would not permit any trade with those countries who were engaging in the oil embargo. I recognize that may not be in accord with the philosophy of free trade.

But I would like to know if there has been an effort by the Commerce Department to at least inventory the tubular goods and other material we need for increased production of domestic supplies?

Secretary Dent. Yes, Senator. We have run a survey on the availability of oil country goods, as they are called. We have found that inventories are about normal. They are, however, in hands further

along than normally found at the distributor level. For many of these, the major oil companies have increased the quantity of oil country goods that they are carrying compared to their traditional practice. The independents are having difficulties because the goods are on allocation. They know they did not have a position with the primary producer but would buy from a distributor. They also obtained imported goods, which have declined.

So, in substance, we have broadly speaking, goods available at about the normal level. Demand is increasing. We need to increase production. With the termination of price controls, I think we will see this response in the production area. And we are working trying to transfer some of those that are in the hands where they are not going to be used immediately into the hands of independents and others so that they can be utilized more currently.

Senator DOLE. There is a great need for this material throughout the industry and particularly among independents. I appreciate that comment, and hopefully we can be of some assistance.

PREFERENTIAL TREATMENT FOR IMPORT RELATED UNEMPLOYMENT

And just finally—and Secretary Brennan could either answer it now or for the record—we have a concern about free trade. And some contend that the worker affected by import competition should be treated differently than somebody else who may lose his job because the airbase closes or because of an energy crisis, or some other related effect on the economy which causes job loss and job displacement.

Is there a rationale for preferential treatment for those who might lose their jobs because of import competition?

Secretary BRENNAN. Well, there is, Senator, due to the actions of the Government on an overall basis. People in industries that are competing with the foreign market are, as I said before, sometimes pretty well advanced in age.

For layoffs in other industries, people can probably be picked up by other companies within that same industry, or find similar jobs. It is not always that easy for people affected by trade. Therefore, the period of trying to find another job may call for them to be retrained for a new job when they cannot get a job that is similar to the one they lost. Over the years that they had this separate treatment, it has been justified. We note that the proposed bill will continue this form of treatment. We realize the need for the expansion of our trade with foreign countries since it helps the overall economy of the country. But I do not think any worker should have to suffer for action taken on behalf of the entire country. I think it is different from layoffs in other areas such as energy, which we hope will be a temporary thing. Once we get back to a more normal situation the companies that have had layoffs and cutbacks will be able to pick up again, as some have already done.

However, we find that in many cases involving import competition, companies that go out of business never come back again.

Senator DOLE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Canadian Automobile Agreement

Gentlemen, it is a privilege to have you with us here this morning. I commend you for your statements. Secretary Dent, I would like to get your comment on the Canadian Automobile Agreement. As I understand it, a great many of our automobiles today are made in Canada. On the other hand, American autos sold in Canada are paying about a 12-percent duty, and I understand the origin of the agreement was to provide an integrated industry with free movement both ways, and with the great unemployment now in the automotive industry, I am really concerned about this.

Secretary Dent. The Canadian Automobile Agreement is one which is receiving continuing attention by the administration. We have been dissatisfied in the past. While this has tended to create a much broader market and to make our automobiles as a consequence more competitive with imported automobiles than heretofore, it has resulted in an imbalance of trade as far as the United States is concerned. But in the last year, 1973, this finally has turned to surplus, so that we feel that we are making progress in ameliorating some of the problems involved with this.

We intend to continue working on it, and hope that we can achieve the type of economic balance that will be in the interests of both the Canadians and the Americans.

Senator Fannin. Well, thank you, Mr. Secretary.

Automobile Tariffs

We realize there is a change now going on in the auto industry. Many customers are opting for a smaller car. We have a 3½-percent tariff on cars coming into this country, and it is far below most tariffs that are prevalent today. Many of those same countries had barriers of say 10-percent tariff plus maybe nontariff barriers, the weight of the car, the horsepower, and all.

Is there some way that we can try to equalize our position in being able to trade in the automotive industry, or at least keep these cars from flooding our market with our unreasonably low tariffs?

Secretary Dent. Well, as you know, the present turmoil in the automobile industry is due to the overnight change of consumer desires in this country. The industry is doing a remarkable job in transforming its plants to accommodate this.

Just yesterday I heard about a plant of one of the major companies which had been shut down for conversion supposed to take a number of months. Its production rate had been in the area of 7,000 a month. In 51 days teamwork of management and labor had converted that plant. It is back in production at a level of 5,000 units, and it is going to be very shortly up to a level of about 9,000.

What we have got is a sudden effect that is hitting the producer. As they convert they will look forward to replacing 90 million gas guzzlers or more than are presently on the road. So what we have got to do is to accommodate as rapidly as possible to the changed consumer demand, after which the problems of the present should be resolved.

During this time, of course, we are watching the effect offshore, and measuring whether this is a temporary surge or whether their prob-

lems with energy and the downturn in their economies may affect their capacity to export to the United States, to take full advantage of the present gap that exists because of the transition.

Senator FANNIN. Secretary, I agree with you wholeheartedly. We are building a smaller car, more competitive car. We have not been able to get in the foreign market because we did not have that car. Now, we will be building a car that I hope we could have access to their markets, but because of the barriers they have, like the Japanese, for instance, do you feel that we will be in a position to get into those markets?

Secretary DENT. This is the purpose of the trade negotiations, to open insofar as possible and practical, the market opportunities for all American products. Automobiles are certainly one of our major products.

Senator FANNIN. Thank you. I certainly appreciate it.

WHEAT SUPPLIES

Now, Secretary Butz—incidentally, we are in a position today that I do not think we would have been in if it had not been for your great service, so I certainly commend you for what has been done in agriculture.

We have been hearing and reading quite a bit about the alleged wheat shortage due to our exports last year, yet in the New York Times last Sunday, an article quotes farmers as saying they cannot get enough boxcars to ship last year's supply before this year's crop is harvested.

I feel it is essential to our balance of trade that we export farm commodities. Perhaps the public is receiving false or misleading information.

Would you care to comment about that?

Secretary BUTZ. Yes, boxcars are a limiting factor, not to the same extent they were a year ago. However, the car shortage has been alleviated some. We have added some 15,000 hopper cars to our fleet in the last year, and more are being produced every week.

We are going to end this crop year on June 30 with a carryout, we estimate, of 178 million bushels of wheat. That is June 30. That is old crop wheat. By June 30 we are going to have new crop wheat on the market, or produced in the magnitude of 253 million bushels, and the inverse price relationship right now between old crop wheat and new crop wheat is such that there will be tremendous pressure to put that new crop wheat on the market early. So that I think we are going to get through this year in very good shape with respect to our wheat supply.

Senator FANNIN. Thank you, Mr. Secretary.

As I understand it, the Soviets have had a pretty good wheat crop this year, which would indicate that they would be importing less than the 18 million tons that they imported from us last year.

Is it fair to say that prospects for agricultural exports in 1974 are such that we will not get the kind of increase, I think 88 percent, that we got in 1973.

Secretary BUTZ. I think we will export less total wheat in the next fiscal year than we did in the last fiscal year, primarily because we

go into the next fiscal year with a very small carry-in whereas a year ago we had a larger carry-in.

We have been able in the last year to export some of two crops of wheat. In the next year we will have to export out of 1974 production. The Soviets will take less wheat, but other countries around the world will have increased demand for wheat. I think we will have no problem in the year ahead in exporting the wheat we have available for export.

Senator FANNIN. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Hartke?

POSSIBILITY OF GM AND ARGENTINA SHIPPING AUTOS TO CUBA

Senator HARTKE. Secretary Dent, the multinationals present grave problems in international trade and I am wondering if you would clarify a few issues for me.

General Motors has a contract to manufacture cars in Argentina. The Argentine Government owns 50 percent of the plant and General Motors the other 50 percent. Argentina wants to ship 1,500 of those cars to Cuba. Under our law, that is forbidden. Under Argentine law, it is not.

Can you explain to me to whom General Motors owes its allegiance? What would the Commerce Department recommend in such an instance?

Secretary DENT. I think we need to also put that in perspective. If there is a foreign operation over here in Virginia, wholly owned by a foreign company, what would our position be as far as our national policy is concerned in dealing with it?

It seems to me that as we look at the situation offshore as regards the multinational ownership of concerns, we must evaluate all of the circumstances, and I would say unequivocably, if it involved a wartime situation such as shipping to North Vietnam, we should be opposed to that. Other types of circumstances require accommodations of several viewpoints and require the development of an overall policy that is going to serve the interests of all concerned.

Senator HARTKE. I think your answer is a nonanswer.

What should the policy be? That is all I asked you. What is our Government's policy?

Is there none? Is that what you are telling me?

Secretary DENT. You said if it violates the U.S. law.

Senator HARTKE. According to U.S. law, you cannot ship to Cuba. Now I am asking you, what is the American policy. Is there one? If there is not one, just say so.

You know, it will not be unique in this administration not to have a policy.

Secretary DENT. It is a policy of taking a viewpoint of accommodating the interests of all concerned.

Senator HARTKE. What does that mean?

Are they shipped or do they stay in Argentina? Does our Government approve of shipping the 1,500 cars or not? Yes or no?

Secretary DENT. You have to analyze the situation as regards the U.S. law and Argentine law, and accommodate the interests of all.

Senator HARTKE. Have you analyzed it?

Secretary DENT. This question is under review, precisely because of the Cuban situation which you have mentioned, involving other corporations in Argentina.

Senator HARTKE. All right.

I assume you do not want to answer the question.

Secretary DENT. No. Specifically, it is being reviewed.

MULTINATIONALS' ALLEGIANCE TO GOVERNMENT

Senator HARTKE. This demonstrates quite conclusively that the multinationals as some have said do not owe their allegiance to any government anymore. In other words, they are bigger than most governments, and that is a problem. They have no allegiance to any country because they must maintain a global strategy of management. I think they must become more responsive to Nation-State and American interests in particular. One way to do this would be to make them pay their fair share of taxes.

The CHAIRMAN. Excuse me. I wish to make an announcement while we have a number of members here and because we will be leaving to vote shortly. I would hope that the committee could have an executive session at 9:30 tomorrow morning. We will hear Secretary Kissinger at 10 o'clock, and there is a bill, H.R. 1305 that has a time limit to it, and we should try to act on that bill as soon as we can.

I hope we could vote on that at 9:30 and then we would hear Secretary Kissinger at 10.

Senator HARTKE. We are going to reconvene here at 3:30 right?

The CHAIRMAN. Right.

But, Senator, you are in charge, and if I were you, I would hold out until the last minute.

Senator HARTKE. I will do the best I can.

Secretary DENT. If this statement about multinationals has a question mark, I would say no. They are responsible, patriotic, and they do try to serve national interests.

Senator HARTKE. If they would pay their taxes, I would feel more relieved on that score.

EMPLOYMENT AND TRADE

Let me ask Mr. Brennan a question. Organized labor is strongly opposed to the administration's bill. The AFL–CIO and the UAW oppose it on the grounds that it will result in a loss of American jobs. As a former leader of organized labor, do you find yourself in disagreement with their views, and if so, why?

Secretary BRENNAN. Well, the records, as I know them, do not back them up all the way.

Senator HARTKE. The AFL–CIO does endorse this bill?

Secretary BRENNAN. No, no, the record does not show that there has been any great increase in unemployment due to the foreign trade.

Senator HARTKE. Do you disagree with organized labor on this issue?

Secretary BRENNAN. Yes, I do. I am disagreeing to that extent since one of the unions you mentioned supported part of this bill and just changed over. So I am sure there must be something there.

Senator HARTKE. Can you give me, or Secretary Dent, give me a record of the growth in international production and domestic employ-

ment for the last 10 years of the 100 largest multinational corporations in the United States.

Secretary BRENNAN. I do not think we could give you that.

Senator HARTKE. You cannot.

I can give it to you.

Secretary BRENNAN. I will be glad to get it.

Senator HARTKE. I will be glad to give it to you and help you along in understanding these complicated matters of international trade.

There is not a one of those corporations that has not had a magnified increase in their foreign employment with a very small growth domestically.

Can you tell me what the rate of unemployment is going to be this year?

Secretary BRENNAN. No, I cannot.

Senator HARTKE. Can you give me an estimate?

Secretary BRENNAN. I would not want to even to guess at an estimate. People are giving figures out and I do not think they are really checking them out.

Now, when I say I cannot give it to you, I mean we have been trying to get figures on people that are really affected by foreign competition and on the jobs being lost. If you are talking about companies being built in Europe where they are doing work, that is something else. I am talking about companies here that go out of business and cause unemployment here directly to American workers.

Senator HARTKE. Do you mean all those people that use to make those transistor radios, like General Electric, Westinghouse, Magnavox, Arvin, Zenith, many in Indiana, by the way. None of them are made here anymore. Ninety-four percent of those are made overseas now by cheap foreign labor.

I do not think you are in favor of slave labor, are you?

Secretary BRENNAN. I am not.

Senator HARTKE. At 20 cents an hour?

Secretary BRENNAN. Of course I am not, Senator, but I visited some of the countries that we are accusing, and I think if they keep it up, they will all be looking to build plants here. It might be better here. Our productivity is better than in most of these countries, even though they are talking about cheap labor.

Senator HARTKE. Why do they go over there for manufacturing if we are so much better?

Secretary BRENNAN. Well, they may change around. I hope we can help them to change around.

Senator HARTKE. What is the current level of unemployment in the United States?

Secretary BRENNAN. It is about 5.4, roughly. That is for the entire civilian labor force.

Senator HARTKE. Can you supply this committee with information on the level of unemployment in those industries, and in the manufacturing sector, where the imports amount to 10 percent or more of domestic consumption?

Secretary BRENNAN. I will get you anything we have on it, Senator. I will be glad to.

Senator HARTKE. I do not want anything you have. I want the facts.

Secretary BRENNAN. You will get the facts, but I am not going to make them up. If we do not have them, you are not going to get them.

Senator HARTKE. You do not have them?

Secretary BRENNAN. I tell you, I will give you what we have. I do not think we have any exact figures on people who have been unemployed due to foreign trade.

[The following material was subsequently supplied by Secretary Brennan:]

EMPLOYMENT AND UNEMPLOYMENT RATES IN INDUSTRY GROUPS WHERE IMPORTS ACCOUNT FOR 10 PERCENT OR MORE OF DOMESTIC CONSUMPTION [1]

SIC	Industry group	Unemployment rate, 1973	Employment (thousands) 1972	Employment (thousands) 1973
195	Small arms	(2)	(2)	(2)
206	Sugar	(2)	35	36
229	Miscellaneous textiles	3.1	73	74
235	Hats, caps, and millinery	(2)	16	17
236	Children's outerwear	(2)	76	75
238	Miscellaneous apparel [3] and accessories	(2)	71	70
242	Sawmills and planing mills	6.2	217	218
253, 9	Miscellaneous furniture and fixtures	(2)	48	48
261, 2	Pulp and paper mills [4]	2.1	207	210
302	Rubber footwear	(2)	26	28
312	Leather goods not elsewhere classified	(2)	(2)	(2)
314	Nonrubber footwear	6.6	202	196
315	Leather gloves and mittens	(2)	(2)	(2)
316	Luggage	(2)	17	17
317	Handbags and personal leather goods	(2)	(2)	(2)
326	Pottery and related products	(2)	44	47
331	Blast furnace and basic steel products	2.5	573	606
333	Primary nonferrous metals [5]	2.7	84	86
355	Special industry machinery	(2)	178	193
357	Office, computing and accounting machines	2.7	245	266
365	Radio and TV receiving equipment	(2)	139	149
371	Motor vehicles and equipment	2.4	861	941
375, 9	Motorcycles, bicycles, and miscellaneous transportation equipment	(2)	155	164
383, 5	Optical instruments and lenses, and ophthalmic goods	(2)	54	62
387	Watches, clocks, and parts	(2)	30	34
391	Jewelry, silverware, and plated ware	(2)	53	55
393	Musical instruments and parts	(2)	24	25
394	Toys and sporting goods	(2)	120	125
396	Costume jewelry and notions	(2)	55	54
	All manufacturing	4.3	18,933	19,820
	Total United States	4.9	81,702	84,409

[1] The industry groups listed are those where the value of imported goods equaled at least 10 percent of new supply in 1971. New supply is defined as the value of domestic shipments plus imports. Data for shipments are from the Bureau of Census, 1971 Survey of Manufactures. Data for imports are from the Census Bureau and the TSUS product classifications are linked to SIC industrial groups following the census correlation manual.

3-digit SIC industry groups were used because unemployment rates are not computed for the smaller but more specific 4-digit SIC industry classifications on which import consumption ratios are more often compiled.

Although unemployment rates are available for most-2-digit SIC industry groups, import consumption ratios at this level of aggregation would not be meaningful.

Unemployment rates were available for only 8 industries at the 3-digit level. They are derived from the current population survey, a monthly survey conducted in about 50,000 households throughout the United States. Many of the 3-digit industries in the table were too small to account for a significant sample.

Being a sample, the unemployment estimates are subject to relatively large errors. The smaller the industry, the larger the error. For example, for an industry with 50,000 employees, a 5 percent annual average unemployment rate would have a standard of about 1.8 percentage points. (This means that 2 out of 3 times an unemployment rate derived from a complete count should fall within 1.8 percentage points of the estimate derived from the survey.) For an industry with 100,000 employees, the standard error on a 5 percent unemployment rate would be about 1.3 percentage points. Where employment is 500,000 the standard error on a 5 percent unemployment rate would be about .6 percentage point.

[2] Not available.

[3] Includes employment in SIC 237, Fur Goods. Separate data on SIC 238 are not available.

[4] Includes employment in SIC 266, Building Paper and Building Board Mills.

[5] Includes employment in SIC 334, Secondary Nonferrous Metals.

Senator HARTKE. May I come back at 3:30 and have some time?

Secretary BRENNAN. I know there have been some figures mentioned by people, but these figures have never been checked out or actually proven to be due to the situation we are discussing.

Senator HARTKE. I would like to broach the topic of export controls on wheat, propane, and timber and the standardization of wages, and a couple of other items, but I will come back at 3:30.

The CHAIRMAN. Senator, I think what the Secretary is saying to you is you will get what he has got when he has got it. [General laughter.]

Secretary BRENNAN. We are not part of the crowd giving you numbers and not backing them up. We do not want to play that game.

I think I sympathize with you and with all the American workers, 100 percent. We are opposed to slave labor and we are opposed to all this nonsense. We are not going to get answers by a lot of double-talking.

Senator HARTKE. What concerns me is that you come here to testify on a bill and you cannot justify your position.

Secretary BRENNAN. Well, Senator, you told me you had the facts. If you will supply them, you will help me to do my job better, and I will appreciate that.

Senator HARTKE. Yes. I will be glad to help you.

Secretary BUTZ. Just one word. You pointed out very properly that electronic components had been made in Indiana and are now made abroad. I would like to point out to you that we pay for them with Indiana soybeans, so Indiana did not lose the whole thing. [General laughter.]

Senator HARTKE. King George tried to keep us an agricultural exporting country and keep us from manufacturing. That is what the Revolutionary War was all about just 200 years ago. You have succeeded in accomplishing King George's purpose. [General laughter.]

Secretary BUTZ. Except we get paid for it.

The CHAIRMAN. We will return at 3:30.

[Whereupon, at 11:30 a.m., the committee was recessed, to reconvene at 3:30 p.m., the same day.]

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

The Senator from Georgia, Mr. Talmadge, is recognized.

Senator TALMADGE. Thank you, Mr. Chairman. I want to address my remarks to Secretary Dent.

GATT TEXTILE ARRANGEMENT

As you know, Mr. Secretary, the new GATT textile arrangement entered into force on January 1 of this year. Those of us in the Congress who represent 2½ million American workers whose livelihood is directly related to the fiber and textile apparel industry feel that this agreement holds great promise and I want to compliment you for your part in getting that arranged. I note that the American Textile Manufacturers Institute has endorsed this new international textile arrangement in a resolution adopted by its executive committee on January 4. 1974.

I ask, Mr. Chairman, that the full text of this resolution be included in the hearing record at this point.

The CHAIRMAN. Without objection, agreed.

[The resolution referred to follows:]

AMERICAN TEXTILE MANUFACTURERS INSTITUTE WELCOMES NEW GATT MULTI-FIBER TRADE ARRANGEMENT

RESOLUTION ADOPTED BY EXECUTIVE COMMITTEE JANUARY 4, 1974

On January 1 there entered into force the new GATT textile arrangement covering trade in all products manufactured from man-made fiber, wool, cotton, and the blends thereof. This new four-year GATT instrument succeeds the cotton LTA which expired at the end of December. The United States Government was the chief influence in the successful completion of this GATT textile negotiation, which extended over a period of two years. In fact, completion of such an international agreement has been a prime goal of the United States Government since 1969.

The American Textile Manufacturers Institute (ATMI), the central trade association representing the spinners, weavers, knitters, and finishers of the United States, views this GATT agreement as a milestone in the development and growth of the American industry. By bringing a structure of stability into world textile trade, this new international agreement will contribute importantly to the maintenance of the present 2.5 million jobs in our fiber-textile-apparel manufacturing complex and make possible further employment growth. Moreover, it will have the additional effect of restoring confidence in the future of the domestic industry and will in consequence encourage expanded investment and modernization of production facilities, thus contributing to an assured supply of these vital textile materials to the American people from facilities located on American soil.

On behalf of the entire U.S. textile industry, ATMI expresses its appreciation to all segments of our Government participating in this effort. Particularly do we thank those individuals in the Administration and the Congress who played such a key role in this achievement, and especially those members of the United States negotiating team who have given so unselfishly of themselves over many months to attain this objective.

Implementation of the Arrangement now constitutes the next top priority. The industry anticipates that prompt action will be taken by the United States Government to assure adequate and effective administration of its rights thereunder so that the entire fiber-textile-apparel industry can maximize its contribution to the economic and social growth of the Nation.

Senator TALMADGE. Mr. Secretary, would you give the committee your thoughts on the new GATT arrangement?

STATEMENTS OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE; HON. FREDERICK B. DENT, SECRETARY OF COMMERCE; AND HON. PETER J. BRENNAN, SECRETARY OF LABOR—Resumed

Secretary DENT. Yes, Senator. As you know, the new arrangement has been signed by 50 nations around the world. It calls for those nations which are trading partners in textile products of manmade, wool, or cotton fibers to negotiate bilateral agreements, the purpose of which will be to expand market opportunities for exporters and to permit stabilization of markets, employment, decisions with respect to capital investment, research, and development throughout the world. It should add a measure of stability which, in the past, has been lacking due to intense competition on the one hand and, on the other hand, governmental regulations precluding trade from certain parts of the world, whereas our market was generally the open one and worked to our great disadvantage.

Senator TALMADGE. As you are aware, during the Kennedy and Johnson administrations, a similar agreement was in force, and at times, it was not very well enforced. Is it the intention of our Government to see that that agreement is lived up to and enforced?

Secretary DENT. Yes, sir. That agreement covered only part of the industry in that it related only to cotton. This new one covers cotton, manmade fiber, and wool. It certainly is the intention of this administration to see that negotiations go forward and are in keeping with the policy of preservation of jobs and increased economic opportunity in this country. As a matter of fact, the negotiating teams presently are at work renegotiating the existing agreement as required under the new agreement.

Senator TALMADGE. Thank you, Mr. Secretary.

I have no further questions, Mr. Chairman.

The CHAIRMAN. Thank you very much.

PRICE INCREASES AND AGRICULTURAL TRADE SURPLUS

First, I would like to ask Secretary Butz a question.

In your statement, you noted that agricultural exports hit $17.7 billion in 1973; we had a trade surplus of $9.3 billion in agriculture last year. That sounds very good, but is it not true that of the 88-percent increase in agricultural exports in 1973, three-fourths of that was due to price increases and less than one-fourth of it was the result of volume increases?

Secretary BUTZ. Yes; I think agriculture was not unique in that respect. Nearly everything we exported increased in price. I think it is fair to say agriculture exports did net us an increase of $9.3 billion, which could be from an increase in price by agricultural products. I think it is fair to say that we hear a lot about the increased price of petroleum that we import. One bushel of American wheat buys more gallons of oil today than it did 3 years ago.

The CHAIRMAN. To what do you attribute this large increase in the price of agricultural exports last year?

Secretary BUTZ. Well, of course, it was due to the increase in the price of agricultural products generally, which was the result of three or four things:

One, general inflation in this country and around the world.

Second, two actual dollar devaluations and a third de facto devaluation with a substantial cheapening of the dollar, which made this a better place to buy.

Third, there was a shortfall in production of some grains around the world. We heard a lot about the Russian shortfall, but this was not peculiar to Russia. There are many places where crop production levels were lower. I think all those added up to a higher price for grain, primarily, and livestock, too, but it was primarily grains and cotton that we had to export.

The CHAIRMAN. What effect will higher prices have on developing countries?

Secretary BUTZ. It is one of the very serious problems we face. It makes it more difficult for them to purchase the foodstuffs they need if they need foodstuffs. However, one of the exports of many developing countries is foodstuffs because they are raw material producers. I think the chief impact on developing countries of rising prices will be the rising cost of fertilizer and in some cases this year, unavailability of fertilizer, which may be a very serious factor in getting the level of production up in developing countries to where we would like to see it.

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Unemployment Insurance

The Chairman. Secretary Brennan, in your prepared statement, you indicated that regular unemployment insurance programs are designed to deal with the displacement of workers by normal seasonal or cyclical factors or shifts in technology or of domestic consumption. Can you explain in just what ways these regular unemployment programs are inappropriate for meeting displacement caused by nondomestic competition?

Secretary Brennan. I am sorry, Mr. Chairman, could I hear your question again?

The Chairman. Well, in your statement, you indicated that the regular unemployment insurance programs that are designed to deal with displacement from "normal seasonal or cyclical factors or of shifts in technological and domestic consumption." In just what ways are these regular unemployment insurance programs to be regarded as inappropriate for meeting displacement caused by nondomestic competition or foreign competition?

Secretary Brennan. Well, I think, Senator, we are talking many times about the impact in an area where the manufacturing of particular products involves almost the entire work force of the town. If that closes down, the impact is greater than where we have gradual layoffs. As we have seen over the years, there has been some special assistance given to people involved in layoffs due to imports or to business moving out of the country. It is our feeling that because this impact may come in such a sudden way and many times is permanent, you need time for people to readjust into new jobs. Often, as I said this morning, these are older people who are past the age at which they are able to find another job or be trained quickly for another job. On that basis, we feel they do need some special assistance.

Now, in the normal layoffs, the record will show that people are laid off for a short period of time and find a job within the same industry with another company, still in business. I think this is about the only comparison we can make.

I think if people are unemployed, they are unemployed. They are looking for jobs, they all need an income. But because of the type of impact that import competition creates in many areas, we feel there is still a need for a special aid to these people.

C.I.F. vs. F.O.B. Trade Figures

The Chairman. I would like to have Secretary Dent shown this chart, chart 1 that is in our blue book.

Secretary Dent. I have the book, Mr. Chairman.

The Chairman. I want to mark the figures that I have here and I will put them in the record, because for me, they have some meaning.

I am looking at a pamphlet we have prepared for these hearings which we will put in the record at one point or the other.* It seems to me that if we are going to keep any trades figures at all, we ought to keep a set of figures that is meaningful to show either how much we are making or how much we are losing in trade. For that purpose, I would think that the figures, to be meaningful at all, would have to

*See p. 655.

take the freight into account. If they do not take into account the ocean freight, then they would have to be 10-percent wrong insofar as the imports were concerned.

If you look at the price of what you are buying, you are also looking at what the cost of it is delivered to you. That is not how we keep our tariff figures. Our tariff figures are based on foreign value because of an obscure part of the Constitution that says Congress shall not discriminate against any port in the United States in tariffs. So we fix our tariffs based on the value of Toyotas in Japan or wine in France rather than fixing the tariff based on what it is worth when you land it here in the United States. But if you relate it to what you pay for it, any businessman puts on his books, the cost of his goods, to include the freight. That is what he is paying. Now, that is especially true when you are paying for freight in the other guy's ship, which is the usual case.

Now, we have had these announcements quarter by quarter for years calculating our trade balance on a f.o.b. basis. These announcements also include foreign aid on the export side, so that they have been leaving the freight off of the import item and have been adding to the export side the foreign aid or the Public Law 480 sales and the soft currency sales.

Now, in the first place, it seems to me, and I think the majority of our committee agrees, that the cost of freight should be added to the imports. That is how the International Monetary Fund keeps its books and that is how 90 percent of other countries keep it. The foreign aid, moreover, should not be added to the exports. That is an entirely different program. We are not going to make any money out of it. It is just a question of how much we lose. But that program is justified on a different basis from that of making a profit.

So when the Commerce Department publishes trade figures, it seems to me that they ought to show what we made or what we lost. This chart right here contains the same figures I have just marked for you out of our pamplet there. It shows that these official figures for the years 1966 through 1973, on a f.o.b. basis, adding the giveways to the exports, show that we made a profit of $6.1 billion. But if you look at what the figures would be if you put the freight in with your imports into the country, and then leave out the gifts and the soft currency sales in all the different programs designed to help somebody else or get rid of surplus products, we did not make a profit of $6 billion, we lost $31 billion in rough figures.

It would seem to me that that is how we ought to keep our trade figures if we are going to keep them at all. Otherwise, we ought to dispense with them. Some countries do not have trade figures, they just keep balance-of-payments figures. Most of them believe it doesn't make much difference; the main question they believe, is whether you have money coming in or going out. It seems to me if we are going to keep trade figures we ought to keep them about the way they are shown in the cost, insurance, and freight column in this pamphlet. On a c.i.f. basis, we have not made a profit for any year starting in 1966.

Now, prior to that time, we were making money on it, but I would hope that we could come to terms with you on setting up and agreeing on a set of figures that would show how the trade accounts are making out. On Public Law 480, that is a different program. We can put

that somewhere else in the book and justify that on the basis either that we are helping farmers or helping our friends and neighbors around the world by giving them some grain o ragricultural products.

But it seems to me that a program like Public Law 480—which any way you look at it is costing us money—should not be put down in a set of books as though we made money out of it.

I would just like to see us set up an accurate set of trade books. Do you have any objection to coming to terms with us in Congress on a set of trade figures which puts the freight into those figures—where it should be—and which leaves out all these long-term aid plus Public Law 480 sales where we don't expect to be paid for 40 years if ever, and put them on a different basis?

Secretary DENT. Well, Mr. Chairman, I can hear the mellow voice in these halls of your colleague, Senator Dirksen, as well as yourself on this subject. As you well know, just a week ago for the first time in history, the Department of Commerce reported our trade figures on a cost, insurance, and freight basis as well as the free on board basis. For the month of January 1974 and including Public Law 480 and other shipments, we had a surplus of $164 million as compared with a free on board surplus of $644 million. So I think we have made some progress along the lines which you are suggesting. We intend henceforth that the cost, insurance, and freight figures which were brought out for the first time in January 1974 will be reported monthly. We intend to maintain the traditional free on broad basis so that scholars and others who watch trends will have the old basis available. As we build up a historical base in cost, insurance, and freight, we can then address the question of whether at some point in time, the free on board should be eliminated.

With respect to data relating to the Public Law 480 and the AID programs, these figures are identified on a quarterly basis and can be extracted from the balances which are reported. The basis for leaving them in the figures is to record the value of all of the articles leaving our shores short of military goods.

As far as the cost, insurance, and freight is concerned, insurance and freight, about 20 percent of that goes to American insurance companies and steamships so that actually, when we put that in, all of it does not go offshore. But that is equivocating and I agree with you that we ought to maintain the cost, insurance, and freight basis, as most of our major trading partners have done in the past. We are launched on that basis. We will be glad to continue discussions with you for modifications of the progress made to date.

The CHAIRMAN. Well, most countries do not add the freight on their exports, because that is what the other guy is paying. That shows up on his books. They do put the cost of freight on imports.

Now, if you had 50 percent of trade moving in American bottoms or if 50 percent of the money being paid for the other expenses of shipping and all of it, 50 percent would be paid in American coffers, you would be justified in leaving it off your exports but putting it on your imports. It is just a 50–50 deal.

Now, we are not getting 50 percent of it.

Secretary DENT. About 20 percent is all we get on imports.

The CHAIRMAN. That is right. And I assume it would be 20 percent on the exports. So the point is that the real figure we put the entire

freight account on would be even less favorable than the figures reflected here. But all I am asking for is just to treat it as though it were a 50–50 deal so you put the freight on the imports but you do not put it on the exports. That is how the other countries do it. If we could just get that much along, it seems to me we would be beginning to look at books that begin to reflect reality. I do not think you ought to be publishing figures which include something which ought not be included and the reader has to turn to somewhere else to learn the figures do not mean what they say. Your accurate, realist figures ought to be right there on the front cover. So it seems to me you ought to leave out these AID figures.

Keeping the figures the way they have been kept has resulted in trade delegations from Japan and elsewhere coming through here and calling on me and saying, "Sir, I do not understand why you are raising the devil about your protectionist theories and one thing and another, because your country has had a big trade profit." And he shows me that quarterly good news announcement out of the Department of Commerce which alleges, for example, that we made $1,700 million in 1973, when we did not make any billion seven, we lost $3.8 billion. It would be a lot easier to answer these people if we kept our books the way they keep their books.

I was most disappointed to attend a trade conference in Europe awhile back and hear our Secretary of State get up and say to the Europeans that they must cooperate and help us sell them more things because we had this burden of keeping troops in Europe, meaning that we have to make a big profit in trade.

Well, that did not impress the French. They had just gotten through telling us to get out of there and not to come back. Why would they be interested in hearing us talk about defending Europe? They had just run us out.

Here is Austria with a treaty of neutrality, guaranteeing that they will have nothing to do with defending Europe. They do not have American troops on their soil and had every reason to say, let's not talk about that, we do not want to talk about it or we are committed not to talk about it. We should have been saying something that appeals to all of us—we have a big trade deficit and can't do business the way we have been doing business.

When our representatives start talking about the sad situation we have in our trade, which I think is reflected by the cost, insurance, and freight column, those people say, that is not what you are telling your own people. You might want us to believe that, but that is not what you are telling your own people. To me, it weakens our position in trying to do something about our trade problems to be confronted with these phony good news announcements. I don't think many people are going to agree that we made a profit on all this stuff we gave away, just like I think most of them could understand that the freight is part of our expenses.

So I hope that you will help us work out a set of books where we can put these programs down in ways that they make some sense—say, well, here is what this program costs and here is what this other program is costing.

Now, you do not contend for a moment, do you, that we are making any money in these subsidized sales like Public Law 480 or the soft

currency sales or anything like that? We are not making any money out of that?

Secretary DENT. No, those programs are undertaken for essentially foreign policy reasons.

The CHAIRMAN. That is right. [Laughter.]

The CHAIRMAN. I just think that you ought to put it somewhere else and call it something else, not call it trade. That is a different program with a different basis.

Secretary DENT. We have made an adjustment on the freight and insurance, and incidentally, this runs to a 6½- to 7-percent increase in the value of exports coming into this country. We will address the additional questions which you have raised, see how they are handled in other countries, and be back to you.

The CHAIRMAN. Well, thank you very much, Mr. Secretary.

Now, I have some additional questions I would like to ask, but first I think other members who have not had a chance to ask should have their turn.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

AGRICULTURE STOCKPILES

Secretary Butz, I guess in a sense the problems that agriculture is facing today are new ones. In the past, we have had overhanging, large stockpiles. Currently, one of the problems that at least I find in talking to people from other countries is that if we are going to ask them to increase their purchases of American farm goods, what assurance are they going to have that they are going to receive these foodstuffs as needed? I think this brings to mind the illustration of what happened last year on soybeans. I wonder, do you feel any special provision is necessary in this legislation to handle this problem? For example, there are individuals who are espousing the creation of new stockpiles, either by this country or international stockpiles, to assure that there will be sources of supply in the future. They argue, as I say, that if, for example, we are going to be successful in getting the Common Market to take steps to phase out their small farms, why should they do so unless they are assured that they are going to have to secure supplies in the future?

What are your views on this matter?

Secretary BUTZ. Yes, I picked up the same sentiment in Europe and from Europeans who have come here. They are not quite sure that we will not repeat the experience they had with soybean embargoes a year ago.

I think the best assurance we have of continued accessibility to the American market for farm products is the fact that we are making every effort to increase our production. The best way to keep the markets open is to have the supplies here. Last year, in 1973, we had the most massive increase in production in the history of American agriculture. We are going to have another massive increase in 1974. We are not paying to set aside a single acre in 1974. We are going to have a wheat crop this year of 2.1 billion bushels, perhaps more, 400 million bushels or more above last year.

We are going to have a corn crop this year, if we have average weather, in excess of six billion bushels compared with last year's

record of 5.7. And so on across the board with grain sorghums and other grains likewise.

Now, I think all we can do is to assure our customers in Europe and elsewhere that we are going to go for all-out production and insist on having free access to our supplies as we are now doing.

Senator ROTH. I take it from your answer that you do not favor the creation of any special stockpiles for this purpose?

Secretary BUTZ. Not Government held. I think reserves of foodstuffs in this country and around the world right now are minimal, in some cases a less than comfortable minimum. I think those reserves will build up some in 1974. I think we need more stockpiles than we have now, but in this country, I think the reserves should be held by the private trade, as they were traditionally prior to the time that CCC had such excessive stocks as a result of price support programs. I think if we set out right now to get a Government held reserve, let us say, wheat, as some people argue we should, the Government would simply become another purchaser in the market, would bid the price up, would aggravate this scarcity situation worse than it is right now.

FOOD EXPORT CUTOFFS AS A RETALIATORY WEAPON

Senator ROTH. Mr. Secretary, it has been suggested that one way this country could respond to embargoes and other supply problems is to retaliate by cutting off food exports. There have been a number of proposals. I think Senator Ribicoff and Senator Mondale have an amendment that would give the President authority to do this. I wonder if you feel this is a desirable amendment and under what circumstances the present administration should use it.

Secretary BUTZ. Let me speak first to the desirability of the practice itself. I think in the current circumstance, we are talking primarily about the Mid Eastern countries now having embargoed petroleum. I think it would have been very unwise to have retaliated with embargoes on shipments of food and feed grains and fiber to the Mid Eastern countries. First, our actual shipments this year are in fact above the level of last year but still a relatively small share of their total requirements. If we had embargoed shipments of foodstuffs to the Mid Eastern countries, the Soviet could very quickly have made up the difference. The impact on the Mid Eastern countries would have been nil. We would simply have irritated them, I think, and made negotiations much more difficult for Secretary Kissinger, who I think has done a rather tremendous job of unraveling this difficult situation.

Senator ROTH. But be that as it may in those specific circumstances, do you think this would be desirable legislation to have on the books so that the President, if he chose, could exercise such influence?

Secretary BUTZ. I suppose if it is on the books, the temptation is always there to use it and the opportunity to develop pressures to use it is greater. In the current situation, for example, we had this flap in recent weeks over bread prices, with the American bakers trying to generate political pressure and general pressure to bring about an embargo on wheat shipments or some kind of thing on wheat shipments. I think if the President had some specific legislation like that, it would have been easier. On the other hand, under the Export Control Act administered by the Secretary of Commerce, we do have the authority to do that now when our domestic supplies are threatened.

Perhaps the Secretary of Commerce would like to answer to that, but I think we do have that authority right now when domestic supplies are threatened, although in the case of agricultural products, he would have to have the concurrence of the Secretary of Agriculture, which under present circumstances is darned difficult to obtain.

Secretary DENT. I think with respect to the possibility of cutting off of supplies, the Export Control Act, which does expire this June, does give authority for foreign policy reasons to control exports. While not a lawyer, I believe this might be interpreted to serve the purpose which you mention if it were deemed in the national interest to do so.

Senator ROTH. Well, it does seem to me that we are trying to provide in this legislation both carrots and sticks to promote trade, even though that authority may currently exist and, as you say, expires this summer. I must say I think it would be helpful to have in the legislation.

Secretary DENT. Senator apropos of that, I might mention that this export control legislation is permanent. It is renewed at intervals and I point out that it does expire June 30, but the President has recommended that it be extended. So this is normal standby authority, not something new due to current conditions.

Senator ROTH. Yes, I recognize that.

SOUNDER INFORMATION ON COMMODITY STOCKS NEEDED

Mr. Butz, as you are well aware, one of the complaints with respect to the energy crisis is the lack of adequate information and there are those who feel that perhaps we do not have as good information as is needed on inventories or stocks, that this helps feed the speculation by exaggerated rumors. I wonder, do you think it would be desirable to have sounder sources of information on commodity stocks? Is this something that should be developed to help avoid the speculative rumors that have had such a disruptive effect?

Secretary BUTZ. Yes, our statistical reporting service periodically reports stock on hand, held by commercial trade and held by farmers. These are based on estimates where obviously, you cannot get information of an accurate nature on this type of thing.

Senator ROTH. Are those limited to domestic supplies?

Secretary BUTZ. Yes, that is correct. And we estimate world stocks, too, as best we can. Your intelligence is never as complete as you would like it.

However, I think that our figures on stocks are pretty adequate. I think much of the current confusion about stocks stems from interpretation of the commitments to export. I am talking now about wheat primarily, where different people look at the same set of figures and arrive at different conclusions on probable carryover of wheat at the end of the marketing year on June 30. I think that revolves primarily around the question of how completely shipments will be made from those contracts for export with unknown destination at unknown price. Our best conclusion is that only a small fraction of it will be completed.

Senator ROTH. I had reference to the current commodity stocks not only of this country but abroad as well. For example, I understand that

the International Coffee Agreement has a fairly sound arrangement for collecting statistics on coffee stocks all around the world. I just wondered if it would be helpful to promote the collection of such statistics for other commodities as well?

Secretary BUTZ. Yes, we have something similar to that in the International Wheat Agreement which is now primarily a data collecting agency. Part of the difficulty, of course, has been to get figures from the People's Republic of China and from the U.S.S.R. I think as a result of the new agreement we have with the U.S.S.R. on the information exchange, we will be getting better data from that country than we have had heretofore, which should be quite helpful because they are, as you know, the world's leading wheat producer and it is rather important to know what they have.

ADJUSTMENT ASSISTANCE

Senator ROTH. Mr. Dent, a little over a year ago, I sent a questionnaire to 26 firms which at that time had been certified as eligible for adjustment assistance. By far the overwhelming complaint that came back was that the Department of Commerce procedures were too slow and had too much redtape. We found that each proposal, for example, had to be checked and cleared in nine different offices in the Department. And of course, the unfortunate effect of that is that as these various proposals were being checked and cleared, the firms were laying off more and more workers, thus defeating the purpose of the legislation. I wonder if anything has been done to expedite these bureaucratic procedures, whether or not you feel that the legislative proposed in the House bill will expedite the decisionmaking for adjustments?

Secretary DENT. Yes, sir. the House bill addresses this by transferring the responsibility for finding or certifying firms as being eligible for adjustment assistance and placing it in the Commerce Department. At the present time, the certification has to be obtained through the Tariff Commission and then the matter is approved by the President and is referred to the Commerce Department for action. Under the new bill, a firm can apply directly to the Commerce Department, which will invstigate and certify that it qualifies and then proceed with developing either technical assistance loans, loan guarantees, or whatever adjustment assistance is required to bail that particular firm out. So we anticipate being much more responsive from the standpoint of elapsed time in processing cases.

Senator ROTH. As I understand it, the problem is the absence of time deadlines for the adjustment assistance proposal. I see here that there is a time limit on the certification of eligibility for a worker to get adjustment assistance, no time limit between the time he files his application for assistance to the time he actually gets his allowance. The same goes for firms. This is found on pages 40 and 41 of the staff blue book.

Do you believe it would be helpful to put a strict statutory deadline in the legislation, in the bill?

Secretary DENT. I can certify to that fact that we in Commerce would be responsive to our responsibilities and to the needs of firms

and move as rapidly as possible. And I am confident that where employees are eligible to file with the Department of Labor, they will find it the same way.

The delay generally has been at the Tariff Commission level, which will now be bypassed, except as far as an industry is concerned. Where employees or a firm individually is concerned, they can come directly to either the Commerce or the Labor Department for certification and handling.

Senator ROTH. Mr. Chairman, I thought it might be helpful to put in as part of the record our findings based upon the questionnaire we sent to these various firms. With unanimous approval, I would ask for that permission.

The CHAIRMAN. It is so ordered.

Senator ROTH. Thank you, Mr. Chairman.

[The information referred to follows. Hearing continues on page 431.]

NOTE: The information below summarizes the responses to questionnaries sent by Senator William V. Roth, Jr. to firms which were receiving or which might be eligible to receive benefits under the trade adjustment assistance program for firms. The data is separated into two parts. The first summarizes the responses of firms which had been certified for eligibility by the Department of Commerce. The second part summarizes the responses of firms in the marble and dinnerware industries which might be eligible to receive benefits.

SUMMARY DATA

FIRMS THAT HAVE APPLIED FOR CERTIFICATION OF ELIGIBILITY FOR ADJUSTMENT ASSISTANCE

I.—Data on firm

Total questionnaires sent: 24.

Total replies: 13.

Size of firms: Ranged in employees from 35 to 2500. Median was 170 employees. (Excluding one firm that subsequently went out of business.) Ranged in gross annual sales from $75,000 to $60 million. Median was $3.3 million.

II.—Situation of firm

Source of imports:

7 firms identifed the Far East specifically.

1 firm replied the Far East and Europe.

1 firm replied the Far East, Europe and Latin America.

1 firm said 39 countries importing.

When did imports first cause difficulties?

Before 1960: 1.

1961–65: 4.

1966–68: 4.

1969 on: 1.

Do imports affect all the products the firm manufactures?

Yes: 9.

No: 1.

Why do customers prefer the imported goods?

Cheaper: 9.

Better quality: 2.

What measures did you take to meet the new competition before seeking adjustment assistance?

Other products: 2.

Kept prices low: 2.

New markets: 2.

Reduce overhead: 3.

Did your firm lay off workers?

Responses on this question from 10 firms indicated a total of 3,435 workers were laid off.

Were workers relocated or retrained?

4 companies indicated yes.

5 indicated no.

III.—Adjustment assistance application

How did your firm learn of the adjustment assistance program?

Industry association: 2.

Own research: 3.

Congressman, labor union, Department of Commerce, Tariff Commission: 1 each.

Do you feel the adjustment assistance program is properly publicized?

Yes: 3.

No: 6.

Not decided: 1.

What was the approximate cost to your firm of obtaining adjustment assistance?

Cost estimates ranged from $5,000 to more than $100,000. Most firms indicated that major expenses were executive time, legal fees, travel to Washington.

Were the application procedures so time consuming as to create additional injury?

Yes: 4.

"Yes, definitely": 1.

No.: 1.

Other Comments:

"If the need for funds had been immediate, the time factor could have been disastrous."

"Not really in our case, but I understand this is the case in many other firms."

"No, the time consuming periods have been that of the approval of the technical assistance for the preparation of the adjustment proposal . . ."

Do you feel that certification procedures could be simplified? How?

"By the Tariff Commission—I think the need to establish damage by the specific reduction in Tariff rates under the Act is extremely difficult to cope with.

"By the Commerce Department—time lags are the single largest problem we encountered."

". . . (O)ur feeling (is) that there should be more personal contact than just one visit by Tariff Commission personnel and that for businesses like ours which is a small one that the same procedures are not necessary as for larger ones."

"(Have) a government employee assist in advising on the filing of forms."

"Direct certification by Department of Commerce."

"I feel that assistance should be given to the firm in preparation of the proposal."

Were government employees courteous and sympathetic?

Yes: 9 ("Courteous and sympathetic, but exasperatingly slow.").

Some: 1.

Most difficult hurdle to overcome in securing assistance:

"Getting decision made . . ."

"Time consumed . . ."

"To prove serious injury, by definition."

" So far OTAA office stringent guidelines which are difficult to interpret."

"We are still waiting."

Further comments on application procedures:

"The Director of Trade Adjustment Assistance should be given more authority to make decisions. He should have legal counsel on his staff and not have to depend on Commerce's legal pool where a different lawyer reviews the case each time a decision is needed (and he has to go back and research the entire case)."

"Set up regional or district offices for the handling of applications and proposals with guidelines prepared for them to follow."

"Certainly some of the administrative procedures can be shortened."

IV. Administration of adjustment assistance:

Is the assistance you are receiving what you had originally requested?

Yes: 3.

No: 2.

(Of the two firms coded no, one firm indicated that the loan it received was not as large as it had initially requested; the other firm was denied a loan to buy out another company.)

Do you feel the assistance you are receiving is adequate to help your firm meet and adjust to the import situation?

Yes: 1.

"Our assistance is being used to diversify our revenue outside (our) industry; to this extent it is adequate."

Another firm noted that its volume and efficiency had improved immensely, but that import pressure has become much more intense than when its adjustment plan was formulated.

Other firms did not reply to this question or did not answer the question directly.

Nature of adjustment:

There were 7 responses, of which:

One firm indicated it was changing its product lines.

Six indicated they were modernizing equipment.

Five indicated they were improving plant efficiency.

Have Federal officials been helpful in formulating your firm's adjustment plans?

Yes: 3.

No: 2.

Don't Know: 1.

Would you have preferred to have received "escape clause" relief?

Yes: 2.

No: 2.

Do you feel the adjustment assistance program should be expanded or changed to make it more responsive to needs of firms such as yours?

Yes: 5.

Comments

"The most important change needed is to reduce the amount of time required to get relief. The preparation of applications and proposals is very time consuming. Evaluation and determination by the Tariff Commission and Commerce Department is also very slow."

"Cut down on time consumed in reviews. Simplify or speed up processing time."

"Should be less redtape."

Another firm indicated that the adjustment assistance form of aid should be more closely coordinated with a variety of other forms of assistance to import-impacted firms and workers.

Additional comments on the Program

"We did not apply for assistance due to the fact that the assistance offered was in the form of a reduced interest loan which we did not feel would provide a solution to our problems . . . We feel that the reimposition of quotas and tariffs is significantly more beneficial to us than a loan."

"We were denied certification of eligibility because of our 'reasonable profit level.' . . . (W)e did not feel that imports represents as much a threat as government aid given to our domestic competition, excluding us . . . In conclusion, the present system for reviewing tariffs is equitable, but the adjustment assistance should be discontinued in its present form; alternatively, if continued, it should be equally given to all manufacturers in the industry and not to the exclusion of particular firms that have worked harder and produced reasonable profits."

Another company noted that as soon as it received assistance, its customers attempted to delay payment on its products, citing its "government money" as making its need less urgent. Also the unions and workers took a more lackadaisical attitude toward the company's problems. This company suggested an adjustment assistance process whose primary motivation was the maintenance of jobs and the preservation of domestic industry.

"Government red tap and bureaucracy can be streamlined so that any company can survive while the papers and application are being reviewed by the many people who are reviewing and approving, or—set a definite time that each department of review board has to make their determination."

"The Department of Labor provided assistance for laid-off employees within two months of the time our firm was found eligible by Tariff Commission. I would have to say they are better prepared and can act much quicker than the Department of Commerce.

"The program should be eliminated by the elimination of the need for it, which would of course require the protection of the U.S. markets through import quotas."

"In view of the time spent and costs incurred in getting a determination of injury from the U.S. Tariff Commission, the potential benefits of the adjustment assistance program must be substantial in order to justify going through the red tape and bureaucratic machinery. For the small firm seeking only tax assistance it is hardly worth the effort . . . The Commission is staffed almost without exception with aged, inept professional bureaucrats who have spent a lifetime in the sanctuary of federal service and are ill-prepared to deal with the economic realities on which business decisions are made . . . We were unreasonably harassed and required to accumulate statistical import data from the Commission's own library when such figures were already available from the Commission's previous studies."

"Either remove the Tariff Commission participation or make it more aware of industry problems; have a certified audit made if not available to the Tariff Commission; provide technical evaluation of cost controls and technologies to applicants at the onset to accurately advise firms and government for negotiations; understanding of small business."

Summary Data: Firms in the Marble and Dinnerware Industries

I. DATA ON FIRMS

Number of questionnaires sent and returned

Marble firms: 75 sent and 21 returned.
Dinnerware firms: 21 sent and 8 returned.

Size of firms

Marble: 20 firms responding had 2,899 employees. Only five firms had in excess of 100 employees, and the median number was 25. 19 firms reported gross annual sales of $64.5 million. (One very small firm did not include its sales.) Nine firms reported gross annual sales of $1 million or more, and 10 reported $500,000 or less.

Dinnerware: 7 firms listed 553 employees; 6 of these reported total sales of $3,850,000.

II. SITUATION OF THE FIRMS

Is your firm experiencing economic difficulties because of increased foreign imports?

Marble: 13 yes and 6 no.
Dinnerware: 2 yes and 4 no.

When did imports first begin to cause your firm serious economic difficulties?

	Marble	Dinnerware
Before 1960	2	1
1961–65	4	0
1966–68	6	1
1969 on	1	0

Please explain in what manner your firm is experiencing difficulties.

	Marble	Dinnerware
Loss of profits	8	0
Unable to operate at profit	7	1
Have need to layoff workers	[1] 11	0
Have needed to close down some facilities	8	1
Other	2	2

[1] 10 marble companies with current employment of 2,416 indicated that they had laid off 926 workers.

What measures has your firm taken to meet these difficulties?

	Marble	Dinnerware
Improved efficiency	4	1
Modernized equipment	3	0
Emphasized products not affected by imports	8	2
Other	[1] 8	0

[1] Comments included:
"We have educated our customers to the hazard of having their supplier 3,000 miles away. Have emphasized that the quality material we use is generally of better quality. Our workmanship is superior. Our delivery is faster. We are trying harder."
"We are attempting to diversify into other businesses."
"Diversification into other fields and investment in foreign fabricated goods."
"It has been necessary that we import marble all finished."
"Impossible to modernize because of cost."
"Refused to install marble being fabricated finished in Europe."

Do you feel your firm could have improved its situation had information on the impending imports been available sooner?

	Marble	Dinnerware
Yes	2	1
No	7	1
Unsure	2	0

Have factors other than imports contributed to your firm's difficulties?

	Marble	Dinnerware
Yes	[1] 10	[1] 2
No	4	1

[1] Marble companies mentioned inflation, the high cost of construction, fiercer domestic competition, union wages, substitution of other materials, inequitable percentage freight increases, the practices of jobbers of foreign imported materials, and general depression of the construction industry as causes of economic difficulties.
[2] The 2 dinnerware companies responding to this question both complained of having to pay higher wage rates with no increased productivity.

III. ADJUSTMENT ASSISTANCE APPLICATION

When did your firm first learn that it was eligible to apply (for certification) for adjustment assistance?

	Marble	Dinnerware [1]
1962–70	1	0
1971	3	0
1972	7	0
Did not know of program	3	5

[1] 1 dinnerware firm indicated that it was aware of the adjustment assistance program, but did not say when or how it learned of the program.

How did your firm learn about the program?

	Marble	Dinnerware
Industry association	9	0
Department of Commerce	4	0
Our questionnaire	2	[1] 5
Other	3	1

[1] 1 firm which has not yet returned its questionnaire, called Senator Roth's office to say that it was experiencing economic difficulties because of imports, but did not know of the adjustment assistance program.

Do you believe that the adjustment assistance program is properly publicized?

	Marble	Dinnerware
Yes	5	0
Probably	2	0
No	6	3
Unsure	2	0

Do you feel that your firm has received enough information about the adjustment assistance program to make an evaluation as to whether this program can be helpful to you?

	Marble	Dinnerware
Yes	5	1
No	9	4

Is the information that you have received written in a clear manner, so that the application procedures, eligibility requirements, and benefits of the program are readily understood?

	Marble	Dinnerware
Yes	5	1
No	5	1

Has your firm made a decision on whether or not to apply for adjustment assistance?

	Marble	Dinnerware
Have applied	1	0
Will apply	2	0
Will not apply	4	3
Not yet decided	8	1

If your firm is not applying or is hesitating to apply, please explain the reasons for this decision:

	Marble	Dinnerware
Firm not in serious economic difficulties	7	4
Do not believe firm eligible	3	0
Prefer not receive government help	3	2
There would be too much government supervision	3	1
Do not know enough about the program	8	3
Applicaton procedures too time-consuming	0	1
Application procedures too expensive	0	1
Benefits of program would not be helpful to your specific situation	2	0
Need more assistance than program allows	0	0
Other [1]	[1] 3	0

[1] Comments:
"We cannot show that our firm has been refused credit from banks and other financial institutions."
"We believe that we can stimulate business which cannot as readily be attacked by imports."
"From my understanding of the program, it would take too much time to process the application (2 years approximately). Our need for relocation may or may not wait."

If you have been in touch with U.S. Government officials about the adjustment assistance program, have you found these officials sympathetic and helpful?

	Marble	Dinnerware
Yes	2	([1])
No	1	([1])

[1] No responses from dinnerware firms on this question.

What kind of assistance would you find most useful?

	Marble	Dinnerware
Technical help	6	2
Low interest loans	5	3
Tax refunds	3	1
Help in relocating	2	0
Help in training workers	3	3
Other	[1] 4	0

[1] Some comments:
"A close governmental appraisal of the basic 'fairness' of the import competition."
"On jobs where government money is involved only domestic marble fabricated in this country should be used."
"Encouragement of competitiveness nationally."
"Stop jobbers from importing finished materials. Also other people who are not legitimate factory owners."

Would your firm prefer escape clause relief to adjustment assistance?

	Marble [1]	Dinnerware
Yes	13	2
No	0	1

[1] 1 firm answered neither.

FURTHER SUGGESTIONS AND COMMENTS

From marble firms

"It is no secret that certain foreign firms have tried to establish a strong governmental business partnership. In the U.S., the reverse seems to be true. The growing antibusiness climate is beginning to be of strong concern to large business and small business alike."

"From our understanding only the largest fabricators would get big aid, and they already get a depletion allowance because of their quarries. By increasing aid to them, you are enabing them to operate cheaper in markets. It's a vicious circle. Foreign fabricators enter the marble market at lower prices. Large quarries can't compete and move into the small markets to maintain production. They can't operate in our markets profitably so the government gives them assistance. We get caught in the middle . . . Change your assistance program so that everyone gets the same fair shake . . . Government should make sure that their assistance is not lowering anyone else's price."

"Stop imports!"

"Cancellation" (of the adjustment assistance program).

"It would have been very helpful, . . . to have been aware twenty years ago that as a policy, the government pursued the deterioration of specific industries through tariff reduction."

"Our problem is to continue to fabricate marble in our plant. At one time we had 60 employees in our plant, now we have 10. To be able to compete now we must order marble finished in Italy. Therefore cannot keep enough marble work to keep plant operating."

"No room left for the small business."

From dinnerware firms

"On our last expansion program, it took the office of EDA 8 months to approve a loan from local banks, which the local banks had approved in January—9 months ahead of the EDA's approval, even though we wanted nothing from the EDA."

"We are very happy with our lot! We are *artists*, using clay and glaze as our 'pallette.' We are limited only by our own talent and excessive *taxes*."

"Many years ago, imports, particularly from Japan, caused us to close our facilities in ———— and relocate in ————. At the same time we changed our selling from retail stores to premium type selling in order to continue business. We have been successful in this, but if we continued to sell to the retail trade we would have been out of business because cost wise we could not compete with import prices."

The CHAIRMAN. Senator Dole?

Senator DOLE. I have no questions, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

TRADEOFF OF INCREASED TRADE FOR INCREASED UNEMPLOYMENT SEEN

Senator HARTKE. Secretary Brennan, with regard to the adjustment assistance, do you believe that the loss of jobs which you anticipate will necesarily occur? Will these unemployed workers be covered by adjustment assistance? Is adjustment assistance a fair tradeoff for the increase in trade?

Secretary BRENNAN. Senator, I would have to go by the information I have. Let me say before I go on that this morning, you asked me about the unemployment rate. You asked me what the unemployment figure was at this time. I think I said 5.4. I want to correct that. It is 5.2 percent.

Senator HARTKE. Can we stop right there? Mr. Stein said today he anticipated it will hit 6.5 percent soon.

Secretary BRENNAN. I don't know that he said that.

Senator HARTKE. Let me tell you he said it. I will be your communicator inside the administration.

Secretary BRENNAN. Mr. Stein is one of the economists who make a lot of predictions. I am not an economist.

I woud say, Senator, looking at the figures in the past and our experience in the past, we know that the present law does not adequately cover the working people that are affected. In the new bill, we feel the escape clause and the adjustment assistance would be more helpful. It would speed up the system, as Secretary Dent just said to Senator Roth, because it would move directly through the Secretary, instead of going through the Tariff Commission.

Now, we are talking about the tradeoff. We have to look at some of the figures I looked up since we talked this morning and we find that there are some changes taking place in some of the problem areas. For instance, we note that in the radio and television field, where we were losing some employment, the employment level in 1973 was 148,600, compared to 130,700 in 1971. I am talking about employment in the manufacture of television sets and radios in the United States.

I think there is a change taking place and that is why some of the companies are shifting back. Lately, I noticed that Magnavox is going to shift its plant back here to Jefferson, Tenn. I think, Senator, these are some of the things taking place that are encouraging.

I realize that all of the companies are not going to come back. You mentioned the transistors this morning in your State. I am aware we lost that. But it was really something that got its real start in Japan. It is interesting to note that in the State of Indiana, manufacturing employment increased by 6.5 percent in 1973 and is higher in 1973 than it was in 1971 and 1972.

Now, that is good news. I am sure you want to hear it and I do.

As we look around the country, we see some improvements in other areas. After I left here today, I got a call from the vice president of Volkswagen. He wants to meet with me to discuss building plants in the United States. This is supported by the automobile workers union. I think that is a good trend. Volvo is already moving along those lines.

I think what we are talking about here is the fact that the American worker has been stepping up not only his productivity but his craftsmanship. The shift in the valuation of the dollar is starting to turn things around. I hope the trend continues that way.

I noted in my last visit to Japan a few months ago, in talking to businessmen and labor people, that costs there are so high that many of the companies feel that they can operate better here.

We also have some information showing that RCA, Magnavox, and some of the other big companies are starting to export color television sets and other equipment into the Far East, into the areas where we feared that low wages would steal this business away from us.

So I think, Senator, I do not want to get into figures. As I said to you this morning, a lot of different figures have been used. Even some of the figures put out by the Labor Department years ago were not correct.

Senator HARTKE. You mean the Labor Department makes mistakes?

Secretary BRENNAN. They damn well do, that is right.

We are trying find out what the figures are as far as unemployment and employment and the effects of imports and exports on the worker. We are only starting that. It should have been done 20 years ago. It is a tough job, because you must go to the locale, from company to com-

pany, you must look at the market, and the demand in the market for labor. It fluctuates, so that you may have a reading and 6 months or a year or so later it changes. That is the reason we do not have hard figures. I hope we will have them as a result of our present research and study.

Let us look at some of the adjustment assistance actions taken by the Tariff Commission and the Labor Department. I checked these, not to throw back at you, but because you mentioned your concern about what happened in Indiana. I share your concern. I can share it for the whole country and I am sure you do. In Indiana, we had a number of cases, involving shoes and electronics. There were a number of these cases where certification was denied, but the majority were approved and 2,540 people were certified for assistance.

I have a note here today that we just concluded an operation in the Labor Department which saved a number of jobs in the country, starting in Gary, Ind. I say this to show you, Senator, just to show for the record that the Labor Department is much aware of these problems.

Senator HARTKE. You are aware of Indiana now, too, aren't you?

Secretary BRENNAN. I am, yes, I am.

Senator HARTKE. I am glad of that. It is a great State.

Secretary BRENNAN. I was there a couple of weeks ago and I had a great time with some great friends and I intend to go back.

What I am talking about here now is that I think we are all really concerned about what is going to happen to this country. We can disagree and be on different sides of an issue but we want to come out of here ahead and not take a lot of garbage from other countries. And I think we have to put the brakes on that.

We are defending what has been done by the Labor Department, and we are ready to defend that, especially to people who do not have to account for what they say. I do not mean you, Senator, I mean people who can make statements without checking out the facts.

Senator DOLE. Senators do that, you know.

Secretary BRENNAN. I am glad you said that, Senator Dole, because it proves you are also human. I make mistakes. Maybe my one mistake is being here, I don't know. But since I am here, you are going to hear from me.

I just point out, because I am sure all of you good Senators, all Americans, are concerned about what we can do when people need our help. Here was a case, Senator, where we saved 125,000 jobs.

Senator HARTKE. Where is this?

Secretary BRENNAN. In the shoe business, starting in Gary, Ind.

Senator HARTKE. When did you do that? I would like to hear that case.

Secretary BRENNAN. You may be familiar with it. Here is how it started.

It was a question of Borg-Warner closing a plant down.

Senator HARTKE. You know why Borg-Warner closed down? We are going to talk about that in a minute, too.

Secretary BRENNAN. OK, but I want to talk to you about this. You may have something else, good or bad. This is just to show that the Government and the union workers working with management can do things. I didn't ask these people what their faith was other than Americans trying to help in a situation.

Now, Borg-Warner was, of course, manufacturing styrene resin which is derived from petrochemicals. It was needed for the manufacturing of shoes. Closing that plant in Gary, Ind. would mean that the shoe companies were going to find themselves in trouble and would have to shut down. By negotiating with the Federal Energy Office, we were able to get the plant to continue for another 90 days to give the shoe industry a chance to locate new supplies and new means of getting the equipment they need or the supplies they need to keep their shoe factories going. This was done just recently with the cooperation of many people and perhaps you played a role in it, too.

Senator HARTKE. Let me ask you, does the shoe industry endorse the administration bill?

Secretary BRENNAN. I could not answer that.

Senator HARTKE. I can tell you they do not.

Secretary BRENNAN. Maybe they don't.

Senator HARTKE. I can tell you we had the president of U.S. Shoe come in here and he told me very definitely that he would love to do business in the United States but that he has to go and do business outside of the United States because of special tax benefits he gets. I tried to get Senator Taft from Ohio to listen to him. He told me he is going to have to close a plant down in Columbus, Ohio, because they just could not meet the competition.

He said that he came into the Commerce Department, Mr. Dent, and asked if he could get some kind of relief because he wanted to build a plant in Kentucky to employ 1,000 people. They had done this before. Previously he had located in a county which had one of the highest welfare loads in the State and reduced it to one of the lowest. He was told at the Commerce Department that there is nothing which can be done. He was then forced to build his plant overseas.

Secretary DENT. Don't talk to him, talk to me. I am the witness. The president of U.S. Shoe didn't get any advice to build overseas from the Commerce Department. If he has gotten that advice, you send him down to me and I will straighten the advice out.

As far as we are concerned, we have no subsidies to give to construct a plant in any State of the Union. Those normal attractions for locating plants are forgiveness of local property taxes or something of this sort. We do have economic——

Senator HARTKE. I am not saying why, I am just telling you what the problem was. I am not trying to accuse you of doing anything wrong. I am just saying that that was the situation.

Mr. Brennan, let me ask you now: In this bill, there is an adjustment assistance provision, right?

Secretary BRENNAN. Yes, sir.

Senator HARTKE. What is it estimated by the administration that it will cost the taxpayer for the adjustment assistance? We had testimony on it yesterday. I just wondered if you know.

Secretary BRENNAN. $300 to $350 million per year.

Senator HARTKE. It is quite obvious that it is going to cost $300 to $350 million, that this is in anticipation of the fact that there are going to be people who have jobs now who are going to be thrown out of work as a result of this legislation. Is that not a fair conclusion?

Secretary BRENNAN. Well, this is short run. Of course, Senator, we are looking over the figures of what happened in the past and we have

tried to calculate what may happen in the future. We had the highest employment level in the history of the country in 1973, almost 86 million people employed. Yet some of these plants closed down or moved out. We had the unemployment rate down to 4.5 percent until around November. That to me indicates that, although we did have some jobs lost, the people found jobs elsewhere, and the market was able to pick them up. Our system was moving. We were able to absorb these closings and the people went on to other things or found jobs in another part of their own industry. But the fact that we had that highest employment level, even though we had some of these cutbacks, I think shows that the American system is working. It may need a little greasing up here or there.

Senator HARTKE. I am not asking about the system working.

Secretary BRENNAN. What you are asking me is part of the system.

Senator HARTKE. I am putting you in a corner, yes. I understand what I am doing; $300 to $350 million is the estimated cost.

Secretary BRENNAN. Yes.

Senator HARTKE. That has to be in anticipation of people who are going to lose their jobs. Otherwise, you would not have the costs. Is that not right?

Secretary BRENNAN. We have insurance on our lives; we are not hoping we will die to collect it. We have this, Senator, to be prepared.

Senator HARTKE. I understand that.

Secretary BRENNAN. It doesn't mean we are hoping we will have to use it.

Senator HARTKE. I understand what you are saying. What I am saying to you, is that you and the administration is willing to make a tradeoff for increased trade against increased unemployment.

Secretary BRENNAN. Well, I think the way I can answer that is that personally I am not in favor of building walls around America.

Senator HARTKE. I didn't ask you that. I am just asking you whether you are in favor of jobs or freer trade.

Secretary BRENNAN. Naturally I am in favor of jobs, but I also think you have jobs by having more trade. I don't think you can do it in any one way. There are a number of ways you can create jobs.

Senator HARTKE. You said you didn't hear what Mr. Stein said about an anticipated 6 or 7 percent unemployment. These are not my figures.

Secretary BRENNAN. I heard someone else say that before, but I didn't hear Mr. Stein say it today, no.

Senator HARTKE. What was the increase, not in unemployment but in unemployment compensation payments? How much increase in unemployment compensation payments this week over last week?

Secretary BRENNAN. I really don't know if I have it with me. If I haven't, I will be glad to get it to you.

Senator HARTKE. This came out of your office today.

Secretary BRENNAN. I know, there are a lot of these that came out of my office today that I didn't get.

Senator HARTKE. It increased $36,900 from a week ago.

The CHAIRMAN. I think you have somebody back there that has a file on it.

Secretary BRENNAN. If we have it, Senator, we will get it to you.

Senator HARTKE. A massive increase in unemployment compensation payments was $36,900.

Secretary BRENNAN. I wouldn't dispute that, with the energy crisis.

Senator HARTKE. A new item which I will put in the record said new car sales dropped 26 percent in 1 month. U.S. automobile manufacturers said yesterday new car sales were off a whopping 26.6 percent, the sharpest decline since the energy crisis knocked the bottom out of the standard-sized car market.

An interesting thing is that although there was a drop in domestic sales, the imports dropped at the same time only 19.9 percent. In other words, the drop in the sale of domestic cars was much higher than it was on imports. That is occurring at this moment, which means an additional job loss. General Motors states that this will force another 1,800 out of work. Add that to the 260,000 who have been furloughed indefinitely by the automobile industry in recent weeks.

Secretary BRENNAN. Well, I will accept that for purposes of this discussion.

Senator HARTKE. The administration's trade bill will have no effect whatsoever upon these imports or any imports.

UNITED STATES SEEN MOVING TO MORE SERVICE EMPLOYMENT

Now, in regard to manufacturing jobs. I do not know whether you are right or whether the staff of this committee is right, but I have an idea that the staff is pretty accurate. In their chart on page 28 of "The Multinational Corporation and the World Economy" dated February 26, 1973, they show a steady decline from 1945 to 1972 in manufacturing jobs.* Nonagricultural employment in the United States has gone from 38 percent to 27 percent of the workforce, which does not seem to justify your expectation that there is going to be any increase.

While all this is going on in the United States, here is the announcement out of West Germany. They did not devalue their currency but revalued it and they boosted their exports in January by a whopping 32 percent. Most of this is in manufactured goods.

Let's take a closer look at some of these charts. If you will look again at the committee print on U.S. Trade and Balance of Payments under the date of February 26. If you look at chart No. 5 on the trade in manufactures in the period of 1970 to 1973, which are the latest figures available, the United States had less of an increase than France, less of an increase than Germany, less of an increase than Japan.** In France dring the same period, starting at a base of $11 billion and the United States starting at a base of 29.7, they increased their trade in manufactures and exports by the same $13 billion we did. At the same time, if you go to Japan, they increased their's from a much lower base by a very high percentage.

All these industrialized countries seem to be doing all right. They have no unemployment in West Germany, no unemployment in Japan, and here we are with a staggering unemployment rate and you expect us to go ahead and give away more of our business and jobs. I don't understand that.

Secretary BRENNAN. Senator, I am not asking us to give away any of our business. I think my concern for this country is just as strong as is yours or anybody else's. Some people believe we shouldn't isolate ourselves. We feel there is a market for our goods. I am not just talking

*See p. 439.
**See p. 666.

about big business making a buck; I am talking about what it will do for the working people of this country and about the problems of imports. We look at this and we see also growing employment in the service trades of our country.

Senator HARTKE. But do we want so many hamburger stand people and filling station operators? Is that what you want this country to be? Is that the future for the American, to be a service employee while the rest of the manufacturing is done in Germany and Japan?

Secretary BRENNAN. It is not my intent, that we should be a service country.

Senator HARTKE. That is the trend.

Secretary BRENNAN. That is the trend to some extent, yes. What we are trying to do is turn it around and some of the things we are hearing now is that this could be happening, since companies are starting to come back here and do some manufacturing here. Maybe it is a good trend that we should encourage and promote. It is probably due to many things. I think it is due to the labor force in the country, and the ability of our people to produce and to be responsible.

Senator, we can look at a lot of figures and look at the competition. But what we are trying to find is how do we protect our people and how do we also stay in business with the rest of the world.

I am submitting for the record a table with data on 10 major industrialized countries which shows that between 1960 and 1972 service employment, as a proportion of total employment was rising in each country. The rate of increase was lower in the United States than in each of the other countries.

[The table referred to by Secretary Brennan follows:]

PROPORTIONS OF TOTAL CIVILIAN LABOR FORCE EMPLOYED IN SERVICES, 1960, 1972

Country	1960	1972	Percent increase
United Kingdom	48.6	54.2	11.5
United States	58.1	64.1	10.3
Netherlands	49.1	[1] 56.0	14.1
Germany	38.7	44.9	16.0
Belgium	45.2	[1] 52.0	15.0
France	39.5	[1] 48.7	23.3
Sweden	43.8	[1] 54.8	25.1
Japan	43.6	49.4	13.3
Canada	54.7	63.3	15.7
Italy	30.9	38.6	24.9

[1] Data through 1971 only.

Source: U.S. Bureau of Labor Statistics based on OECD, "Labor Force Statistics" (various issues); International Labor Office, "Yearbook of Labor Statistics" (various issues); and national statistical publications. Some data based partly on estimates. Whenever significant conceptual differences occur, data have been adjusted to fit U.S. concepts.

TAXING MULTINATIONALS

Senator HARTKE. First, we can protect our people by putting on quotas. Second, we can protect our people by making the multinationals pay their fair share of taxes. Third, we can eliminate sections 807 and 806.30, the sections of the Tariff Code which deal primarily with the Mexican border industry program. Under these provisions Mexican workers assemble American parts and ship the finished product back to the United States escaping American labor and taxes. The Canadian Auto Agreement grants free access to our market yet establishes a duty on our shipment of American automobiles into Canada.

We had a surplus with Canada when the agreement was signed. Now we have a $197 million deficit in 1973 and about a $196 million deficit in 1972. We had a surplus of $563 million in 1964, $658 million surplus in 1965, $556 million surplus in 1966, $483 million in 1967. Then, when the Agreement started to take effect in 1968, we started to shrink to $360 million in 1969. Finally in 1970 we registered our first deficit. Canada has also been a leader in the international tax field too. They have reduced their corporation tax 6 percent, which we could do in the United States if we made the multinational pay their fair share.

Senator Long, I have more questions, but perhaps I should let others go ahead.

Secretary BRENNAN. I would like to answer that we are concerned with the Mexican problem. We are studying that now. We feel that the President should have the right to take an action on 807.

Senator HARTKE. Has he?

Secretary BRENNAN. We will recommend it. We are making a study and we will take a strong position.

Senator HARTKE. How long has that study been going on? You only had 5 years to do it. You have 3 more.

Secretary BRENNAN. I don't want to talk about 5 years. I have only been here a year. I am trying to see what I can do.

Senator HARTKE. But you are in favor of changing section 807, right?

Secretary BRENNAN. I am in favor of doing anything that is good to protect the American worker.

Senator HARTKE. I am asking about section 807.

Secretary BRENNAN. I am in favor of changing it so the President can take action if necessary, or changing it to allow him to take action against anybody who is giving us the business. That is why we have to do something. If you want to talk about taxing multinationals, that may be a good idea, but that is somebody else's department.

Senator HARTKE. What about 807 now? Are you in favor of eliminating 807?

Secretary BRENNAN. I am in favor of doing something with 807 that will give the power to the President; yes, the power to take some action to protect the workers of this country.

The CHAIRMAN. I think I will address this question to Secretary Dent.

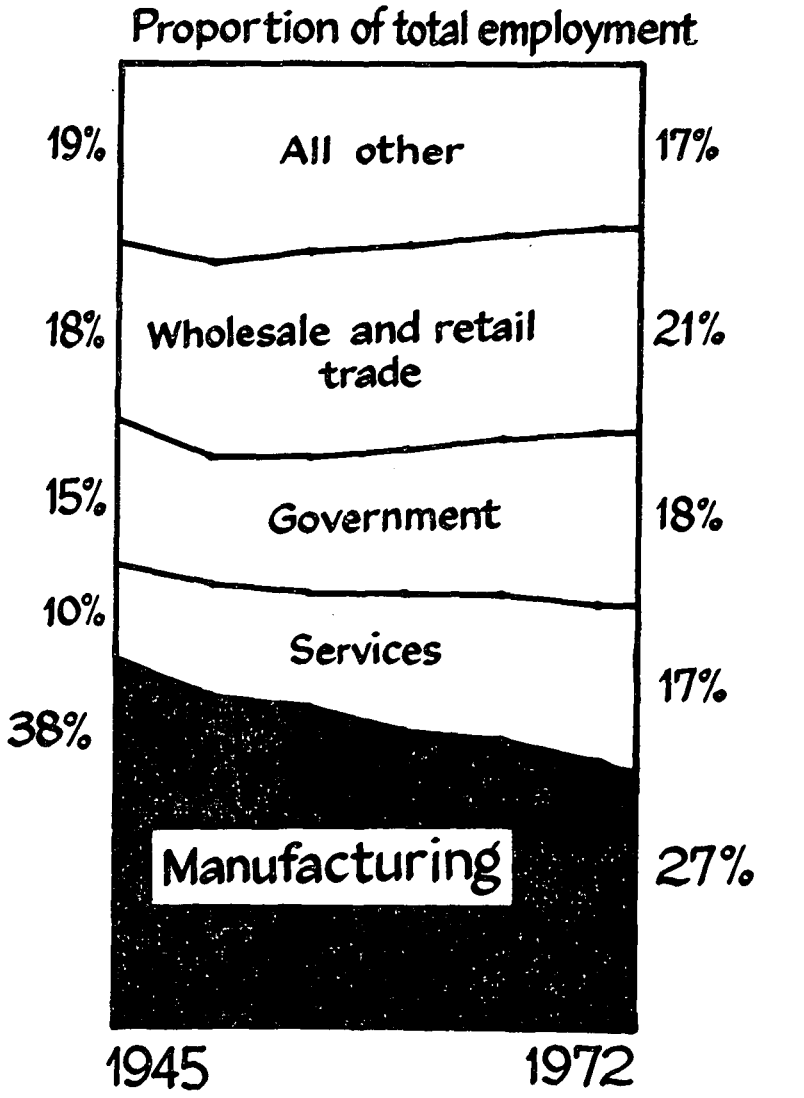
It is my understanding that there are quite a few provisions in this bill which give this Nation through its representatives an opportunity to react against those countries that are discriminating against the United States in trade. That is correct, is it not?

Secretary DENT. That is correct, it is a safeguard provision.

DECLINE IN U.S. MANUFACTURING EMPLOYMENT

The CHAIRMAN. All right, now, pursuing the thought that Senator Hartke had, it is sort of shocking to me to look at this chart that appears on page 20 of the blue pamphlet. It is sort of shocking to look at that chart and—I will ask that the chart appear at this point in the record—that from 1945 to 1972, the percentage of total employment in this country in the manufacturing area has declined from 38 percent to 27 percent.

[The chart referred to follows:]



The CHAIRMAN. I am not complaining about the idea that just by playing by the same rule book the other fellow got some business away from us. I am not complaining about that. I do think it would help to set the books up to show where we are getting the worst of it, if that is the case.

It would seem to me that in areas where the foreign producer, be it a foreign company or an American multinational, is paying less taxes

in a foreign nation than they are here, we ought to be thinking about the matter and considering changing it to give the American a break in line with what his competitor overseas is doing if it is costing us jobs or has a prospect of costing us jobs.

Your people made an argument along that line when we were talking about the foreign tax credit. As a matter of fact, Charls Walker, the former Under Secretary of the Treasury, presented some charts to the committee which showed that in these foreign countries, companies were getting much better tax treatment than they were here to produce a given item. That was the key to selling the reenactment of the Investment Tax Credit. And it certainly did play its part.

But I would think that if the unfair advantage still exists for a company, be it a multinational looking at this country as well as at a foreign country and deciding where it wanted to put a plant or just being a case of a businessman over there deciding whether to manufacture or ship overseas rather than an American opening a plant to produce it here, I think that we ought to be considering remedies. Those of you in the executive branch ought to be recommending something to us if this is the area where we are getting the worst of it.

Now, regarding Government purchasing policies, we are aware of situations where foreign governments find a way of making their purchases so that they do not let us make a sale over there even though they could make a sale here. In these areas where the government finances the industry or puts financing into it we ought to be thinking about our response.

In other situations where they are using nontariff barriers to keep us out of their market, we ought to be doing something one way or the other to help our people get some business. And I think that if they are using nontariff barriers to keep us out of their market, we ought to use whatever it takes, including nontariff barriers, to save jobs over here or promote jobs here.

As far as the Government helping to make sales, there is one area where I think there is a lot left to be desired. I am sure you are in the process of doing something about it, but I think a lot more can be done by the American Government to help make sales for American companies.

I think this is one area where the State Department does not seem to feel the responsibility I would like them to feel, and maybe an area where you ought to upgrade it a little bit in all these industries to help us get some business for our people.

I notice these foreign embassies feel they have made a great coup if they can get a big contract for their people. There should be somebody representing this country fighting to get the same business for our companies. I am sure you would agree with that part of it.

Secretary DENT. Mr. Chairman, I have been making some notes on your comments. I joined the Government after 25 years in manufacturing and I share the view that it is unfortunate that manufacturing has declined in this country. The basic reason for this has been the policy of our Government since World War II of perhaps maintaining an overvalued dollar in order to redevelop broken or nonexistent economies in war-torn countries. This has been accomplished and in the process it has forced American capital offshore in order to be competitive. But the two devaluations of the dollar have totally changed this

situation. We are now finding for last year the greatest inflow of foreign capital into this country that has occurred in any single year in my recollection. We are finding that American manufacturing is competitive with that offshore.

I had a German manufacturer in my office the other day. They built a plant in my home State and one in Germany at the same time. The one in this country produces the same product cheaper than the one in Germany because of this change around, because of the technological level in this country.

Our exports were up 44 percent last year. This is new employment in this country in order to serve world markets, and it has been brought about by this change in the relative value of the dollar compared with offshore.

We do have the problem of capital generation in this country and we need to identify the fact that our depreciation, tax credit, and general corporate taxes are at such a level compared with taxes abroad that we are unable to generate enough capital to increase our manufacturing plant.

Now, with respect to the Government purchasing policy offshore, we agree with you that this has been discriminatory toward American industry. We are participating in a multilateral study in the OECD designed to develop a code at the international level where all of this will be equalized. Last summer, in taking bids for a new generator at Grand Coulee, for the first time, we made the foreign bidders specify what their government's policy would be with respect to purchasing similar items in their country. So we let them know that there is no monkey business any more; this Government is interested in the jobs here.

Now, with respect to Government sales, oddly enough, just about a year ago, I had my counterpart from an eastern European nation in my office. We were promoting very heavily the sale of a nuclear plant, the first of four, to his country. We pushed hard and hard. As he was leaving, he said, when are you going to come visit us?

I said, well, we will consider it. And as an afterthought, I said, but I can be there almost immediately if you have a contract for the $60 million nuclear plant.

Perhaps unfortunately from my viewpoint, I now have to travel over there next month to witness the signing of the contract.

We had a foreign ambassador in to lunch—his nation is electrifying its railroads—the purpose of which was to get the contract away from a European manufacturer. We got half of it. So that I can assure you, we have a major projects division in our Bureau of International Commerce. They identify sales and we go after them tooth and nail.

The CHAIRMAN. I am pleased to hear that, Mr. Secretary. That is good news.

Now, I would like to ask your help in selling some sugarcane harvesting and processing equipment, because I am satisfied that we manufacture the best in the world in Louisiana, and all things being equal, would make a sale, but we have not been getting as much help from our Government as the other fellow has been getting from his and they have been making inroads on us.

As a matter of fact, I think Secretary Butz might even be a little more effective in that area, because if we are going to follow the pat-

tern of the existing Sugar Act where we assign quotas to people, if I could send him over there as salesman before he recommends what their quotas are going to be, my guess is he can sell all we can manufacture.

Secretary BUTZ. I might sell so much that it would displace production in Louisiana.

The CHAIRMAN. Well, we are going to buy from them, Mr. Secretary. And frankly, those people, when they come and talk about sugar quotas, often like to point out that they do buy machines from us. But I am not sure that we have been letting them know that we like very much to make the sale.

In at least one situation that I am aware of we lost out because I believe the Japanese or some other government really went to work and did a job of selling manufacturing equipment. Because the government went after that contract for their manufacturers, we lost out, even though that customer was a favored customer of ours—favored in the sense that we buy sugar from them. I would hope that we could demonstrate that we can put as much muscle in there to get the business for our people as the Japanese do for their people. Now, of course, if we do not give you a law where you can do it, we cannot blame you for not doing it. But I hope you will work with us to amend the law so you can give us the help we need. All I am asking for is the same type of thing that these other countries are doing to help their people get the business.

I think about that story that Irvin S. Cobb used to tell about the Kentucky Colonel who was challenged to a duel and he was explaining to a friend how he stepped off this 20 paces and he turned around and that other scamp was standing behind a tree. His friend said, well, that was horrible, what did you do?

He said, well, naturally, that throwed me behind a tree. If he's going to protect himself. I can do no less.

I just hope that we find that those people have found a way to help our people get the sales, especially where we are favoring other countries by giving them a better advantage in our markets than somebody else. Will you assure us that you will use that leverage as best you can to help our people get some business and make it a two-way street?

Secretary DENT. Mr. Chairman, might I comment on that in connection with a problem we had just 3 weeks ago?

The CHAIRMAN. Yes.

Secretary DENT. Two different firms came in, both had an opportunity to bid on very large projects in the Soviet Union. They asked advice as to whether they should quote from American plants or whether they should use offshort affiliates. I asked, well, what is your problem? Of course, we want the business.

And they said, well, it looks uncertain to us as to whether we can get Eximbank assistance in financing this.

And I asked, if you figured from your offshore affiliates, what assistance would you get?

They said that in Italy, Germany, France, and Japan we get the equivalent of Eximbank financing for this.

So what we are getting down to with the trend today is exporting the labor content of products which go to those eastern European

countries and denying the American workingman and workingwoman the opportunity of producing it. I think it is fortunate that some of it does come from offshore American companies because there is a trickle-back effect. If the goods did not come from those American firms they would come from domestic manufacturing concerns in competing countries.

This, I think, is a matter that we need to think very seriously about from the viewpoint of American employment and job opportunities for American men and women.

The CHAIRMAN. Well, I am satisfied that Secretary Brennan is 100 percent in favor of trying to get as many jobs in manufacturing as he can for the American working man. Unfortunately for him, he does not have as much leverage with these fellows as you do. I just hope that the two of you, as well as the other Cabinet officers who have some leverage could work together to get some contracts abroad and make some sales. I just hope that when they come over here looking for something, you will not miss the opportunity. I urge Secretary Brennan to let you know about some of these things that he hears about, and there might be a chance for us to get some business out of it.

I am sure you are trying to do that. I just think that in the past, there has been too much of this feeling that it was in the overall world interest for others to get the contract. I have heard the American complain. This is behind the time, I know, but I have heard people complain of going to our embassy and trying to get help because the other government was helping the other fellow and being told by somebody in the State Department. Well, after all, you know, we must think about what is good for the world and what the overall need is—with the idea that it is better for the other people to get the business than it is for the United States to get that deal. If anybody still thinks that way, I think he should be asked to turn in his Santa Clause costume.

Secretary DENT. Mr. Chairman, I think you will find that Under Secretary of State for Economic Affairs Casey and I have worked jointly to promote exports. We meet quarterly in order to discuss the suggestions that come in from the ebmassies and report the combined suggestions of the two Departments. We are working toward the further development of a strong commercial attitude in all of the embassies as rapidly as possible. I think in my experience that fine progress has been made in the past year.

The CHAIRMAN. Do you think that the State Department and the embassies are giving your economic man or someone who is interested in selling American products the dignity and support and cooperation that you would like to see for them?

Secretary DENT. Of course, no one is ever satisfied when it comes to sales. Progress is being made; that is the important thing. We have not yet reached the millenium.

The CHAIRMAN. Thank you.

EEC DISCRIMINATION AGAINST U.S. CITRUS PRODUCTS

Senator Fannin wanted me to ask this question of Secretary Butz.

You are well aware of the fresh citrus problems and how the European Economic Community discriminates against the United States

by granting tariff preferences to fresh citrus of certain Mediterranean countries while requiring U.S. fresh citrus exports to pay the full tariff. The difference in the tariff paid by the U.S. exporters and the Mediterranean exporters is 80 percent. This has resulted in severe damage to U.S. fresh citrus exports. The Committee on Finance in March 1971 passed a unanimous resolution calling on the President to end the discrimination. This resolution was passed unanimously by the entire Senate. As of this date, the discrimination continues while in other proceedings, administration witnesses have consistently testified that the EEC was not granting most-favored-nation treatment to U.S. citrus exports. Is this still the administration's position?

Secretary BUTZ. Well, we are trying very hard to get some compensation in the current discussions as a result of England and Denmark entering the European Community, where we did have a good market, especially in Great Britain. When they went into the European Community, they had to adjust their import regulations the same as the rest of the Community. We suffered considerable damage. Part of that was our citrus industry.

Currently in Geneva, there are discussions under so-called 24.6, a section of the GATT agreement. We are trying to get compensation on that and it is under negotiation at the present time.

I may say that those current discussions are of such a character that thats' all I care to say about the matter.

The CHAIRMAN. Senator Fannin points out that the administration witnesses testified to the committee that the EEC is not granting most-favored-nation treatment to the U.S. citrus exports. If that is the case, he says, in view of the fact that these same officials apparently agree that our citrus is not receiving most-favored-nation treatment, what is your opinion of the administration requirement that no country can receive most-favored-nation treatment from this Nation if the United States does not receive most-favored-nation treatment from that country? In other words, by saying well, if you do not let us have most-favored-nation treatment, then you do not get it from us.

Secretary BUTZ. I think Senator Fannin is asking for reciprocal treatment. He is absolutely correct that they do not extend most-favored-nation treatment to us on citrus, that Israel and some of the European countries do in fact pay a lower rate than we pay. As I say, this is one we are discussing vigorously. We are pursuing it. They will be an item in the GATT discussions and we think this is one of the areas where the EEC nations must make serious concession to us.

The CHAIRMAN. The question is are you going to retaliate?

Secretary BUTZ. So far, we have not retaliated but it always hangs over their head. Very frankly, we will get to the point in 24.6 where if we do not have progress, there will be a strong feeling for retaliation of some kind.

The CHAIRMAN. Thank you.

Senator Hartke?

EXPORTING JOBS

Senator HARTKE. There are many who are not as concerned as I am about exporting these jobs. I have seen over a million jobs exported in the last 10 years and I do not want to see it continue.

Please look on pages 6 and 7 of the committee print of U.S. trade

and balance of payments, in table No. 5,* which deals with jobs in manufacturing. The real significance, I think, lies in that bottom row, which deals with the trade balance. It shows that of all the countries involved here, the United States had a deficit of eight-tenths of a billion or $800 million. That was last year. Germany went from——

Secretary DENT. Which page are you on?

Senator HARTKE. I am on page 7, table 5, bottom line.

Secretary DENT. Yes, sir.

Senator HARTKE. Germany in that same period of time had a surplus of $26.4 billion. A substantial increase over the year before. If the January figures on Germany's exports are any indication—up 32 percent—Germany is going to have an even bigger surplus despite their reevaluated currency and our two devaluations.

In France, they had a surplus of 2.6; United Kingdom, even with all their economic problems, they had a surplus of 4.2. And Japan had a $22 billion surplus. We exported close to $10 billion in agricultural products last year. That is all very good in collecting money for the farmers, but I am concerned about jobs which are not in the farming sector of the American enonomy. Only 5 to 6 percent of our work force is involved in agriculture today.

Is that right, Mr. Brennan?

Secretary BRENNAN. Yes; though I think it may be a little lower. In 1973 it was 4 percent.

Secretary BUTZ. May I reply to that? We have 5 or 6 percent of our work force on farms, but when you take the related activity of the total food and fiber business in the country, including the production, the transporting, the exporting, we run up to almost 20 percent of our total employment, sir.

Senator HARTKE. I understand that, but that does not deal with the job creation factor in the manufacturing of items.

Secretary DENT. Senator, let me address that. As I mentioned to you, the economic policy in this country of maintaining an overvalued dollar has forced capital investment offshore.

Senator HARTKE. When did we devalue?

Secretary DENT. We devalued last February, 10 percent.

Senator HARTKE. That is right, and the President said he would never do it.

Secretary DENT. Just a minute.

Senator HARTKE. Is that right? Did the President say he would not devalue the dollar? And then he did. I just want to get the record straight.

Secretary DENT. You make that record. Let me make another one.

We have maintained an overvalued dollar. Every time the question of depreciation and capital recovery comes up, it is criticized as a boon to the corporations, and people say don't let them have it.

Senator HARTKE. I didn't say that.

Secretary DENT. So the investment has gone offshore. Now it has turned around. The Department of Commerce figures show that for 1974, capital investment will be up 13 percent to $115 billion.

Senator HARTKE. How much will it be overseas?

Secretary DENT. This is U.S. investment in the United States.

Senator HARTKE. How much of U.S. investment overseas?

Secretary DENT. McGraw-Hill subsequently, last Friday, brought out their estimate of an increase of 18 percent. Now, you see, when you

*See p. 666.

turn on the economic incentives, you are going to cause the creation of jobs and industry and capital in this country which are going to provide the jobs in manufacturing that we have denied our people in the past.

Senator HARTKE. What are you giving them that you did not give them before?

Secretary DENT. We are giving them the opportunity to compete offshore. Our exports went up 44 percent last year. All of that requires plant, equipment, and jobs in this country so that we have something available to ship offshore. We are on the offensive.

Senator HARTKE. Now, wait a minute, Secretary Dent. Senator Long has already brought this out. Since you have repeated the 44 percent twice since I have been here, I think that is shown in chart No. 1 of the booklet, U.S. Trade and Balance of Payments, compiled by this staff. You are referring to the figures on chart No. 1, which shows an export increase of 44 percent. That becomes rather insignificant when you go back and look at chart No. 4 because, as Senator Long pointed out, most all of that increase is a price increase, is it not?

Secretary DENT. No, it certainly is not. A portion of it, in the neighborhood of 27 percent, is in inflation and the rest of it is in increased shipments.

Senator HARTKE. How much was in manufactured goods?

Secretary DENT. Overall, I don't have——

Senator HARTKE. Eight percent out of 30 percent, and the agricultural goods increase was 67 percent.

Secretary DENT. In industry after industry on a unit basis, we have had an increase in exports last year.

Senator HARTKE. You had a 44 percent increase in dollar volume. That is what you are talking about when you mention the 44 percent?

Secretary DENT. That is correct and we did not have a 44 percent unit increase.

Senator HARTKE. If this chart is correct, and I assume it is unless you can show me to the contrary, it shows that the agricultural market, 67 percent of that was due to the price increase and 8 percent in manufactured goods.

So in other words, that great progress you are referring to is, in my judgment, not justified by the facts. I think that is a conclusion without merit.

Secretary DENT. In manufactured goods, this chart shows an increase of 22 percent in volume.

Senator HARTKE. That is right. I am not arguing that.

Secretary DENT. And the increase in price is 8 percent.

Senator HARTKE. That is right. That is what I said.

Secretary DENT. So that we are getting an increase in volume, which is an increase in jobs in order to produce it.

Senator HARTKE. Let's go to the bottom line again on chart 5, on table 5, page 7. The facts do not support your conclusion. You can argue all you want to, but the facts do not support the conclusion. I am using these facts unless you want to deny the facts.

Secretary DENT. My chart 5 is——

Senator HARTKE. I am talking about the blue book.

Secretary DENT. I was on these long ones. You did not put your hand out when you turned.

Which book is this?

Senator HARTKE. I am talking about the blue book, Staff Data and Materials on U.S. Trade and Balance of Payments, Committee on Finance, U.S. Senate, Russell B. Long, Chairman, February 26, 1974.

On page 7——

Secretary DENT. That is correct.

Senator HARTKE. Are the figures correct?

Secretary DENT. I certainly accept them, but when you point out that we did have a deficit of $800 million, I point out in return that the incentive to invest is now before us. We are finding a large inflow of foreign capital as well as an 18 percent increase in capital investment in this country.

Senator HARTKE. You are going to give me a prospectus. I am giving you the facts. What has been demonstrated? What has been happening in the past 13 years, since 1960?

In that period, we went from a surplus of roughly $6 billion to a deficit last year of $800 million and the year before of $3.4 billion.

Secretary DENT. And we would have gone further had we not gotten the dollar on an equitable value basis. We now have the surge for capital investment that is creating construction, new plants, and productive facilities which if we maintain the competitive position of the dollar bill, will result in jobs and exports.

Senator HARTKE. I am listening to rhetoric. I would rather deal with facts instead of rhetoric.

Now, on table 9, Mr. Brennan. That is on page 11.*

Secretary BRENNAN. OK.

Senator HARTKE. This chart shows those products with a rising trade surplus trend and those products with a declining trade balance trend between 1960 and 1973. Can you tell me the domestic employment data for those categories listed on that table? And if you cannot, can you supply them for the record?

Secretary BRENNAN. I could supply them, Senator. I would not have all those facts with me.

Senator HARTKE. I understand that that is impossible.

Secretary BRENNAN. But I will be glad to supply them.

Senator HARTKE. I understand that it is not possible for you to have that. I just ask you to supply that for the record.

Secretary BRENNAN. I will be glad to.

Senator HARTKE. Can you tell us whether or not employment has increased significantly in the computer industry, the aircraft industry, and the chemical industry, all of which show trade surpluses?

Secretary BRENNAN. Yes. Again, I will give you whatever figures I have. I do not have them with me. But I know that there has been an increase—in fact, we were looking at some of the exports here in the area of machinery and the aircraft industry, which means employment here.

Senator HARTKE. I am talking about the computer industry, the aircraft industry, and the chemical industry.

Secretary BRENNAN. Senator, we will supply it for the record. I do not have that handy with me, but we will supply it to you and to the committee.

[The following tables were subsequently supplied by Secretary Brennan:]

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*See p. 671 of this hearing.

U.S. EMPLOYMENT IN SELECTED INDUSTRIES, 1960–73

[In thousands]

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Industries with a rising trade surplus trend:														
Machinery except electrical (SIC 35)[1]	1,479.0	1,418.6	1,493.2	1,529.3	1,609.6	1,735.3	1,910.0	1,969.6	1,965.9	2,032.6	1,982.1	1,805.3	1,864.2	2,042.0
Aircraft and parts (SIC 372)[2]	454.3	423.1	439.5	438.5	416.3	436.3	545.2	612.6	635.6	599.4	488.8	380.2	362.6	369.2
Computers and parts (SIC 3573)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	145.1	160.6	182.8	191.2	173.4	172.0	189.9
Basic chemicals (SIC 281)[4]	284.3	281.8	282.9	284.6	288.4	290.1	303.5	314.5	315.5	319.4	323.0	311.4	302.3	307.5
Industries with a declining trade balance trend:														
Motor vehicles and parts (SIC 371)[5]	724.1	632.3	691.7	741.3	730.3	816.6	833.8	789.7	846.4	880.8	771.7	809.9	835.6	913.2
Steel products (SIC 331)[6]	651.4	595.5	592.8	589.9	629.2	657.3	651.9	635.2	635.9	643.8	628.4	577.9	572.7	606.4
Textiles, clothing, and footwear (SIC 22, 23, 302, and 314)	2,400.2	2,347.5	2,406.6	2,399.8	2,452.6	2,542.6	2,633.4	2,612.2	2,660.3	2,663.5	2,578.5	2,519.7	2,553.4	2,587.4
Consumer electronics (SIC 365)[7]	106.9	102.8	110.5	113.0	118.8	133.4	161.7	156.3	153.5	155.3	133.0	130.7	139.2	148.6

[1] Data includes employment in firms producing steam, gas, and hydraulic turbine generators and parts, as well as firms producing certain drilling equipment and railway cranes which are not included in the trade data.

[2] Does not include employment in SIC 3722, aircraft engines and engine parts as such products were also not included in the corresponding trade data.

[3] Not available.

[4] Data includes employment in firms producing certain miscellaneous chemical products not covered by the trade data.

[5] After 1964, does not include data on employment in SIC 3715, truck trailers and parts as such products are not included in the corresponding trade data. Prior to 1964 separate data on truck trailers were not available.

[6] Data includes employment in firms producing coke and other crude products from coal, petroleum and natural gas, pig iron and certain alloys which are not included in the trade data. Employment in firms producing iron and steel forgings is not included while certain iron and steel forgings are covered by the trade data.

[7] Includes employment in firms producing phonograph records which are not covered by the trade data.

Source: Bureau of Labor Statistics.

EMPLOYMENT IN CHEMICALS, COMPUTERS, AND AIRCRAFT

[In thousands]

	1960	1965	1970	1971	1972	1973
Chemicals (SIC 28)	828.2	907.8	1,049.0	1,008.2	1,002.2	1,029.5
Computers and parts (SIC 3573)	(1)	(1)	191.2	173.4	172 0	189.9
Aircraft and parts (SIC 372)	627.9	624.2	668.7	530.8	501.1	514.0

[1] Not available.

Note: Data in this table differs from that provided to correspond to table 9 of the staff material, "U.S. Trade and Balance of Payments" (showing industries with increasing or declining trade balances) in the following ways: Chemicals. This table shows employment in establishments producing basic chemicals and establishments manufacturing products by predominantly chemical processes. Major product groups include industrial inorganic and organic chemicals, plastic and synthetic materials, drugs, soaps and detergents, paints and agricultural chemicals. The data corresponding to table 9 included only 1 segment of this industry, SIC 281, Industrial Inorganic and Organic Chemicals. Aircraft and parts. This table includes employment in establishments producing aircraft engines and parts (SIC 3722) which was not included in the data corresponding to table 9 as that trade data did not include aircraft engines and parts.

Orderly Marketing

Senator Hartke. Mr. Dent, you fought for the textile quotas when you were in the textile industry, did you not?

Secretary Dent. Yes, sir, I was involved with the industry.

Senator Hartke. Were you an advocate of this agreement——

Secretary Dent. I was an advocate of the agreement, yes.

Senator Hartke. The textile agreement?

Secretary Dent. Right.

Senator Hartke. I am not criticizing you. I am for it, too. I just want you to know I am for it. I am for the steel agreement too. I decry the fact that even though we got the Alaskan pipeline authorized now, we are going to use Japanese steel to build it. And you know that is true, do you not?

Secretary Brennan, you are smiling. Am I right?

Secretary Brennan. It is up there. I think one of the problems was that we did not have the machinery to make it. That is another part of the problem.

Senator Hartke. And if we continue like this we will not have enough steel to make chains with.

Secretary Brennan. It is the type of pipe involved, Senator.

Senator Hartke. We do not make chains?

Secretary Brennan. We do not need chains. Our people are free people.

Senator Hartke. I think that is a good statement.

Secretary Brennan. You can use it. You won't have to give me anything for it.

Senator Hartke. Secretary Dent, about the question of the textile agreement, are you aware that the policy in the House bill makes a so-called orderly marketing agreement—that is what the textile agreement is and what I advocated in my bill—as the least preferred method of protection.

Secretary Dent. That is correct.

Senator Hartke. So if orderly marketing is good for the textile industry, why is it not equally good for other industries which are more seriously injured than textiles?

Secretary Dent. This legislation establishes, as you well know, a whole new escape clause procedure and the delineation of the tools

which should be used as a consensus of the Congress, including the House of Representatives, which passed the bill in its present form.

Senator HARTKE. I do not think you would be surprised, would you, if the Japanese, and others said that your textile agreement is a big nontariff barrier and that they want that negotiated away and that this bill as written by the House would give Mr. Eberle the authority to do just that?

Secretary DENT. Would you repeat that again?

Senator HARTKE. Would you be surprised that the Japanese and the Koreans came on in and made the claim that this textile marketing agreement is in fact a nontariff barrier and, therefore, should be eliminated and that Mr. Eberle, under the bill, has authority to negotiate that nontariff barrier away?

Secretary DENT. Well, of course, the legislation authorizes negotiation which encompass the full range of trading matters.

Senator HARTKE. I didn't notice that there are only 5 minutes. We have some further questions, it says here, which we will not ask at this time, but we will submit to the witnesses in writing and ask them to supply answers for the record.

WHEAT PRICES

Secretary Butz, let me ask you about wheat. We are paying double for bread, the Russians are paying the same. Is that right?

Secretary BUTZ. Senator, you obviously have been victimized by the American Bakers Association.

Senator HARTKE. All right, answer that one for the record.

[The following information was subsequently submitted for the record:]

The U.S. consumer is not paying double for bread.

The average retail price of a one-pound loaf of white bread has increased 9 cents in the last five years to the present price of 31.9 cents.

The farm value of wheat in that same one-pound loaf of bread is 8 cents. The other 24 cents consists of non-wheat ingredients, but mostly of labor, transportation, storage, taxes, and the like.

Senator HARTKE. The committee is recessed until 10 a.m. tomorrow.

[Whereupon, at 5:10 p.m., the committee was adjourned, to reconvene Thursday, March 7, 1974, at 10 a.m.]

THE TRADE REFORM ACT OF 1973

THURSDAY, MARCH 7, 1974

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Talmadge, Hartke, Fulbright, Ribicoff, Byrd, Jr., of Virginia, Nelson, Gravel, Bentsen, Bennett, Curtis, Fannin, Hansen, Dole, and Roth.

The CHAIRMAN. The committee will come to order.

This morning we are honored by the presence of the man who perhaps better than most understands the interrelationships between international economics and international politics. Dr. Kissinger has performed brilliantly as a National Security Advisor and Secretary of State. He is a peacemaker, a man with a mission in very difficult times.

The economies of all consuming nations are directly threatened by the oil producing cartel of nations, the Organization of Petroleum Exporting Countries, and its price gouging tactics. Under this pressure, old alliances seem to be deteriorating, and the future is uncertain.

During such times, we are fortunate to hear testimony from the individual who is the architect of our Government's foreign policy and who bears the primary burden of ending present frictions and building a more stable world political and economic system. We expect him to tell us how he believes trade legislation fits into the current legislation.

Dr. Kissinger, we are especially pleased to have you here with us this morning. It is not often the committee has the opportunity to hear from the Secretary of State, a Nobel Laureate, and a Harvard professor all in the same morning. [General laughter.]

STATEMENT OF HON. HENRY A. KISSINGER, SECRETARY OF STATE, ACCOMPANIED BY AMBASSADOR WILLIAM D. EBERLE, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, AND LINWOOD HOLTON, ASSISTANT SECRETARY OF STATE

FOREIGN POLICY ASPECTS OF THE TRADE REFORM ACT

Secretary KISSINGER. Thank you, Mr. Chairman.

With your permission I shall devote my opening remarks today primarily to the foreign policy aspects of the Trade Reform Act, which is now before your committee. This emphasis reflects my firm conviction that the world political order for years to come will be pro-

foundly influenced by how we manage our trade and economic relations.

This administration has, from its beginning, sought to create the conditions necessary to move us from an era of confrontation to a sustained era of peace and international stability. Détente between East and West has been a part of a wider design, a design which, because of the growing reality of interdependence, seeks to build a cooperative approach in the political and economic relationship among the industrialized democratic powers of North America, Western Europe, and Japan, a design which confronts the issues involved in the relationship between the developed and developing countries, and encompasses the new challenges inherent in the energy crisis, the development of the resources of the oceans, and the preservation of the environment in an age of rapid industrialization.

The key to our success will be the ability of governments to negotiate expeditiously, and to resolve issues in a firm and definitive way. The United States must pursue its national interests, as must others. But our national interest requires flexibility in negotiating agreements that provide benefits to all parties. To do otherwise is to return to the days of unrestricted competition and unrestrained hostility—to the policies of the thirties which led to a collapse of world order.

For almost three decades the major trading nations—having learned the lessons of the past—have sought to open their markets to one another on a reciprocal basis. The negotiations have been difficult and time consuming, but the results have been important both in economic and in political terms.

The benefits of a prosperous multilateral trading relationship constitute a cornerstone of the open and cooperative political approach that has largely characterized our relationship with the advanced industrialized nations of the West since the end of the Second World War. Growing economic interdependence has been at the heart of the broader community of interest that we have committed ourselves to vindicate and to preserve. A breakdown in trading relations and a drift into competing trade blocs would seriously jeopardize what both of our political parties have so long sought—a world that recognizes that it has an overwhelming stake in peace, and that competition is preferable to conflagration.

Since the trade bill was introduced into the Congress some 11 months ago, the international trading system has confronted its most severe challenge. As a consequence of the energy crisis, nations have been increasingly tempted to resolve their problems unilaterally—to make bilateral deals and impose protectionist measures.

This cannot be our preferred course. As the strongest nation in the noncommunist world we have a duty to exercise responsible leadership; our aim must be concerted action by all major trading nations, acting in the common interest. I have every confidence that if we provide the leadership of which we are capable, we can reverse the tendencies toward bilateralism. A case in point is the recent energy conference held in Washington last month. At that conference 11 other countries—including our major trading partners—joined with us in charting a multilateral course of action—a course which we believe will meet both the immediate and the longer-term challenges of the energy problem.

The energy situation is an example of the more general need for a multilateral approach to trade issues. While trade negotiations officially opened last September in Tokyo, they cannot be conducted seriously until the United States Government has authority to negotiate on the substantive issues. The actual and potential trade disturbances of the energy situation are urgent, and we need the authority contained in the trade bill if we are to achieve a negotiated, concerted response.

The oil situation also raises the more general question of the relationship between raw materials producers and consumers. Past trade negotiations have largely been concerned with access to export markets, rather than access to vital raw materials. As a result, existing international trading rules deal inadequately with the conditions governing such access. In the trade negotiations before us we intend to deal with the issue of bringing export restrictions, as well as import restrictions, under agreed forms of international discipline.

We and other industrialized nations are growing increasingly dependent on the raw material resources of the developing countries. At the same time, the developing countries are heavily dependent on raw material and manufactured exports for the growth of their own economies. Their concerns were brought home to me with considerable force during my meeting last month in Mexico City with the Foreign Ministers of our Latin American neighbors. They believe that assured access to the markets of the industrialized countries is essential to the achievement of their economic goals. Because of the economic interdependence of the developed and developing countries we have placed heavy emphasis on the need to expand the North-South flow of trade. One such measure is the extension of a system of generalized tariff preferences to developing countries. Although most other developed countries have already put such systems into effect, the United States does not yet have the legal authority to do so. Hence I consider the authority provided under title V essential.

To recapitulate, we would use the powers contained in the Trade Act to achieve the following:

A mutual reduction of trade barriers among industrialized countries.

A joint response by industrialized countries to the aspirations of developing countries which require the expansion of exports to sustain their development programs.

A normalization of trade relations between the United States and the countries of Eastern Europe and the Soviet Union.

A new start on emerging trade issues that are not covered under the present trade rules and procedures.

Finally the preservation and enhancement of a global, multilateral economic relationship, and the dampening of tendencies toward discriminatory arrangements among selected groups of countries.

For 6 years the U.S. Government has been without authority to negotiate flexibly to avoid trade problems and to take advantage of new trade opportunities. The upcoming GATT negotiations provide us with a framework for the resolution of bilateral disputes and the development of new opportunities.

Let me now turn to a more detailed discussion of one particularly vexing aspect of our trade strategy: The normalization of commercial relations with the Soviet Union.

The most painful aspect of this debate—for me personally and for many others in this administration—centers around the question of respect for human rights in the Soviet Union.

This is not a dispute between the morally sensitive and the morally obtuse. It is, rather, a problem of choosing between alternatives.

I do not oppose the objective of those who wish to use trade policy to affect the evolution of Soviet society; it does seem to me, however, that they have chosen the wrong vehicle and the wrong context. We cannot accept the principle that our entire foreign policy—or even an essential component of that policy such as a normalization of our trade relations—should be made dependent on the transformation of the Soviet domestic structure.

I say this with some anguish, since both as an historian and as one whose own origins make him particularly conscious of the plight of minority groups, I would prefer that we could do otherwise.

Let us remember that we seek détente with the Soviet Union for one overwhelming reason: Both countries have the capability to destroy each other—and most of the rest of the world in the process. Thus, both of us have an overriding obligation to do all in our power to prevent such as catastrophe.

Détente, as we see it, is not rooted in agreement on values; it becomes above all necessary because each side recognizes that the other is a potential adversary in a nuclear war. To us, détente is a process of managing relations with a potentially hostile country in order to preserve peace while maintaining our vital interests. In a nuclear age, this is, in itself, an objective not without moral validity—it may, indeed, be the most profound imperative of all.

Détente is found on a frank recognition of basic differences. Precisely because we are conscious that these differences exist, we have sought to channel our relations with the U.S.S.R. into a more stable framework—a structure of interrelated and interdependent agreements. Forward movement in our relations must be on a broad front so that groups and indivdiuals in both countries will have a vested interest in the maintenance of peace and growth of a stable international order.

Since détente is rooted in a recognition of differences—and based on the prevention of disaster—there are sharp limits to what we can insist upon as part of this relationship. We have a right to demand responsible international behavior from the U.S.S.R.; we did not hesitate to make this clear during the Middle East crisis and at other crisis points. We also have a right to demand that agreements we sign are observed in good faith.

But with respect to basic changes in the Soviet system, the issue is not whether we condone what the U.S.S.R. does internally; it is whether and to what extent we can risk other objectives—and especially the building of a structure for peace—for these domestic changes. I believe that we cannot, and that to do so would obscure, and in the long run defeat, what must remain our overriding objective—the prevention of nuclear war.

These considerations take on added force if we place trade and economic relations with the U.S.S.R. in the perspective of the past few years. When this administration assumed office it was under great pressure to relax restrictions upon East-West trade. Arguments at that time—when our trading position with other parts of the world was

deteriorating and our friends in other industrialized countries were moving energetically into Eastern markets—emphasized not only the economic benefits, but also stressed that expanded trade would improve relations where diplomacy had failed to do so.

The administration then took the view—which it has never abandoned—that intensified trade should grow out of a generally improved relationship—in short, that our relations with the U.S.S.R. should proceed on a broad front. We were often criticized for failing to move fast enough on trade, for linking trade to other international developments, and for depriving the U.S. business community of lucrative opportunities. Not once during that whole period did anyone raise questions about the relationship of trade to the Soviet domestic system.

The administration pursued its strategy with determination despite the pressures to which it was subjected. It was only after the 1972 summit meeting that the President determined that trade could reasonably be expanded. By that time we were on the way to a Vietnam settlement, Berlin had been the subject of a major formal agreement, the first SALT agreements had been completed, a set of principles setting standards for United States-Soviet relations had been signed at the summit, a series of bilateral cooperation agreements in a wide field of activities had been signed and were in process of implementation. In sum, both in substance and tone the United States-Soviet relationship had undergone significant change and a process of normalization committing the top leaders on both sides had been well initiated. In this setting, the gradual transformation of trading relationships was a logical step that could serve to provide additional incentives for maintaining the course which both sides had set for themselves.

The Moscow summit communique clearly indicated that the normalization of trading relationships would be an important task in the months ahead. When the President reported to the Congress immediately upon his return from Moscow he explained his philosophy and purposes, and discussed the accomplishments of the visit. In none of the commentaries on the Moscow summit was there any significant opposition voice raised against the course we were pursuing in the economic sphere. It seemed to command the most widespread understanding and approval. Certainly, the question of the Soviet domestic structure was not cited as an obstacle to the processes we had set in motion. Thus to bring the issue to the fore now will involve profound questions of whether we negotiated in good faith.

This explains the administration's concern with title IV of the trade bill as it now stands.

Title IV will give the President authority to extend most-favored-nation treatment—that is nondiscriminatory tariff treatment—to countries not now enjoying that status. This is not a privilege; it is the removal of a discriminatory aspect of our policy without which we cannot claim to be moving toward more normal trading relations with these countries. The extension of nondiscriminatory tariff treatment would, for some time to come, have only a modest impact on Soviet exports to the United States, which are largely raw materials not now subject to substantial tariffs.

Thus, the major impact of the continued denial of MFN status to the Soviet Union would be political, not economic. MFN was withdrawn in 1951 largely as a political act. Our unwillingness to remove

this discrimination now would call into question our intent to move toward an improved relationship. It would jeopardize a moderate evolution in all areas, including the Middle East. It would prevent the implementation of the United States-Soviet trade agreement, as well as the Lend-Lease accord—involving repayment of over $700 million to the United States. Let me now turn to the question of credit.

The Export-Import Bank now extends credits to U.S. businesses exporting to the Soviet Union and some Eastern European countries. These credits are granted under terms and conditions equally applicable to all countries. The amendment to title IV relating to emigration would effectively preclude further credits to the Soviet Union and most Eastern European countries.

These credits are primarily for the benefit of the United States. Other industrialized Western countries have been engaged in aggressively selling machinery and equipment to the Soviet Union for some years. They are able—through the support of their governments—to offer attractive credit terms as part of their sales effort. American business must have similar support from us if it is to capture a growing portion of this expanding market.

Concern has been expressed that Export-Import loans will be uncritically extended in massive amounts. This is not true. Each loan application is examined on its merits and receives the same detailed scrutiny as all other loans. Each must be judged to serve the purpose of promoting, in a legitimate way, American exports, and to satisfy the assurances of repayment which the Bank requires. Credits approved by the Export-Import Bank to date total some $450 million. Most of these are relatively modest in size, with the exception of the $154 million in loans for the Kama River truck plant. We understand the legitimate concerns Congress would have about any lending program of a magnitude significantly larger than is customary for the Export-Import Bank. We would, therefore, carefully examine projects of this size and give due attention to the security, political, and economic factors involved.

We are aware, of course, that the intended purpose of this amendment is not to prevent the extension of nondiscriminatory status or to prohibit all credits to the U.S.S.R. but to assist those whose wish to emigrate from the Soviet Union has been frustrated. Yet, in practical terms, I believe the amendment would prevent the extension of nondiscriminatory tariff treatment to the Soviet Union and several other countries. For these reasons, we are opposed to this amendment and to title IV as it has emerged from the House.

The amendment, if adopted, will almost certainly prove counterproductive: It will not enhance emigration. It may stop it altogether. The experience of the past 5 years demonstrates that as our relations with the Soviet Union improve, emigration rises as well. Over the past 5 years, there have been breakthroughs in Soviet emigration practices unimaginable during the years of confrontation. In March 1973, the President was assured by Soviet authorities that current emigration policy, which had brought about a significant increase in the rate of emigration, would be continued indefinitely. The President was also assured that the "education tax" would be waived across-the-board. In 1968, some 400 Jews were permitted to emigrate from the Soviet Union. Some 33,500 Soviet Jews arrived in Israel during 1973, putting

the total for 1969–73 over the 81,000 mark. I must also stress that most of the Soviet commitments to the President have been thus far met.

To be sure, the present emigration picture is not as bright as we would like; it has never been our view that the status quo is satisfactory. The administration of Soviet emigration policy often seems arbitrary. Some 1,300 individuals currently in the U.S.S.R. have been denied permission to emigrate to Israel. But the basic fact remains that as we have moved from confrontation to negotiation, emigration has increased from the sporadic trickle of the 1960's to a relatively steady flow of some 2,500 a month in the 1970's.

The issue before us is not adequately expressed by setting "economic détente" against "moral détente." The basic issue is how best to move from our present situation to a safer, freer, and more humane world, while at the same time bringing important economic and political benefits to the United States.

We ask the Congress for responsible consideration of how we can give substance to our ideals without jeopardizing other interests in which human values—and, indeed, perhaps humanity itself—are also at stake. At this moment in the evolution of world affairs—a moment fraught with promise as well as danger—we ask the Congress for its support in building a progressive world and contributing toward a lasting peace.

The CHAIRMAN. Thank you, Mr. Secretary.

I would propose that each Senator be limited to 7 minutes the first time he interrogates the Secretary of State, and thereafter we will try to go by a 10-minute rule.

POSSIBLE VETO OF BILL IN PRESENT FORM

Mr. Secretary, if the bill reached the President's desk in its present form, would you recommend that he sign it or veto it?

Secretary KISSINGER. In its present form?

The CHAIRMAN. As it is today, coming from the House.

Secretary KISSINGER. It would give us a very, very serious dilemma because we require the provisions of the agreement for the conduct of our negotiations. At the same time, I believe that the bill as it has emerged from the House would do serious and perhaps irreparable damage to our relations with the Soviet Union. I would think very seriously about recommending a veto.

RHODESIAN CHROME

The CHAIRMAN. Now, Mr. Secretary, I believe this administration recommended that we should not buy chrome from Rhodesia in line with a United Nations resolution. We import 100 percent of our chrome, if I understand the situation correctly, and the only other place to obtain chrome imports is the Soviet Union.

Is that your understanding?

Secretary KISSINGER. No, I think chrome is also available in South Africa and some other countries, and we also have a large stockpile of chrome in our stockpile program.

The CHAIRMAN. Then you do not believe that chrome is a particular problem with regard to this measure?

Secretary KISSINGER. No, I do not.

EUROPEANS SEEN MOVING UNILATERALLY

The CHAIRMAN. Now, the European Community unilaterally issued a communication on March 4 which sent the Washington Energy Conference spirit of cooperation up in smoke. The Arab nations could well conclude that Europe is not interested in working with the United States on a multilateral approach to the oil problem, but is interested in securing its own selfish advantage through bilateral deals.

This has been the history of European trade policy for a number of years.

Why should we enter into multilateral negotiations with our European friends under these circumstances?

This committee could be working on other things like health insurance legislation, tax reform and various other things concerning the American people, and I would wonder whether we should be going through the process of hearing 150 witnesses and marking up this bill to send Mr. Eberle, sitting beside you at the table, to negotiate with the Europeans if the Europeans seem only interested in advancing their own selfish interests.

Secretary KISSINGER. First, we believe very strongly that the interdependence of nations is a fact of the contemporary period, and that to the extent that nations seek their advantage through forming restrictive trading blocs or bilateral arrangements regarding raw materials and supplies they will in the long run damage themselves. They will certainly damage the longrun international prospects for peace.

As I pointed out at the Washington Energy Conference, if for example, with respect to access to oil, the United States is forced into a bilateral competitive situation, there is no question that we have considerably more assets in conducting such a competition than any other nation or group of nations. Neverthless, the end result of this beggar-thy-neighbor policy would be economic disruption and the breakup of the world into hostile blocs.

We therefore believe that we must make every effort to achieve multilateral solutions to these problems and bring about economically and politically a structure in the world in which the reality of interdependence can be given an expression. It is for this reason that we believe that this Trade Reform Act is necessary to give the United States the tools to bring about the world that I have described.

Now, it is true that we are concerned, and we have publicly said so, about the methods that were used in developing this cooperation agreement for oil, or rather this plan for a cooperation agreement. We believe that on matters of grave importance there should be formal consultation between the United States and its European allies of the nature that we conduct within NATO, not in order to give the United States a veto, but to give the United States an opportunity to express its views.

However, the decision that was made on March 4th represents a program. In the implementation of this program there are many opportunities for close consultation. The United States will be prepared to consult with the European Community and the way is still open for a cooperative relationship within the framework of the principles of the Washington Conference.

We would only very reluctantly come to the conclusion that the multilateral approach is not useful. We will make a major effort to implement it, and in order to do this we need this Trade Reform Act.

ENERGY SELF-SUFFICIENCY

The CHAIRMAN. Now, Mr. Secretary, from the point of view of an all-out believer in free trade, we ought to be buying a great deal of oil from the Near East because they can produce it more cheaply. It will cost us at least $500 billion, either by direct Government investments or more hopefully by private investments to regain energy self-sufficiency and the capacity to meet our energy requirements in this country.

Do you believe even that if the embargoes are lifted that this Nation should nevertheless forge ahead making the domestic investments required to restore this country to energy self-sufficiency?

Secretary KISSINGER. I believe that even if the embargo is lifted the United States should proceed with Project Independence, which is not only of benefit to the United States, but it is also of benefit to the rest of the world in easing the pressures on supply and easing the impact of situations such as the one that developed last year. So we strongly support the continuation of this program even when the embargo is lifted.

The CHAIRMAN. Well, it is clear now that the price we are going to have to pay for energy we import is sufficiently high to bring on a significant amount of domestic production, although the price of imported oil bears little or no relation to what it costs to produce oil abroad.

Secretary KISSINGER. We think that the price of energy will probably have to come down. But I think we can still produce it economically here at competitive prices.

The CHAIRMAN. My time has expired, so I will go to Senator Talmadge.

U.S. ACTIONS AGAINST RHODESIA

Senator TALMADGE. Mr. Secretary, you have made a very eloquent plea in opposition to the so-called Jackson amendment. Your basic argument is that the Jackson amendment tries to prescribe human individual rights in the Soviet Union.

And yet, are we not doing exactly that with Rhodesia?

Secretary KISSINGER. Well, the issue of Rhodesia involves also the question of the recognition of the government, of the legitimacy of the government there and of their proclamation of self-government so that the legal issue as between Rhodesia and the Soviet Union is somewhat different.

Senator TALMADGE. Is your response, then, that the action against Rhodesia is predicated upon the legitimacy of their government and not the way that government treats its citizens?

Secretary KISSINGER. And on the decision of the United Nations. Now, one has to add one other consideration. Of course, there is a point beyond which the actions of government may so offend concepts of international morality that it would be impossible not to take action. I am not applying this to Rhodesia or any other case. But if one looks

at the situation of, say, Germany in the 1930's, if a country had gas chambers one could not simply write this off on the grounds of non-interference in domestic affairs. So this is a judgment that has to be made from case to case.

Senator TALMADGE. Did not the United Nations and our Government take action against Rhodesia before they separated from England?

Secretary KISSINGER. Did our Government take action?

Senator TALMADGE. Yes.

Secretary KISSINGER. Against Rhodesia?

Senator TALMADGE. Yes.

Secretary KISSINGER. I frankly would have to look into this. I cannot remember.

Senator TALMADGE. I am not certain, but my recollection is that we did.

Secretary KISSINGER. I do not think so. I do not know what status we would have had. But let me not answer that flatly. I will look into it.

[The following was subsequently submitted for the record:]

THE SECRETARY OF STATE,
Washington, March 23, 1974.

Hon. RUSSELL B. LONG,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: In my March 7 appearance before your committee, Senator Talmadge asked whether the United States or the United Nations had taken any actions against Rhodesia prior to the Smith regime's unilateral declaration of independence on November 11, 1965.

We have looked into this question and find that economic sanctions were adopted by neither the United Nations nor the United States until after the unilateral declaration of independence. The United States did, however, deny certain requests by the Rhodesian regime to purchase military equipment prior to that time.

Please let me know if I can be of any more assistance in connection with this matter.

Best regards,

HENRY A. KISSINGER.

Senator TALMADGE. It seems to me that we are applying one standard to a country that is powerful and a different standard to a country that is relatively weak.

Secretary KISSINGER. Well, of course, as I pointed out, there is the question of compliance with the U.N. resolution, and I also pointed out that there is a special obligation and necessity in dealing with the Soviet Union produced by the capacity of both of our countries to destroy humanity in a nuclear war, and therefore the need to develop rules of conduct that would reduce that danger. So in that sense there is merit in what you say.

RISING COSTS OF FUEL IMPORTS

Senator TALMADGE. Now, Mr. Secretary, I have read a number of articles which state that by the year 1980 even using the old prices for imported energy before the recent price increase—we would be spend-

ing something on the order of $20 billion a year to import fuel in this country. Frankly, I see no way on the face of the earth that we could earn that much foreign exchange and translating that into present values using increased prices I would assume that would be $60 to $80 billion a year.

Secretary KISSINGER. At least.

Senator TALMADGE. Do you concur in the thought that there is no way on earth we could ever earn that much foreign exchange?

Secretary KISSINGER. I believe that certainly, at present oil prices, the impact on the world economy is bound to be disastrous. Every country will have a high incentive to restrict imports and to push exports, and that by definition is impossible. And that is one reason we called the Washington Energy Conference. We believe that a discussion first among consumers and then among consumers and producers is absolutely essential, because the present economic structure of energy will, in the long term, be disastrous to the producers as well as to the consumers.

Senator TALMADGE. I applaud the February conference that you called of the oil consuming nations to try to do something about this—I do not know if I can call it by the real name—highway robbery that the oil producing nations are imposing on us at the present time. Yet, I see that France seems to be going its separate way to resolve the problem bilaterally.

How can we deal with them in one way when we are also trying to get collective action?

Secretary KISSINGER. Well, as I have pointed out, Senator, the decision was taken essentially unilaterally. Let me explain this because I see in the newspapers there is a great debate over whether or not we were informed. We have now and then leaked documents by subordinate foreign officials which give us a general picture of what may be planned, but the U.S. Government cannot take a position on the basis of a document that is handed to it surreptitiously when there is no mechanism for consultation.

It is also true that in a very vague and general way we were told some of the ideas, but between being told an item in a vague and general way and being given a concrete program and an opportunity to comment on it, there is a very wide gap. We were never shown the communique or told the major substance of it in a systematic way in a time period when our reaction could possibly affect the decisions. That is the nature of our complaint. Now, while the decision has been taken unilaterally, it does not mean that it has to be implemented unilaterally, and we will be prepared to engage in consultation with the Europeans as they pursue a course which affects not only our economic interests, but may affect also the prospects of stability and peace in the Middle East area.

If this proves impossible, then we will have to make our own arrangements. But we do not fear for our competitive position in those arrangements.

We would prefer to proceed multilaterally and in the spirit of the Washington Energy Conference, and the road to that is still open.

Senator TALMADGE. I have read articles that indicate the Arabs are getting something on the order of $50 billion-plus this year for their oil.

What are they going to do with all that money?

Secretary KISSINGER. Well, this is one of the subjects that will have to be discussed either in bilateral discussions or in the multilateral framework that we have proposed. It is a very serious problem of how they can invest this money, what the impact on international liquidity and the international financial situation is. And I do not believe that they know exactly what to do with this money. We would be prepared in any negotiations, either on a bilateral or on a multilateral basis, to explore with them means of constructive uses of that money.

Senator TALMADGE. Thank you, Mr. Secretary.

Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. Senator Bennett?

NEED FOR IMMEDIATE CONSIDERATION OF BILL

Senator BENNETT. Mr. Secretary, I am going to confine my questions basically to a couple of sentences in your statement, and I will read it back to you:

> While trade negotiations officially opened last September in Tokyo, they cannot be conducted seriously until the United States Government has authority to negotiate on the substantive issues. The actual and potential trade disturbances of the energy situation are urgent, and we need the authority contained in this trade bill if we are to achieve a negotiated, concerted response.

So I am concerned about the time pattern in which this committee may operate. I hear, occasionally, proposals that consideration of the bill be spun out so that we do not vote on it until after election, or maybe until next year.

How serious would this be?

Secretary KISSINGER. Senator, I think it would be very unfortunate. We need this authority as quickly as possible to reach the objectives that were described in my statement, and I would therefore strongly urge the committee not to spread out its deliberations.

Senator BENNETT. Well, can you give us any specific ideas or ideas of specific damages that would be done?

We have got the Tokyo negotiations. We have got the situation on oil in the Middle East.

Can you give us any specifics that would urge us to proceed with more speed?

Secretary KISSINGER. Well, we are now hamstrung with negotiations in respect to export subsidies, in respect to some of the trends that were alluded to in previous discussions, because we do not have the requisite authority. In our dealings with those Europeans, for example, who preferred the multilateral pattern to the bilateralism that is developing, great attention is paid on their part to our ability to enter these negotiations as soon as possible. And therefore I believe that these tendencies toward bilateralism, the building of blocs, and the subsidization of exports, would gain ever more momentum while we were in a sense paralyzed by the absence of requisite authority.

U.S.S.R. EMIGRATION POLICIES

Senator BENNETT. Turning to the question of title IV in the bill, what if any do you think would be the effect on the emigration policy of the Soviet Union?

Would they hold that in abeyance waiting for us to act, or would they continue?

Or would we in effect provide an opportunity for continuing emigration just simply by holding off action on the bill?

Secretary KISSINGER. I think that the best way to assure the continuation of emigration is to pass the bill in a form that makes it possible to extend most-favored-nation treatment to the Soviet Union. We believe that this can be achieved by reformulation of the Vanik amendment on which we are prepared to work with the appropriate Senators.

In the absence of this, I believe that emigration from the Soviet Union would be severely restricted, if not ended altogether.

TOKYO NEGOTIATIONS

Senator BENNETT. How long after we pass the bill will the Tokyo negotiations get underway seriously in your opinion?

Secretary KISSINGER. My understanding is that within 60 days after the bill is passed.

Senator BENNETT. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Hartke?

JACKSON AMENDMENT

Senator HARTKE. Mr. Secretary, Senator Long asked you whether or not you would veto the bill in its present form, and I gathered from what you said that you were not sure.

Is that a fair interpretation?

I am specifically referring to the Jackson amendment on the most-favored-nation status.

Secretary KISSINGER. I would suspect that if the President asked my opinion today I would be inclined to recommend a veto.

Senator HARTKE. You have earned a reputation for being an effective negotiator, and I think you do deserve this recognition. You have been very successful in formulating compromises in the Middle East and in Vietnam. Thus, you understand fully the give and take which is required to successfully bring disagreeing parties together.

Do you think that if artcle 4 of this bill, the so-called most-favored-nation Jackson-Vanik amendment, was modified so as to give the recipient nations of most favored nation within a specified period of time, rather than the present amendment which says show me first and then we will give you most-favored-nation treatment, that such a compromise would be acceptable to the administration and thereby not agitate the spirit of détente and at the same time insure that we would be living within the framework of the U.S. Bill of Rights?

In other words, to give a balance somewhere between the present situation, suppose that title IV, section 2 is modified to say that for 120 days the Soviet Union would be given the benefit of the doubt. After all, this country has always given the benefit of doubt to an individual before they say they are guilty. And to find out whether or not we can proceed on that basis, and then that there is evidence that the countries which receive the benefit were allowed to emigrate, in such event the President could proceed in that fashion and if he found out there was not good faith compliance, then under such circumstance the extension of most-favored-nation treatment would be withdrawn. In other

words, would that accomplish maybe the same purposes that are being attempted to be accomplished by the Jackson amendment, but alleviate some of the tension that exists at the present time?

Secretary KISSINGER. Senator, first of all, we will approach our discussion with the Senate, with this committee, with an attitude of compromise and with the recognition that many considerations have to be balanced, and with the view also that all of the moral concerns expressed in these amendments have great validity. So we would be concerned with the result much more than the procedure.

I have not had a chance to study all the possible compromises that might be made. At first blush 120 days seems a little short. But, I do want to say that we are prepared to talk to those who have expressed their concern in these amendments to see whether we can strike a balance between their objectives and our needs, and we would do that with an open mind.

Senator HARTKE. Are you saying that if we formulated language that would preserve détente yet would promote the rights of individuals to emigrate freely as under that prescribed by the U.N. Bill of Rights, you would be willing to compromise on this issue? This would not be a compromise of principle, but a compromise of approach, would it not?

Secretary KISSINGER. As long as we can achieve the reality of most-favored-nation treatment, we would approach this with an attitude of taking into account the principles expressed in these amendments.

Senator HARTKE. Would you be adverse to making a suggestion to this committee of some approach or language which could reconcile granting of MFN treatment and preserving individual emigration rights?

Secretary KISSINGER. Well, I have had some informal talks already with Senator Jackson, and what I would like to do with the agreement of this committee is perhaps have some informal talks first with some of the sponsors of the amendments to see what we could come up with, rather than have me present an administration position. I would like to see whether we can come up with an agreed position between the two sides, and if then the committee would entertain a proposal I would be very happy to submit it.

Senator HARTKE. If, Mr. Secretary, you intend to recommend a veto of this trade legislation because of article IV, then I assert that the continuation of these hearings would be an exercise in futility unless we can surmount the impasse. Mr. Secretary, you imply that granting MFN treatment to the U.S.S.R. is the pivotal factor in maintaining or recreating a détente with the Soviet Union and that without détente we risk the threat of mutual nuclear destruction. I am not as much of an alarmist as you are. I do not believe that the Soviet Union wants to destroy us and I know we do not want to destroy them. Even if we do not grant them most-favored-nation treatment, I do not believe that they are going to unleash a nuclear war.

Secretary KISSINGER. I do not think, either, that a nuclear war will follow from nonadoption of title IV.

Senator HARTKE. Well, that seems to be the implication of your statement. I do not want the public to be afraid that we would all have to build bomb shelters again if the Congress does not grant MFN treatment to the Soviet Union.

One thing that does concern me is the apparent belief that we can obtain political stability by making economic concessions. I do not think that this is a legitimate negotiating technique. What do you think?

Secretary KISSINGER. I do not believe we can achieve political stability only by economics. I think we can achieve political stability on a broad range of issues, which then leave a network of things which will make it more difficult to upset stability. Economics alone will not do it.

The CHAIRMAN. Senator Curtis?

AMERICAN FARM ECONOMY

Senator CURTIS. Mr. Secretary, we are delighted you are here. As a Senator from a farm State I want to express my gratitude to President Nixon, to yourself and to Secretary Butz for the trade policies that you have inaugurated and carried out. For many decades the American farm economy has been behind the nonfarm economy. They have not shared in the prosperity. Their income has been about 80 percent of the nonfarm economy. For the first time in all these years for the crops that have been particularly involved in our foreign exports, such as grain, sorghum grain, corn, wheat, soybeans, and the like, we have had the first adequate prices in decades. And it has saved the American taxpayer considerable money because our budget for agriculture is way down. It was about 4 percent of the national budget, and this next year it is going to be less than 1 percent.

I want to be on record as expressing my gratitude for these policies.

EX-IM BANK LOANS

Now, you made reference in your statement that the Ex-Im Bank loans are for the benefit of the United States.

Would you elaborate on that just a little bit?

Secretary KISSINGER. Well, these loans make it possible for the U.S. exporters to compete with the exporters from other countries that supply similar facilities, and so they are in this sense in the economic interest of the United States. They are given on specific terms, they are evaluated in the case of each loan.

Senator CURTIS. Well, is it not also true that the rules and the law under which the Export-Import Bank operate provide that the materials and services which they are financing must be obtained in the United States?

Secretary KISSINGER. That is correct.

Senator CURTIS. The Export-Import Bank was set up not as a credit institution for other countries, but rather as a credit institution to promote American exports.

Is that correct?

Secretary KISSINGER. Exactly, and not primarily for relations with Eastern Europe at all.

Senator CURTIS. And does any part of the world get any special treatment under the Export-Import Bank to your knowledge?

Secretary KISSINGER. No.

Senator CURTIS. Mr. Secretary, I followed your statement very carefully. I think it is splendid. I will not take time to ask any more questions because there are many members here this morning.

I have been handed some questions by a Member of the House of Representatives to submit in writing.

Will that be satisfactory, that the answers might be put in the record?

Secretary KISSINGER. Yes, we will submit written replies.

Senator CURTIS. Thank you, Mr. Chairman. I yield back the balance of my time.

[The material referred to follows:]

QUESTIONS SUBMITTED BY CONGRESSMAN BEN B. BLACKBURN OF GEORGIA TO SECRETARY OF STATE HENRY KISSINGER

1. Why is it not the policy of the United States Government to seek cash payments in either hard currency or gold for sales to the Soviet Union?

(*a*) Prior to the sale of grain to the Soviet Union of 1972–1973 it was well known that the Soviet Union prided itself on paying cash to such suppliers of grain as Canada, Australia, Argentina, and France. With this knowledge in hand, and recognizing that the USSR was in dire need of grain to avoid hunger or starvation, why did we not demand the same cash payments as they would have made to their former suppliers?

(*b*) Have we made inquiry of the Soviet Government as to their true financial position? Have we attempted to determine their hard currency reserves, total gold reserves, gold production and gold consumption. If we have not made such inquiries, how can we determine their true ability to pay?

2. What inquiries have been made regarding their balance of trade, and balance of payments during the previous five years?

3. Why does the Administration not enforce the provisions of the Johnson Debt Default Act, which was expressly designed to prevent loans by American nationals, financial institutions to the Soviet Government, while she is still in arrears on debts owed to the U.S. Government and her citizens? For example, Lend-Lease Debts on WW II and obligations of the previous Karensky and Tsarist Governments still outstanding and unpaid.

4. At a time when we are moving to achieve self-sufficiency in energy, why are we proposing to invest billions of U.S. capital goods and technology in the exploration and production of gas and oil in the Soviet Union?

(*a*) With regard to present proposals for exploitation of Soviet energy, what would be the total U.S. commitment, and the total USSR commitment?

(*b*) What is the current interest rate on loans being made to the Soviet Union by the Ex-Im Bank of the United States? What interest rates is the U.S. Government paying on its Treasury Notes, at this time?

5. Is the Export Control Act now functioning to protect U.S. security from the utility by the Soviet Government of U.S. technology and good for military purposes?

(*a*) If the Export Control Act is in operation, why would we sell the Soviet Union machinery for the manufacturing of precision miniature ball bearings manufactured by the Bryant Chucking Grinder Company where 90 percent of the product of that machinery in the U.S. is used in defense missiles systems?

(*b*) Why are we permitting the sale of computers to the Soviet Union? Will you describe the type of computers and the manufacture of the last computers sold under the authority of the Export Control Act?

[The following was subsequently received for the record:]

April 10, 1974

Honorable Carl T. Curtis
United States Senate
Washington, D.C. 20515

Dear Senator Curtis:

During Secretary Kissinger's appearance before the Finance Committee on March 7 on the Trade Reform legislation, you passed to him on behalf of Representative Ben B. Blackburn, several questions concerning US-USSR trade relations. (Representative Blackburn's questions are attached). We regret the delay in replying to these questions.

The Department's responses to Representative Blackburn's questions are as follows:

Questions 1 and 2

In return for a commitment by the USSR to make higher grain purchases, the United States agreed, in the US-Soviet Grains Agreement of July 8, 1972, to make available up to $750 million in credit through the Commodity Credit Corporation at the going rate of interest (which has been 9 1/2% since May 1973), on standard terms (three year credit period). The total amount of CCC credit outstanding at any one time could not exceed $500 million. Soviet buyers purchased a total of about $1.2 billion worth of US grain from US private sales thus paying for the greater proportion of grain imports in cash. While the Soviets were undoubtedly assisted by the availability of CCC credits to cover some of the purchases, they could have made these purchases without a governmental agreement.

Loans which have been extended by the Export-Import Bank have been consistent with the purpose of the Bank, (as set forth in its charter by Congress), to assist in financing and facilitating export sales of United States goods and services when there is reasonable assurance of repayment on such sales by the foreign borrower and the Bank's participation in the transaction is necessary to obtain the sale for the United States suppliers. The Bank's Act also requires that it provide export financing support to United States exporters which is competitive

with the foreign government-supported export financing offered by their principal foreign competitors. The terms and conditions on any Export-Import Bank credits to the Soviets for their purchases of US equipment are the same as those provided on comparable transactions for US export sales worldwide.

The Export-Import Bank Act of 1945, as amended, requires that the Board of Directors of the Bank be satisfied that each loan offers "reasonable assurance of repayment". The information furnished by the Soviet Union on its economy has been fully adequate to support the present level of lending, which is not high in comparison with lending to the USSR by other major industrial countries. In the spring of 1973, it was explained to the Soviets that additional lending, which would raise their obligations to the Export-Import Bank to a level a significant amount above that under consideration at that time (approximately $500 million), would require the USSR to provide additional detailed information in order for the Bank to be satisfied that each loan offers "reasonable assurance of repayment".

Question 3

The Johnson Act, as amended (18 U.S.C., sec. 955), prohibits certain financial transactions by private persons in the United States involving foreign governments which are in default in the payment of their obligations to the United States unless they are members of the International Monetary Fund or the International Bank for Reconstruction and Development. The Soviet Union is not a member of either organization. The prohibited transactions include the making of loans to, and the purchase or sale of bonds, securities, or other obligations of, a foreign government which is within the statutory category. This includes the U.S.S.R. since it is in default of debts contracted when Russia was one of our World War I allies.

The Johnson Act, passed in 1934, is not intended to regulate East-West trade but to safeguard U.S. citizens from the sale of securities issued by governments with a history of defaults. The Attorney General has ruled that the Johnson Act does not prohibit extensions of credit "within the range of those commonly encountered in commercial sales of a comparable character". He has also stated that the scope of the act should not be measured in terms of distinctions among the various forms of financing export trade and determined that financing arrangements lie beyond the scope of the Johnson Act "if they are directly tied to specific export transactions, if their terms are based upon bona fide business considerations, and if the obligations to which they give rise 'move exclusively within the relatively restricted channels of banking and commercial credit.'" (42 Op. Atty, Gen. No. 27).

Question 4(a)

Discussions have been underway for some time between a number of American firms and Soviet officials to study the possibilities for large scale projects to import liquefied natural gas to the United States from Siberia. The proposals under consideration include the North Star and the Yakutsk gas projects, both of which would involve the transmission of natural gas from Siberian gas fields and, following liquefaction, the transportation of LNG to supply consumers in the southwestern and northeastern United States.

Given the preliminary nature of the negotiation between the consortia of US firms involved and the Soviet authorities, major uncertainties exist with respect to these projects. The capital requirements have not yet been determined, the price of natural gas has not yet been set, and the necessary approval has not been solicited from the Federal Power Commission. The Export-Import Bank, moreover, has not received applications to finance export sales for either of these projects. In the case of Yakutsk, sufficient reserves have not yet been proven, and although there is a proposal for the Export-Import Bank to provide part of the financing for the exploratory stage of the project, the Bank has not made any commitment in this case.

Major uncertainties exist with respect to the eventual costs of these projects, given the preliminary nature of the negotiations between the consortia of US companies involved and the Soviet authorities. Consortium estimates for the North Star project indicate that the total cost of the project may range between $7-8 billion, with Soviet costs totaling about $1.5 billion. Since no credit application for the project has been submitted by the USSR to the Export-Import Bank, it is uncertain how much of the project the Bank itself would be requested to finance. Estimates for the Yakutsk project are even more uncertain, and currently range between $6-7 billion. Discussions between the US firms involved and the Soviet authorities, however, relate only to the exploratory phase of the project, with no commitment on either side to proceed beyond the initial effort to determine the gas reserves in the area. The Soviets have estimated that the cost of the exploratory phase will total some $400 million, of which $250 million would be invested by the USSR, $110 million would be provided by the US and the remainder by Japan. In this connection, the USSR on October 29, 1973 applied for a preliminary loan commitment by the Export-Import Bank amounting to $49.5 million. The Bank has thus far taken no action on the Soviet credit application and has advised the USSR that before it could reach any

decision on the matter, more information than that which accompanied the application would have to be supplied by the Soviet Union.

Question 4(b)

The current interest rate on Export-Import Bank loans to the Soviet Union (as it is to all of the Bank's clients) is 7 percent. The most recently issued Treasury Note (February 15, 1974) maturing on February 15, 1981, was issued at 7 percent and is currently selling on the secondary market to yield approximately 7 1/4 percent.

Question 5

The Export Control Act of 1941 and its successor, the Export Administration Act of 1969, provide for the denial to the USSR of any goods or technology that could be detrimental to US national security. In the case of machinery for grinding bearings, the fact that these machines were not on the COCOM strategic embargo list and that similar machines were available from Western European sources, such as Sweden and Switzerland, were major factors for approval to the USSR. If the machines had been denied, the Soviet Union would have been able to obtain similar equipment from other Western suppliers. Denial, therefore, would not have made any contribution to our national security, but would have adversely affected our exports.

The United States does not permit the sale to the USSR of computer or computer production technology that could be detrimental to our national security. Computers that have been licensed for sale to the Soviet Union are types that are not specially designed for military use and are readily available from other free world countries. In considering license applications for this equipment, the specific conditions of each transaction are carefully reviewed by the Department of Commerce in consultation with the Departments of Defense, State, and other government agencies to assure that the equipment is appropriate and suitable for its stated civilian end-use and will not be utilized for strategic applications.

We hope the foregoing information will be helpful to Representative Blackburn. Please continue to call on us whenever you believe we might be of assistance.

Sincerely,

LH/S

Linwood Holton
Assistant Secretary for
Congressional Relations

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. Mr. Secretary, I thought your statement was a very fine statement not only of the trade bill but of the overall policies which we have been pursuing on our relations generally, especially with respect to the Soviet Union.

SOVIET GRAIN DEAL AND DÉTENTE

Before I ask my principal question I am prompted by the Senator from Nebraska's statement about grain and wheat. I notice in the press there has been a great deal of criticism of the Russians for having bought our wheat at a low price, and it is said that you cannot trust the Russians because they took advantage of us, and that détente is a losing proposition.

What relation does that have to date?

Secretary KISSINGER. Well, Senator Fulbright, the Soviet grain deal, whatever criticism may be made of it, had next to nothing to do with détente. To be sure, it followed the Moscow summit by about a month. But as it turned out, at the Moscow summit there was next no discussion of the grain deal because the assumption at that time was that the amount of purchases would be so low as to not justify the attention of the two national leaders.

There was some very subsidiary conversation at the fringes of the summit meeting, and some talk regarding purchases on the order of $150 million, and the issue elapsed. It was then decided that the Soviet Union would send a technical mission, and the negotiations were handled primarily in the Department of Agriculture, and by then Secretary of Commerce Peterson. So whatever one may say about the wheat deal, it was not a part of the détente policy, and whatever difficulties arose with respect to the wheat deal—and I believe there were several—were due first to an intelligence failure in the sense that there was not an adequate awareness at the high levels of our Government as to the shortages that existed in the Soviet Union; and second, to an inadequate exchange of information between the companies and the Government so that there was no understanding of the scale of the purchases that were actually being conducted.

But it is not a result of the détente, and this particular transaction could have happened at any time.

Senator FULBRIGHT. Well, it is no reason to criticize the policy of détente in any case.

Secretary KISSINGER. It has no relationship whatever to détente.

SOVIET UNION AND MFN

Senator FULBRIGHT. Now, I wanted to emphasize, and perhaps induce you to elaborate upon your statement about most favored nation, the denial of most favored nation being a political act. I certainly join, and I think the general opinion is, that you have done a very excellent job in beginning the process of the settling of the Middle East conflict. It has been ongoing now for some 30 years—really, 30 years—and Congress could take action directly contrary to a commitment which you made which is, of course, within our right. But I question the wisdom of it, because it seems to me that, as a political act, it undermines your capacity to continue to move effectively, both in the Middle East and in the field of negotiation in the trade field.

The whole climate of relationships in this area, as you mentioned, raises the question of good faith. I am not sure that is, to me, the right word, because everyone knows you cannot commit the Congress. But it raises, in my view, the question that Congress is undermining your capacity to deal effectively in these areas. It has been my impression that the cooperation with the Russians was essential to what you have already accomplished in the Mideast, and it certainly is essential to any continued progress in the Mideast. And I think it is worthwhile for you to elaborate a bit upon the significance of this. I am under the impression it goes far beyond any particular negotiation. It affects the whole climate under which you will operate as our Secretary of State in the coming years.

Secretary KISSINGER. Well, I think to answer this question, one has to look briefly at the history of the most-favored-nation negotiations. Again, as I point out in my testimony, the Soviet Union enjoyed most-favored-nation status until 1951, and it was then canceled as a result of the Korean war and the general confrontation that existed between the Soviet Union and the United States.

Until 1951, as it turned out, the Soviet Union did not take advantage of its status, because—ironically enough—of the fear of Stalin that most favored nation represented an intrusion into the Soviet domestic system. When we started our policy of negotiation, rather than confrontation, we were, as I pointed out, under great pressure to expand East-West trade. We resisted for 3 years, against very widespread opposition. The argument was made to the Soviet Union that we could not expand trade until their foreign-policy actions were consistent with a more normal economic relationship; and we put forward to the Soviet Union a number of issues that had to be settled—Berlin, restraint in the Middle East, restraint in other parts of the world.

I remember the first time we approved a commercial deal, which was on the order of some $30 million, was in May of 1971, following the first breakthrough in the SALT negotiations between us and the Soviet Union. In other words, for a period of more than 2 years, we told the Soviet Union that restraint in its foreign-policy conduct would lead to an expansion of trade relations with the United States. For us now to reverse this position, after the objectives we had then sought have been, in a considerable part, met, would cast doubt—not on the good faith, so much, of the negotiators, but on the reliability of the entire process.

Now, it is of course true that the Congress is not committed by what we may have said to the Soviet Union during these negotiations. But, we, in the executive branch, at no time had any reason to believe, while we were conducting these negotiations, that the issues being raised now in some of these amendments would come to the forefront. So, while the economic impact of granting most favored nation would be relatively slight, the political impact of withholding most favored nation, as a symbol of the possibility of making long-term arrangements with the United States, and of acting 1 year in the expectation of U.S. reciprocity some time later, would be very profound.

And if one looks at the whole sequence of events, we require a moderate Soviet course in many areas of the world—for example, in the negotiations in the Middle East which are now being conducted. They could be enormously complicated if the Soviet Union took a more intransigent position than it has.

I would therefore urge upon this committee to keep in mind, not simply the economic implications of the most-favored-nation question, but the general political and foreign policy context which Senator Fulbright alluded to.

Senator FULBRIGHT. It could even affect SALT, could it not?

Secretary KISSINGER. Yes; it could.

Senator FULBRIGHT. My time is up.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Secretary, I am very much impressed with your statement. I am even more impressed with the results you have achieved and the optimism you have. I would say that I have had the privilege of being in the Middle East about the same time you were, and you made arrangements for us, and we are thankful for you, and we bask in your glory, in having the opportunity to meet with some of the leaders of those countries.

EEC'S UNILATERAL ACTIONS RELATING TO THE ENERGY CRISIS

I am concerned, Mr. Secretary, about the energy crisis, and we were there on a mission referring to that problem. The nations have been increasingly tempted to resolve the problem unilaterally, and to make bilateral deals and impose protectionist measures. The newspapers yesterday carried the account of the failure of the EEC to consult the United States in advance of its offer of long-term economic and technical cooperation with the Arab nations. This conduct greatly disturbs me. It comes almost immediately after the energy conference early in February, which you spoke about. If our trading partners are going to take unilateral actions so soon after the Washington meeting, can we satisfactorily negotiate complex multilateral trade and monetary agreements?

Secretary KISSINGER. Well, what the European Community has done is to make a decision without what we considered adequate consultation. In fairness to them, I must point out that they believe they have—that they did raise some of these problems with us, but if they did, the subtlety of their presentations was beyond our capacity of absorbing them, and we did not feel that we had an adequate opportunity to understand what they were going to do, much less to express our reaction.

Nevertheless, this particular communique only expresses a direction of what the European community wishes to do. We do not object to the European community negotiating with the Arab countries, as long as it is done within a general multilateral framework, and as long as we have an opportunity to exchange views. We believe that it will be possible—at least, we hope that it will be possible—that in the evolution of their policy, just as in the evolution of our policy—an opportunity for consultation will exist.

Above all, we hold the view that for the European Community and the United States to split apart would be a disaster for all the nations of the West, and for all of the free peoples everywhere. So, as far as the United States is concerned, we must make, we have a duty to make, a major effort to maintain the cohesion of the industrialized democracies, to conduct our relations, on a multilateral basis. And for this, we need the tools of the Trade Reform Act.

If it turns out this is impossible, we will be reluctantly forced to turn to other measures. But we do not believe this will be neces-

sary. We think this is a transitory phase, produced by the formation of the European Community, and we will certainly make, on our side, every effort to work out a cooperative relationship.

Senator FANNIN. Well, you have certainly been able to carry through with previous programs and I have great confidence in respect to what you will be able to do in the future.

Now, as I understand our negotiating position, Mr. Secretary, the problem of trade and monetary systems in NATO and energy are common problems that can only be solved by joint actions of industrial nations. Now, you refer to EEC, and we know that some of the nations of EEC have taken a different view, France specifically. I was just wondering, assuming we enact this trade bill in a reasonable time, what actions could this nation take to encourage joint policy making?

Secretary KISSINGER. We have; for example, the framework of the Washington Energy Conference is still available. A coordinating committee that resulted from the Washington Energy Conference had a preliminary meeting on February 25, and we will have another meeting next week in Brussels. So that in that field, the multilateral framework exists. Cooperative arrangements are possible.

In the trade field, this bill, if it is passed, will create a framework for multilateral solutions. In the political field, we have attempted to improve the process of consultation, because it is in our view a tragedy, almost an absurdity, to emphasize nationalism at a time when the interdependence of nations is not an American preference, but a fact imposed upon us by reality. So I think we have the building blocks for a positive world order in which this bill will play a very important role. But you have pointed out, very correctly, some obstacles and some issues that concern us.

Senator FANNIN. Well, Mr. Secretary, I have observed that the Japanese are very active in the Arab countries, and we hear reports of the contracts they have consummated as we delay action. Of course, I realize that you are working as rapidly as possible toward the settlement of some of the problems that face us. But as we delay action on the trade bill, do you feel that this is a barrier to our being able to go forward with some of these countries that are involved?

Secretary KISSINGER. Well, we believe that the trade bill will give us a framework for discussion, and will enable us to move much more energetically and purposefully. But we will not, Senator Fannin, quite candidly, neglect our own national interests if the only course left to us is to act bilaterally.

Senator FANNIN. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Ribicoff?

AMERICAN TROOPS IN EUROPE

Senator RIBICOFF. Mr. Secretary, it seems that in recent months the European Community seems inclined to go it on its own on oil, and in many other problems which have been of mutual concern. If this trend continues, do you see continued justification for the United States to keep from five to six divisions in Europe, at a foreign exchange loss of $1 billion to $2 billion, and at a budgetary cost of $12 billion to $14 billion? At what stage does the United States tell the Europeans, we are going to remove our six divisions?

Secretary KISSINGER. Of course, the defense of Europe is also the defense of the United States, and we do not have troops in Europe

in order to do a favor to the Europeans. Now, the nature of the defense of Europe, the scale of the defense, the strategy to be adopted, of course reflects the degree of political concensus that is achieved between Europe and the United States.

There is, at this moment—as I pointed out publicly in a speech in London—an incongruity in allied relationships. On the one hand, defense is considered indivisible and is integrated, and the United States is asked to consult fully within NATO on all aspects of its foreign policy that could affect the common defense. On the other hand, there is a tendency to withdraw from broader consultation to internal consultation with the European community on issues that are considered part of the political construction of the Nine. We have felt we have not had an adequate opportunity to express our views on these issues. Now, this incongruity has to be adjusted, and the United States must be given an opportunity for a reasonable expression of its views. And therefore, it now requires all of our wisdom to take account, on the one hand, of the fact that the defense of Europe and the defense of the United States are really part of the same security problem; and on the other hand, to create a political relationship between Europe and the United States that is not based on competition, potential hostility, and on a definition of objective always in opposition to the United States.

This is the preeminent task we have, to which we are giving a great deal of our attention. But I do not believe the time can even come when we can remove all our troops from Europe.

Unilateral Actions in Europe

Senator Ribicoff. The basis of the trade bill, as I see it, is that ecopolitics is just as important as geopolitics in the affairs of nations. Now, how can we reconcile our basic differences with the European community unless they see the link between the political considerations, and the economic considerations? How would you go about convincing the European, or how do you go about convincing the Congress that the Europeans cannot have it both ways?

Secretary Kissinger. Senator, I have tried to tell the Europeans that the question you have put to me is a question that must be answered. If is not possible to maintain that ecopolitics goes one way, foreign politics goes a second way, and geopolitics goes a third way. All of these must be conducted on the same principles.

On the other hand, we are not prepared to accept, after all these decades of close cooperation between Europe and the United States, that what has happened is something other than the growing pains of a new political structure. We want to make it clear to those Europeans who know that our interests are essentially indivisible that the United States is prepared, first, to recognize and respect the European identity; but second, to do so in a framework of a larger community of interests. We are convinced that this problem is solvable, and we believe, moreover, that the vast majority of the European countries believe that the problem is solvable. But I agree with you that the problem must be solved.

Senator Ribicoff. Let me ask you—why do you feel that France is able to throw so much weight around, often against the basic interests of the other European countries?

Secretary KISSINGER. This is the first public testimony in which I have engaged since I have been Secretary of State, and if you keep this up, it may be my last. [Laughter.]

I think that when you have a group of nations with, perhaps, disparate objectives, but a great commitment to European unity, a country that has a very able leadership and a very determined bureaucracy can use the desire for unity of the others to move them, step by step, in the direction because the others consider that long-term unity may be more important than any particular issue that arises. But we believe, for our side, that there is no incompatibility of interest between the United States and France. We do not see that these disputes that have arisen are, in any sense, insoluble; and indeed, compared to the overriding necessities of our period, they must be solved. And we are prepared to solve them with France, as well as with the other Europeans.

Senator RIBICOFF. I do not think you answered my question, but since you are Secretary of State and since you will have to deal with these countries for many years to come, I am not going to press you on it. [Laughter.]

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Mr. Secretary, I think your statement this morning was excellent. It certainly has resolved some problems I had in my mind. I am one of a number of Senators who has joined with Senator Jackson from time to time in expressing a sense of the Senate resolution, and it has been with growing misgivings on my part that I have reflected upon my past actions. Your statement, I think, puts into clear, understandable perspective what should be our goals in trying to normalize relationships with nations all around the world.

With respect to the trade bill itself, there are those who believe that, in addition to the great benefits that obviously would flow from a more peaceful world, there are many other advantages as well, some of which you have detailed or touched upon in your statement; the advantages that would accrue to this country having access not only to markets, but to sources of raw materials as well.

COMPETING WITH CHINA IN THE WORLD MARKET

With respect to China, there has been concern expressed by different segments of the American economy as to the ability of this Nation successfully to compete with a country with as many people, with as many laborers as China has, given the great disparity between wages and salaries paid there as compared with those paid in this country. Do you look upon this great imbalance between salaries and wages as a serious block to our growing prosperity in this country, as we make more available channels of trade around the world?

Secretary KISSINGER. Of course, Senator, at this moment our trade with China is overwhelmingly in our favor. I think the imbalance is several hundred millions of dollars in our favor right now. Second, many exports depend less on labor than on technology. Third, we do not believe that China will be ready, in the foreseeable future, to compete effectively in our markets, or even that it would want to do so, given the general relationship that has developed.

Nevertheless, over a period of decades, the situation to which you referred could conceivably develop, and in that case, I am told that we

have sufficient safeguards in the bill to protect ourselves against that contingency.

Free Trade

Senator Hansen. Different experts to whom I have listened have extolled the virtues of lowering tariff and trade barriers of all kinds to the point that they would sometime become nonexistent; contending that is in our interest, as well as the interest of many other nations of the world, to have no trade barriers at all, in order that each country might pursue the production of those things which it would best be qualified and equipped to produce. I have inferred, from what I have heard, that this philosophy implies with it a willingness or an ability to move technology, to move capital, and indeed, in the final analysis, even to move labor around so as to balance out the necessary mechanism in order to achieve the goals of productivity by each nation, reflecting its relative ability to get that job done.

Do you think that the United States would be willing to go all the way in moving technology, capital, and labor in order to make this philosophy as successful as it could be?

Secretary Kissinger. Quite candidly, Senator Hansen, I do not believe so. I do not recall ever having sat in on a discussion where this problem was formally addressed, but this notion of perfect free trade has never been practiced on a global scale. It was practiced briefly in a small corner of Western Europe, where they had comparable social structures, and even then, you did not have free movement of labor.

So, one would have to assume that every nation is going to protect its essential way of life, and its essential social structure, and that what we are talking about is the lowering of tariff barriers, not their elimination, and the maximum amount of world trade that is compatible with the essential quality of a nation's life.

American Investment in Foreign Oil Fields

Senator Hansen. There has been, changing the subject, a lot of criticism, as you know better than most, in recent weeks and months, about the American investment in foreign oil fields. It seems to be often implied—I get this impression from the press and from the electronic media—that this has not been in the best interest of this country; that, rather than to have encouraged the development of foreign petroleum reserves by American capital and American technology, we now find that this effort, despite the support that it earlier had from most of the sections of the country, is now under sharp criticism. And there are those who propose that we take some very punitive action against our foreign oil operators.

What is your opinion? Would the United States be better off if we were now to take steps to discourage such investment?

Secretary Kissinger. I believe that the changing political conditions in most parts of the world, especially in the Middle East, have changed the character of the operation of the multinational corporations, and also, the impact of the negotiations that they conduct as to prices, is so severe on the economies and even on the way of life of the consuming countries, that it can no longer be considered a purely economic decision.

So I believe, and I think the companies would now agree, that the negotiations as to price must now involve a role for government that would have been unimaginable a few years ago, as these companies have now become part of a political structure that is quite different.

In the recent shortage, I believe that the companies have played a rather useful role in cushioning the effect by creating a general pool that obviously became subject to criticism, because no one would receive everything that he wanted, but without it, the bilateralism and the national approaches would have become much more acute.

So, in short, I believe that the relationship of the companies to the Government requires change, but I would not favor punitive action, vis-a-vis the companies.

Senator HANSEN. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

IMPORTANCE OF MFN FEATURES OF THE BILL

Mr. Secretary, am I correct in my understanding of your statements today that the major, the most important, and the most compelling aspect of the pending legislation is title IV, giving trade concessions and credits to Russia?

Secretary KISSINGER. No, Senator Byrd, I do not think you would be correct in drawing this conclusion. We think that the whole bill is of extraordinary importance.

The reason that I have emphasized the amendments that have been made to title IV is the consequences of these amendments on our foreign policy would be so severe. But, if you ask me to compare title IV as it was drafted, or as it was proposed to the Congress, and its significance to other titles, I would not single it out.

Senator BYRD. Well, I am asking you to compare it as it exists today, as it is before the committee today.

Secretary KISSINGER. As it is before the committee today, it is the part which most requires change, and therefore, I have singled it out in my testimony. It is the most urgent issue before the committee, in my view.

Senator BYRD. If it is not the most important, and the most compelling aspect of this legislation, then why would you recommend a veto?

Secretary KISSINGER. Well, when I was asked the question I think Senator Hartke correctly pointed out that I was in some difficulty; that I would not recommend a veto very happily and very easily because I think it is equally compelling, or almost equally compelling, to create a multilateral trading system. It is going to be a very close decision which I hope we will not be forced to make.

I believe that withholding most-favored-nation treatment from the Soviet Union, after the record that I have put before the committee, would have a very serious effect on our relationships with the Soviet Union.

Senator BYRD. Well, the fact that you would recommend a veto, as you stated you would do, certainly suggests to me that you regard that part of the bill as more important than all of the rest of the bill, combined.

Secretary KISSINGER. Well, I have every hope that we will not be faced with this decision and that we can work something out before I will have to face that question.

Senator BYRD. In other words, you feel that you made a commitment to Russia in that regard?

Secretary KISSINGER. I feel that we have made a commitment, but that, I think, is relatively less important because it would be clearly understood that the commitment would fail for reasons that are outside of our control.

I believe that the evolution toward a more moderate international system, that the prospects of peace, would be severely jeopardized—not in the sense that a nuclear war would start, but in the sense that relationships would deteriorate and some of the cold war atmosphere would return; and that in this resulting atmosphere of tension, there could be consequences that we would all regret, and I believe it is unnecessary to risk this.

I believe we can achieve the objectives of the trade act as well as our foreign policy objectives, and many of the objectives of those who have put forward the amendments, without driving it to this confrontation.

MID-EAST PEACE AGREEMENT

Senator BYRD. An outstanding newspaper—the Richmond Times Dispatch—had an editorial on Monday—I just saw it today—in which it commends your efforts in the Middle East and I certainly concur in that. You have done a magnificent job. But it comes up in the context of commitments. The editorial ends by saying that what is known of the developments in the Middle East is fine for the Arabs and is fine for the Americans and is fine for the Russians, but the missing ingredient according to the editorial is what secret commitments, if any, have been made to Israel.

And the editorial says, Israel very likely is being offered nothing less than the military protection of the United States. Now my question is, have any commitments been made to Israel and has the military protection of the United States been offered to Israel?

Secretary KISSINGER. No commitments, either secret or otherwise, of any kind, have been made to Israel, or to anybody else. Every understanding that has been reached, has been put before the Senate Foreign Relations Committee, and every understanding, written or implied, has been shown to the chairman of the Senate Foreign Relations Committee and is available to the chairman of the House Foreign Affairs Committee.

Senator BYRD. Well, there are commitments and agreements?

Secretary KISSINGER. There were a series of technical understandings associated with this disengagement agreement, most of which have been already superseded by the implementation.

We were in the position where, on occasion, neither side was willing to accept a proposal by the other, but both sides were willing to accept proposals when they were made by us. Sometimes we passed on understandings of one side to the other.

There is no military commitment to Israel and no additional commitment except those that are generally known to have been made to Israel or to anybody else as a result of the negotiations that are now going on.

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And I am not hedging. There is nothing—there is no escape clause in what I am saying. [General laughter.]

U.S.-Soviet Oct. 18, 1973, Treaty

Senator Byrd. Under U.S. law, you are required to transmit to the Congress, the text of any international agreement, other than a treaty, in which the United States is a party, as soon as practical, after such agreement has been put into effect; and in no event, no later than 60 days.

Now on October the 18th, 1973, the United States and the Soviet Union signed a treaty as a followup of summit meetings between the two countries. It now appears that parts of the trade agreement have, indeed, come into force and congressional deliberation on granting credits to the U.S.S.R. have been bypassed by an executive agreement that extends to a preferred rate to the U.S.S.R.

On February 8, my colleague, Senator Case from New Jersey, stated that you did not transmit this agreement to the Congress and has asked for an explanation. Would you care to explain this for us now?

Secretary Kissinger. We submitted these agreements on November 28, 1973, because the trade agreement was conditioned on the implementation of the lend-lease agreement and the extension of MFN, and therefore it was not an operative agreement.

With respect to the export-import credits, there is no agreement that any particular amount would be extended. There were discussions as to the amounts of lending that were conceivable which is different than a firm commitment that any specific level would be reached and so we believe that we have been in complicance with the intent of the Congress.

But I will certainly be glad to review again any new agreements that may be made to make sure that we comply not only with the letter, but with the spirit. I believe that the relationship that now exists in this field, between the Executive and the legislative branch makes it certain that you can count on its being submitted.

Senator Byrd. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

The Chairman. Senator Dole?

Senator Dole. I have only a couple of questions, Mr. Secretary. I commend you for keeping track of where you are. [General laughter.]

You are in the United States today, you understand? [General laughter.]

And we are glad to have you back.

The Jackson Amendment

I think a great many of us who have cosponsored the so-called Jackson amendment, of course understand the political realities which are not necessarily in the same political context to which you relayed in your statement.

There are other domestic political realities that have a great bearing on that particular amendment. As Senator Hansen has indicated, your argument is most persuasive, but I am wondering if there is any change in attitude on the part of certain Americans who are not in the Congress?

Is there some change in attitude that might be helpful to persuade some others to change?

Secretary KISSINGER. Well, I have been meeting regularly with the leaders of the Jewish community to discuss with them not only American policy in the Middle East, but the degree to which cooperation between the United States and the Soviet Union in this policy is important to bring about a moderate evolution.

I have the impression, of course, though they will have to speak for themselves, that they have listened with sympathy to these arguments and I think that in the context that is now evolving, there is a possibility of getting a hearing for a compromise from the Jewish groups, but I think they should speak for themselves.

Senator DOLE. Does the Prime Minister of Israel—she is certainly aware of this particular stumbling block? Maybe not a stumbling block, but does she have any attitude on it?

Secretary KISSINGER. Well, I had the impression in recent weeks that she has not been able to give her usual attention——

[General laughter.]

Senator DOLE. I think she is better this morning, though, than she was last night.

Secretary KISSINGER [continuing]. But I have expressed my views to her.

LIFTING OF THE OIL EMBARGO

Senator DOLE. Mr. Secretary, you indicated to Senator Curtis that it is important that we move along on this bill and not spin it off, or spin it around, and I do not have any intent to do that. But it seems to some of us that one impetus might be an announcement soon of a lifting of the oil embargo and I understand there is a meeting Sunday somewhere. Will you be there? [General laughter.]

Secretary KISSINGER. I think it is confined to oil-producing countries.

Senator DOLE. But do you see some optimistic signs?

I notice that the President said last night in his press conference that an announcement would have to come from that source.

Secretary KISSINGER. The problem is that it is a decision that should really be taken by the Arab countries and that they should take it in an atmosphere that does not look to be a reaction to our statements. So this is why we have been very restrained about making predictions and expressing recommendations.

But, as the President said, we are hopeful.

Senator DOLE. I do have further questions.

COMPROMISE NEEDED ON THE BILL

Mr. Secretary, I know you are under a time restraint, and I would just underscore what Senator Byrd may have indicated, there are a great number of things in the bill that trouble a number of Members of the Congress. But I think, at the same time, you properly put your finger on probably the most emotional and controversial provision, that being, title IV.

It would seem to me that if that could be resolved at an early time, it would make it much easier to resolve other differences, at least compromise other differences.

Secretary KISSINGER. From the administration's point of view, and from my own personal point of view, we will make every effort to resolve it in a way that takes into account the values of those who have sponsored these amendments and still meets the objectives of the bill.

I will personally work on this in the next 2 weeks.

Senator DOLE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Nelson?

JACKSON AMENDMENT SEEN INEFFECTIVE

Senator NELSON. Mr. Secretary, on title IV, I was one of those who did not sponsor the Jackson-Vanik amendment—not because I was less concerned than the sponsors about the freedom of Soviet Jewry, but it seemed to me there was a better way to achieve the objective. Everybody agrees with the objective of extending freedom to everybody, so I have no problem with the objective of the amendment.

It seemed to me however, that as soon as the Jackson amendment is adopted, it loses its effectiveness. It says, as I understand it correctly, that unless there is free emigration there cannot be most-favored-nation treatment or credit.

Is that the way you interpreted it?

Secretary KISSINGER. That is how I would read it, yes.

Senator NELSON. And in a dictatorship, there is no such thing as "free emigration" in an absolute sense.

Secretary KISSINGER. There has not been in Russia throughout its history, so that is an additional problem.

Senator NELSON. I understand your reluctance to present an administration position and your desire to discuss the issue with the sponsors as well as the appropriate members of this committee, but I would like to raise the following proposition.

It seems to me that there is a position that is stronger in behalf of the cause which the sponsors of the Jackson amendment seek to accomplish, and I would wonder if you would comment on it. The Jackson amendment becomes ineffective the moment you adopt it, because the Soviets do not have free emigration and they are not going to reform their country to meet this standard. Would it not be more effective to accomplish the purpose of the Jackson amendment and not destroy the trade reform legislation, by providing that the President could negotiate most-favored-nation status and credits with any country in the world not now enjoying this status and providing that at some subsequent date—every year or whatever—that those agreements would come back under the concept of the Reorganization Act. Either House may then veto any one of those agreements if it decides that the country receiving most-favored-nations status or credits, is conducting itself in a way that is offensive. Something like that would give a greater impetus and support for the cause since all countries would then realize that at any moment, Congress, which is independent of the President and his negotiations, may become offended by the conduct of some country and therefore veto an agreement? Would that not be a stronger position in behalf of the cause that we all seek to accomplish?

Secretary KISSINGER. Without committing myself to whether either House or both Houses should have the right; whether it should be 1 year or 2 years; I think that the concept by which the Congress can review an Executive determination, looking back for some reasonable period, is one in which the direction of a compromise might well move.

And, that it would have the advantage, at one and the same time, of achieving our objective of being able to grant most-favored-nations status and achieving the objective of the sponsors of the amendment by having their goals remain a live pressure on the process rather than be accomplished on the day that the amendment is signed.

So I agree with your analysis. I have hesitated putting forward a compromise proposal because I did not want to turn into a contest between an administration proposal and that of the sponsors of these amendments because I am very hopeful that we can come up with something that everyone will agree to.

But the concept you have developed is one that we would look at very, very seriously. I think it is a constructive concept.

Senator NELSON. You recited some statistics—if my memory is correct—in the first half, the first 6 months of 1972, slightly more Soviet Jews emigrated and arrived in Israel than in the first 6 months of 1973.

But, in any event, it was a dramatic increase in the period starting in late 1971 when average monthly totals have been slightly more than 2,500.

Secretary KISSINGER. In the last 6 months of 1973, the figure rose, so that the total figure for 1973 turned out to be slightly larger than 1972. And this figure was maintained even in the face of the dislocations of the Middle East.

Senator NELSON. I simply made that suggestion because it seems to me that it would achieve, the objectives sought by Senator Jackson with whom I agree, more effectively than an absolute standard as provided by the present language of the bill.

Secretary KISSINGER. As I said, I find your concept very appealing and, within that context, we will try to be as forthcoming as is possible.

Senator NELSON. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Gravel has left to vote—the Senate is voting—and I personally will miss this vote, because I think this hearing should continue. Senator Gravel will take his turn as soon as he gets back and Senator Roth, also.

Meanwhile, I want to turn to another topic, Mr. Secretary.

C.I.F. vs. F.O.B. REPORTING OF TRADE STATISTICS

I believe that we can all agree that one objective of our trade policy should be to achieve a favorable balance in trading because we need that favorable balance in order to pay for our military commitments such as troops overseas, military aid that we wish to extend to foreign countries, the Public Law 480 program, other aid programs, and now also because we will have to pay more for energy.

Now, recognizing all that, it would seem to me that our facts and figures should reflect what our true situation in our trading relations.

Some countries do not keep separate trade figures, they keep overall figures, on balance of payments rather than on trade, but if we are going to have a separate trade figure, it seems to me that those figures should reflect what our situation is and what we are trying to achieve.

Now on the blackboard there are some figures that appear in these blue books which have been prepared for us by our committee staff. The numbers indicate this: That we have been reporting every quarter with official figures which imply that we had a favorable balance of trade in every year except 1971 and 1972.

But those figures have been kept on an f.o.b. basis. They have left the freight off of the imports—a practice which the International Monetary Fund nor 90 percent of the other countries on earth follow in keeping their trade books. Our books should take into account the freight and leave out the foreign aid that we are giving away. The Public Law 480 program, by any standard, is not intended to make a profit. It is a different type of program; it is one which we hope we can afford because we have a lot of money and hopefully a favorable balance of trade. Delete the Public Law 480 sales, and the soft currency sales, and the foreign aid, and you have the next column, appearing on that chart, which is where you stand if you keep your trade figures the way that 90 percent of other countries keep them and the way the International Monetary Fund keeps them. So what does that then show? It shows that instead of making a profit of $6 billion during that period of time, from 1966 through 1973, an 8-year period, we had an unfavorable balance of roughly $31 billion.

When you look carefully at the trade figures you can begin to understand why our balance of payments on a liquidity basis, shows a loss during that period of $65 billion and on an unofficial settlements base a loss of $60 billion. Or, if you take the basis that some people in your Department seem to think best, the basic balance which leaves out the short item flow of capital accounts, we would have a $30 billion deficit.

It would seem to me that we ought to develop a set of figures that show whether we are making money or losing money in our trade. I know you did not create this situation—you found it that way—but I want to ask you, can we have the cooperation of your Department in helping us to put those trade figures on a basis where we can see whether we are making or losing money?

Secretary KISSINGER. Frankly, Mr. Chairman, what you said makes a lot of sense. And I can promise you the cooperation of the State Department in working out some agreement with you. I understand we are now both using both figures—but what you say certainly makes a lot of sense.

The CHAIRMAN. Well, we have made some headway on the freight part of it. We have got two sets of figures being published, so we issue that good news announcement which really is not good news at all, we also issue a brutal truth announcement with it that includes the freight.

But it seems to me that those c.i.f. figures should be further refined to leave out the aid because that ought to be kept separately. Aid is something that is a burden on our budget, but it is something that we undertake for reasons unrelated to trade.

Secretary KISSINGER. Mr. Chairman, I frankly do not know what you have in mind, by "cooperation" from my Department, but why do

I not have the appropriate officials get in touch with you and let them work out on a mutually agreeable basis?

The CHAIRMAN. I will need some of your help because you have had some people down there who for the last 20 years have been giving out all these good news announcements and many times the good news is not all that good.

We have had some years, such as 1973, where they cheered that we made a profit of $1,700,000,000. All we lost that year was $3,800,000,000.

If we can improve our trade accounting system to the extent that an impartial person would agree that it is a correct presentation of our situation, I really think that it will help in negotiating trade agreements and it will also help us in passing legislation that expands our exports—a goal which I think we should be working toward.

Secretary KISSINGER. I will get my people to work with you and to be in touch with you. Of course you realize that I, in my 4 months there, am still trying to get the cooperation of the Department, too.

[General laughter.]

The CHAIRMAN. This did not start with you, Mr. Secretary.

I am just trying to do what I can to correct it in a bipartisan effort, because this bipartisan deception has been going on for a long time. I do not know when it started—it started before anybody ever heard of Henry Kissinger around Washington—but one of these days we ought to tell the public what the facts are.

In closing, I want to say to you, Mr. Secretary, while I have a chance to discuss this matter with you, that as a Democrat I think we owe it to you to say that you are making a great record as Secretary of State for this country.

During the 25 years I have served in the Senate, I have had the privilege of working with some great Secretaries of State, both Republicans and Democrats, and if you can continue to make the fine record that you are making in all the time I have been here you will have been the best. I wish you luck.

Senator Gravel is here to take his turn and next we will come to Senator Roth when he returns.

AMERICAN TROOPS IN EUROPE

Senator GRAVEL. Thank you, Mr. Secretary and thank you Mr. Chairman.

Mr. Secretary, in response to a couple of questions, you said you were meeting with as many leaders as possible and I might commend that effort because I think that you would find it that much easier in securing support here in the Congress for the position you take.

There is an area in which I was not entirely satisfied with your answer, and that was with respect to the amount of money we expend on the defense of Europe. I do agree with you that the defense of Europe is the defense of the United States. But historically, on three occasions, and particularly on two main occasions, the First World War and the Second World War, we were able to secure Europe without having to hostage large numbers of troops there. I find it difficult to perceive the type of massive, conventional ground engagement that now could take place between ourselves, Europe, and the Soviet Union, that would not precipitate us into a nuclear conflict.

So my question is, Would not our nuclear deterrent be adequate proof to the Europeans of our ability: (1) to defend them, if it came to that, defend them by mutual annihilation; and (2) if that is the case, then could we not press the Europeans much more aggressively than we have for the withdrawal of our troops, realizing again the economic problems caused our country by continually paying the support of those troops?

The historical precedents we have established and the commitments we have made should certainly guarantee Europe that if anything happens we will come to their aid.

Secretary KISSINGER. Well, of course the historical precedent indicates that if war breaks out and the United States comes in, it does so only after the war has broken out and as in the last war, only after the greater part of Europe has already been occupied, this is precisely the nightmare the Europeans are trying to avoid.

And, therefore, they have asked for the presence of American forces.

Second, a strategy of nuclear annihilation becomes less and less tolerable as the sophistication and power of weapons on both sides grow. And if one considers that general nuclear war under present circumstances would almost certainly mean the end of civilized life as we now know it, and probably the disinitegration of all political structures that have any responsibility, then I do not see how the defense of the West can be based on that as the sole, or even the principal strategy.

The reason that a large, conventional establishment is needed for the defense of NATO, is precisely because other alternatives are now required. Now the relationship of American forces to European forces is something that we have been attempting to discuss within NATO and that we also sought to raise as part of the exercise that led to the elaboration of the Atlantic Declaration. The major American commitment to the defense of Europe is in our mutual interests.

Senator GRAVEL. Using your own statement that nuclear war would break down the economic fabric and the social fabric, which did happen in the Second World War as a result of conventional war, we are now posturing ourselves in a defense policy which is simply archaic. The damage to Europe of either a conventional or nuclear war would be astronomical. Furthermore, any confrontation of a land war between ourselves with Europe and the Soviet Union would have to lead to a nuclear confrontation. Since that is the case, why should we pay the ransom to support conventional forces, which is undermining our economic system to an unbelievable degree, when we would probably resort to nuclear confrontation anyway?

Secretary KISSINGER. Well, the degree to which any war right now would lead to an all-out nuclear confrontation is subject to debate. I have serious questions about the automaticity with which leaders would resort to nuclear war which they know would involve casualties beyond the imagination of anybody.

The Second World War was a serious blow to Europe, but it did not lead in fact to the disintegration of the entire political structure, nor is anyone saying that a war like the Second World War should be fought or could be fought in Europe for an extended period of time.

The argument that has to be balanced is whether the absence of a military establishment on the continent might lead an aggressor to believe that the reluctance to resort to nuclear weapons gives them an opportunity for military expansion or even in the absence of military expansion, whether the sense of impotence that could be generated by the absence of a military establishment might produce neutralist foreign policies, and therefore a disintegration of the whole environment that has existed since the war.

On the other hand, as I have pointed out also in my testimony, this requires a degree of political compatibility between our policies and those of Europe. This argument cannot be pressed to its absolute extreme.

Senator GRAVEL. Some of us suspect that every time there is a move made in the Congress to disengage troops in Europe, the Soviets will react and really give credence to the argument to keep troops in Europe. It is almost as if they want to maintain their troops there in order to force us to do likewise. They make sure that the political climate is not there for us to disengage ours.

I would like to further discuss the situation at the end of the Second World War. During the destruction of the Third Reich, had they had nuclear capability they would have used it. The situation exists today in Europe such that if we started a land war and it evolved into greater than that between ourselves and the Soviet Union, whoever was losing would have to take recourse to nuclear capability. This means we are talking about a nuclear holocaust, and if that is the case, why do we insist on holding 350,000 troops hostage when maybe 10,000 in Berlin could do the job very adequately and show our commitment.

Secretary KISSINGER. It is a serious question, whether countries will, in fact, resort to nuclear holocaust under conditions of losing, such as you describe.

Second, one has to balance the likelihood of a war breaking out against how the war would be conducted.

Third, obviously there has to be great restraint in military operations if they are conducted, but even greater restraint in the diplomacy that might lead to military operations, precisely because of the dangers of escalation to which you refer.

On the whole, the combination of political and military allegiance which I have mentioned have caused us to oppose a substantial withdrawal of American personnel from Europe, and continue to make us oppose it, and we are now engaged in negotiations for mutual-balance-force reductions.

On the other hand, I must say that it is not acceptable to us that some European countries say that no matter what policies are pursued in Europe, the United States will forever have no choice except what they prescribe for our military strategy.

So, under present circumstances, we are opposed to a reduction of American forces in Europe except through mutual-balanced-force reduction. But those circumstances include compatibility of foreign policies.

Senator GRAVEL. If I could just pursue this one item briefly, sir.

The CHAIRMAN. One more question.

Senator GRAVEL. Are you saying that if the Soviet Union chooses not to reduce its forces, we are locked in that syndrome, regardless of what it will cost in the future?

Secretary KISSINGER. We are engaged in mutual negotiations over balanced-force reductions in Vienna now, and, of course, if the Soviet Union agrees to a reduction of forces, we would agree to mutual-balanced-force reductions in Europe.

Senator GRAVEL. But supposing they do not choose to do that. Will we then spend ouselves into bankruptcy because of a mistake in their policy and not something motivated by our good sense?

Secretary KISSINGER. Well, actually, we hope that progress would be made in the mutual-balanced-force reduction talks.

Senator GRAVEL. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Roth.

CRITICISM OF DÉTENTE

Senator ROTH. Mr. Secretary, I am sure you are aware that in segments of our society and in the press as well there is increasing criticism about détente and its supposed benefits. I think in part this is because the public has associated détente with, you might say, cost instead of benefits, for example, in the case of the wheat deal. Perhaps more importantly, there is a widespread suspicion that the Russians have not been helpful in either preventing the Middle East crisis, at least initially, or the oil boycott from ever occurring.

I wonder if you could tell us whether you have reason to believe that the Soviets did have foreknowledge of the attack, whether in view of agreements that we have entered with the Soviet Union, that there was an obligation for us to be consulted, and whether cooperation at an earlier stage could have prevented the current embargo situation.

Secretary KISSINGER. I am of course familiar with the arguments that criticize détente. If you put the wheat deal aside, which is not the result of détente, and look at the achievements of this period, I do not find that the United States has come out in a disadvantageous position. Indeed, one of the reasons we are so concerned about most favored nation is that if you look at the fact that in this period we ended the war in Vietnam under terms that we had essentially laid down, made progress in the Middle East, to which I will come back in a minute, settled the Berlin issue, you cannot really find that we have been taken advantage of. Quite the contrary would be the case.

Now, with respect to Soviet actions in the Middle East, our relationship to the Soviet Union is extremely complicated. They are ideologically hostile to us. They were allied at that time with countries that were attacking Israel, with which we had certain security arrangements and certain emotional bonds. This created pressures on the Soviet Union. It created pressures on us.

I am reasonably satisfied, on the basis of many trips in the Middle East now, that the Soviet Union did not have very substantial advance warning of the military operation, and second, that both Egypt and Syria were essentially acting on their own in this operation.

With respect to the embargo, I do not believe that the Soviet influence in the major oil-producing countries, especially Saudi Arabia,

is such that their advice would not lead to almost the opposite result of what they intend.

Now, I am not saying that the Soviet behavior has been impeccable. Ideological hostilities, bureaucratic inertia, longstanding arrangements, the momentum of established policies will all drive them into a direction that in certain parts of the world is inimical to our interests. The problem is not that they are not competitive. The problem is whether we can mitigate the competition and turn it over an extended period of time into a healthier relationship.

In this sense, with ups and downs, we have made very considerable progress, and I believe that if this evolution continues, we may indeed bring about a situation in which the danger of war is substantially reduced and entirely, in time, eliminated.

Senator ROTH. Well, Mr. Secretary, I might say my line of questioning is not intended to imply that I do not favor this legislation.

CRITICISM OF TRADE WITH RUSSIA

Secretary KISSINGER. I understand that.

Senator ROTH. But another criticism that is coming up in this same area is that by trading with the Soviet Union we are at least indirectly contributing to her military power. It is being argued, you know, on the part of the administration that we must increase strategic weapon procurement to counter the continuing increases on the part of the Soviets.

I wonder what your answer to that would be.

Secretary KISSINGER. First of all, the trade with the Soviet Union today is small relative to the size of their economy. Even under most favored nation and with the credits that have been extended to the Soviet Union our trade with them cannot have a significant effect on the Soviet economy. The credits which have actually been extended are about $250 million and those under preliminary commitment account for a further $250 million. But more fundamentally, if you look at the history of Soviet power, they have always been able to allocate to the military what they judge to be necessary for their security, and therefore, if economic relations help anybody in the Soviet Union, it is not their strategic program but the Soviet consumer and the general quality of life in the Soviet Union, but even that, only over a very extended period of time.

And the decision that we have to make is whether by moderating Soviet foreign policy conduct, by opening up the Soviet Union to more outside influences, we cannot bring over a period of time through a series of agreements a moderation in the arms race, and therefore a reduction in the strategic programs. This approach will be more effective than if we attempted to do this through an economic boycott, which through the whole history of the Soviet system, has never brought about that result, even when the Soviet economy was much smaller, and when maintaining their military establishment was much more difficult.

Senator ROTH. In other words, as you see it, trade will not be so great that it would significantly affect the industrial capacity, but it will hopefully help the relations between the two countries.

Secretary KISSINGER. And that is the level at which we would intend to keep it.

Senator ROTH. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, it may be that if you could stay here about 45 additional minutes we could conclude your appearance on this legislation.

What is your pleasure? Would you rather continue or come back?

Secretary KISSINGER. If I could leave close to 1 p.m., I would appreciate it.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Secretary, I will be very brief.

PURPOSES OF TRADE WITH RUSSIA

What are the purposes of trade with the U.S.S.R. in addition to the economic benefit that comes to the United States by reason of selling more of our goods and buying what we want?

Are there other things to be gained by trading with the Soviet Union?

Secretary KISSINGER. The major objective that we seek in obtaining most-favored-nation status for the Soviet Union is, in addition to the economic one, political. We are trying to encourage the Soviet Union to maintain a moderate course in foreign policy, to move step by step to an attitude of real coexistence with the United States, and to create linkages between the Soviet Union and the United States such that whenever a potential crisis arises, there would be at least enough influence to put a brake on a conflicting course.

And it is in this context that we have recommended it.

Senator CURTIS. Just what do you mean by the Soviets having a vested interest in maintaining peaceful relations with us?

Secretary KISSINGER. If it is a question of national survival, then of course, no economic link makes any difference. But the greatest dangers to war right now are when problems in third areas of the world create temptations either to commit oneself or incentives not to commit oneself. When that decision has to be taken, it is useful that there are people on both sides, especially in the Soviet Union, who would call to the attention of their leadership the risks to an established pattern of relations they would run if they took the advice of those who wanted to pursue the more intransigent course.

As these relationships develop, there will be more and more people in the leaderships of both countries who will have worked together and that will be working on projects that will take a period of time to realize. Now, again, in overwhelming cases this will not be a brake, but in the cases out of which, in fact, most of the dangers of war have arisen, it could make a decisive difference.

And finally, in most of the situations that have recently arisen, or arisen in the last 2 years, there has been a very intimate consultation between our President and General Secretary Brezhnev to maintain this atmosphere of confidence which can regulate relations and prevent upheavals. It is important that we also normalize economic relations and not just political relations.

Senator CURTIS. Well, are you saying also that if trade is established with a foreign nation, it is desirable to them, and beneficial that the

pressures in that foreign nation that come upon their Government are likely to be in favor of maintaining the relations with the countries so that trade can continue?

Secretary KISSINGER. Up to a certain point. We should not overdo it, because if you remember, prior to World War I there was essentially free trade in Europe, but, nevertheless, this did not prevent the outbreak of a cataclysmic war.

But, up to a certain point and in the context of the fact that many crises arise that are really unintended by either of the major countries, in this sense, I would agree that this would be true.

Senator CURTIS. Well, I agree with your premise, but what you are saying is that in the day to day relationships with such a country in the small matters, some of which could lead to larger matters, that trade is helpful.

Secretary KISSINGER. Very much so, and also in medium size problems, not just small.

Senator CURTIS. But you say——

Secretary KISSINGER. When it becomes cataclysmic, trade is not the decisive factor.

Senator CURTIS. You mentioned the situation in Europe prior to the war. I think it is also true that we were about Japan's best customer at the time of Pearl Harbor, too. It was not the controlling factor.

Secretary KISSINGER. In those situations it would not be.

ROLE OF LDC'S IN TRADE AND NEGOTIATIONS

Senator CURTIS. Would you have any comment about the place of the less developed countries in trade generally, and in trade negotiations?

Secretary KISSINGER. Well, the less developed countries, of course, face a major problem, are facing right now a major problem with respect to energy. This is not exactly your question, but their vulnerability is shown by the fact that they have been the hardest hit, perhaps, of all countries, by the rising energy crisis, even countries that really cannot be classed anymore as less developed, such as Brazil. Brazil's Foreign Minister told me a few weeks ago that over half of their exports now have to pay for energy imports, which totally distorts their economy.

But the less developed countries want, and importantly need some access to the markets of the industrialized countries while they are building up their own industry. And this is one of the reasons why we have supported a system of general preferences with the safeguards that are built in. An attempt has to be made to close the gap between the developing and developed nations, or at any rate, to bring about economic progress in the developing nations so that their instability is not a constant source of tension in international affairs.

And in this sense, the Trade Reform Act could also play a very useful role.

Senator CURTIS. Well, if preferential treatment is going to be given to developing nations or less developed nations, whatever term you use, do you think that we should rely upon a definition of what constitutes a developing nation, or should they be named by name?

Secretary KISSINGER. We would rather have discretion and have a general definition. Of course, we have excluded those countries which

are not now receiving MFN treatment, and those which are granting reverse preference.

Senator CURTIS. Well, that is all I have, and I do thank you.

The CHAIRMAN. Senator Fulbright.

NEGOTIATIONS WITH RUSSIA

Senator FULBRIGHT. Well, Mr. Secretary, you have covered this somewhat and some aspects of it, but I would like as a matter of in-interest to suggest some other aspects of détente. For example, when we are presented with requests for very expensive weapons systems and for the creation of new bases, it is usually based upon the fear of Russia.

It seems to me that détente, as you conceive it, would have over the years great influence upon the arms race, upon SALT, for example, for which you are also responsible.

To put it another way, if it breaks down, it would be much more difficult to make agreements on limitations of weapons. Or the converse would be, if détente is succeeding and things are going well, the attitudes which includes the spiraling of the arms race, it would seem to me, would also be influenced. I believe these are all tied together. That is what I took it to mean when you said the political aspect of it, and Senator Byrd's question in which he emphasized how important you thought this section was.

It seems to me it is important far beyond this table, and it would have an effect. I have suggested another aspect of it in Senator Curtis' remark, but the point of view is that the Russians and those who have advocated or supported this policy are negotiating with you. If we reject, it will likewise undermine and discredit those leaders. It is bound to and it did in my opinion tend to contribute at least to Khrushchev's difficulties, because he made gestures which I think one could call in the direction of détente to us and got no response whatever from us.

I would not want to carry it too far, that that was the only reason, but I think it contributed to the attitude that he was not an effective leader, just as if you do not succeed in the Middle East or succeed in your policy of détente, it will certainly raise questions about your effectiveness. It works both ways, and I think it is well for you to emphasize the wholeness of this policy. And it is not just the trade bill, in effect. It is not just one aspect.

Is that not correct?

Secretary KISSINGER. One of the principal objectives of our negotiations with the Soviet Union is to reduce the burdens of the arms race. This is why we lay such great stress on the talks for the limitation of strategic arms, both the negotiations that have already been concluded and the ones that are now in progress. The negotiations for the mutual reduction of forces in Europe have a similar purpose. All of these are part of a general desire to reduce through détente the burden of the arms race.

It is obvious we are not sentimental about this. We are doing it on the basis of very complete and very precise negotiations. It is also true that to the extent that political leaders, especially in the Soviet Union, have committed themselves to this course, that the failure of

that course will have an effect not only upon the individual fortunes, which is, after all, not of decisive importance to us, but on the willingness of other leaders at some future moment to pursue this course that may have led to failure, as it is perceived in that system.

So therefore, for all these reasons, we would like to keep up the momentum within the framework of very precise, detailed negotiations and not just an abstract emotionalism.

Senator FULBRIGHT. But it seems to me all of the questions have been raised by different members about the arms in Europe, the troops in Europe clearly would be influenced, and if they did develop a genuine attitude, of course even in the minds of the Europeans there would be less urgency to keep all of the people there. It is bound to be based on a degree of apprehension on their part, and in fact, the apprehension I would not think necessarily would result in less pressures to keep up.

And I am reminded now, we have been talking about the enormous number of foreign military bases we have, somewhere around 1,800 or 1,900, and now you are proposing to establish a new one in India which undoubtedly will inspire the Russians to go all out to get one like it at great expense. So it just keeps on and on and on unless some movement to change this attitude, which has been characterized by one of my colleagues that the Russians are like a burglar going down a hotel room, trying every lock, and so on. This is not very complimentary to anybody, but this attitude of belligerence and animosity it seems to me is bound to be disastrous if we cannot do something about it, and this is one of the small things you can do about it.

Secretary KISSINGER. One of the ultimate objectives of our foreign policy is first to change actions and then to change attitudes, so that we can live in a world which is no longer so characterized by fear, and in which, then, as a result armaments can be mutually reduced.

Senator FULBRIGHT. And lastly—I do not want to take too much time, but it seems to me the state of our own economy, the size of our deficit and the inflationary pressures ought to be considered also as to whether or not that could not be affected by all of these other measures. But it is very difficult to get economists to think about all of these in one context. But I think it is related to all of them; do you not?

Secretary KISSINGER. I agree with that.

Senator FULBRIGHT. Well, thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman, and Mr. Secretary, I agree with you. The issue before us is not setting détente against moral détente; it is basically how best to move from our present situation to a safer, freer, and more humane world, while at the same time bringing important economic and political benefits to the United States.

We have a changing world and we know that the energy crisis has brought home to us, perhaps more than any other happening, just how much of a changed world we have. We have to consider lasting trade. It must be beneficial trade, and now that we have a shortage of so many natural resources, as I say, we are a have-not nation, not a have nation anymore.

The problem is making decisions, and certainly I respect your recommendations, and you have made logical and persuasive recommendations.

I just wonder. Here we have Saudi Arabia to consider when we are talking about petroleum products, and we have the thoughts of what can be done as far as trade and lasting trade with the Soviet Union.

Is it your feeling that we have an opportunity, because of the vast population of the Soviet Union, to perhaps be more advantageously supplied with LNG or whatever downstream products from the Soviet Union than we would be with, say, a country with a vast amount of petroleum available than Saudi Arabia?

Secretary KISSINGER. No; I would not say that. I think, despite all the difficulties that have arisen in our relations with the Arab countries and with Saudi Arabia, that there is a great reserve of good will that still exists in those countries, and in addition, a very important community of interest with respect to the stability of the political structure and the nature of the economic development, which I believe will enable us to establish a healthy, long-term relationship with Saudi Arabia.

Nevertheless, I believe that it is possible to have long-term economic relations with the Soviet Union. In a curious way, the Soviet Union may be quite restrained in taking advantage of this relationship. Some of the Arab oil States, not so much Saudi Arabia but some of the smaller emirates, pay no political price for putting the economic pressure on the United States because there is no political commensurability. But the Soviet Union will have to be extremely careful about applying economic pressure on the United States because it would jeopardize not just this particular economic enterprise, but the whole nature of our relationship.

I would not say that we should shift from Saudi Arabia to the Soviet Union for energy supplies, but we can with some confidence, look at projects in the Soviet Union without having necessarily to fear that we could not handle the political consequences.

Senator FANNIN. I should have placed it in a different context. I feel that we can deal with Saudi Arabia on a subject like crude, but with a 5 million income population we have a very difficult time to offset a trade balance, so that my question is we do have advantages of trading with the Soviet Union on products that can be furnished perhaps from both countries. But my statement was that because of the 250 million—or whatever it is—population of the Soviet Union, we can better afford to work out programs with them.

Secretary KISSINGER. I agree, and as you know we have been looking at energy projects in the Soviet Union.

Senator FANNIN. That is why I bring that out because I know that like the fertilizer and anhydroces ammonia and programs like that, we have had several countries, such as Iran, say that they are going to have downstream production, and eventually they do not intend to export one barrel of crude. That would leave us in a perilous position, if we were forced to just buy finished products because as a rule we would be paying about 40 percent more for a finished product than just crude. And so it is a tremendous problem.

So is it your feeling that—and I think I understand that we could develop a supplement, the production from the other countries by having this arrangement with Russia?

Secretary KISSINGER. We should certainly explore it very seriously.

Senator FANNIN. And the investments that would be involved, of course, as I understand it, the Russians would want us to make the investment, or at least to work out the investments in capital for them, whereas we do not have that problem with, like Saudi Arabia. They will have the money and may be investing in the Soviet Union. I do not know what is going to be taking place because with their tremendous reserves building, and the production capacity of 20 million barrels a day—if they decide to produce that much—why, it seems they will be able to do whatever is necessary for their own financing of the project.

But here we have a project on LNG, which we must invest money and we expect to get a return on it over a period of 20 to 30 years.

Senator FANNIN. And so, analyzing all of these matters we must consider that we are going to have, that the gamble is a good gamble, that we will be able to work with the Russians after that time.

Secretary KISSINGER. Well to the extent that there is a commitment for large-scale projects of this nature. We have considered it as a good gamble, obviously, that there will be political stability over this period of time, and so will the Soviet Union. And this is a good example of the kind of restraint that would almost inevitably have to be put on political action, when this degree of interrelationship exists.

Senator FANNIN. Well, I realize that a certain element in whatever country you are dealing with.

Thank you, Mr. Secretary.

Senator FULBRIGHT (presiding). Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

Mr. Secretary——

Secretary KISSINGER. To find Senator Fulbright in the Chairman's position is not an unfamiliar position.

U.S. SANCTIONS AGAINST RHODESIA

Senator BYRD. Mr. Secretary, would you agree or disagree with Sakharvo's statement in regard to détente in which he said, and I quote, "Détente is when the West in fact accepts Russia's rules of the game. Such a détente would be dangerous."

Secretary KISSINGER. Well, Senator Byrd, the relationship between domestic structure and international stability is a problem that has fascinated students of history for a long time. Is it necessary to have democracy in order to have peace? I think it would not be easy to demonstrate from history that democracies are always peaceful.

At any rate, to make bringing about democracy in the Soviet Union in the face of 300 years of Russian history followed by 50 years of Soviet history, a precondition to making peace, would doom us to decades of struggle, and the outcome would not be foreordained. We do not approve of the Soviet domestic structure. We do not like its values. We do recognize, however, that today, and for the immediate future, we are doomed to coexistence with the Soviet Union.

Senator BYRD. That is what gets me to the next subject that I was interested in, the question of domestic policy in other nations and subjecting ourselves on other nations. You are here to advocate relaxing trade barriers with other nations, but you recommended that legisla-

tion be enacted by the Congress to embargo the purchase of a vitally strategic material from Rhodesia, which material the United States has none.

Now your testimony before the Foreign Relations Committee, of which the present chairman is in the chair, you were then urging an embargo on trade. Now you are coming here and urging a relaxing on trade with another country.

Secretary KISSINGER. First of all, Senator, I must say you were very restrained in your first round of questions. [General laughter.]

I have already been asked substantially this question earlier. Quite frankly, the foreign policy context of the decisions is somewhat different, both because in the case of Rhodesia, it is tied to the status of the Government itself, it is tied to the implementation of U.N. resolutions, and it is related to our relationship with many other countries.

In the case of the Soviet Union you have an overriding, practical necessity.

Senator BYRD. Do you think our actions toward Rhodesia are just or unjust?

Secretary KISSINGER. I think it reflects the decisions of the international community and the general conviction about justice.

Senator BYRD. Well, I am not clear whether you regard it as just or unjust.

Secretary KISSINGER. Our action? Yes, I recognize it as just.

Senator BYRD. You recognize our action in embargoing trade with Rhodesia as being just?

Secretary KISSINGER. Yes.

Senator BYRD. Do you regard the Soviet Union as being governed by a tight dictatorship, by a very few persons over a great number of individuals?

Secretary KISSINGER. I consider the Soviet Union, yes, as a dictatorship of an oligarchic nature, that is, of a small number of people in the Politburo.

Senator BYRD. In your judgment, is Rhodesia a threat to world peace?

Secretary KISSINGER. No.

Senator BYRD. In your judgment, is Russia a potential threat to world peace?

Secretary KISSINGER. I think the Soviet Union has the military capacity to disturb the peace; yes.

Senator BYRD. In your judgment, does Russia have a more democratic government than Rhodesia?

Secretary KISSINGER. No.

Senator BYRD. In your judgment, does South Africa have better racial policies than Rhodesia?

Secretary KISSINGER. Does South Africa have better racial policies?

Senator BYRD. Yes.

Secretary KISSINGER. I would not think so.

Senator BYRD. If it is just to embargo trade on Rhodesia, would it be equally just to embargo trade against South Africa?

Secretary KISSINGER. I believe that the embargoing of trade on Rhodesia is not based on its internal policies so much as on the fact that a minority has established a separate state, and it does not there-

fore represent exclusively a judgment on the domestic policies of the Rhodesian Government, but also a question with respect to the legitimacy of the Rhodesian Government.

Senator BYRD. The staff informs me that the Rhodesian trades actions were imposed January 5, 1967, before the Smith government was established.

Well, to get back to—so it is not because of the internal policy, it is not because of the racial policies——

Secretary KISSINGER. Not at all.

Senator BYRD. Well, then does that not then put, you say it is because Rhodesia seeks to establish her own government. Is that not what the United States did in 1776?

Secretary KISSINGER. In a different international context.

[General laughter.]

Senator BYRD. I have some more questions, Mr. Chairman, but my time has expired.

Senator FULBRIGHT. Mr. Hansen. Senator Hansen.

Senator HANSEN. Mr. Secretary, thank you very much for appearing. I have no further questions.

Senator FULBRIGHT. Senator Roth.

JAPAN'S ACCESS TO EUROPEAN MARKETS

Senator ROTH. Mr. Secretary, many people feel that some of the most significant trade problems of the immediate past have been caused by the fact that Japan had access to our market and not the the European market, and they feel that it is very important that if we are truly going to liberalize trade, that somehow Japan and Western Europe, as well as ourselves, work this out mutually.

I think, in addition, whether you go to Japan or Western Europe, there is a tendency for one or the other to think that we emphasize the other area.

I wonder if any specific thought has been given—I realize that trade, energy—all of these areas will be involved—on how do you intend to put across the idea that each has a stake in common progress by all of us.

Secretary KISSINGER. Of course, the purpose of the legislation is to reduce to the greatest extent possible artificial barriers, and to this extent to open up greater access to markets on a multilateral basis. Our general approach to economic policy, as to foreign policy in general, is to emphasize the close relationship between Europe, the United States, and Japan, and the almost suicidal nature of one of these areas' attempting to achieve unilateral advantages as against the others. Even if these unilateral advantages are possible, it will be only at a cost which will eventually come back and haunt even the country that did achieve a temporary advantage.

This will be our approach to these trade negotiations and to our general relationship between Japan, the United States, and Europe.

OIL DISCUSSIONS

Senator ROTH. In your recent discussions on the oil question, with Western Europe and Japan, did the question come up as to whether those countries should become more involved in helping support the

research and development program that is going to be necessary to develop alternate sources of energy supply? Did this come up in the negotiations?

Secretary KISSINGER. With respect to energy questions?

Senator ROTH. With respect to energy, yes.

Secretary KISSINGER. Yes; part of the work of the coordinating committee will be an attempt to coordinate research and development programs and to share them.

DETERMINING DUMPING BY COMMUNIST COUNTRIES

Senator ROTH. One question I have, going back to my earlier line of questioning, is how do we determine, when we are dealing with Communist countries, whether they are dumping or not dumping what is an export subsidy, what is a nonfair trade practice? We have a number of measures, of course, in the legislation to help retaliate against such practices. But just taking the dumping case, how can a price be constructed without specific input—output data on the Soviet economy? Does the Tariff Commission have this kind of information?

Secretary KISSINGER. I can tell you how I would do it, Senator. I would turn it over to Bill Eberle.

Senator ROTH. I will refer that question later to Bill.

ACCESS TO SUPPLIES OF SCARCE MATERIALS

One final question, Mr. Secretary, and that is when you mention the problem of access to supply—which certainly is one of the more intriguing and newer type problems facing this country and the world in general—I wonder if you think the legislation is adequate in this area. I must say I have some questions in my own mind. If you are going to promote trade, how do you insure, for example, that we get a supply of oil?

It seems to me—and I do not want to take away from the credit that you justly deserve for the successes in the Middle East—but it does seem to me that those countries in the Arab world have been pretty successful in imposing in large measure their wills through this embargo. And I might say that we have the other side of the coin here at home. You are well acquainted with the problem of soybeans. How are we going to deal with this problem of access to supply?

Secretary KISSINGER. Before I answer that question let me make a comment about the Arab countries' having imposed their will on the embargo. That I would reject.

Senator FULBRIGHT. I did not hear that. Would you repeat that?

Secretary KISSINGER. The point was that the Arab countries had imposed their will about the embargo.

We have done nothing as a result of the embargo that we would not have done otherwise. What we have done is because of our conviction that progress toward peace in the Middle East is in the interest of the peoples of the Middle East and in the interest of the people of the world because of the great potential of a conflict in the Middle East drawing us in. We have moved toward a concept, and at a pace that we determine, and that can gain the approval of all of the countries in the area, including Israel, which certainly has not actually encouraged the embargo.

So, we think we understand why the Arab countries put on the embargo at a period of great emotional tension. We have said publicly that we do not believe it serves the purpose of influencing our policy, and we must maintain this position because a problem may arise with respect to other raw material supplies.

Now with respect to your basic question of access to supplies of scarce materials, that is a new problem and it is a very difficult problem which we are now studying, not only in relation to energy but in relation to bauxite and several other scarce materials. There are some provisions in the bill with respect to that. I cannot really in all candor tell you whether I think they are adequate at this point because we are still really trying to understand what can be done and what must be done.

Senator ROTH. But the latter part of the question, how can we persuade, for example, the Western democracies to depend upon us, for example, for agricultural products. What steps do you think we are going to have to take in order to give them the incentive to make the adjustments in their farm prices that they are going to have to?

Secretary KISSINGER. I think this is a very important question which we are now studying because if we are talking about the interdependence of nations, we must mean it and we must be prepared to practice it and not just apply it where it is to our benefit.

I cannot give you a conclusive answer now, but it is something to which we must try to answer.

Senator ROTH. Thank you, Mr. Secretary.

Senator FULBRIGHT. Well, the Secretary said he would stay until 1 o'clock. Does the Senator from Virginia have 2 or 3 more minutes he would like to have.

Senator BYRD. I have three or four more questions. [General laughter.]

Senator FULBRIGHT. Well, the chairman made a bargain with him. If he stayed until around 1 p.m., he would not have him back this afternoon.

Senator BYRD. But the chairman made a bargain on behalf of himself, not on behalf of the committee.

Senator FULBRIGHT. Well, go ahead.

Senator BYRD. My questions are brief and I do not want to hold you up, Mr. Secretary.

Senator FULBRIGHT. No. The Senator is recognized.

U.S. SANCTIONS AGAINST RHODESIA

Senator BYRD. Mr. Secretary, I am very much interested in this Rhodesian matter. I have never been there. I have no connection with it one way or the other. And you have testified that you feel that the action that the United States has taken is a just action, and you are entitled to your view, just as I am entitled to my view, and I feel that it is a very unprincipled action.

Now you have testified, and it is interesting to note, that the then foreign secretary of Great Britain, Douglas Hume, in an interview last December, said that while his government supports trade sanctions against Rhodesia because it had been put on by the previous Labor Government, he did not think it was the correct policy. And then he

added "We disagree with the political systems of a number of countries, for example, South Africa. But we trade with them. And by and large, we do not believe in ostracism and a boycott."

Would you care to comment on that?

Secretary KISSINGER. I agree with the general principle that he has enunciated.

Senator BYRD. And then you have testified that you do not regard Rhodesia as being a threat to world peace.

Secretary KISSINGER. That is correct.

Senator BYRD. And then you know, of course, that under the United Nations Charter action can only be taken against a country in regard to an embargo if that country is judged to be a threat to world peace.

And so my question to you is do you think the United Nations acted improperly?

Secretary KISSINGER. I had not thought that the United Nations had acted improperly, but in the light of what you have said, I would have to review the particular positions of the embargo.

Senator BYRD. Thank you.

SOUTH AFRICAN SUGAR QUOTA

Now, just, I think, two more questions. The sugar quota for South Africa will be coming up soon. I only thought about it because I received a letter today from Senator Kennedy in which he wants to eliminate the sugar quotas for South Africa because of its racial policies. And you have testified that in your judgment the racial policies of South Africa or Rhodesia—excuse me—South Africa, was no better than the racial policy of Rhodesia, I think was your testimony.

That being the case, do you feel that the sugar quotas for South Africa should or should not be eliminated?

Secretary KISSINGER. Well, I have not studied the problem of the sugar quotas for South Africa. As I have said, I have stated the basic principle here that under oath, and I would like to study the sugar quota issue more carefully.

We should gear our foreign policy actions of other countries, rather than to their domestic policies. I already indicated that there might be limiting cases where the offense to moral sense is so great that that principle cannot be maintained.

MFN STATUS FOR RUSSIA

Senator BYRD. And you feel that that is the case in Rhodesia?

Secretary KISSINGER. Well, I feel that this could be the case in Rhodesia, together with the judgment of the overwhelming majority of the United Nations.

Senator BYRD. But it is not the case in Russia because you are testifying in behalf of giving, not only not embargoing trade with Russia, but giving special concessions to Russia.

Secretary KISSINGER. I think in the case of the Soviet Union, no, I am not in favor of giving special concessions to Russia. I am in favor of putting the Soviet Union on the same status that is already enjoyed by over 100 nations.

Senator BYRD. We will use the exact term now. You favor giving the Soviet Union most-favored-nation treatment?

Secretary KISSINGER. Yes, but the phrase, most-favored-nations has a misleading impression of special treatment. Most-favored-nation treatment means nondiscriminatory treatment, and I am recommending that we put the Soviet Union on the same level as we do over 100 other nations that already have most-favored-nation status.

Senator BYRD. But do you feel that the people in the Soviet Union live under better conditions than they do in Rhodesia.

Secretary KISSINGER. It depends upon which people in Rhodesia. But in any event, I believe that the conditions, with respect to the Soviet Union, with respect to world peace, have imposed on us this special requirement that I had described earlier.

PANAMANIAN NEGOTIATIONS

Senator BYRD. I have just one more question, and I want to say, Mr. Secretary, as you know, I have a high regard for you. We met 5 years ago in the President's office, and I have had a warm regard for you ever since then for yourself and for your ability, and in presenting their question I just want to understand the issues. These are vitally important matters, and I think it pertains, the matter of Rhodesia, pertains to something that should be first considered in the context of this pending legislation.

But there is one statement that I would like to take exception to that you made, Mr. Secretary, in Panama. Now you said this in your statement to the Panamanians that you commit the United States to prompt completion of negotiations leading to the transfer of sovereignty over the Canal Zone from the United States to Panama. I just want to get clear whether you can commit the United States to negotiations leading to giving up the Panama Canal in perpetuity.

Secretary KISSINGER. I can commit the United States to the negotiations. I cannot commit the United States without ratification by the Congress to the result.

Senator BYRD. That is why I thought that it was unfortunate to use the word commit. I think that might be misleading.

Secretary KISSINGER. I do not have the text in front of me, Senator.

The intent was to commit the United States to prompt negotiations leading to a result that had already been agreed to in these principles. There was no additional commitment involved except to the prompt negotiation.

Senator BYRD. Leading to the transfer of sovereignty.

Secretary KISSINGER. To negotiations leading to the transfer of sovereignty. This was part of the eight principles that were signed.

Senator BYRD. This has not been agreed to by the Congress.

Secretary KISSINGER. But of course the Congress will have an opportunity to reject it. The commitment obviously extends only to prompt negotiations and to the content of what we will submit to the Congress. I cannot commit the Congress to approve it.

Senator BYRD. Well, I hope the Panamanians understand that.

Thank you, Mr. Secretary.

Senator FULBRIGHT. Well, Mr. Secretary, I think this has been a very significant meeting, and I hope it will be brought to the attention of all of our people, as well as the Congress, and I think it is

very important that our people understand thoroughly how important to the future of our country is the success of your policy.

These hearings on this trade bill will be adjourned subject to the call of the Chair, and we are very grateful to you, Mr. Secretary, for your testimony this morning.

Senator BYRD. Mr. Chairman, the committee has several questions to submit for the record.

Senator FULBRIGHT. Well, it was understood that members who have questions may submit them to the Secretary to be answered at his leisure.*

The committee is adjourned.

[Whereupon, at 1:05 p.m., the committee adjourned, subject to the call of the Chair.]

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*See opposite page.

Appendix A

Questions Submitted in Writing to the Administration Witnesses, With Their Responses

Hon. George P. Shultz, Secretary of the Treasury

Question 1. Can we afford to regard oil and gas as free trade commodities? Don't we need a variable levy of our own to protect domestic energy investment? Would you comment on a fixed tariff with a rebate of some portion of the duty to those importers which increase domestic crude and refining capacity or investments by certain percentages over a base period? What approach would you favor—a variable tariff or a fixed tariff with a rebate? Can you supply us with some details as to how the approach you favor might be technically drawn?

Answer. Oil and gas clearly cannot be regarded as free trade commodities in the traditional sense. There is a distinct geographic concentration of reserves due to geological accident and there is an in-being producers cartel (OPEC). There has also been the recent demonstration of the Arab states willingness to employ the "oil weapon".

It is, however, in the interest of the United States to do whatever it can to try to make oil and gas free trade commodities as much as possible by diversifying supply sources and trying to limit the effectiveness of the cartel.

Since the cartel prices are much higher than the cost of production, they have the capability of lowering prices any time they find it to their advantage. If Project Independence is to succeed, we will have to have some means of protecting domestic energy investment against unfair and unstable price pressures from abroad. But no determination has been made as to what is the best form for this protection to take. It is entirely possible that different forms may be appropriate for the various types of domestic energy investment.

For example a variable levy, with the tariff rate based on the difference between the U.S. and foreign prices, would have the advantage of providing needed protection without having to go through the process of changing the rate each time there was a change in foreign prices.

The fixed tariff with a rebate would go beyond simple protection, and attempt to create an added incentive for increasing domestic refinery capacity and/or producing capacity. If such a measure were utilized, it would, however, have to be closely watched and revised in response to changes in the foreign price to achieve the same degree of protection as the variable tariff.

Setting a higher variable tariff rate for oil products than for crude oil would also be a possible method of encouraging domestic refinery expansion which would retain the advantages of the variable tariff.

Notwithstanding the possible suitability of a variable levy in the case of petroleum, it is not a device the use of which we would want to encourage in general, from a trade policy point of view.

No protection, of course, is needed as long as world prices are higher than U.S. prices, as is the case at present. Projects for domestic energy

production should not be pushed to the extent that a very large gap between U.S. and world prices for energy would develop. If this were done, the consumer costs and the threat to the competitiveness of U.S. industry in the world market might well outweigh any benefits from energy independence.

At this time no decision has been made as to the need and form of any of the approaches mentioned above.

Question 2. The Export-Import Bank, until recently, was making substantial financial commitments with respect to projects undertaken in the U.S.S.R., notwithstanding the fact that one House of Congress had adopted legislation which would likely have the effect of precluding such Export-Import Bank operations in Russia and notwithstanding the provision of the Export-Import Bank Act which apparently required case by case determinations of national interest by the President. What is the legal status of credits so issued?

Answer. The Export-Import Bank of the United States operates as an independent agency of the U.S. Government under the Export-Import Bank Act of 1945, as amended. That Act specifically provides that the purpose of the Bank is to aid in financing and to facilitate exports of U.S. good and services.

Sec. 2(b) (2) of that Act prohibits the Bank from financing exports to the Communist countries unless the President makes a determination that Eximbank financing is in the national interest of the United States and reports that determination to the Senate and House of Representatives within thirty days.

On October 18, 1972, the President made a determination that it was in the national interest for Eximbank to finance export transactions to the USSR. A copy of that determination is attached. The Attorney General on March 21, 1974, rendered an opinion that the President and the Bank had acted lawfully in making and following determinations of national interest on a country basis rather than a case-by-case basis. The Treasury Department fully concurs.

THE WHITE HOUSE,
Washington, October 18, 1972.

PRESIDENTIAL DETERMINATION

I hereby determine that it is in the national interest for the Export-Import Bank of the United States to guarantee, insure, extend credit and participate in the extension of credit in connection with the purchase or lease of any product or service by, for use in, or for sale or lease to the Union of Soviet Socialist Republics, in accordance with Section 2(b) (2) of the Export-Import Bank Act of 1945, as amended.

RICHARD NIXON.

As of this date, the Bank is still under Congressional mandate to finance exports when there is reasonable assurance of repayment, and Congress has not taken any action which would preclude such financing of exports to the USSR. Therefore, all credits which have been authorized to date are completely within the law.

Question 3. The House bill contains a four year discretionary authority on the use of countervailing duties during the negotiations. Won't that put an open invitation for other countries to subsidize their

exports to the hilt on the theory that the U.S. will not use its countervailing duties laws during the negotiations?

Answer. The answer would be yes only if it is assumed that the Secretary of the Treasury would not act in the best interests of the U.S.

If, as the question appears to imply, other governments were to seek to take advantage of the four-year discretionary provision by enacting new subsidy programs, or modifying existing ones to the disadvantage of the United States, they would do so at their own peril. The purpose of this temporary, discretionary provision is to strengthen, not weaken, the negotiating posture of the United States. It is envisaged that this discretionary authority would be exercised in situations where a failure to utilize it might well scuttle all possibility of eventually reaching an international agreement on subsidy practices with which the United States and its trading partners could both live. Without such authority, the United States could easily find itself trapped into a position where, because of the new requirement in H.R. 10710 that countervailing duty complaints be acted upon within 12 months, it would have to take unilateral action under the law while the negotiations are in progress, against important programs which are bound to be the subject of considerable discussion in the multilateral trade negotiations. If agreement is to be reached on the more difficult subsidy issues, it is far more likely to be through multilateral negotiation, rather than unilateral action by the United States. The latter should be a fall back authority on which we might eventually have to rely only if our trading partners reject a reasonable multilateral approach to the problem.

Question 4. Under the amendments to the Antidumping Act of 1921, the Secretary of the Treasury would be required to make his initial determination as to whether he has reason to believe that the purchase price or exporter sales price is likely to be less than the foreign market value of the produce within 6 months after the question has been presented to him. However, there would be no time limit imposed upon the Secretary of the Treasury with respect to his final determination that sales at less than fair value have been made. Why shouldn't there be a time limit placed on the final determination as well?

Answer. From the standpoint of defending U.S. industry under the Antidumping Act against unfair international pricing practices, it is the Treasury's initial determination which is crucial in the normal antidumping investigation. Under Treasury's Antidumping Regulations, which parellel in this respect the requirements of the International Anti-Dumping Code, a final decision must be made within three months after this initial determination. If Treasury's final decision (which is issued no later than three months after Treasury's initial determination) is affirmative, the Tariff Commission is directed by statute to determine within three months thereafter whether the less than fair value sales are causing injury to American industry. Although a final decision of dumping is, in the normal case, made 6 months after Treasury's initial determination that there is reasonable cause to believe or suspect that imported merchandise is being sold at less than fair value, dumping duties are normally assessed both at present and under the provisions of H.R. 10710 as of the date of the Treasury's initial determination. In short, it would serve no purpose and would not advance effective administration of the Antidumping

Act to impose a Treasury time limit on final determinations. Because it is Treasury's initial determination which is the crucial action, H.R. 10710 imposes time limits within which Treasury must make such a determination.

Question 5. The Countervailing Duties Statute, even as amended by the House bill, is a mandatory provision. The statute requires the Secretary to impose countervailing duties when he finds the existence of a bounty or grant paid or bestowed upon the manufacture, production, or export of merchandise imported to the United States. However, in many cases, the Secretary of the Treasury has refused to find the existence of a bounty or grant and refused to impose countervailing duties notwithstanding the fact that such bounties or grants were held to exist according to the reasonable judgment of reasonable men. Can you explain the somewhat scattered application of this statute? And, do you envision that its application will be radically changed after the passage of this bill?

Answer. In determining the applicability of the Countervailing Duty Law to particular foreign export assist programs, it must be recognized that we are dealing with a statute that has remained substantially unchanged since its enactment in 1897; also that Congress has enacted other legislation which can be construed to conflict with the 1897 law. Thus the intent of Congress in the administration of this law is not so clear as might appear from a cursory reading of the statutory language. Furthermore, the practices of governments, including our own, in encouraging economic development have become far more sophisticated and complex over the years. Governments today commonly employ subsidies to achieve specific economic and social goals. If the U.S. were to enforce this statute in the manner some have been advocating, foreign counteraction would be inevitable, and the resulting general increase in trade barriers would benefit no one.

The only realistic solution is through international agreement. We shall endeavor to reach such an agreement in the multilateral trade negotiations which this legislation will make possible.

Question 6. The amendments to the provisions of the Antidumping Act dealing with "purchase price" and "exporter's sales price" are aimed at tightening up the favorable treatment which has been applied with respect to value added taxes rebated on exports of products from the European Common Market. Currently such taxes, which amount to more than 20 percent in the case of certain European countries, are added back in full to the price of the merchandise. This results in a reduction or elimination of the margin of dumping on products from the Common Market. Is it envisioned that the new language in the House-passed bill would actually result in the exclusion of all or a part of the European value added taxes in determining dumping margins?

Answer. The proposed amendments to the Antidumping Act would tighten the existing guidelines for adding back rebated or remitted taxes to purchase price or exporters sales price. The proposals would allow the "adding back of such rebates or remitted taxes" if they are "imposed . . . directly upon the exported merchandise . . . but only to the extent that such taxes are added to or included in the price of such or similar merchandise when sold in the country of exportation." If it were to be determined in a particular instance that such taxes are

not directly imposed upon the merchandise or that directly imposed taxes were not included in the foreign home market prices of such or similar merchandise, they will not be added to purchase price or exporter's sales price. In such circumstances the amendment in question would tend to create or increase the size of dumping margins. Apart from such special circumstances, however, it would not result in the exclusion of the European value added taxes in determining dumping margins.

Question 7. In your statement you asserted that deficits arising from the rising costs of oil imports should not call for action to redress the trade balance. I am not sure I understand that statement. How do you anticipate the Europeans and the Japanese will react to their trade deficits caused by oil imports?

Was the floating of the French franc a defensive move?

I understand that you favor scrapping of wage and price controls as soon as possible. Isn't it true that if you maintain wage and price controls in a short supply situation you not only create bottlenecks, but also make almost inevitable export controls?

Answer. The point I was trying to make reflects the fact that some of the oil exporting countries presently have a limited capacity to absorb greatly increased imports into their economies and that for others the planning and execution of new development projects will take many months so that it is likely to be some time before their imports expand sufficiently to utilize their export revenues. To the extent that these oil producing countries do not use their export revenues to finance imports and thus run trade surpluses, it is impossible for the rest of the world, taken as a group, to avoid trade deficits. Consequently any attempt by an individual oil importing country to redress the deterioration in its trade balance would merely worsen the position of other oil importing countries in the same situation. Such actions would be likely to prompt counter-actions, setting off an escalation of trade barriers and incentives which would be self-defeating and destructive of living standards and economic activity throughout the world. The need to avoid competitive trade and payments policies was recognized in the communique issued by the C–20 at the conclusion of its Rome meeting in January. Ministers representing the European countries and Japan endorsed that undertaking.

The longer-term adjustments will involve both reductions in oil consumption through conservation and development of alternative energy supplies, and increases in exports to the oil producing countries as their economies expand and they begin to draw on past earnings to finance rising imports. In the short run, however, the deterioration in trade balances will have to be financed largely through the capital account.

France's decision to move from the joint EC float to an independent float of its currency was motivated by uncertainties affecting exchange markets as a result of the oil price increases and the impact on its reserves and economic policies. While some have expressed concern that this action was the harbinger of a competitive exchange rate policy, France's exchange market policies do not provide evidence that this is the case.

I would also point out that there is a wide measure of agreement that the floating exchange rates currently employed by a number of

countries are particularly appropriate to present uncertainties and unsettled conditions.

In the negotiations for long-term monetary reform, the U.S. has long advocated that countries have the option to float their currencies in particular situations. Obviously countries must follow internationally responsible policies whether they employ a par value or floating exchange rate.

It is of course true that domestic price controls can increase the attractiveness of the export market where prices are uncontrolled. The longer price controls are in effect, the greater the danger that necessary supplies will be diverted from the domestic market to foreign markets. Nonetheless, the need for export controls due to price stabilization programs will depend on the duration of the program and the way it is administered. If the United States adopted a permanent policy of price controls irrespective of foreign price levels, parallel export controls would be required.

Question 8. The authority delegated to the President to deal with balance of payments difficulties is extremely broad and does not appear to be adequately defined. Thus, all the President would have to do is to say the United States was experiencing large and serious balance of payments and deficits, and then he could impose a 15 percent duty on most articles imported in the United States. Likewise, the President could reduce all imported duties by 5 percent ad valorem simply by declaring that the United States was experiencing a large balance of payments surplus. If you have flexible exchange rates why is such a broad authority needed? And if so, should there not be a hearing for those U.S. interests which might be adversely affected by such actions?

Answer. Ample safeguards have been incorporated into the balance-of-payments authority. As indicated by the Committee on Ways & Means report on the bill, the circumstances under which the authority could be invoked are carefully circumscribed and effectively provide that action would be taken only in exceptional, and thus infrequent, situations. The scope of the action that may be taken has also been fixed and the duration limited unless Congress acted to extend it.

A primary U.S. objective in the monetary reform negotiations has been a system which avoids the prolonged and excessive payments imbalances which led countries to use trade measures in the past. While more flexible exchange rates will make a positive contribution to achieving such a system, they do not eliminate the need for the balance-of-payments authority that is being requested. The availability of trade measures as part of a cooperative multilateral effort could provide a useful and effective incentive to ensure that needed adjustment action is taken promptly and effectively and in conformance with agreed rules. Should alternative adjustment measures, including exchange rate action, by unavailable or inappropriate, trade measures could provide a necessary safety net, albeit as a least preferred alternative. And in rare instances, trade measures may complement exchange rate action, e.g., to moderate the severe pressure on reserves during the long time lags when the initial devaluation effects are perverse and the beneficial impact on trade flows remains to be felt.

Given the circumstances under which the authority could be invoked, a prior hearing would be neither feasible nor desirable. Knowledge that such trade action was contemplated could greatly exacerbate the

situation that the action was intended to ameliorate. Furthermore, provision has been made for exempting products from reduction of tariffs in the case of material injury and in other specified situations and from, for example, import restrictions when domestic supplies are short. The 150 day limit on the duration of any measures taken without specific Congressional action to a brief period makes it unnecessary to hold hearings after an action is taken, because the Congress would be likely to hold such hearings if it considered extending the action beyond the 150 days.

Question 9. As a practical matter, if trade adjustment assistance is a check for up to 52 weeks—does it really serve to return workers to productivity? Isn't the result just the opposite?

Answer. Section 234 of the TRA would require a worker to be available for reemployment although he is not required to accept the first reemployment opportunity if it is not commensurate with his previous employment. The purpose of the adjustment assistance program is to help the worker find such productive reemployment, the weekly trade adjustment assistance allowance being designed to prevent undue hardship to the worker during this effort. Cash allowances to workers under the current program have been for the most part retroactive, that is received by workers whose separations occurred more than a year before certification. To be effective, adjustment assistance must be provided soon after dislocation occurs. This has been difficult because of delays built into the current program. A significant time lag occurs between worker separation and the initiation of the petition process and Tariff Commission investigation to determine injury. The stringent eligibility requirements and inadequate provision of benefits are additional shortcomings of the current program.

The new adjustment assistance program has been designed to overcome past shortcomings. Under the new program workers would not receive more than several weeks payments on a retroactive basis because the new program has been designed to overcome this past shortcoming. For example, the certification will only cover workers separated twelve months from the date of receipt of the worker petition by the Secretary of Labor. Improved early warning techniques will enable us to identify trade-related dislocations at a very early stage, thereby assuring workers ample opportunity to file petitions for adjustment assistance. Unlike the existing adjustment assistance program, which has not been able to achieve the adjustment objective, the new program has been designed to achieve the adjustment goal of returning workers to productive employment. The trade-displaced worker will be eligible to receive job search and relocation allowances to encourage him to seek jobs elsewhere if none are available in the immediate area. A modest decrease in the payment levels after the first 26 weeks will also assist in motivating workers to broaden their job search efforts.

In addition to counseling, testing, and placement services similar to those provided under the current law, the new program provides that the Secretary of Labor shall make every effort to secure supportive and other services to assist trade-displaced workers in their adjustment. These services shall include, to the extent provided in Federal law, work orientation, basic education, communication skills, employment skills, minor health services, and other services which are

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necessary to prepare a worker for full employment in accordance with his capabilities and employment opportunities.

Finally, because of the new program's procedure with respect to the petitioning process, determination and certification of injury and the improved delivery system, adjustment assistance would be provided to trade displaced workers in time of need thus facilitating rapid adjustment to productive employment.

Question 10. Some people argue that it makes little sense to distinguish between workers unemployed because of trade concessions and workers unemployed by reason of other decisions of their government—say the closing of a military base or the decision not to build an SST. My question to you is, why distinguish among workers unemployed for any legitimate reasons? The Employment Act of 1946 makes full employment the duty and responsibility of the Federal Government. When we fail in that duty, why should the victims be treated differently?

Answer. The Administration believes that the Federal-State unemployment compensation system, which addresses the fact of unemployment rather than its cause, is generally best suited to alleviate problems of worker displacement. In April 1973 the Administration proposed that the general unemployment compensation approach also be applied to trade-displaced workers. However, the House of Representatives decided to introduce a special adjustment assistance program for trade-impacted workers into the Trade Reform Act in line with the similar concept under present law. The Administration accepts that decision at this time.

In the Trade Expansion Act of 1962, Congress determined that it would be equitable to provide assistance to trade-displaced workers since their displacement is due to a government policy that benefits the country as a whole. Trade-displaced workers may be distinguished from workers who lose their jobs as a result of domestic competition because the latter usually can find alternative employment in more competitive firms in the same industry whereas the demand for skills of trade-displaced workers tends to decrease as a consequence of foreign competition.

Trade-caused layoffs also tend to be permanent and concentrated in localities lacking an adequate industrial base to provide sufficient growth in alternative employment. The special benefits of job search and relocation allowances will more effectively aid trade-displaced workers in the readjustment process. Trade adjustment assistance is designed to make it possible for workers displaced by trade to take advantage of the new job distribution and thereby promotes the objective of productive reemployment. In the long run if adequate Federal unemployment insurance standards are provided, such distinctions may not be warranted.

Question 11. A common criticism of trade adjustment assistance is that it is too little, but more importantly, it is too late. Why hasn't there been a more serious effort to devise an effective early warning system which would locate workers and assist them before the damage was done?

Answer. Efforts to develop an early warning system were undertaken soon after the Trade Adjustment Assistance program became effective in 1962. These efforts had little effect because workers seeking

adjustment assistance could not meet the requirements of the law and were turned down. This early experience discouraged workers from seeking assistance.

Later efforts foundered on the drawn out petitioning process that sometimes resulted in delays of over 1 year once a petition was filed with the Tariff Commission.

It was determined that before an effective early warning system could be implemented, basic changes would have to be made in the legal requirements of the program to minimize procedural delays involving injury determination and benefit delivery to workers. H.R. 10710 makes those changes and we believe we have the makings of an effective early warning system that will enable the delivery of adjustment assistance benefits when such benefits are most needed. The Secretary of Labor must issue a certification of eligibility to apply for adjustment assistance within 60 days after the filing of a petition by a group of workers. Workers must file a petition not later than 12 months prior to their layoff. Workers laid off more than a year before the cutoff date would not be eligible for adjustment assistance.

Question 12. The President is also given unlimited authority to lower duties and reduce import restrictions whenever he determines that the supply of any articles are inadequate to meet domestic demand at reasonable prices. This is an extremely vague standard by which to govern an extremely broad grant of authority to the President. The President could only affect 30 percent of total imports at any one time under this authority. And, if one excludes those articles which are duty-free and not subject to any other import restrictions, this 30 percent figure would actually be much higher. Can you give us a list of articles to which this provision might apply today? Is this authority really needed and should it not be made subject to clearer standards?

Answer. The short supply authority, which is contained in the amendment the Administration has offered to sec. 123 is not unlimited. The exercise of this authority is carefully circumscribed by a number of specific limitations. First, the action is limited to a maximum duration of one year unless extended by an Act of Congress. This length of time is necessary in order for any suspension or reduction to have any real effect. Suspensions or reductions of tariffs or other import restraints for shorter periods would not permit businessmen enough time to react. Furthermore, the one year period is necessary to evaluate the effect of the suspension of duties or increase of imports under a quota before Congress must act to preserve the duty suspension or quota liberalization.

Secondly, actions at any one time cannot apply to more than 30 percent of the estimated total of U.S. imports. Specific exemptions are provided for any article subject to 1) import restraints under section 22 of the Agricultural Adjustment Act, 2) subject to import relief measures, or 3) subject to national security actions. Moreover, articles will be excluded if, in the President's judgment, such suspension or reduction of tariffs or other import restrictions would cause or contribute to material injury to firms or workers in the domestic industry, impair the national security or otherwise be contrary to the national interest. Finally, the President must promptly notify both Houses of Congress of his action and the reasons for it.

With respect to your request for a list of articles to which this provision might apply, we have in mind situations similar to those for which temporary duty suspensions have been deemed necessary, such as, primary and scrap aluminum, refined and scrap copper, and ferrous scrap. In every case a determination would have to be made that supplies of the article were inadequate to meet domestic demand at reasonable prices and that the suspension or reduction of import restrictions would not cause or contribute to material injury to domestic firms or workers, impair the national security or otherwise be contrary to the national interest.

With these very large restraints, I believe this authority will permit the President to take swift action to benefit consumers and U.S. producers without taking away the sales or jobs of any American citizens. In view of the present prevalence of tight supply-demand situations and record price levels in many of the major internationally traded basic raw materials and foodstuffs, we believe, as do many member of Congress, that such authority is necessary.

The Administration has generally opposed legislatively-enacted criteria because it is almost impossible to devise criteria that would apply equally well and equitably to all situations. In addition, such criteria would limit the administrative flexibility necessary to assure that the actions are taken only when needed to meet the goals of the short supply authority.

Question 13. The President's authority to reduce duties in order to restrain inflation is limited to periods of 150 days, unless extended by an act of Congress. However, what is to stop the President from "turning over" inflation actions by reducing duties with respect to new items immediately following the termination of duty reductions on articles covered under prior proclamations?

Answer. The purpose of section 123 as presently drafted is to provide an effective additional tool, through temporary reductions of import barriers, to ensure adequate supplies to meet domestic demand at reasonable prices for the consumer. The approach of section 123 is microeconomic not macroeconomic, that is to authorize action with respect to particular articles. The authority does enable the President to reduce duties for up to 150 days on new items covering no more than 30 percent of estimated total U.S. imports following termination of duty reductions on other items covered by a prior proclamation within the same or a previous year. It would be sound economic policy to reduce temporarily import barriers on other articles in a subsequent proclamation which are, in fact, in short supply as a partial relief measure for American consumers.

However, such actions must be during a period of sustained or rapid price increases following a Presidential determination that the articles involved are in short supply in relation to domestic demand at reasonable prices. It should be noted that such actions cannot apply to articles for which it would cause or contribute to material injury to firms or workers in the domestic industry or impair the national security. Articles subject to section 22 import relief, or national security actions are also exempt. The President must also report his actions and the reasons for them to the Congress, which must take positive action to extend any reductions beyond 150 days.

It should be noted that the Administration had suggested amending section 123 to deal more adequately to short supply situations, as reflected in Ambassador Eberle's testimony submitted for the Senate record.

Hon. Frederick B. Dent, Secretary of Commerce

Question 1. Why was trade adjustment assistance for firms not proposed in the Administration's original trade bill, H.R. 6767?

Answer. It was originally felt that the easier access to escape clause relief in the Trade Reform Act would be sufficient to overcome problems of American manufacturers arising from import competition. Further, the experience with adjustment assistance under the Trade Expansion Act was generally unsatisfactory because injury criteria were so formidable that proving eligibility was long drawn out and costly, and assistance was not provided in time to be fully effective.

The Administration now feels, however, that the program provided in the draft bill passed by the House removes the major obstacles to effective adjustment assistance for firms, and we in the Department of Commerce will do our utmost to make it work efficiently.

Question 2. What was the experience under the Trade Expansion Act of tax relief adjustment assistance for firms? Instead of eliminating tax relief adjustment assistance, has the Administration considered expanding it—for example, in the form of an increased investment tax credit for affected firms or for investment in heavily impacted communities?

Answer. Under the Trade Expansion Act only 5 firms qualified for and received tax assistance through additional refunds, and all employed the funds for working capital needs. In the case of three firms, no additional financial assistance was provided.

Investment tax credits, like accelerated depreciation, are beneficial only when a company is generating profits, and our experience under the Trade Expansion Act is that profitable companies generally do not qualify for adjustment assistance. Consequently, the Administration does not believe that investment tax credits would meet the needs of the program.

Question 3. Did the Administration consider making certain forms of adjustment assistance available to impacted communities, as well as workers and firms? Why wasn't such a provision included?

Answer. While the Administration considered extending trade adjustment assistance to impacted communities, the idea was rejected for reasons of budgetary cost and overlapping with assistance to impacted communities provided by the Economic Development Administration (EDA) in the Department of Commerce. Because EDA responds to community unemployment or underemployment, it deals with the effect of an adverse impact on a community no matter what the cause. In addition, the Administration's proposed Economic Adjustment Act (S. 3041, H.R. 12942) can be used to assist in solving the problem and I recommend the proposal to your attention.

Question 4. Why not provide adjustment assistance for workers and firms affected by foreign country trade restrictions as well as those affected by trade concessions? Isn't the principle the same?

Answer. While the principle may be similar, in practice it would be most difficult to link adjustment assistance to foreign trade restrictions. Evaluating the effect of our tariff concessions on domestic firms under the Trade Expansion Act is no easy job in itself, and to attempt to delineate and evaluate the effect of overseas restrictions on our trade—some very subtle in their application—would seem to us to pose almost insurmountable problems.

Question 5. Under the House bill, direct loans or loan guarantees could not be provided to a firm unless the firm demonstrated that it did not have reasonable access to capital from the private sector. Yet at the same time, no loans or guarantees could be provided unless there was reasonable assurance of repayment. How could you determine there was reasonable assurance of repayment on any loan to a firm if the private sector (banks) did not see fit to loan any money to the firm? In other words, how can a firm be "bankable" and "nonbankable" at the same time?

Answer. "Reasonable assurance of repayment" is not judged uniformly among all lending institutions. For example, a mortgage lender looks to collateral as well as earnings for assurance of repayment and can lend at a relatively low interest rate. A factoring concern does not have the same degree of repayment assurance, but judges "reasonable" in the light of the high interest rates it charges.

Under the Trade Expansion Act, the Office of Trade Adjustment Assistance in Commerce judges assurance of repayment in terms of program goals. Under the statute the firm must look first to the private sector and other government agencies for assistance. OTAA can provide funds only to cover any shortfall.

Question 6. Firms would not be certified as eligible to receive adjustment assistance unless sales or production had decreased and a significant number of workers had become separated. Why should worker criteria be added to the standards for certification for firm adjustment assistance? And conversely, why should firm criteria be relevant in determining whether workers should be certified under Section 222 of H.R. 10710?

Answer. Admittedly, the twin criteria of actual or threatened unemployment or underemployment of the workers and a decline in sales or production of the firm apply both to firm and worker eligibility. Unlike the second criterion for firm applicants, however, worker applicants may also qualify if the subdivision of the firm in which they are or were employed shows a decline in sales or production. It seems to the Department that in the face of significant import penetration both criteria would be present. It does not appear unreasonable, therefore, to require that both elements be present in order to make a finding of eligibility. Further, to require both criteria in cases of worker and firm eligibility will work in the direction of greater discipline and consistency in the administration of the program by the Department of Commerce and the Department of Labor.

Hon. Peter J. Brennan, Secretary of Labor

Question 1. Just last month the Administration sent to Congress a legislative proposal for a new "special unemployment compensation act" which would provide additional unemployment benefits in areas

of high unemployment. You proposed this measure as an alternative to the proposal in the energy bill which would target its benefits specifically to workers displaced because of governmental actions.

Why should special unemployment benefits be based on a direct causal linkage between government policy and individual unemployment in the trade area but not in the energy area?

Answer. The Administration believes that, as a general rule, the Federal-State unemployment compensation system is best suited to cushion the effect on workers and the economy of shifts and dislocations in the demand for workers. The system responds to the fact of unemployment, rather than to the cause. Exceptional situations can sometimes be met without doing violence to this basic approach, as was done in the Administration's special compensation proposal which temporarily provides increases in duration and coverage.

It will be recalled that in April 1973 the Administration proposed a general unemployment compensation approach for trade affected workers as well as workers affected for other reasons. The House of Representatives decided against this general approach in the trade bill, and introduced the special adjustment assistance program for import caused unemployment, following the precedent of the 1962 Trade Expansion Act. The Administration accepts that judgment at this time, partly because the trade adjustment assistance program, introduced in the Trade Expansion Act of 1962, and in H.R. 10710, is a narrowly focused response to job displacements imposed on specific groups of workers by government trade decisions that benefit the entire country. When government moves to secure the benefit of expanded trade, it is appropriate for government to provide special benefits for those who are displaced. In this much more limited area, it is possible to set workable criteria and for the Secretary of Labor to apply such tests equitably to the groups that apply.

Unfortunately many trade-caused layoffs are localized. In those cases where a firm, or an industry, closes as a result of import competition, many displaced workers cannot expect to be rehired by the old employers after a brief spell of unemployment and must move into new occupations. When the adversely affected firm is concentrated geographically, workers must turn to new localities and different industries to find jobs. In such circumstances a special benefit program is useful.

The proposals that have been put forth for linking increased compensation solely to job losses caused by energy shortages and related government actions are inherently unworkable. Such a program would generate a massive flow of applications, since the suggested criteria—which have varied in different versions of the proposal—are such vague and undefined economic concepts that they might conceivably apply to almost any job displacement occurring during a time of energy shortage. State unemployment compensation offices would have to make individual determinations as to cause of unemployment in each case. They are not equipped to undertake such complex economic judgments, with such inadequate standards to apply. The inevitable result would be wide variations in application: A program both inequitable and inefficient.

Question 2. Can you tell me why there is a time limit on the certification of eligibility for a worker to get adjustment assistance but no

time limit between the time he files his application for assistance to the time he actually gets his allowances. I refer you to the charts on Pages 40 and 41 of the staff bluebook. There is a 60-day limit on the procedures described on Page 40 but no limit on the procedures described on Page 41.

Answer. Under the procedures described on Page 40 of the staff bluebook, the Secretary of Labor must make an investigation and reach economic conclusions (see § 222, H.R. 10710) before certifying a group of workers eligible to apply for assistance. H.R. 10710 simplifies this task as compared with the Trade Adjustment Act of 1962, and the 60-day limit formalizes the requirement that it be concluded speedily. The procedures for determining eligibility of an individual within the group certified by the Secretary are carried out by State unemployment insurance offices, applying simple factual criteria (see § 231, H.R. 10710). Precisely to avoid delay in this determination, H.R. 10710 makes these criteria similar to criteria the same workers must meet for State unemployment insurance payments. Workers now receive unemployment insurance checks promptly—allowing for variations of State law, usually in the neighborhood of two weeks after making application. We would expect a similar schedule to prevail for trade displaced workers.

Question 3. On Page 5 of your prepared statement, you indicated that regular unemployment insurance programs are designed to deal with displacement from "normal seasonal or cyclical factors, or of shifts in technology or of domestic competition."

Could you explain in just what ways these regular unemployment programs are inappropriate for meeting displacement caused by nondomestic competition?

Answer. For many workers increased domestic competition has meant more or better job opportunities. Workers displaced by domestic competition have used regular unemployment programs to maintain themselves for short periods of time while they search for other employment opportunities. Since domestic competition rarely involves large-scale elimination of job opportunities in an industry, it is normal for workers displaced from one domestic firm having competitive difficulties to obtain employment in another more competitive firm in the same industry.

Workers displaced by import competition are often in industries of diminishing employment opportunities precisely because imports are supplying larger shares of the domestic market and causing problems for both competitive and less competitive domestic manufacturers. The latter may not be able to maintain employment levels, and workers laid off by the less competitive firms tend to have more difficulty finding alternative employment with the more competitive domestic producers.

Import-caused layoffs are often of longer duration and jobs available in other industries infrequently utilize the special skills of the import impacted worker. Many import impacted workers are older, more specialized, and less mobile than other workers. These characteristics make them less attractive prospects to employers in other industries.

It is because of the lack of demand for their specialized skills and their lack of mobility that special adjustment assistance for trade displaced workers has been designed.

Hon. Earl L. Butz, Secretary of Agriculture

Question 1. The agricultural community has always appeared to me to be schizophrenic on foreign trade. We have had witnesses from agriculture come in and tell us that they want to eliminate any protection in the manufacturing sector but at the same time tighten up on dairy import quotas when dairy imports were less than 2 percent of domestic consumption. Agriculture has been protected by price subsidies, import quotas and export subsidies for years so it's somewhat hypocritical for them to sing the praises of free trade. Now, if protection is good enough for the American farmer, why is it so bad for the American factory worker? If it's not good for the farmer then why do we have so many subsidies and quotas in agriculture for so many years?

Answer. To the extent that import quotas and export subsidies exist in American agriculture, they are primarily means to ensure the effective administration of domestic farm programs designed to give the American farmer a fair return compared to workers in the rest of the economy. The objective of Section 22 quotas, for instance, is to prevent imported surpluses from interfering with, or threatening to render ineffective, the domestic price support programs. Their purpose is to ensure that imports do not add to domestic surpluses which the government would be required to purchase.

We have sought to achieve a market-oriented agriculture through our domestic farm programs beginning with the passage of the Agricultural Act of 1970. The Agriculture and Consumer Protection Act of 1973 took several steps further in the same direction. Except for a few crops, we are now set on a course of full production to be sold at competitive market prices. It has taken the government out of the business of making production choices for the farmer, and we think that is good. At the same time, the target and loan provisions provide assurances to the farmer that he will not be the victim of drastic declines in his income.

A basic tenet of our trade in all products should be the exchange of goods in which we have a comparative advantage. We have a strong comparative advantage in most agricultural products, and the U.S. farmer has demonstrated his ability to produce at low cost for world needs. Our objective is to free up world agricultural trade so that there is no need for quotas and subsidies on a permanent basis. We feel these are valid objectives for all sectors of our economy.

Question 2. On Page 5 of your statement, you indicated that the authority contained in this proposed bill would enable the United States to free up international agricultural trade and guarantee sufficient food supplies. Also, this authority would help us to deal with the proliferation of special trade preferences and to rationalize the maze of nontariff barriers. What actions (deeds) of the European Common Market give you any grounds for believing that these goals would be achieved through negotiations?

Answer. We believe the EC indicated its sincerity by joining the United States and other countries in the Tokyo Declaration last September in agreeing to tackle the many agricultural barriers that proliferate in the world trading system. The EC and the United States along with Japan were the initiators of efforts that began at the Smithsonian meeting in December 1971, resulting in joint declarations to

negotiate that were ultimately endorsed by the GATT membership. The Trade Negotiations Committee now making preparations in Geneva for the formal negotiations include a sub-group on agriculture. This does not mean that agriculture is being separated from industry in the negotiations—both will be considered in the context of overall reciprocity, which the EC has agreed with us should be an objective of the negotiations.

Even though there is indication that the EC will bargain hard about agricultural issues, there is disenchantment about the CAP within the EC, especially among the British and the Germans. We think EC concern about inflation, rising food prices, and supply shortages could provide the necessary incentive for them to negotiate meaningfully.

We think we will see more evidence of a constructive approach by the EC to the negotiations once the Trade Bill is passed and it becomes clear how strongly the U.S. Government as a whole is committed to them.

Question 3. Why are we the only country in the world not controlling wheat exports? The Europeans and the Canadians both have official marketing agencies which control exports. Should we also control our wheat exports?

Answer. We don't believe that our wheat should be marketed through official systems like those of Canada or the European Community. The United States has always conducted business on the basis of minimum government involvement. To set up a national marketing agency would mark a clear divergence from this position. The United States has become the world's largest exporter of grains without such devices and we believe the accumulated experience and expertise in the private sector serve us well.

We do not favor export controls on wheat because they are unnecessary. Production is the only true solution to shortages. The United States is currently pursuing that policy under current farm programs and we fully expect a record wheat crop this year. Our longer term interest is in persuading other countries to lower import barriers to our wheat and other farm commodities. This means we should be extremely cautious in taking any actions which would cast doubt on our reliability as a supplier.

Question 4. We have had a rash of shortages, price increases followed by price controls and export controls and more shortages. It is fair to say that if you control the price of domestic product below its international price, you inevitably are forced to adopt export controls?

And, is it not also true that if you control the price of chickens but not the cost of feed you end up creating an incentive for farmers to drown their baby chicks? So the lesson that I derive from all this is that our whole wage-price control system has been a failure and the best thing we could do in the Congress is to end the whole program. Do you agree?

Answer. It is not inevitable that export controls are likely to follow price controls in the circumstances described. However, such domestic controls do introduce distortions into the economy which can create pressures for export controls.

Indeed, we should have learned an important lesson from last year's experience. That lesson is that controls can create as many problems as they solve. However, a number of other factors—including weather,

worldwide inflation, and the export control practices of some foreign countries—were more responsible than price controls for the supply shortages, erratic production decisions, and gyrating prices which affected our agricultural markets in 1973.

As for the purely domestic effects of price controls, there too we have had problems where controls broke into and disrupted the food chain. I do agree that designing a foolproof price control system which would work effectively over the long term would be a virtual impossibility.

Hon. Henry A. Kissinger, Secretary of State

Question. In your testimony you stated that Title IV of H.R. 10710 may prevent extension of non-discriminatory treatment to the Soviet Union as well as "several other countries." To what other countries do you refer? Given the individual circumstances of these countries, should Congress proceed to grant MFN on a cases-by-case basis?

Answer. Title IV would authorize the extension of non-discriminatory tariff treatment under certain conditions to the products of any country which is not now eligible for such treatment. The reference to several countries other than the Soviet Union as being caught by those provisions of Title IV preventing extension of such treatment, was designed to underscore the fact that we do not intend to extend MFN treatment to all the countries in question and that we intend to negotiate the extension of non-discriminatory treatment on the merits of the individual situation in accordance with the provisions of Title IV. We believe that granting of non-discriminatory treatment on the basis of a negotiated agreement, pursuant to which concessions may be obtained which will be of value to the United States, is preferable to legislative action unilaterally granting non-discriminatory treatment to those countries.

The approach called for in the Bill, which includes a Congressional veto procedure, requires a case-by-case approach. It should thus in effect permit the Administration in cooperation with the Congress to deal with the granting of MFN on an individual basis.

If the Congress gives the President the authority requested in Title IV, we would envisage commercial negotiations with several Eastern European countries. We contemplate beginning with Romania. At appropriate stages in the development of our relations, we would consider opening such negotiations with Hungary, Czechoslovakia, and Bulgaria.

Question. Regarding the list of countries which would be specifically excluded from receiving preferential treatment under Title V of the bill: Although Czechoslovakia and Hungary would be excluded from receiving such treatment, Bulgaria and Romania become eligible for such treatment if granted most favored nation treatment under Title IV of the bill. Are these latter East European countries so economically different from Hungary and Czechoslovakia that any or all should be subject to different treatment under Title V? Furthermore, if North Korea or China were to be granted most favored nation treatment under Title V of this bill they would also be-

come eligible to receive duty-free treatment on their imports. Thus, the products of these countries could become reduced all the way from column two rates down to zero rates of duty. Cuba could also become immediately eligible for most favored nation or preferential treatment under this title. By what criteria were the countries listed in Title V specifically excluded, and have any of the issues which I have just raised with respect to certain Communist countries considered in the adoption of this list?

Answer. Czechoslovakia and Hungary are included among the 26 countries mandatorily excluded by name from possible beneficiary status under Title V because they, like the other 24, are generally recognized as being so highly developed economically as to exclude them from consideration for less developed nation designation. The fact that a country does not appear on the list set forth in paragraph 502(b) does not imply that it necessarily will be included in our list of GSP beneficiaries.

Bulgaria and Romania have requested beneficiary status under a number of the GSP arrangements of other countries. Both are designated as beneficiaries by Japan, Australia, Austria, Finland and New Zealand. The European Community extends limited beneficiary status to Romania. Neither Hungary nor Czechoslovakia have requested beneficiary status under any system currently in effect.

Under the proposals contained in Title V of the Trade Reform Act, countries will have to meet certain criteria in order to be designated. The bill provides that generalized preferences may not under any condition be extended to (a) Communist countries not eligible for most-favored-nation tariff treatment and (b) countries which grant preferential treatment to other industrialized countries unless they indicate that these "reverse preferences" will be eliminated by January 1, 1976 (at least some Communist countries may be excluded under this "reverse preference" criteria). In addition, when designating a beneficiary country, the following factors are to be considered: Whether the country has expressed a desire to be so designated; The country's level of economic development; Whether other industrialized countries extend generalized preferences to the country; and Whether the country has nationalized property of a United States citizen or corporation without the payment, of prompt, adequate and effective compensation.

As the bill is now written, the President would be able to take into account all U.S. and domestic foreign policy interests before designating any country a beneficiary. The Administration has no present intention to grant generalized preferences to any country not now receiving most-favored-nation tariff treatment. Both Houses of Congress will be notified in advance of the considerations on which the decision to designate any country is based.

Economic differences also appear sufficiently great to justify distinction. Generalized preferences benefit mainly manufactured exports and Czechoslovakia and Hungary have been more successful in exporting manufactures to the industrialized West than Romania and Bulgaria. The following table compares exports of manufactures per capita by these four countries to the member countries of the Organization of Economic Cooperation and Development (OECD). All noncommunist GSP donors are OECD member countries.

Manufactured exports to OECD countries

Country:	Dollars per capita
Czechoslovakia	$40.2
Hungary	31.9
Romania	16.3
Bulgaria	11.4

Question. This bill would give the President authority to grant China the most favored nation treatment. Furthermore, Title V allows the President to extend 10 years of duty-free treatment to China as a developing country. As you know, Chinese labor wages are very small compared to our own. Under what conditions would you favor granting most favored nation or other preferred treatment to China? Don't you see a danger for many high-labor content U.S. industries—textiles, electronics, footwear—by granting duty-free access to our markets from such countries as China? (The market disruption provisions of the bill for Communist countries are very difficult tests to meet.)

Answer. There are a number of difficulties to be overcome before the United States considers the possibility of extending MFN tariff treatment to the People's Republic of China.

The Shanghai Communique, issued at the conclusion of President Nixon's visit to the People's Republic of China on February 28, 1972, called on the United States and the PRC to "facilitate the progressive development of trade" and to develop "economic relations based on equality and mutual benefit." In this connection we began by seeking Chinese agreement on a means of settling private claims of American citizens for compensation of property taken from them by the PRC after 1949. Agreement in principle was reached in February 1973 and negotiations on details of a settlement agreement are continuing. However, we have no way of predicting when final agreement will actually be reached. We have taken the position with the Chinese that once a claims settlement agreement has been concluded we will be prepared to enter into discussions leading to the extension of MFN in return for comparable concessions by the PRC.

The People's Republic of China does not benefit from any of the existing systems of generalized tariff preferences. To our knowledge it has not requested these benefits. The Administration does not intend to use the proposed authority in Title V of the trade bill to extend preferential treatment to the PRC.

Question. This bill would give tariff preferences to "developing countries", including oil-producing nations. I for one don't believe that we should give preferential treatment to countries which embargo exports to the U.S. In fact, I don't believe they should be given "most-favored-nation" treatment in our market. Why should we give "non-discriminatory" treatment to countries which discriminate against us?

Answer. Passage of Title V as now drafted would not automatically lead to preferential treatment for the oil-producing countries or, for that matter, any country. It is true that the major oil-producing countries would not be excluded by any of the mandatory criteria in the bill. The bill, however, provides ample authority to provide or deny generalized preferences to any country if it is in the U.S. interest to do so.

Question. Why don't we bargain with the Soviet Union and request that they pay for our proprietary commodities with gold?

Answer. The USSR has in fact been using its gold to help finance imports from other countries, including the United States, by selling gold in international markets to obtain foreign exchange. In 1973 alone it is believed that the USSR sold over $1 billion in gold to finance such imports. Part of this gold was sold to licensed users in the United States.

However, U.S. exporters would be placed in a difficult position if we insisted on payment in gold for exports of proprietary goods or services rather than partially financing these sales through credits. Under such circumstances, producers in other industrialized nations would be able to offer the Soviets far more attractive terms than our own. Under present arrangements, however, our Export-Import Bank terms are competitive with those of other major exporting nations allowing American exporters a reasonable opportunity to sell in the Soviet market. If the American exporter were to insist on a cash or gold payment for an export to the USSR, the USSR could secure both the goods and satisfactory credits from these other countries and the American company would lose the export. Furthermore, since a private American person cannot hold gold, it would be illegal for an American company to trade goods for gold without a special Treasury license. It would otherwise be unrealistic to expect the USSR to sell gold to the Treasury at the official price, when the price on the free market is several times higher.

In any event, we want to see trade with the USSR develop into a normal pattern whereby countries pay for the bulk of their imports by the foreign exchange they earn through exporting. This does not mean that trade should be balanced on a bilateral basis; a trade deficit with one country can be offset by a trade surplus with another.

U.S. SENATE,
COMMITTEE ON FINANCE,
March 20, 1974.

Hon. HENRY A. KISSINGER,
Secretary of State,
Department of State,
Washington, D.C.

DEAR MR. SECRETARY: In my letter of March 15, 1974, on behalf of the Committee on Finance, I directed to you five questions with a request that you provide brief written answers for inclusion in the record of our hearings on the Trade Reform Act of 1973.

In addition, I would now like to request that you comment on the validity and significance of recent reports that the Soviet Union earlier this month broadcast programming to the Middle East urging the OAPEC nations not to lift the oil embargo against the United States. I refer to your attention the attached clipping entitled "Soviet Radio Beamed to Arabs Backs Those Favoring Oil Ban," which appeared in the New York Times on March 13, 1974, and which includes a wire service report by United Press International containing the following direct quotation from the Soviet broadcast:

"If today some Arab leaders are ready to surrender in the face of American pressure and lift the ban on oil before those demands are

fulfilled, they are taking a chance by challenging the whole Arab world and the progressive forces of the whole world, which insist on the continued use of the oil weapon."

I would appreciate receiving your comments on this matter at your earliest convenience.

With every good wish, I am

Sincerely,

RUSSELL B. LONG,
Chairman.

DEPARTMENT OF STATE,
Washington, D.C., May 1, 1974.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: The Secretary has asked me to respond to your letter requesting our comments on the validity and significance of reports that the Soviet Union had broadcast programs to the Middle East urging the oil-producing nations not to lift the oil embargo against the United States.

Soviet press and radio commentaries have supported the Arab oil embargo, although Soviet broadcasting to the West and Soviet domestic treatment have been milder in tone than Moscow radio broadcasts in Arabic. The most extreme rhetoric has appeared in the Arabic language broadcasts of Radio Peace and Progress—a facility characterized by Moscow as "unofficial." The material from which you have quoted was broadcast by Radio Peace and Progress on March 7.

Although the USSR has given public support to the Arab oil strategy, there is no evidence to suggest that it had a hand in planning or implementing the oil embargo, which was an Arab initiative undertaken by the oil-producing states themselves. Several of these, particularly Saudi Arabia, do not have diplomatic relations with the Soviet Union. Additionally, I might note, the USSR actually increased its own exports of petroleum products to the US during late 1973.

In the broader context, while we do not approve of all Soviet actions in connection with the Middle East crisis, the fact remains that the Soviet Union has demonstrated responsible behavior in the Middle East on several occasions—in working with the United States to achieve the cease-fire and to establish the Geneva Conference and in contributing to a positive atmosphere at Geneva when the Conference opened. Secretary Kissinger has indicated that we will deal with the Soviet Union in the Middle East as long as its actions contribute to the stabilization of the situation in that area.

I hope that this information has been responsive to your inquiry. However, if you have any further questions, please let us know.

Sincerely yours,

LINWOOD HOLTON,
Assistant Secretary for Congressional Relations.

Office of the Special Trade Representative for Trade Negotiations

Question 1. When the European Common Market was changed from six to nine countries, we claimed they owed us $1 billion in compensation; they offered us $130 million. When do you expect this issue will be settled?

Answer. There are various ways of assessing the trade coverage value of U.S. exports which are harmed due to the entry of the United Kingdom, Denmark, and Ireland to the EC. The EC claims that the benefit to U.S. exported products on which tariffs will be lowered by the enlargement more than offsets that of products on which tariffs will be raised to conform to the EC common tariff schedule. The U.S. has a different view and demands compensation under the provisions of Articles XXIV:6 and XXVIII of the GATT. The parties are not in agreement either as to the interpretation of the relevant GATT obligations in this case, or as to the amount or quality of "compensation" which is due. Nevertheless, the differences have been substantially narrowed during the course of the negotiations. At their meeting of April 2, 1974, the EC Council of Ministries has approved further negotiations which could lead to some additional compensation. We will know more about this in a few days. Hopefully this matter can be resolved in the near future. More than this would be inappropriate to say publicly at this time. We will be happy to give you a report as developments occur.

Question 2. Given the current international crisis facing the European Common Market, do you think it is possible to carry out long-range negotiations? How do you think the resurgence of the Labor Party in Britain—with its relatively negative Common Market bias—will affect the situation?

Answer. The Common Market has on several occasions indicated its desire for international trade negotiations. For example, the EC Council declared in December, 1971: "the Community is ready . . . to take part in overall negotiations on the basis of mutual advantage and reciprocity and requiring an effort from all the participants."

Similarly, in their "Joint Declaration" of February 1972, the Community and the United States confirmed that it was their intention "to begin, and give active support to, wide-ranging trade negotiations of GATT . . . conducted on the basis of mutual advantage and a mutual commitment involving overall reciprocity."

The Community position was confirmed at the European Summit Conference held in October 1972 by the heads of state or government of the nine EC member states. The Community subsequently gave full support to the Tokyo Declaration in September 1973 and is now an active participant in the program of preparatory work underway in Geneva.

Concerning the policy of the United Kingdom, that country has traditionally been a strong supporter of multilateral trade negotiations. The new British government, in its policy pronouncement, has emphasized the desirability of finding multilateral solutions for problems, the importance of the Atlantic relationship, and trade liberalization. I think we can count on the new government as a strong supporter for the forthcoming negotiations.

As the EC Commission indicated in a statement issued by its President on January 31, the European Community is presently facing a number of serious problems in its efforts to make further progress towards economic unity. The new Labor Government in Great Britain has increased the problems of the Community because of its announced intention, during the election campaign and earlier, to renegotiate the terms of British entry once it took office.

The nine members of the Community are making a determined effort to meet their problems cooperatively, however, and we do not at present see any likelihood that the Community would become unable to function effectively in international economic negotiations such as the multilateral trade negotiations under the GATT.

In his opening speech to the House of Commons on March 19 and at the EC Council meeting of April 1–2, new British Foreign Secretary Callaghan made it clear that Britain is not seeking a confrontation with the other member states, and will try to achieve its objectives by working within the EC institutional framework.

Question 3. (a) Can you tell us who will be the top three on the U.S. negotiation team?

(b) What prior experience do these people have in industry?

(c) What in your view is the role of representatives of private industry and agriculture in the U.S. negotiating system?

Answer. (a) The chief trade negotiator would be the President's Special Representative for Trade Negotiations, as provided under section 141 of the Trade Reform Act and as he is currently under section 241 of the Trade Expansion Act. He has two Deputies with the rank of Ambassador. These three persons will head the team for U.S. trade negotiations. At the present time, William D. Eberle is the President's Special Trade Representative and Harald B. Malmgren is one of his Deputies. The other position of Deputy is currently unfilled.

(b) With respect to prior experience in industry, Ambassador Eberle was President and then Chairman of American Standard, Inc. from 1966 until his government appointment in 1971. From 1960 to 1966, he was Vice President of the Boise Cascade Corporation. He was also formerly a director of PPG Industries and Hewlett Packard, Inc. He was a partner in the law firm of Richards, Haga and Eberle in Boise, Idaho from 1950 to 1960. He was a member of the Idaho House of Representatives from 1953 to 1963, serving as a Majority Leader in 1957, Minority Leader in 1959 and Speaker in 1961. He received an A.B. degree from Stanford University, an M.B.A. from Harvard University Graduate School of Business, and an LL.B. from Harvard Law School. Since his appointment, Ambassador Eberle has participated directly in numerous domestic and foreign trade policy issues involving specific industries and agriculture. As provided under section 135 of the Trade Reform Act, he will be the Chairman of the Advisory Committee for Trade Negotiations and has already held, in conjunction with the Secretary of Commerce, several meetings with industry representatives in the context of the industry-government liaison mechanism established in preparation for the trade negotiations.

Ambassador Malmgren, an economist, has engaged in many industry-related activities, including as an economic consultant from 1971

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to 1972, as a consultant to the President's Council on International Economic Policy, the President's Commission on International Trade and Investment Policy, and the National Association of Manufacturers. He was also a member of the Business-Industry Advisory Committee to the OECD and the Trade Policy Committee of the U.S. Chamber of Commerce. As a former Assistant Special Representative for Trade Negotiations from 1964 to 1969, he was involved in many issues relating to specific industries and to agriculture, particularly in conjunction with the Kennedy Round of trade negotiations, and led several U.S. delegations in international trade meetings.

(c) Close liaison between the government and the private sector is critical. The Administration intends to get the necessary inputs from each industry and agriculture sector. A great deal of thought has already gone into structuring the liaison program and there appears to be overwhelming support from the private sector for this effort. Besides ensuring that the negotiators are aware of the desires and concerns of various individual sectors, the liaison function will include effective communication by the negotiators back to the private sector during the trade negotiations so that the progress of the negotiations as they relate to particular industrial and agricultural interests is well understood, including the problems and counterproposals necessary in any negotiating process. The final approaches are still being discussed with the various sectors as to how best to assure our common objectives.

However, final decisions concerning the negotiations must be made by the government in pursuit of the overall objective of the Act and the national interest of the United States. Under section 135 of the Trade Reform Act, the Special Trade Representative must explain to the advisory committees and to the Congress why any particular recommendations or advice from the private sector advisory groups were not accepted. We intend for there to be a close relationship in our liaison efforts so as to obtain the understanding of the industries affected as the negotiations proceed.

Question 4. Have any studies been conducted projecting the impact of Title V on our balance of trade and payments? If so, what were the results?

Answer. In early 1973, the State Department estimated—necessarily on the basis of various assumptions—the overall effects of generalized tariff preferences (GSP) on the U.S. balance of trade. The results suggest that these effects are likely to be quite small.

The study assumed that the three major systems of generalized preferences—those of the U.S., the European Community of 6, and Japan—had been in operation throughout 1971. The product coverage of the U.S. system was assumed to be all manufactures and semi-manufactures except textiles, footwear, watches, certain steel articles, petroleum and petroleum products. The competitive need ceilings were taken into account. Potential beneficiaries most likely to be affected by our "reverse" preference condition were excluded (e.g., Spain, Greece, Turkey, Israel and Portugal). All other potentially eligible countries were assumed to benefit from our GSP for the purpose of these estimates. The study was a short-run static analysis and it did not take into account new productive facilities which might be established in beneficiary countries.

It was assumed that three things will happen when tariff reductions are granted to some but not all U.S. trading partners: (a) U.S. imports will increase overall because tariffs are lowered; (b) some imports from the beneficiary countries will displace imports from other developed countries because of the new price relationship; and (c) increased earnings by beneficiary developing countries from each of the GSPs will tend to flow to a substantial degree back to this country in payment for U.S. exports.

These effects are shown in the table below:

Overall effects of major generalized tariff preferences systems on the U.S. balance of trade

[Millions of 1971 dollars]

1. Additional U.S. Imports Due to Lowering of Tariffs	—218
2. U.S. Exports Replaced by LDC Exports Due to GSPs of Other Countries	— 38
3. Expanded U.S. Exports to Developing Countries	+205
4. Overall Effect on U.S. Balance of Trade	— 51

The benefits derived by the developing countries from generalized tariff preferences include not only the overall addition to U.S. imports (estimated above at $218 million) but also those U.S. imports from developing countries which would have come from other developed countries but for the preferences (not shown above but estimated at $206 million). In the latter case, only the source of U.S. imports not the level would shift and there would be no change in the U.S. balance of payments. The existence of the other GSPs, however, mean that some U.S. exports to Europe and Japan are being displaced by exports from the developing countries (estimated above at $38 million). When calculating the amount by which U.S. exports to developing countries can be expected to expand (estimated above at $205 million), the overall benefits in terms of increased foreign exchange earnings to developing countries—both new trade and displaced trade—from the GSPs of the EC and Japan were taken into account as well as U.S. generalized tariff preferences.

There are several additional points which should be considered when looking at these results:

Current statistics on the EC and Japanese systems of generalized tariff preferences which would be needed to update these estimates are not available. The EC promised to make such data available to the OECD later this year. We have no indication of when Japanese data will become available.

The 1971 and 1973 world-wide currency realignments probably lowered the share of manufactured exports which enter the U.S. market from developing countries and should, therefore, reduce any adverse effects of generalized tariff preferences on our balance-of-trade.

The EC has changed the base year of its GSP tariff quotas from 1968 to 1971 with the result that the ceilings limiting preferential imports from GSP beneficiaries are on the average 40 percent higher than they would have been under the old method of calculation. Thus, more LDC goods should flow to the EC increasing the amount of foreign exchange available to LDCs for purchases in preference-giving countries including the U.S.

Many developing countries face substantially higher energy costs and thus they will tend not to spend as much of their increased export

earnings in the industrialized countries. This is likely to have an adverse balance-of-trade effect on all preference-giving countries including the U.S.

There are other long-term effects which can only be considered in a qualitative way. To the extent additional investment is stimulated by generalized tariff preferences, both U.S. exports (of capital goods) and U.S. imports will increase. On the other hand, over time, as LDCs develop, the competitive need ceilings will probably trigger a return to ordinary rates of duty with increasing frequency.

While there is no way to estimate precisely the effects of these additional factors, it is likely, however, that the overall balance of trade effects of generalized tariff preferences on the U.S. will be relatively small.

Question 5. Under Title V, duty-free treatment would not be extended to the country if more than $25 million of the products were imported into the United States or if they exceeded 50 percent of the value of the today imports of such articles into the United States during any year. Does this so-called competitive need test have any meaning when one considers the number of article classifications—running into the thousands—in the Tariff Schedule of the United States? All an importer would have to do is make minor alterations in the nature of his product in order to avoid the application of the competitive need formulas in the bill. Should not the term "article," therefore, be more broadly defined or should not the Congress actually legislate a list of those articles or sectors which could receive preferential treatment under this Title in order to solve this problem?

Answer. Generalized tariff preferences (GSP) will not be granted initially or would be withdrawn subsequently with respect to only a *particular article* from only a *particular country* which supplies $25 million of that article or 50 percent of the total value of U.S. imports of that article during a calendar year. However, the competitive need test is designed for all articles designated eligible for GSP, however defined. Consequently, if an importer made minor alterations in a product to avoid application of the formula with respect to one article, such imports would count toward the ceilings applicable to the modified article.

If an article is broadly defined, then it will be easier to trigger the $25 million limit, but less likely to trigger the 50 percent of total imports criteria. Likewise, if an article is narrowly defined, it will be less likely to trigger the $25 million limit, but easier to trigger the 50 percent test. For purposes of easier administration as well as to avoid difficulties in defining articles, the House Committee on Ways and Means, as indicated in its report on H.R. 10710, thought it best to rely on the five-digit tariff line items of the U.S. Tariff Schedule, with some exceptions allowed if necessary to ensure that an article is a coherent product category.

In this connection, in the great majority of cases, it is not possible to change the five-digit classification of an article simply by making minor alterations. Efforts were made when drawing up our tariff schedule classifications to reduce such possibilities to a minimum.

The possibility of minor alterations in the nature of products would not necessarily be avoided by Congress legislating the list of articles which could receive GSP. Furthermore, as in the case of MFN tariff

reductions in the context of international trade agreements under section 101, it will be useful to have, as provided in the present bill, the advice and information provided under the prenegotiation procedures (Tariff Commission and Departmental advice, public hearings) currently applicable under Title V in order to assess the potential effects on domestic industries prior to the designation of specific articles for GSP treatment.

Question 6. Would it be possible under Title V of this bill for the United States to grant tariff preferences to China?

Answer. One of the specific conditions under Title V for designating countries as beneficiaries of generalized tariff preferences (GSP) is that the country must receive nondiscriminatory (MFN) tariff treatment from the U.S. in order to be eligible. Since the People's Republic of China (PRC) does not receive MFN treatment, it would not currently be eligible for GSP.

If the PRC were to receive MFN treatment sometime in the future, the criteria under section 502 of the bill to be taken into account in designating any beneficiary country would then also apply in determining whether to grant GSP to the PRC. These criteria include a desire by the country to be designated a beneficiary, its level of economic development, whether or not other major developed countries are extending GSP to the country, and whether or not the country has expropriated U.S. property. Countries granting "reverse" preferences to developed countries are ineligible unless they provide satisfactory assurances to eliminate such preferences before January 1, 1976. To date, the PRC has not requested beneficiary status from the U.S. and has not been granted GSP by any other donor countries.

Question 7. Why is the authority of the President to act against unreasonable actions to be taken only with respect to the particular country maintaining such foreign practices whereas the President would be required to act on an across-the-board basis against the products of all countries where the offending country was maintaining unjustifiable import restrictions which would be considered illegal and would likely be more serious than unreasonable import restrictions. In other words, if a country acted illegally with respect to the United States, the President would be required to retaliate against all countries? This does not make much sense.

Answer. Under section 301 of the Trade Reform Act as drafted, U.S. reaction against unreasonable foreign trade practices must be on a selective basis; U.S. reaction to unjustifiable foreign trade practices may be either on a selective or on a nondiscriminatory basis. There is no strong reason to differentiate between unjustifiable and unreasonable foreign trade practices for the purposes of U.S. retaliation. In both cases, it would be preferable to allow retaliation either on a nondiscriminatory or selected basis, provided that the U.S. considers and gives due weight to its international obligations. (This latter stipulation does not impose a limitation on the legal scope of the President's authority to take action in the national interest; it does, however, indicate a marked preference for action consistent with U.S. international obligations). An amendment to section 301 providing for such a solution has been proposed by the Administration and submitted to the Committee in Ambassador Eberle's testimony for the Senate record.

There are persuasive reasons for allowing the President to retaliate either on a selective or on a nondiscriminatory basis in response to both unreasonable and unjustifiable trade practices. On a nondiscriminatory basis, retaliation can be tailored to materially affect only the offending country by withdrawing or suspending concessions on articles of particular interest to such country. While this might entail a minor impact on other countries, it would greatly simplify customs administration and preserve the pattern of nondiscriminatory treatment which lies at the heart of an open world trading system. Moreover, authority for retaliatory action under U.S. international obligations may, in certain cases, require nondiscriminatory withdrawals or suspension. On the other hand, in certain cases, effective retaliation might require action limited to the offending country. The authority to fit the U.S. response to the particular case should be available.

It should be pointed out that the question posed misstates the effect of the present section 301(b) of the Trade Reform Act. Contrary to the implication in the question, in response to an unjustifiable foreign trade practice, the President is not *required* to act on a nondiscriminatory basis, but *may* do so.

Question 8. Section 124 of the bill would give the President authority to negotiate and implement duty reductions in order to compensate countries whose trade was adversely affected by import relief actions taken under Title II of this bill. Import relief actions under the bill could only remain in effect for five years, or for seven years if extended. However, duties reduced under this section would remain at the lower level. Should there not be a provision requiring that such duty reductions bounce back up to prior levels as the import relief actions are phased out and/or terminated?

Answer. There is no objection to inclusion in the Trade Reform Act of a provision requiring that any compensatory duty reductions be restored to prior levels as the import relief is phased out or terminated. Authority to restore prior duty levels would exist under the termination authority of section 126 of the bill, however, but is not mandatory. Some flexibility would be advisable for the following reasons:

Compensation claims can be very simple or very complex and on occasion two or more can be under negotiation at the same time. When selecting items for compensation, two criteria have been followed in the past: First, to select items which are supplied entirely or chiefly by the countries due compensation so that unrequited benefits are not bestowed on other countries; second, to select items which are not currently or in the foreseeable future subject to severe import competition.

After such items are selected, it is in the best interest to get the most mileage out of the reductions being offered as compensation. Thus, there is a need for flexibility as indicated in the following examples:

1. If the U.S. is negotiating on two separate claims which arise from two escape-clause actions of differing duration, then it would not be possible to make the maximum use of the compensation until both escape-clause actions had terminated.

2. The circumstances may be such in a compensation claim that it is difficult if not impossible to determine the amount of compensation which is owed or even claimed. On occasion such complex cases might

be settled by the granting of permanent compensatory concessions on noncontroversial items, under other authority in the statute.

3. The U.S. could transfer the compensation granted in one case as complete compensation of a new case, thereby avoiding the procedures of entering and concluding a negotiation.

Question 9. The bill would give the President broader authority to retaliate against foreign import restrictions and export subsidies than he currently has under the Trade Reform Act. Under the bill, the President could act under a nondiscriminatory treatment or otherwise. Yet, the President would also be directed to consider the relationship of actions under Section 301 to an international obligation of the United States. Does this mean that if the GATT required most-favored-nation action, the President could not act against specific countries?

Answer. Under the present law (section 252 of the Trade Expansion Act) the President must have "due regard" for international obligations in taking retaliatory action against "unreasonable" restrictions. Under section 301 of the Trade Reform Act the President must "consider" the relationship to international obligations in all cases in determining what retaliatory action to take. As the provision is currently drafted, in the case of "unjustifiable" foreign trade practices or acts, the President could act either on a most-favored-nation basis or only against imports from the offending country. In the case of "unreasonable" but not "unjustifiable" restrictions, the President must act only against the offending country.

The requirement to "consider" U.S. international obligations is not a limitation on the legal scope of the President's authority to act in the national interest. A GATT determination would not be required before the President could act, nor would the President be prohibited from acting inconsistently with such a determination and U.S. international obligations. However, to act inconsistently or in noncompliance with international obligations is a very serious matter, dictating that as a matter of practice the President would resort to inconsistent action only on a matter of important principle and in the national interest, for example, only if effective international procedures to deal with the problem are not available or after he determined that all other possible measures consistent with international obligations would be inadequate to remedy the problem.

Question 10. If the Congress is to carry out its role in shaping trade agreements and implementing language, do you think that a provision should be made for Congressional participation well in advance of the date of entry of the particular agreement? There is a provision for consultation with the Senate Committee on Finance and the House Ways and Means Committee, but there are no requirements as to the timing of such consultation or the subject matter thereof.

Answer. The Trade Reform Act contemplates Congressional participation in shaping trade agreements and their implementing language. By providing for Congressional representatives to the trade negotiations (section 161) and for consultation with both the House Committee on Ways and Means and the Senate Finance Committee before any trade agreements under section 102 is entered into (section 102(d)), the framework for a continuous and ongoing process of con-

sultation between Administration officials and the relevant Congressional committees and their staffs has been developed.

No formal time limit requirements have been included in section 102(d) because a mandatory lengthy period between consultations with the committees and entering into an agreement might unnecessarily delay negotiations. In a case where there were no substantive differences between committee views and Administration views, it would be in nobody's interest to have such a delay; where differences existed, consultations would necessarily be more involved and by operation of the consultative procedures the result might very well be a longer period between the beginning of consultations and entering into an agreement. Moreover, because of the scope of the negotiations, the Administration envisions a more or less continuous process of consultation as the various agreements are considered, which would not be easily subject to specific time limitations.

The veto procedure, when utilized for implementing a nontariff barrier agreement, also contains a requirement that at least 90 days before entering into such agreement the President must notify the House and Senate of his intention to enter into an agreement and publish a notice of such intention in the Federal Register.

Reference is also made to the answer to Question No. 11, which describes the purpose of the consultation requirement.

Question 11. There is much concern in the Congress as to the degree of authority which would be delegated to the President with respect to nontariff barrier trade agreements. Part of this concern is due to the uncertainty as to how and when the authority to negotiate nontariff barrier trade agreements would be utilized. Would you indicate the circumstances under which the President would negotiate nontariff barrier trade agreements not requiring a change in U.S. law which would, therefore, not be subject to the Congressional veto procedure under Section 102 of the bill?

Conversely, would you also indicate the type of nontariff barrier trade agreements which would require a change in U.S. law and which would be subject to the Congressional veto procedure? In this regard, are there not many U.S. nontariff barriers which could be amended simply through a change in regulations without amending the current statute? In other words, could the procedure under Title I of the bill be used in such a way as to eliminate Congressional review with respect to the reduction or elimination of U.S. important nontariff barriers negotiated thereunder?

Answer. It is contemplated that Section 102 of the bill would not change in any way the question of what authority now exists in the Executive Branch to negotiate or implement nontariff barrier agreements. If there were no bill, there would be some, albeit limited, authority to negotiate and implement NTB agreements.

To attempt to define with any degree of particularity those areas in which the President could now negotiate and implement an agreement on nontariff barriers would require an exhaustive study of existing legislation and regulation, and would undoubtedly introduce difficult legal questions. In certain cases, a reasonably straightforward identification of the type of agreement that would not require further Congressional action can be made (e.g., an agreement related to paper work requirements of customs or other areas resulting from administrative procedures). Likewise some that would require Congressional

action can be identified (e.g., international agreement on the wine gallon/proof gallon basis of assessment, on the American Selling Price system of valuation, or on standardization of marks of origin requirements). On the other hand, in many cases, the answers may only become apparent as negotiations proceed and the nature of proposed agreements becomes clear. For this very reason, a provision has been included in the Trade Reform Act requiring consultations with the House Ways and Means and the Senate Finance Committees under section 102 is entered into (Section 102(d)). As noted in the Ways and Means Committee report on H.R. 10710 (pages 22–23):

"The principal purpose of these consultations is to assess the ways in which domestic statutes or regulations would be affected by an agreement and consequently whether or not further Congressional action will be required before the agreement can be implemented."

Because, under such procedure, determination will be made upon concrete proposals, it has clear advantages over any attempt to define, in the abstract, which types of agreements may be subject to the veto procedure or other Congressional action and which may not. As a final point, it should be noted that any decision to try to implement an NTB agreement in domestic U.S. law will be subject to judicial review through normal court processes.

Thus, it can be categorically stated that the procedure under Title I of the bill *cannot* be used in any way to eliminate Congressional review with respect to the reduction or elimination of U.S. important nontariff barriers negotiated thereunder.

Question 12. What is your view of the provisions of the House bill which requires that negotiations be conducted on a sector-by-sector basis?

Answer. The Administration views on this provision are summarized on pages 37–43 of the testimony submitted by Ambassador Eberle for the Senate record. Our basic concern is that the provision or its possible interpretation, particularly with respect to the method for conducting the negotiations, could limit the scope of the negotiations and their achievement of the overall goals of the Trade Reform Act under section 2. This Administration would welcome an opportunity to discuss and work with the Committee on possible revisions.

Question 13. To what extent will other parties to the GATT be willing to engage in reformation of the rules of the agreement as contemplated by section 121 of H.R. 10710?

Answer. In a number of cases, particularly relating to conditions of trade not presently covered in GATT or relating to other nontariff barriers (e.g., government procurement, subsidies), it should be possible to work out codes or other separate supplemental understandings which would be subscribed to by key GATT countries but not necessarily the full GATT membership. Prospects are also good for developing an improved international safeguards mechanism and possibly a revised provision recognizing import surcharges as a means by which industrial countries may handle balance-of-payments deficits. However, in view of the international procedures involved and the mixed composition of GATT membership, it will be difficult to write and get ratification for changes in the provisions of the General Agreement itself. We believe it would be advisable for section 121 to be cast in flexible terms, giving guidance to our negotiations on what should be achieved as far as possible in the netgotiating situation.

Appendix B

Summary and Analysis of H.R. 10710—The Trade Reform Act of 1973

93d Congress
2d Session } COMMITTEE PRINT

SUMMARY AND ANALYSIS OF H.R. 10710— THE TRADE REFORM ACT OF 1973

COMMITTEE ON FINANCE
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

Prepared by the staff for the use of the Committee on Finance

FEBRUARY 26, 1974

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SUMMARY AND ANALYSIS OF H.R. 10710—THE TRADE REFORM ACT OF 1973

Introduction

The Trade Reform Act of 1973, passed by the House of Representatives by a vote of 272 to 140 on December 11, 1973, would delegate to the President greater tariff and trade authorities than the Congress has ever delegated before to any President. Under Article I, Section 8 of the Constitution, the Congress has the plenary constitutional authority to "lay and collect taxes, duties, imposts," etc., and to "regulate trade with foreign nations." Since 1934 Congress has periodically delegated specific and limited trade agreement authority to the President for the purpose of negotiating reciprocal tariff and trade concessions with foreign nations. The last major delegation of authority to the President to negotiate trade agreements was contained in the Trade Expansion Act of 1962.

Six long rounds of multinational negotiations have taken place in the post World War II era. Without question, these negotiations have whittled down tariff barriers to the point where, in most commodities and for most countries, tariffs are not considered to be the most significant form of protection. A comparison of tariff levels among major industrial countries is provided in Appendix A.

Since the end of the Kennedy Round the term "nontariff barrier" has been very much in vogue. A "nontariff barrier" or "distortion," as the more sophisticated experts term it, literally refers to any trade barrier or trade distorting device other than a tariff. Thus a quota would be a nontariff barrier (NTB). But the term is so broad, it can be construed to include automobile emission standards, health and safety codes, licensing and distribution systems, investment restrictions, competitive bidding procedures and restrictions, discriminatory taxes and a whole host of government or private actions which affect trade and investment. Each nation literally has thousands of practices which other nations consider "nontariff barriers." A summary of major tariff and nontariff barriers appears in Appendix B.

The Subcommittee on International Trade, following the lead of the full Committee in the stillborn Trade Act of 1970, requested the Tariff Commission to do a complete study on nontariff barriers by sector. That study is now available. It appears to be the most thorough study of its kind ever undertaken in this country.

The next round of multinational GATT negotiations are intended to attack nontariff trade barriers. Unquestionably, this is an ambitious undertaking as the negotiations are bound to get into the domestic laws and regulations of major nations which bear little or no relation to international trade. Any law or regulation which may affect trade (even though they might deal with an environmental or health

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matter) could be an object for negotiation. Thus the House bill grants authority to the President to modify U.S. laws and regulations as part of any trade agreement, subject to a congressional veto procedure.

As of this date, there seems to be little consensus among the major trading nations as to what the major nontariff barriers are or how they should be negotiated. The GATT secretariat has completed an inventory of nontariff barriers based on each member country's submission of complaints against other members. There was an attempt to categorize the complaints into five broad areas—(1) government participation in trade; (2) customs and administrative entry precedents; (3) standards; (4) specific limitations on trade; and (5) charges on imports. Each category is so broad it covers a multitude of practices deemed to be non-tariff barriers. Negotiating in sensitive areas will be slow and difficult.

The European Community still seems preoccupied with internal problems and has not shown much enthusiasm for the GATT talks. The French have suggested that the trade negotiations should await a satisfactory renegotiation of the IMF rules, a twist on the U.S. position that a change in the monetary rules would be incomplete without a change in the trading rules. Thus, the negotiations may be very slow in getting off the ground. Based on previous rounds, one can expect a long period of jockeying for positions in the inner councils of governments with the critical tradeoffs coming in the last hours of the negotiations. There was an original hope that the round may finish by 1975 but few feel this is still possible.

In the two or more years that have transpired since the Trade Reform Act was conceived by the Executive and considered, amended, and passed by the House of Representatives, the world economy has suffered severe shocks. There have been two official devaluations of the American dollar, a new international monetary system (or nonsystem) of fluctuating exchange rates and an energy crisis that threatens the economies of the western world as well as the political cohesion of the major nations.

Traditional trade problems have usually been associated with rising imports and their effect on industries, firms and jobs. Such "traditional" problems often were caused by oversupply. Current trade problems are more typically due to shortages—food and fiber, energy, metals and many others. We have moved into an era of resource scarcity and accelerated inflation—an era in which producing countries are increasingly tempted to withhold supplies for economic or political reasons. It's a totally new ball game, which was not envisaged in the planning and conception of the Trade Reform Act.

STRUCTURAL CHANGES IN WORLD ECONOMY

The U.S. and world economies have passed through several phases since the last large grant of trade negotiating authority was delegated to the Executive in the Trade Expansion Act of 1962. During the early 1960's the U.S. economy moved from stagnation to respectable growth without significant inflation. Beginning in 1965 a deep rooted inflationary trend developed which has not abated. Indeed inflation in the United States has reached unprecedented proportions in peacetime. Underlying this inflation have been the largest budget deficits since World War II. The endemic inflation led to extraordinary balance of trade and payments deficits between 1970 and 1972 which in turn created massive runs against the dollar. After the U.S. could no longer maintain a fixed parity between the dollar and gold, the fixed exchange rate structure collapsed on August 15, 1971. Several dollar devaluations have occurred since that date. By making imports more expensive and exports relatively less expensive, the dollar devaluations probably added significantly to the inflationary pressures in the economy, creating shortages of raw materials and leading to the imposition of export controls on those products for which we had the largest comparative advantage (e.g. soybeans). Unquestionably, the imposition of such controls complicates the U.S. negotiating position in the forthcoming round of trade negotiations. While the last returns on the effects of the dollar devaluations are not yet in, there are some signs that the U.S. trade performance is improving. In 1973, U.S. exports buoyed by large agricultural sales reached $70.8 billion while U.S. imports (f.o.b.) were $69.1 billion. Since the second quarter of 1973, the dollar has gained strength in the foreign exchange market in relation to the yen, the deutche mark, the French franc, and the British pound. It is now valued at close to the parities established at the Smithsonian agreement. A historical statistical overview of the U.S. trade and balance of payments performance is provided in another staff briefing document.

As the U.S. economy underwent significant internal changes during the 1960's and early 1970's, the U.S. economic position in the world economy declined vis-a-vis Western Europe and Japan. The European Community, born in 1958 under the Treaty of Rome, has become the world's most important trading bloc, with exports and imports exceeding $300 billion. The Community's share of world GNP, world trade and world reserve assets has grown markedly since the 1960's and this trend has accelerated in the 1970's.

Japan's growth on all fronts has even outstripped that of the European Community. Real growth in Japan grew at the phenomenal rate of 10.5 percent a year for the period of 1960 through 1972, as compared with 5.0 percent in Italy, 4.5 percent in West Germany, 4.1 percent in the U.S. and 2.7 percent in the United Kingdom. In almost every international economic indicator of growth, Japan has been the leader. In terms of military or tax burden, however, Japan is at the bottom of the list. Yet the achilles heel of the Japanese economy—its overwhelming dependence on foreign oil—may rupture the record of remarkable growth of the Japanese economy. Japanese economic planners are now forecasting a real economic growth rate of only 2.5 percent for the coming year.

Less developed countries as a whole have done fairly well in terms of economic growth, and trade and balance of payments performance. Between 1960 and 1972 real economic growth in the "LDC's" averaged over the 5 percent target set for the "decade of development." By the fall of 1973, these countries had accumulated $40.6 billion in international reserve assets compared to $10 billion in 1960. Of course, these overall figures mask wide divergence in performance. Some so-called LDC's—the Arab oil producing nations—are now in effect holding the Western economies at bay through selective boycotts and massive price increases. One of the most serious and challenging facts facing the world is that at present consumption levels, world imports of petroleum will jump from $45 billion in 1973 to about $115 billion in 1974, or by about $70 billion. Oil exporting countries' revenues will increase in 1974 to nearly $100 billion or three-and-a-half times the 1973 levels. Other LDC's sitting on other important mineral resources, may be tempted to form their own producers' cartel to seek a maximum rate of return on their assets. This bill does not deal with the problem of raw material shortages, export embargoes and price gouging by producer cartels. Rather, it grants LDC's "general tariff concessions" to improve their competitive position in manufactured goods.

INTERRELATIONSHIPS: TRADE, AID, INVESTMENT, MILITARY

There is a large body of opinion in this country, as well as abroad, that trade issues cannot be divorced from monetary, energy, and investment issues which have been considered by various subcommittees of the Senate Committee on Finance. For example, "multinational corporations" are the largest and most powerful force in the international movement of goods, services, money, technology. In short, they generate national wealth. Each nation seeks to maximize the advantages of having these corporations operate within its borders and mini-

mize any dislocations created by the shifts of capital, goods and technology or the alleged disadvantages of foreign ownership and control. Such corporations are both coveted and condemned according to whether they meet the goals and rising expectations of the multiple nations in which they operate.

National conflicts have occurred and are likely to continue to occur when the multinational corporation satisfies the demands of one nation at the expense of another, or when the national policies of the sovereign nations themselves are at variance. For example, the United States forbids any of its citizens—including U.S. corporations operating from a U.S. base or a foreign subsidiary—from trading with certain nations, such as Cuba. We also have certain restrictions over the exportation of technology which is considered important for our national security. A conflict will develop when a U.S. foreign subsidiary, which may be jointly owned by a foreign person or state, has to satisfy U.S. laws and foreign laws when the laws themselves are in conflict. This is but one of the many issues raised by multinational corporations operating in a nation-state system. This document does not pretend to describe the other complex issues arising out of multinational corporations. That has been done in other documents published by the Senate Finance Committee and its subcommittees.[1] The salient point raised by H.R. 10710 is that the ground rules established as a result of a new multinational trade negotiation will determine how the players of the game will operate, and that means jobs, money flows, balances of trade and payments *et al.* for all countries.

Trade flows cannot be realistically divorced from money flows and investment. Nor can they be totally separated from military and aid burdens. Some would suggest that the assymetry between economic and trade growth on the one hand, and military and aid burdens on the other has been fundamentally responsible for the persistent structural imbalance in the world's monetary and trading system. The *net* government account deficit in the U.S. balance of payments since 1950 has been $135 billion, about equal to the growth in foreign country monetary reserve assets over this period. Thus, trade reform, monetary reform and burden sharing of aid and defense costs are interrelated issues which must be dealt with in a coordinated and comprehensive manner. The Trade Reform Act is intended to give the Executive authority to negotiate structural changes in the world trading system, which will be related to negotiated changes in the international monetary system. Presumably, there is, or will be, high-level planning within the Administration on the coordination of trade, monetary aid, investment and military goals.

[1] U.S. Senate Finance Committee, Subcommittee on International Trade, "The Multinational Corporation and the World Economy", Washington, D.C., February 26, 1973.

DIFFERING PERCEPTIONS OF U.S. AND WORLD ECONOMIC STRUCTURE

At the heart of the disagreement between the Administration and large segments of organized labor concerning the nature of trade legislation is a fundamental divergence of views as to what changes are needed in the present structure of world trade and investment.

The views of the Administration and of organized labor, respectively, are best characterized by the Trade Reform Act on the one hand and the Foreign Trade and Investment Act (Hartke-Burke) on the other.

The Administration's view, which is by and large reflected in the House bill, is that the President needs broad-scale authority in the trade field to negotiate for an "open and equitable" world economic order. This view recognizes that major structural changes have taken place in the world economy which have made existing institutions somewhat inequitable and outmoded, but is optimistic in its outlook that trade and monetary negotiations can right the inequities that exist.

Organized labor's view, as reflected in the Hartke-Burke proposal, appears to be that, through the encouragement of a transfer of capital and technology by multinational corporations and through erroneous trade policies, we are responsible for the structural distortions in the world economy as well as for our own domestic employment and inflation problems. Since we are responsible for our own problems, their solutions, according to this view, lies in changes in our own trade and tax laws. Thus, this view is pessimistic in its assessment as to whether trade negotiations, without changes in U.S. laws governing trade and investment, can right inequities that exist in the world economy.

Before analyzing this bill, it may be useful to consider what the goals of a new round of trade negotiations should be.

Should it be simply another tariff cutting exercise like the Kennedy Round? If not, what should be the objectives of the new negotiation?

Has the time come to negotiate a reform of the GATT—the institutional framework for trade relations which many feel is outdated and ineffective? [2] ***If so, how should institutional reforms be negotiated?***

How should non-tariff barriers or "distortions" be dealt with in a trade negotiation? Is the sector approach to negotiations feasible?

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[2] The subject of GATT reform was discussed in a Finance Committee staff document published in December 1970, and reproduced as Appendix C.

Should the Congress grant the Executive authority to negotiate changes in U.S. law, subject only to a Congressional veto procedure?

Should there be changes in U.S. tax laws governing trade and investment? If so, what changes and how can they be brought about without placing U.S. interests at a competitive disadvantage vis-a-vis their foreign competitors?

How should the Congress provide temporary protective relief to those industries, firms and workers which are injured or threatened by rising imports? Who should decide these questions and under what criteria? Should such decisions be solely up to the discretion of the President even after a fact finding agency has determined that serious injury exists?

What constitutes "unfair" foreign trade practices and how should they be dealt with?

Should the Congress extend most favored nation treatment to goods of nonmarket economies (the new phrase for communist nations), and if so, under what conditions?

Should the United States continue to adhere to an "unconditional" most favored nation principle in the face of gross violations of that principle by other nations? Under what circumstances should deviations from this principle be permitted? How can the U.S. persuade other nations, particularly those of the EC, to eliminate discriminatory preferential trade arrangements and reverse preferences?

Should the United States provide tariff preferences to the goods of less developed countries and, if so, under what safeguards?

How should the Congress oversee these negotiations?

What role should business, labor and consumer organizations have in the negotiations?

How should the current problems of raw material shortages and export controls be dealt with in a trade negotiation?

Should there be international sanctions against countries which use their economic wealth as a political weapon against other countries?

Does the United States itself have a consistent policy in this regard?

Answers to these questions will enable members of the Committee on Finance to make their own judgments on H.R. 10710.

General Description of the Bill

TITLE I. NEGOTIATING AND OTHER AUTHORITY

A. Trade Agreement Authority (Chapter 1)

The bill would provide the President with five year authority to enter into trade agreements with foreign countries for the purpose of modifying tariffs and nontariff barriers, within specified limits and subject to Congressional veto in the case of changes in nontariff trade barriers requiring legislation.

1. Tariff Authority (Sections 101 and 103)

Section 101 would authorize the President to enter into trade agreements with foreign countries and to proclaim modifications in duties pursuant to such agreements whenever he determines that existing duties or other restrictions of any foreign country, or of the United States, are burdening and restricting U.S. foreign trade.

The President would be authorized to negotiate and proclaim *decreases* in rates of duty below the July 1973 level, within the following limitations:

If existing duties are:

(i) 5% ad valorem or below—no limitations;

(ii) between 5% and 25% ad valorem—60% reduction;

(iii) more than 25% ad valorem—75% reduction, except that no duty currently above 25% ad valorem could be reduced to rates below 10% ad valorem.

Pursuant to negotiated trade agreements, the bill would permit the President to *increase* rates of duty to a level 50% above the rates existing on July 1, 1934 (50% above the column 2 rate) or 20% ad valorem above the rate existing on July 1, 1973, whichever is higher. Section 101 would provide the President with similar but broader authority than he had under the Trade Expansion Act, where both duty increases and decreases were generally limited to 50% above 1934 rates and 50% below 1962 rates, respectively.

Staging Requirements.—Negotiated duty reductions could not be implemented at a rate exceeding the greater of 3% ad valorem or 1/15th of the total reduction per year, except that no staging would be required in cases of total reductions amounting to less than 10%. Furthermore, no reduction would take effect more than 15 years after the date of the first proclaimed duty reduction.

Negotiating Agreement Authority

1. Limits on tariff decreases

If existing duty is—	Tariff may be cut up to—
5% or less	100%
between 6 - 25%	60%
25% or more	75% (but not below 10% tariff rate)

2. Limits on tariff increases

Tariffs may be increased to the higher of—

- 150% of 1934 rates, or
- 20 percentage points above 1973 rates

Staging Requirements

Annual tariff reductions may not exceed the greater of—

- 3 percentage points in the tariff rate, or
- 1/15 of the total reduction

No staging requirement where existing tariff is reduced 10% or less

2. Authority With Respect to Nontariff Barriers (Section 102)

General Authority.—Section 102 would authorize the President, during the five-year period beginning on the date of enactment of the bill, to negotiate trade agreements with other countries providing for the reduction or elimination of nontariff barriers and other distortions of international trade. The President would be urged to achieve equivalent reductions in each product sector for manufactured goods and within the agricultural sector as a whole. The President would be required to report to the Congress on the extent to which the objective is achieved.

No specific limits would be placed upon the President's authority to negotiate modifications in nontariff barriers and, in fact, no such barriers are delineated anywhere in the bill. It is understood that, except in those areas where the President has inherent international as well as domestic authority to negotiate and implement changes in nontariff barriers without legislation, any trade agreements negotiated under this section would be submitted to Congress along with any implementing proclamations and orders. What is not clear is precisely which alleged U.S. nontariff barriers would the President feel he has authority to change without submitting any agreement to Congress. Most alleged U.S. nontariff barriers are laws or regulations drawn to implement congressional intent. Under this bill, the President could negotiate changes in these laws and regulations subject to a congressional veto procedure described below.

Conversion Authority.—It is contemplated that in most cases the nontariff barrier agreements would directly reduce or modify the nontariff barriers concerned. However, section 102 would also authorize the President to convert nontariff barriers into rates of duty which provide substantially "equivalent" tariff protection and to negotiate the reduction of these "converted" rates of duties independently from the reduction limits on staging requirements applied to tariff agreements under section 101. The Tariff Commission would be vested with the responsibility for determining the rate of duty which affords "substantially equivalent protection" to the barrier being converted.

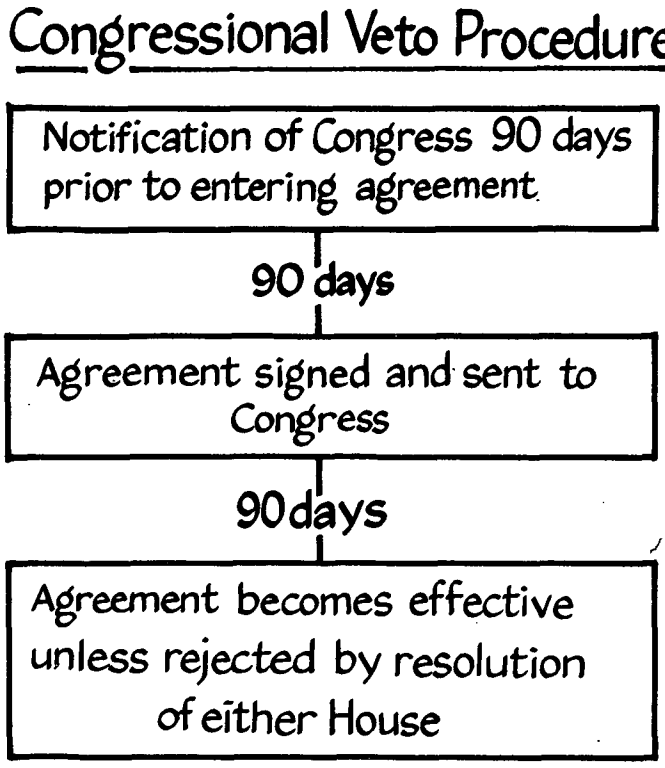
Consultation Procedures.—The President would be directed to consult with the Senate Finance Committee and the House Ways and Means Committee before entering into any trade agreement for the reduction or elimination of a nontariff barrier. According to the House report, the purpose of the consultation would be to determine whether or not legislation would be necessary to implement the reduction of the nontariff barrier. However, the bill would leave the final authority to determine whether legislation is required with the President. In cases where legislation is required or in cases where the President decides to submit the agreement before the Congress even when not required, the bill would establish a specific procedure which must be followed if such agreement and implementing orders are to take effect.

Nontariff Barriers

- Congressional intent:
  - President should take all steps to reduce or eliminate trade barriers
  - To extent feasible, balance should be sought for major product sectors within industry and mining
- Where no change in U.S. law is required (as determined by President), President could negotiate and implement nontariff trade agreement
- Where change in U.S. law is required (as determined by President), Congressional veto procedure followed

Veto Procedure.—The President would be required to submit, not less than 90 days before the day on which he enters into any such trade agreement affecting nontariff barriers, notification to the Senate and House of Representatives of his intention to enter into such an agreement. There is no requirement in the bill that the notice include a substantial description of the proposed agreement itself. After he enters into the agreement, the President would be required to deliver to the Congress for appropriate referral, a copy of the agreement, a copy of the implementing proclamations and orders with an explanation of how they would affect existing law, and a statement as to how the agreement serves the interests of the United States and why each implementing order is required to carry out the agreement.

The agreement, along with any implementing orders, would enter into full effect, with respect to U.S. domestic law as well as internationally, 90 days after submission to Congress, *unless* within the 90 day period either House adopts by an affirmative vote of the majority of those present and voting, a resolution of disapproval with respect to the agreement. Sections 151 and 152 stipulate the procedural rules according to which such resolution would be introduced and dealt with in each House of Congress. The rules would be quite strict. If the committee to which the resolution had been referred has not reported it at the end of 7 days, it could be discharged of the resolution or of any other resolution which has been referred to the committee. There would also be strict limits on debate and amendments to the resolution.



The authority to negotiate and implement agreements on nontariff barriers would be by far the greatest delegation of authority which the Congress has ever made to any President in the trade area. Although the President did have the authority to negotiate agreements on import restrictions other than duties under section 201 of the Trade Expansion Act, it was never utilized, nor intended to be utilized, to the extent contemplated under section 102 of the proposed bill. Under this section, the President could negotiate agreements with respect to any and all nonduty measures affecting trade. Such measures could include, for example: (1) ASP; (2) marking provisions; (3) standards codes; (4) wine gallon/proof gallon; (5) final list; (6) health and sanitary requirements; and (7) customs classifications, etc.

3. Other Authority—Chapter 2 (Sections 121–128)

GATT Reform (section 121).—Section 121 of the bill provides that the President would, as soon as practicable, take action necessary to bring trade agreements into conformity with principles promoting the development of an open, nondiscriminatory, and fair world economic system. Specific reference is made to reform of the General Agreement on Tariffs and Trade (GATT) in the following areas: (1) the revision of decision-making machinery; (2) the revision of the safeguard

GATT Revision and Authorization

President shall renegotiate GATT articles dealing with:

- decision-making machinery (weighted voting)
- import relief
- unfair trade practices
- international fair labor standards
- border taxes
- balance of payments measures

Authorizes appropriations for existing GATT

provision, Article XIX to take into account all forms of import restraints used in response to injurious competition; (3) extending the articles to cover matters not presently covered in order to move toward more fair trade practices; (4) the adoption of international fair labor standards; (5) revision of the GATT's treatment of direct and indirect taxes with specific reference to border tax adjustments; and (6) revision of the balance-of-payments provision of the GATT so as to sanction the use of surcharges, during periods of balance-of-payments difficulties.

Section 121(b) would authorize for the first time the appropriation of funds to pay the United States share of the expenses of the contracting parties to the GATT. There is no provision requiring annual contributions to the GATT to be submitted to Congress for its authorization and approval.

Balance-of-Payments Authority (section 122).—This section would authorize the President to impose temporary surcharges (*not exceeding 15% ad valorem*) or quotas on imports in order: (i) to deal with large and serious United States balance-of-payments deficits; (ii) to prevent imminent and significant depreciation of the dollar in foreign exchange markets, or (iii) to cooperate with other countries in correcting international balance of payments disequilibria. In the latter case, such measures could only be taken when allowed or recommended by the IMF. It is contemplated that joint actions against noncooperating countries maintaining unreasonably large or persistent surpluses would be sanctioned by the IMF in the latter cases.

Quotas would be imposed *only* where permitted pursuant to international trade or monetary agreements (e.g., Article XII of the GATT) and only to the extent that the fundamental imbalance cannot be dealt with effectively by a surcharge. In other words surcharges would have to be used first, and only if other nations agreed formally under GATT proceedings, would quotas be used for balance-of-payments purposes.

Import restricting actions would be applied on a nondiscriminatory basis (MFN), *except* where the President determines that the purpose of this section would be best served by selected action against one or more countries having large and persistent surpluses. Quotas would be applied on a basis which aims at a distribution of trade with the United States approaching that which foreign countries could have expected in the absence of such restrictions. Under section 122, the President would be urged to seek modification in international agreements providing for the use of surcharges instead of quotas as a balance-of-payments adjustments measure.

Balance of Payments Authority

1. When U.S. has large deficit:
   - Impose import surcharge of up to 15% and/or impose temporary quotas (only with IMF approval)
   - 150 day limit
2. When U.S. has large surplus:
   - Reduce duties by not more than 5 percentage points
   - Reduce or suspend other import restrictions
   - 150 day limit

Import restricting actions would also be required to be applied on a broad and uniform basis with respect to product coverage except where the President determines that certain articles or groups of articles should be exempted due to the needs of the U.S. economy. Quotas would have to permit the importation of a quantity of articles equal to that imported during the most recent period which the President determines to be representative of such imports, taking into account any increase in domestic consumption since the end of the representative period.

The bill would also authorize the President to reduce duties (by not more than 5% ad valorem) or to increase quotas on imported articles in order: (i) to deal with large and persistent United States balance of payments surpluses or (ii) to prevent significant appreciations of the dollar in foreign exchange markets. Whenever the President determines that such measures could cause injury to firms and workers in a domestic industry he would be given authority to exclude articles of commerce from actions under section 122.

Balance of payments measures implemented by the President could not remain in effect longer than a period of 150 days unless such measures were extended by an Act of Congress. The President would have the authority to suspend, modify or terminate any balance of payment measure in effect during the initial 150-day period or during any subsequent period when extended by Congress.

Section 122 would prohibit the President from using his authority to terminate trade agreement proclamations in order to impose surcharges. The President, in the proclamation imposing the 1971 surcharge, relied in part on the termination provision of the Trade Expansion Act of 1962 as authority to impose the surcharge.

Authority to Suspend Import Barriers to Restrain Inflation (section 123).—The bill would provide the President with authority to reduce duties and increase quota restrictions when he determines that supplies of articles subject to such import measures are inadequate to meet domestic demand at reasonable prices. Measures taken under this section could not affect more than 30% of United States imports during any one period. No limits on duty reductions or quota increases are provided. Provision is made to exclude the application of measures taken under this section to any articles where such action could result in injury to firms or workers or to any articles subject to proclamations under section 22 of the Agricultural Adjustment Act. (The President currently has authority under section 22 to modify import restrictions imposed thereunder, but according to standards different than those specified in section 123 of the bill.) Actions taken under this section with respect to any article could not remain in effect longer than 150 days, unless a longer period is specifically authorized by an Act of Congress. Articles subject to such action could not be made the subject of subsequent action under this act until one year has expired after the termination of the last prior action.

Anti-Inflation Authority

- Authorizes President to reduce or suspend duties and/or increase level of imports subject to quotas
- Coverage limited to 30% of U.S. imports during any 150-day period
- Excludes articles subject to sec. 22 of the Agricultural Adjustment Act (agricultural relief provision) or subject to import restrictions under national security provisions or subject to import relief actions

Compensation Authority (section 124).—The President would be authorized to enter into compensation agreements with foreign countries whose imports to the United States are restricted by import relief measures taken pursuant to section 203(b) of this bill. This authority could not be utilized until after the expiration of the five-year period provided for the negotiation of trade agreements. Nor could any rate of duty be decreased to a level lower than 30% below existing rates when such authority becomes exercisable. No provision is made for reversing compensatory duty reductions once the import relief measures—which cannot remain in effect more than 7 years—are terminated.

Countries imposing import relief measures are required under Article XIX of the GATT to offer compensation in the form of tariff concessions to countries whose exports are adversely affected by the import relief measure. Such foreign countries are authorized to take retaliatory measures of their own if the country imposing import relief measures was not able to, or did not, offer concessions to balance out any injury caused by the increase in tariff or nontariff restrictions made for the purpose of import relief.

The practical effect of section 124 is to give statutory recognition to a procedure which has existed for many years under GATT, i.e., whenever import relief is granted any industry threatened or injured by increased imports on a product bound by a negotiated agreement, the country must offer compensatory tariff reductions of roughly equivalent value to the countries whose products are affected. In other words, any action increasing duties or other import barriers on behalf of one industry might require the lowering of such barriers on products affecting other industries.

Renegotiation Authority (section 125).—This provision of the bill would provide the President with limited, "clean-up" authority to negotiate and implement trade agreements for a two-year period following the termination of the primary five-year period during which agreements may be entered into under section 101. Agreements negotiated under this section could not affect items amounting to more than 2% of United States imports in either of the two one-year periods during which it will be in effect. No duties could be decreased more than 20% under this section, nor could they be reduced to a rate lower or higher than that which could have been accomplished through the use of the maximum authority granted under section 101 of the bill.

Termination and Withdrawal Authority (section 126).—Paragraphs (a) and (b) of this provision are identical to section 255 of the Trade Expansion Act. Paragraph (a) would provide that trade agreements entered into under this Title shall be subject to termination or withdrawal upon due notice at the end of a period (not longer than three years from the date on which the agreement becomes effective) specified in the agreement. Following the end of this initial period, any such agreement shall be subject to withdrawal or termination upon not more than six months' notice. Paragraph (b) would authorize the President to terminate, in whole or in part, any proclamation made under this Title.

Paragraphs (c) and (d) of section 126 represent new law. Paragraph (c) would provide the President with authority to raise duties in order to exercise the rights or fulfill the obligations of the United States whenever it *withdraws* or *suspends* any obligation with respect to the trade of any foreign country pursuant to its rights under that trade agreement. Duties may not be increased to a level of 50 percent above 1934 duties or 20 percent ad valorem above 1973 duties, whichever is higher. It is not clear whether it is intended under the bill that the President have the authority to impose rates at any intermediate level between the concessionary level and the upper limits specified in paragraph (d).

Paragraph (d) would provide that upon the *termination* of any trade agreement, duties or other import restrictions proclaimed pursuant to that agreement shall remain in effect for a period of one year following such termination, unless the President specifically proclaims that such rates shall be restored to the level they would have reached were it not for such agreement (i.e. the statutory column 2 rate).

Within 60 days of any such termination, the President would be required to transmit to the Congress his recommendations for the establishment of new appropriate rates, which would then have to be established pursuant to legislation.

Actions taken to terminate trade agreements rates under paragraph (b) or to increase duties in connection with the exercise of United States rights under any trade agreement under paragraph (c), could only be taken after public hearings had been provided.

The withdrawal authority provided under paragraph (c) is intended to give the United States leverage to persuade contracting parties to the GATT to modify or eliminate practices which the United States felt violated our rights under this agreement.

Other Authorities Delegated to President

Compensation for import relief measures

- Authority available after 5 years
- Tariffs may be cut up to 30%
- No provision for increasing tariffs once import relief measures are terminated

Renegotiation of duties ("clean-up" authority)

- 2-year authority after 5-year trade agreement authority expires
- 20% tariff reduction permitted, subject to general trade agreement limits
- Coverage limited to 2% of U.S. imports

National security provisions

- Articles excluded from any action reducing duties or other import restrictions where such action would threaten national security
- Articles subject to national security or import relief actions excluded from negotiations, and anti-inflation and compensation actions

Termination and Withdrawal

- Trade agreements must include provision permitting termination or withdrawal within 3 years, and thereafter upon 6 months' notice
- President may at any time terminate tariff reductions proclaimed pursuant to negotiated trade agreement
- In order to exercise rights and obligations under any trade agreement, President given specific authority to suspend application of trade agreement and proclaim duty increases
- Trade agreement tariff rate may remain in effect 1 year following termination of trade agreement; President submits recommendation for new tariff rates to Congress within 60 days after termination

Nondiscriminatory Trade (section 127).—This section of the bill is essentially identical to the MFN provision contained in section 251 of the Trade Expansion Act. It would provide that, except as otherwise provided, all actions taken under Title I of the bill would have to be applied to the products of all countries, i.e., on a MFN basis. The term "nondiscriminatory" trade has been used synonymously with the term most favored nation ("MFN") treatment. The United States extends MFN treatment (i.e., column 1 or concessionary rates negotiated pursuant to trade agreements) to all of its trading partners, other than most communist countries (Poland and Yugoslavia do receive nondiscriminatory treatment). Thus, MFN treatment is presently the norm for the United States and does not constitute preferential tariff treatment. It is not, however, the norm for common markets, free trade areas and other regional trade-bloc arrangements. Specific exceptions from the nondiscriminatory treatment requirement would be provided at the discretion of the President in the bill in such areas as: nontariff barrier agreements negotiated under section 102, balance of payments measures, retaliation against unreasonable and unjustified foreign trade restrictions, and for countries which might qualify for preferential tariff treatment under Title V.

Reservation of Articles for National Security and Other Reasons (section 128).—Paragraph (a), which is equivalent to existing language in section 232 of the Trade Expansion Act, would provide that no proclamations may be made pursuant to the provisions of this Act, reducing or eliminating the duty or other import restriction on any article if the President determines that such reduction or elimination would threaten to impair national security.

Paragraph (b) of section 128 is also comparable with existing law and would provide that articles subject to national security or import restrictions shall be reserved from negotiations contemplating the reduction or elimination of any duty or other import restriction. The President is also authorized to reserve any other articles which he determines to be appropriate after taking into account information and advice made available by the Tariff Commission, Executive Departments, and through public hearings.

Paragraph (c) would require the President to submit to the Congress an annual report on section 232 of the Trade Expansion Act (import actions to safeguard national security) and to notify Congress within 60 days of the taking of any action under that section. No complaint procedure or time frame for a decision on a petition made under the national security program are provided.

4. Hearings and Advice Concerning Negotiations—Chapter 3 (Sections 131–135)

Tariff Commission Advice.—Section 131 of the bill would require the President to publish and submit to the Tariff Commission a list of articles for which duty modifications may be put into effect pursuant to his authority to negotiate trade agreements, as well as under his compensation and renegotiation authorities. Articles to be made the subject of nontariff barrier negotiations would only be submitted to the Tariff Commission where the particular NTB was to be converted into a rate of duty affording substantially equivalent tariff protection. The Tariff Commission would be required to submit to the President within 6 months its advice as to the effect of such duty modifications on the major U.S. economic sectors, including consumers. The Tariff Commission is directed to study specified foreign and domestic factors influencing the effect of duty modifications on the U.S. economic sectors and to hold public hearings. The President, *if he chooses*, could also request the Tariff Commission to investigate and report on the effects of modification of nontariff barriers (not involving conversion to rates of duty) on domestic manufacturers and purchasers.

Executive Department Advice.—Section 132 is comparable to existing law and would provide that the President shall seek advice from appropriate executive agencies and other sources before entering into any trade agreement. The Special Representative for Trade Negotiations is included in the list of agencies for the first time.

Public Hearings.—Section 133 would require the President, through public hearings, to provide an opportunity for the presentation of views by any interested parties concerning any matters relating to proposed trade negotiations or compensation agreements.

Prerequisite for Officers.—Under section 134, the President would be prohibited from entering into any trade agreement or making a compensation offer affecting duties until after he has received the Tariff Commission report under section 131 and a summary of the public hearings under section 133. These prerequisites would not apply with respect to offers in nontariff agreements not affecting duties.

Advisory Committee (Private Sector Advice).—Section 135 would provide for the establishment of various private advisory groups representing labor, industry, agriculture, consumers and the public, which are to provide policy and technical advice on the trade negotiations. Specific provision is made for the creation of an overall Advisory

Committee, appointed by the President and chaired by the Special Trade Representative, composed of not more than 45 individuals representing the Government, labor, industry, agriculture, consumer interests and "the general public". Technical advisory groups in particular sector areas would also be established upon the President's initiative or upon that of representatives of the various sectors themselves. Informal opportunities for the submission of views from any other private organizations or groups would also be provided.

5. Office of the Special Representative for Trade Negotiations—Chapter 4 (Section 141)

The bill would continue the existence of the Special Representative for Trade Negotiations, and two Deputies, all of whom would be given the rank of Ambassador. The bill would provide a statutory listing of responsibilities for the office of the Special Trade Representative, and would guarantee the existence of this office as a focal point for the planning and implementation of trade policy. It does not deal specifically with the relationship between the office of Special Trade Representative and the Council on International Economic Policy which also has statutory authority and recognition.

6. Congressional Veto Procedure—Chapter 5 (Sections 151–152)

The bill would provide rules governing the consideration of resolutions disapproving the entering into force of trade agreements on nontariff barriers negotiated pursuant to section 102. The 90-day Congressional veto procedure would also be made applicable to:

(1) the imposition of quotas and orderly marketing agreements to provide import relief (section 203),

(2) the imposition of tariff increases or quotas in response to unfair trade practices restricting U.S. exports (section 301), and

(3) the initiation or continuation of nondiscriminatory treatment to countries not currently enjoying such tariff status (section 403).

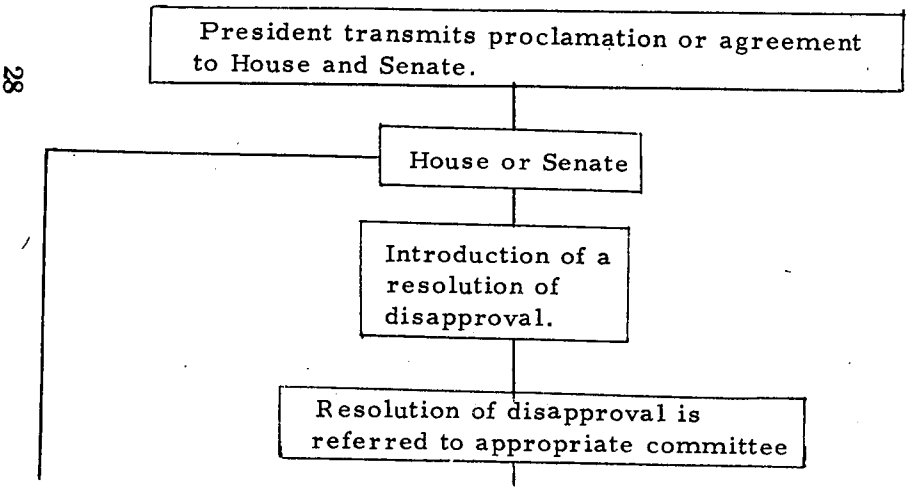
There are no Congressional overrides when the President refuses to grant any import relief after an industry has been found to be seriously injured by imports.

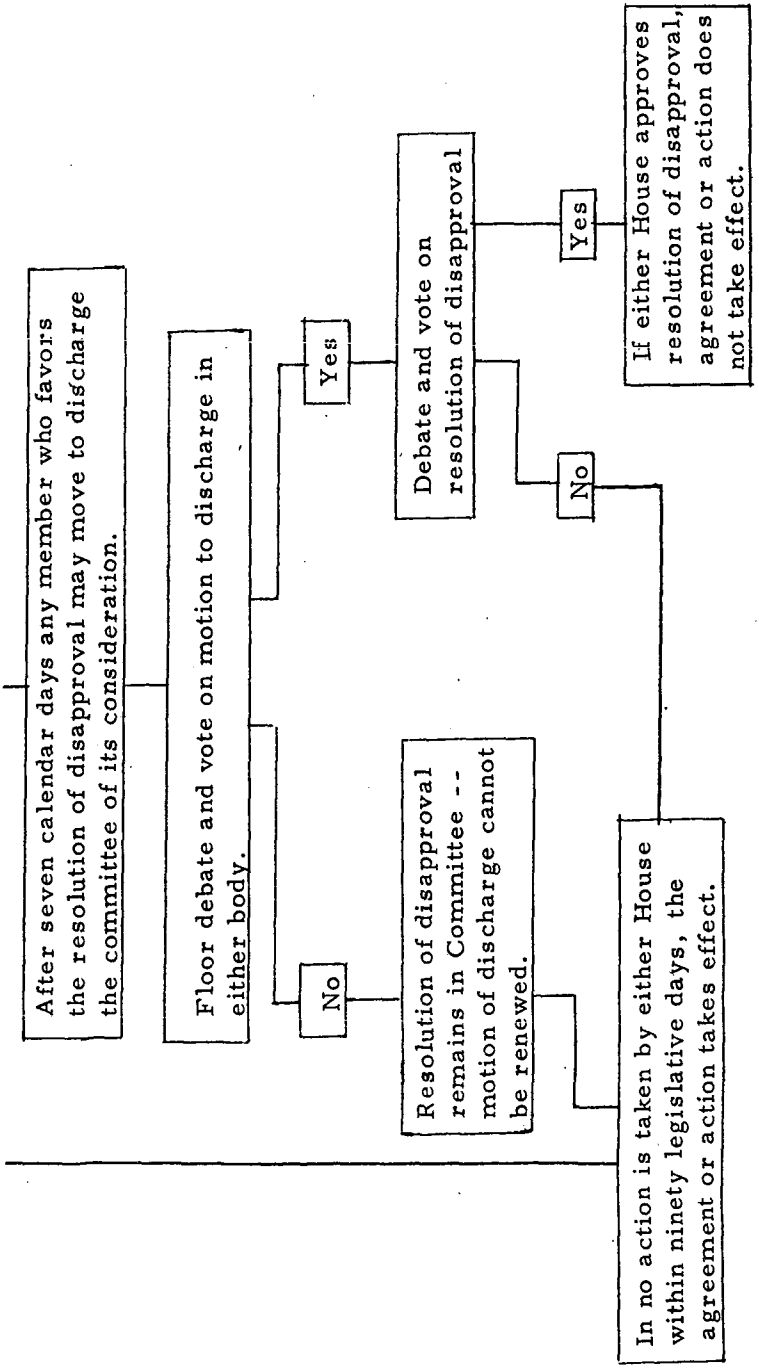
Sections 151 and 152 stipulate the procedures which would be used for Committee referral, consideration, and discharge, as well as Floor consideration of the resolutions of disapproval. The bill would put severe time limits on Committee consideration of a resolution (7 days) and on debate (10 hours), and would establish a closed rule (no amendments) on the resolutions after Committee consideration.

Congressional Veto Procedure Applies:

- to non tariff barrier trade agreement submitted to Congress
- to escape clause, quota, or orderly marketing relief
- to retaliation against unfair trade practices
- to extension or continuation of nondiscriminatory tariff treatment

CONGRESSIONAL DISAPPROVAL PROCEDURES
OPERATIONAL FLOW CHART




After seven calendar days any member who favors the resolution of disapproval may move to discharge the committee of its consideration.
Floor debate and vote on motion to discharge in either body.
Yes
No
Debate and vote on resolution of disapproval
Resolution of disapproval remains in Committee -- motion of discharge cannot be renewed.
Yes
No
If either House approves resolution of disapproval, agreement or action does not take effect.
In no action is taken by either House within ninety legislative days, the agreement or action takes effect.

7. Congressional Liaison and Reports—Chapter 6 (Sections 161–163)

Congressional Advisors.—Section 161 provide that 10 members of Congress (five members from the Finance Committee and 5 from the Ways and Means Committee) would be accredited as "official advisors" to the United States delegation to international conferences and negotiations with respect to trade agreements. The delegates would be selected by the President of the Senate and the Speaker of the House of Representatives. Since the President of the Senate is actually the Vice President of the United States, the bill would have a member of the Executive branch choosing the Senate delegates to the trade negotiations.

Delegate would be chosen to serve during each regular session of Congress, and individuals could be reselected to serve for more than one session. No provision is made for Committee staff oversight of the negotiations or their accreditation to the negotiations.

Transmission of Agreements and Reports.—Section 162 would require the President to transmit trade agreements to Congress as soon as practical after they have entered into force with respect to the United States. The President would also be required under section 163 to submit annual reports to the Congress on the Trade Agreements Program, covering essentially all major actions taken under the authority of the bill. The Tariff Commission would also continue to submit annual reports to the Congress giving a factual account of the operation of the Trade Agreements Program.

TITLE II. RELIEF FROM INJURY CAUSED BY IMPORT COMPETITION

A. Import Relief (Chapter 1)

The bill would make major changes in the import relief measures provided in the Trade Expansion Act of 1962. Under the TEA, increased imports have to be in major part the result of trade agreement concessions. Under the Trade Reform Act, no link to concessions is required. Furthermore, under the Trade Reform Act increased imports would have to be a substantial cause of serious injury or the threat thereof ("substantial cause" is defined to mean a cause which is "important" and not less than any other cause) and no longer *the major cause* (generally assumed to mean a cause greater than all other causes combined) of such injury, as currently required by the Trade Expansion Act.

1. Investigation by Tariff Commission (Section 201)

The bill parallels existing language with respect to the initiation of Tariff Commission investigations. The Tariff Commission would undertake such investigations following receipt of import relief petitions by industry and labor groups representative of an industry, or requests by the Committee on Finance or the Ways and Means Committees as well as the President, the Special Representative for Trade Negotiations (new provision) or the Tariff Commission itself. Specific economic factors would be taken into account by the Tariff Commission in making its determination as to whether increased imports are a substantial cause of serious injury or the threat of serious injury to domestic industries producing like or directly competitive articles. With respect to serious injury these factors would include:

(a) significant idling of productive facilities;

(b) inability of a significant number of firms to operate at a reasonable level of profit; *and*

(c) significant unemployment or underemployment within the industry.

Import Relief: Criteria for Finding of Injury

Current law

Tariff Commission finding within 6 months; increased imports must be the major cause of serious injury and must result in major part from tariff concessions

Trade Reform Act

Industry.—Tariff Commission finding within 6 months; increased imports must a substantial cause of serious injury (i.e. not less than any other cause)

Workers.—Secretary of Labor determination in 60 days that:

- a significant number or proportion of workers have become totally or partially separated,
- sales or production have decreased, and
- increased imports contributed to decline in sales or production and to separation of workers

Firms.—Secretary of Commerce determination in 60 days; same criteria as worker injury

With respect to the *threat* of serious injury the Commission would consider whether there has been:

(a) a decline in sales;

(b) a higher and growing in inventory; *and*

(c) a downward trend in production, profits, wages, or employment in the domestic industry conceived.

With respect to substantial cause, the Tariff Commission would take into account whether there has been:

(a) an increase in imports (either absolute or relative to domestic production); *and*

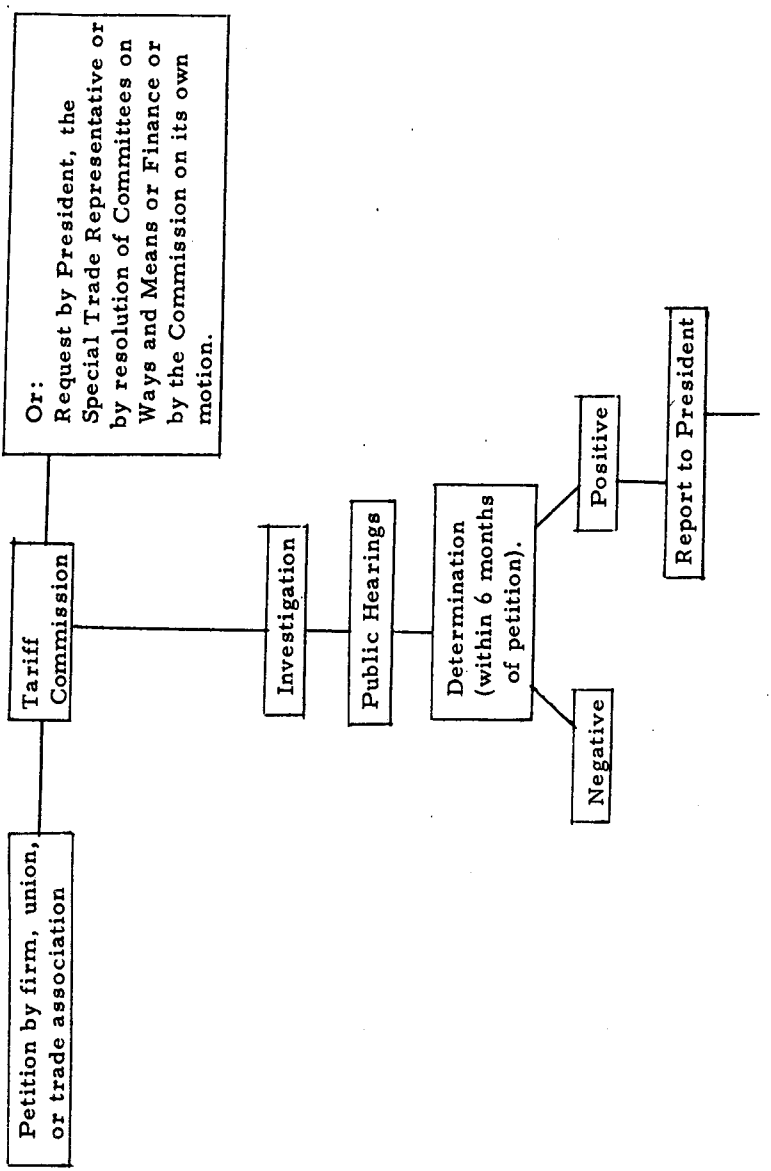
(b) a decline in the proportion of the domestic market supplied by domestic producers.

New provisions in the "escape clause" section of the bill would require the Tariff Commission to investigate and report on efforts by firms and workers in the industry to compete more effectively with imports and to determine whether or not increased imports may be attributable to circumstances under the Antidumping Act of 1921, the countervailing duty law, or under other remedial provisions dealing with unfair trade practices. In the latter case the appropriate agencies which administered the relevant provisions would be notified. If the Tariff Commission does find injury, it shall include in its report the amount of duty increase on imposition of other import restrictions necessary to prevent or remedy such injury.

2. Presidential Action After Investigation (Section 202)

After receiving an affirmative finding from the Tariff Commission, the President (1) *must* consider the extent to which adjustment assistance has been or could be made available and (2) *may* decide to provide import relief. He would be required to make this decision within 60 days after receiving the Tariff Commission report. In deciding whether or not to provide import relief, the President would be required to take into consideration many factors, including the possible effectiveness of import relief as a means to promote adjustment, the effect of import relief on consumers, the impact of such relief on industries which might be affected as a result of international obligations to provide compensation, and the economic and social costs which would be incurred by taxpayers, communities, and workers, if import relief were or were not provided.

ESCAPE CLAUSE -- IMPORT RELIEF PROCEDURES



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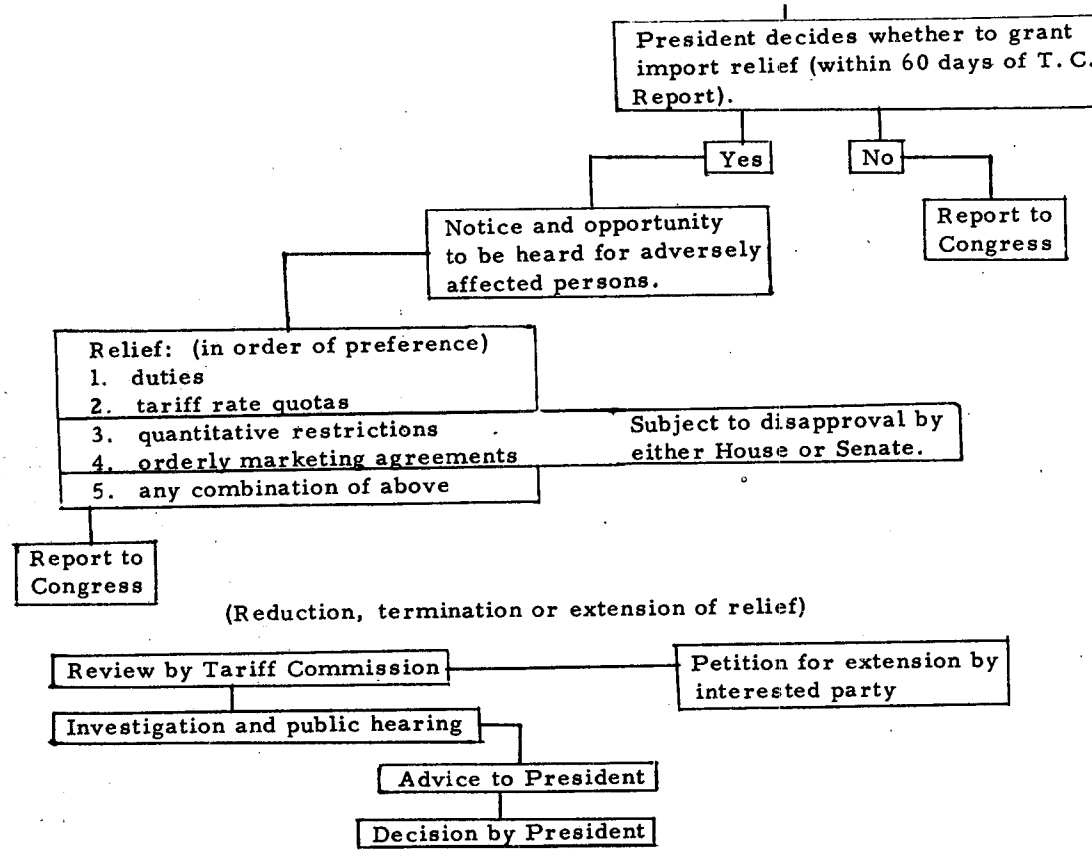

President decides whether to grant import relief (within 60 days of T. C. Report).
Yes
No
Report to Congress
Notice and opportunity to be heard for adversely affected persons.
Relief: (in order of preference)
1. duties
2. tariff rate quotas
3. quantitative restrictions
4. orderly marketing agreements
5. any combination of above
Subject to disapproval by either House or Senate.
Report to Congress
(Reduction, termination or extension of relief)
Review by Tariff Commission
Petition for extension by interested party
Investigation and public hearing
Advice to President
Decision by President

Once the President determines to provide import relief, he would be required to proclaim such relief within 15 days after the date of his determination. The nature of the relief would be at his discretion. If within that period the President announces his intention to negotiate one or more orderly marketing agreements, the taking effect of any other import relief measures would be withheld for a period of 180 days or until the entering into effect of such orderly marketing agreement. While such agreement is in effect, the other proclaimed import relief measures may remain in a suspended status.

Unlike current law, the Congress would have no authority to override a Presidential determination *not* to provide import relief in the face of an affirmative determination by the Tariff Commission. In such cases, the present bill would require the President only to submit a report to both Houses of Congress stating the conclusions on which his decision was based.

3. Import Relief (Section 203)

The bill would authorize the President to impose one or more of the following import relief measures in a preferred order of preference as follows:

(a) duty increases;
(b) tariff-rate quotas;
(c) quantitative restrictions, and
(d) orderly marketing agreements.

The authority to impose duty increases would include the authority to suspend items 806.30 and 807.00 of the Tariff Schedules of the United States. The President could also exclude articles from receiving preferential treatment granted under Title V of the bill to imports of less-developed countries. These latter two measures could only be used to provide import relief when the Tariff Commission specifically recommends such action.

Whenever the President selected a method or methods of import relief, he would be required to report his action to the Congress. The report would include a statement as to why he selected a particular method of import relief rather than adjustment assistance and rather than each method of import relief which ranked higher in preference.

Duty increases under this section could be imposed up to 50% ad valorem above the existing rate, a higher ceiling than under existing law. Quotas and orderly marketing agreements would have to allow the importation of a quantity or value of the article not less than that imported into the United States during the most recent period which the President determines is representative of imports of such article.

4. Congressional Veto of Quotas (Section 204)

The imposition of orderly marketing agreements and quantitative restrictions (quotas) would be made subject to the Congressional veto procedure. Thus, either measure would cease to be effective, if within 90 days from the submission of the proclamation of such measure to the Congress, either House adopts a resolution of disapproval. No such procedure exists if the President decides to do nothing after a Tariff Commission finding of serious injury.

5. Limits on Import Relief

The bill would provide a 5-year time limit on the duration of such relief on the theory that import relief should be a temporary measure aimed at providing time to adjust to increased imports. Import relief measures shall normally terminate after 5 years, but could be extended for one 2-year period. Under present law, import relief measures remain in effect for 4 years, but may be re-extended for any number of additional 4-year periods. Provision would also be made for the phasing down of import relief measures which are initially proclaimed for a period longer than 3 years.

B. Adjustment Assistance for Workers (Chapter 2 of Title II) (Sections 221–250)

1. Determination by Secretary of Labor

The bill would simplify the procedures for applying for worker adjustment assistance and would also apparently liberalize the criteria conditioning the provision of such assistance. Under section 221, petitions for worker adjustment assistance shall be filed directly with the Secretary of Labor, who has full authority to determine whether or not such assistance should be extended. The Tariff Commission would no longer be directly involved in adjustment assistance determinations.

Under section 222 a group of workers would be certified as eligible to apply for adjustment assistance if the Secretary of Labor determines:

(1) that a significant number or proportion of workers in an affected firm have been or threaten to become totally or partially separated,

(2) that sales or production or both of such firm have decreased absolutely, *and*

(3) that increased imports have contributed *importantly* to such total or partial separation or threat thereof and to such decline in sales or production.

These tests, particularly, paragraph 2, may not be as easily met as its drafters may have intended. However, unlike the Trade Expansion Act, the separations and the decrease in sales or production would not have to result from increased imports caused in major part by trade agreement concessions. The present bill would eliminate the requirement that there be any causal link between tariff concessions and increased impacts. Increased imports would only have to "contribute importantly" to any separation or decline in sales or production. Under present law, increased imports must be the major cause of unemployment or underemployment of the workers.

Section 223 of the bill would require the Secretary of Labor to reach the decision on eligibility not later than 60 days after the date the petition is filed.

2. Secretary of Labor Study on Adjustment Assistance in Relation to Escape Clause Cases (Section 224)

The general preference for adjustment assistance as opposed to import relief consistently maintained in the bill is reinforced by the provision in section 224 which would require the Tariff Commission to notify the Secretary of Labor any time it begins an investigation under the import relief sections of the bill. Whenever the Secretary is so notified, he would immediately begin a study of employment conditions in the industry and the extent to which such import competition may be facilitated through the use of existing programs. The Secretary would be required to report his findings to the President not later than 15 days after the Tariff Commission reports its import relief determination under section 201 of the bill.

3. Subchapter B Program Benefits (Section 231–238)

The bill generally follows the framework for worker adjustment assistance contained in the Trade Expansion Act of 1962. However, qualifying requirements for workers would be slightly liberalized and the weekly trade readjustment allowances would be increased from 65 to 70 percent of the worker's average weekly wage for the first 26 weeks of assistance. The percentage would be reduced to 65 percent, as under existing law, for the subsequent weeks (generally 26) of entitlement of trade readjustment allowance. Provision would also be made for employment services, training, and health insurance, as currently pro-

vided by existing legislation. New provision would be made for job search and relocation allowances to facilitate efforts made by workers to obtain new employment within the United States when such opportunity did not exist within their commuting areas.

4. Subchapter C General Provisions, Cooperation With State Agencies, Establishment of a Trust Fund

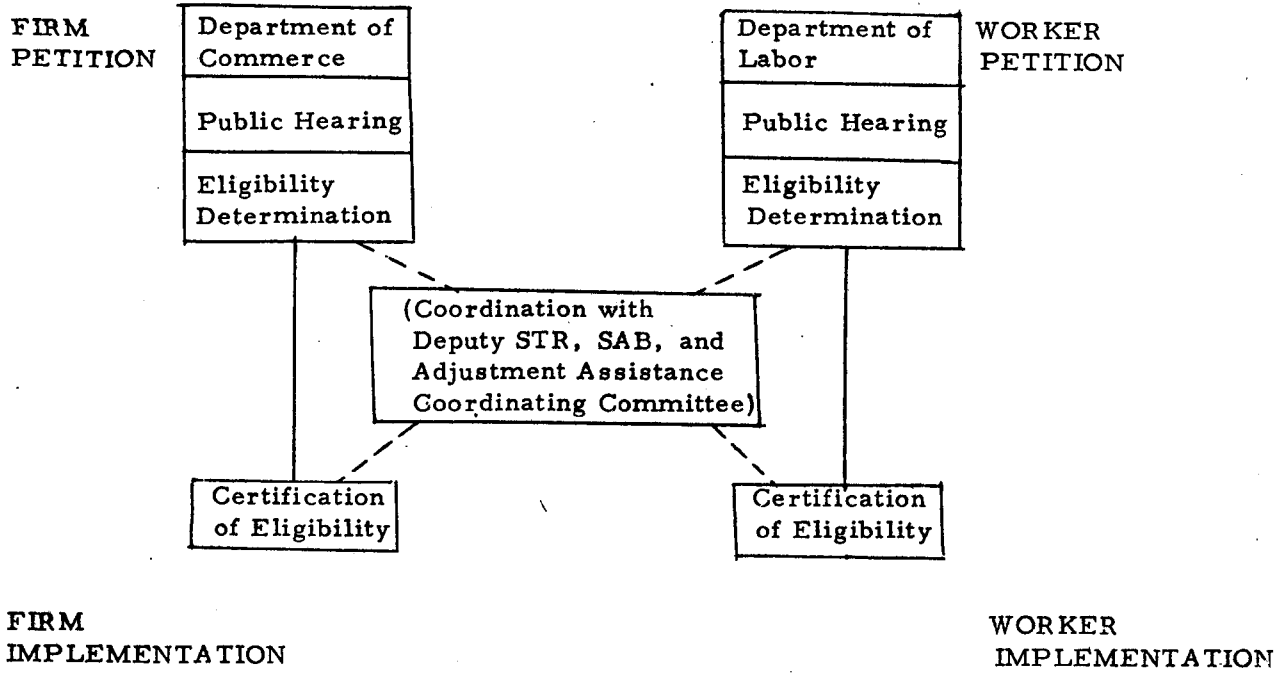
Worker adjustment assistance would be carried out where possible with cooperating State agencies, as provided in existing law. Programs carried out under the bill, either on the Federal level or by cooperating States, would be funded from a new adjustment assistance trust fund (sec. 245) to be financed from customs revenues. The bill would also establish an Adjustment Assistance Coordinating Committee consisting of the Deputy Special Trade Representative and appropriate officials from the Departments of Labor, Commerce, and the Small Business Administration. This Committee would coordinate adjustment policies and programs in an effort to promote the efficient and effective delivery of adjustment assistance benefits.

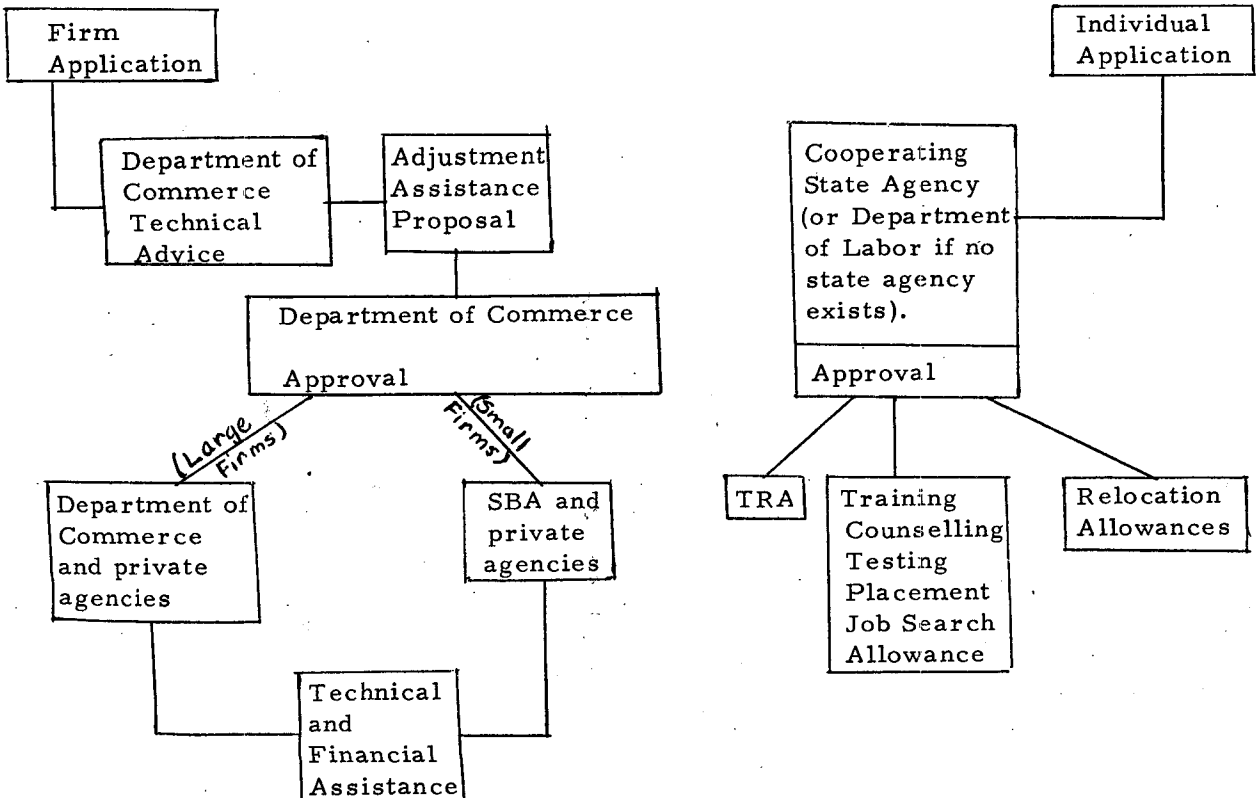
C. Adjustment Assistance for Firms (Chapter 3 of Title II) (Sections 251–264)

1. Determination by Secretary of Commerce

The bill would simplify and liberalize the current provisions of the Trade Expansion Act dealing with adjustment assistance for firms. The Secretary of Commerce would be given total authority to make determinations concerning assistance under this chapter of the bill. Petitions for firm adjustment assistance would be sent directly to the Secretary of Commerce. The Secretary, and not the Tariff Commission would make, within 60 days after a petition is received, determinations as to certification of eligibility for adjustment assistance. Firms would be eligible for adjustment assistance, under the same criteria as that applied to workers with respect to worker adjustment assistance. Accordingly, increased imports would not have to be linked to trade agreement concessions and would only be required to *contribute importantly* to worker separation and decline in sales or production.

TRADE ADJUSTMENT ASSISTANCE PROGRAMS PROPOSED
UNDER TRADE REFORM ACT -- OPERATIONAL FLOW CHART




Firm Application
Department of Commerce Technical Advice
Adjustment Assistance Proposal
Department of Commerce Approval
(Large Firms)
(Small Firms)
Department of Commerce and private agencies
SBA and private agencies
Technical and Financial Assistance
Individual Application
Cooperating State Agency (or Department of Labor if no state agency exists).
Approval
TRA
Training Counselling Testing Placement Job Search Allowance
Relocation Allowances

Import Relief: Remedies for Injury

CURRENT LAW	INDUSTRY	TRADE REFORM ACT
President may provide whatever import relief he determines appropriate, or do nothing		President may provide relief only in following order of preference: tariff increase; tariff-rate quotas; quotas; and orderly marketing agreements (the latter 2 are subject to Congressional veto procedure)
	WORKERS	
• Cash benefits equal to 65% of average weekly wage (up to 65% of average weekly manufacturing wage), for up to 52 weeks		• Cash benefits equal to 70% of average weekly wage (up to 100% of average weekly manufacturing wage), for up to 52 weeks
• Relocation allowances for unemployed heads of families		• Relocation allowances for any unemployed worker; job search allowances up to $500
• Employment services: testing, counseling, training, and job placement		• Same as current law
	FIRMS	
Technical, financial, and tax assistance		Technical and financial assistance

2. Approvement of Adjustment Proposals (Section 253)

After a firm is certified eligible for adjustment assistance, it would have two years in which to file an application for adjustment assistance. Thus, even if certified, a firm would not automatically receive adjustment assistance. The firm must submit an application containing a viable adjustment proposal. Furthermore, a firm's application would only be approved if the Secretary of Commerce determines that the firm has no reasonable access to financing through the private capital market and that the firm's adjustment proposal is reasonably calculated to contribute to the economic adjustment of the firm, provides adequate consideration to the interests of the workers in such firm, and demonstrates that the firm will make all reasonable efforts to use its own resources for economic development. The Secretary of Commerce would be authorized to terminate a firm's certification of eligibility for adjustment assistance whenever he determines that the firm no longer requires assistance under the bill.

3. Technical and Financial Assistance (Sections 253, 254, 255)

Adjustment assistance for firms would include technical assistance in developing and implementing proposals for economic adjustment, as well as financial assistance, subject to limitations somewhat more liberal than those in existing law. Financial assistance would be extended in the form of loans and guarantees, for acquisition and modernization of plants, equipment and facilities and for such working capital as may be necessary. As indicated earlier, no *adjustment assistance* of any kind would be provided unless the Secretary of Commerce determines that a firm does not have reasonable access to private financing. Furthermore, no *financial assistance* of any kind would be provided unless the Secretary determines that the funds required are not available from the firm's own resources and that there is reasonable assurance of repayment. In other words, the firm would have to be nearly broke but with a reasonable chance of recovery if the loan is to be made, a difficult combination. The Trade Expansion Act provisions for tax assistance in the form of extended loss carrybacks have been eliminated since they were found to be of little value to the types of firms applying for adjustment assistance.

The Secretary of Commerce could delegate his functions under the bill to the Administrator of the Small Business Administration with respect to any firm considered to be a small business within the meaning of the Small Business Act. The bill also provides for the administration of financial assistance, and contains sections on protective provisions, definitions, penalties, lawsuits, and other provisions comparable to the Trade Expansion Act.

The Tariff Commission would be required to notify the Secretary of Commerce whenever it begins an import relief investigation under section 201 of the bill. Upon such notification, the Secretary of Commerce would be directed to make a study of the number of firms which have been or are likely to be certified as eligible for adjustment assistance and the extent to which adjustment of such firms to import competition may be facilitated through the use of existing programs. The Secretary would be required to report to the President concerning its study not later than 15 days after the Tariff Commission makes its injury determination report to the President.

TITLE III. RELIEF FROM UNFAIR TRADE PRACTICES

Whereas Title II deals with providing relief from injury caused by "fair" albeit injurious import competition, Title III deals with "unfair" and "illegal" trade practices affecting U.S. exports or foreign imports into the United States.

A. Foreign Import Restrictions and Export Subsidies, Chapter 1 of Title III (sections 301–302)

1. Retaliation Authority

The bill would broaden existing authority to retaliate against "unreasonable" or "unjustifiable" foreign import restrictions adversely affecting United States exports. The authority would continue to be wholly discretionary in the hands of the President. There is no complaint procedure, with time frames, to force a decision on any unfair foreign trade practice of foreign governments described in section 301 of the bill. But, if the President decides to act against unfair foreign trade practices he would have to hold a hearing for *any* interested person. In general, section 301 would authorize the President to suspend concessionary treatment for, and to impose duties or other import restrictions on, the imports of any foreign country which maintains unjustifiable or unreasonable tariff or other import restrictions, discriminatory or other acts or policies or subsidies on its exports to third countries which burden or discriminate against United States exports. Under the TEA, the President has full authority to impose duties and other import restrictions only when acting against "unjustifiable" (which has been interpreted by the Executive to connote an illegal act, i.e., a violation of GATT articles) foreign import restrictions aimed at U.S. agricultural exports. Section 301 of the proposed bill would extend this authority to cover unreasonable as well as unjustifiable foreign acts which adversely affect any U.S. export, "unreasonable" acts are not defined.

The President would also be given authority to act against countries which provide subsidies on imports to the United States, which have the effect of substantially reducing sales of competitive U.S. products in the United States. However, the President could *only* act in such cases if: (1) the Secretary of the Treasury finds that the country does provide subsidies, (2) the Tariff Commission finds that the subsidized

imports do reduce sales of competitive U.S. products, and (3) the President finds that the Antidumping Act of 1921, and the Countervailing Duty law are inadequate to deter such practices.

In acting under this authority, the President would be required to consider the relationship of such action to the international obligations of the United States. Actions must be undertaken on a non-discriminatory treatment basis (MFN), except that the President could act selectively with respect to specific countries which maintain unreasonable as opposed to unjustifiable restrictions.

Section 301 would require the President to provide an opportunity for the presentation of views concerning the kinds of import restrictions dealt with in this section. The bill also contains a new requirement that the President provide an opportunity for the presentation of views and for appropriate public hearings *prior* to the taking of any action under section 301. The President could also ask for the views of the Tariff Commission as to the probable impact on the U.S. economy of the taking of any action under this section.

2. Congressional Veto Procedure

Section 302 would subject any measure taken under section 301 to the Congressional veto procedure. Thus any such action would remain in effect only if, before the close of the 90-day period following receipt of the Presidential document setting forth such action, neither House of Congress by an affirmative vote of a majority of those present and voting has adopted a resolution of disapproval with respect to such action.

B. Antidumping Duties, Chapter 2 of Title III (section 321)

1. Time Limits and Procedures

Section 321 would make several significant procedural changes in the present antidumping statute. In the first place, the Secretary of the Treasury would be given a time limit in which to make his findings as to whether there have been sales at less than fair value (generally sales at prices below those in the home markets of the exporting country). The Secretary would make such findings within 6 months or, in more complicated investigations, within 9 months after the question of dumping has been raised or presented to him, in accordance with regulations to be issued by the Secretary.

As under existing law, the Secretary upon making an affirmative finding of sales at less than fair value, would be authorized to order the "withholding of appraisement" of merchandise entered or withdrawn

from warehouse not more than 120 days before the question of dumping was raised by or presented to him. The bill would allow the Secretary, even if his initial determination were negative, to order the withholding of appraisement within 3 months of his published notice of negative determination, if within that time period he had reason to believe that there might be sales at less than fair value.

New provision would also be made in the bill for the holding of hearings by both the Secretary of the Treasury and the Tariff Commission, which must make a finding of injury following the Secretary's finding of sales at less than fair value. Any interested party may be allowed to appear. However, only foreign manufacturers, exporters, and domestic importers of the foreign merchandise in question would have an automatic right to appear at such hearings. Thus, U.S. manufacturers of the articles in question would be required under the bill to show good cause before they could present their views. Any determinations made by the Secretary of the Treasury or the Tariff Commission at such hearings would be published in the Federal Register together with a statement of findings and conclusions and reasons thereof.

2. Definitional Changes

Certain substantive changes in the antidumping statute would also be made by the bill. Under the 1921 Antidumping Act, sales at less than fair value are defined as occurring when the purchase price (in the United States) or the exporter's sales price is less than the foreign market value (generally defined as the price in the domestic market of the country of export). If the purchase price or exporter's sales price is less than the foreign market value, and if the Tariff Commission finds that the importation of such product results in injury to, or prevents from being established, a United States industry, an antidumping duty shall be levied in an amount equal to the difference between the foreign value and U.S. price (dumping margin). The bill would make certain amendments with respect to the sections of the Antidumping Act which define purchase price and exporter's sales price so that the dumping margin, if any, will not be artificially reduced or distorted through an improper treatment of foreign export taxes and indirect taxes affecting such products. Provision would also be made to coordinate this section with the countervailing duty law so that imports which have already been made subject to countervailing duties as a result of a finding of export subsidy would not be doubly penalized under this Act.

In order to determine the foreign market value of a particular product, the Secretary of the Treasury is directed to consider the price at

which that product has been sold in its home market or in the representative third country markets. However, if a manufacturer were to make foreign sales at prices below the cost of production, it would be inappropriate to use such prices as a measure of foreign value. Accordingly, the bill would direct the Secretary, where he determines that sales have been made at prices less than the cost of producing such merchandise and that certain other requirements are met, to construct the foreign market value according to section 206 of the Antidumping Act. Under Section 206, the foreign market value is constructed by adding together the estimated costs, expenses and profits which would be incurred in producing such merchandise. A similar provision would be added in the case of State controlled economies (i.e., the communist countries). If the Secretary determines that the economy of a country is state-controlled to such an extent that sales of merchandise do not permit a determination of foreign market value, he would determine such value either on the basis of the prices at which such or similar merchandise is sold by a non-state-controlled economy country for home consumption or to third countries, or on a constructed value basis.

Section 321 of the bill would also make certain other technical changes in the 1921 Antidumping Act relating to the comparison of foreign and U.S. prices of the same manufacturer and would provide transitional provisions regulating the phasing in of the amendments to this Act.

C. Countervailing Duties, Chapter 3 of Title III (section 331)

Section 303 of the Tariff Act of 1930 requires the Secretary of the Treasury to impose countervailing duties upon imported merchandise whose manufacture, production, or export has been benefitted directly or indirectly by a bounty or grant (subsidy). Section 331 of the bill would make major procedural as well as substantive changes in the countervailing duty law.

1. Time Limits

Under subsection (a) of the revised countervailing duty statute, the Secretary of the Treasury would be required to make determinations as to the existence of bounty or grant within 12 months after the date on which the question was presented to him. No time limit is contained in the present law.

Relief from Unfair Trade Practices

Foreign import restrictions or export subsidies

Authorizes President to retaliate against unjustifiable or unreasonable tariff or other import restrictions of foreign governments:

- no time limitation
- complex hearing procedures
- Congressional veto procedure applies

Antidumping

- 6 month time limit (9 months in complicated cases)
- Guaranteed hearing for foreign manufacturer or importer
- Provides for finding of dumping for below-cost sales

Countervailing duties

- 1-year time limit
- allows for findings on duty-free articles if injury exists
- Permits Secretary not to apply provision during negotiations
- Provides judicial review

Unfair import practices

- Permits Tariff Commission to force exclusion orders if imports violate U.S. patent laws
- No time limits

2. Extension to Non-Dutiable Items

Furthermore, under subsection (b) the countervailing duty law would be extended to cover non-dutiable items. However, in the case of such items, the bill would require an affirmative determination by the Tariff Commission that a United States industry is being, or likely to be, injured or prevented from being established as a result of the importation of the subsidized non-dutiable merchandise. The injury requirement would not apply to dutiable items. In the case of non-dutiable items, the injury requirement would be required only so long as the international obligations of the United States (GATT Article XIX) require such a determination.

If the Secretary made an affirmative finding that a bounty or grant exists with respect to a non-dutiable import, he would be authorized to order the suspension of liquidation with respect to such merchandise entered or withdrawn from warehouses on or after the 30th day after publication of such determination in the Federal Register. If the Tariff Commission then made a positive injury determination, it would take effect as of the date of the original subsidy determination by the Secretary of the Treasury, as in the case with dutiable imports.

3. Articles Subject to Quotas

Under new subsection (d), the Secretary of the Treasury would be authorized to refrain from applying countervailing duties, even if a subsidy were found to exist, to an article already subject to import quotas or to voluntary restraint agreements if he determined that such limitations were an adequate substitute for the imposition of such a duty.

4. Discretionary Moratorium While Negotiations Are In Process

Subsection (e) would add a wholly new concept to the unfair foreign trade statutes. During a 4-year period following the date of enactment of the bill, the Secretary of the Treasury would have *discretion to refrain from imposing a countervailing duty where he determined that such action would seriously jeopardize the satisfactory completion of trade negotiations contemplated under Title I of this bill.* The Secretary's discretion would only remain in effect for one year following enactment of the bill in the case of articles produced in facilities owned by or controlled by a developed country

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where the investment in, or operation of, such facilities was subsidized. This whole subsection appears to say the law does not mean what it says while we are negotiating. It may be considered an open invitation to subject U.S. industry to injurious subsidized imports.

Apparently, the discretion provision was designed to provide the Executive Branch with the opportunity to negotiate internationally agreed-upon rules with respect to export subsidies during the 5-year period of trade agreements authority (5 years discretion is provided by adding the 4 years of discretionary authority to the 12-month period in which the Secretary must make his determination).

5. Judicial Review Rights

Section 331 of the bill would also amend section 516 of the 1930 Tariff Act in such a way as to provide American manufacturers, producers, or wholesalers, the right to seek judicial review of negative countervailing duty determinations by the Secretary of the Treasury. Under existing law, judicial review can only be had after the Secretary makes an affirmative finding of bounty or grant and levies countervailing duties. Thus, the present review system is only of benefit to importers and others adversely affected by countervailing duties. The bill would amend section 516 of the 1930 Tariff Act so that manufacturers and others could petition the Secretary of the Treasury to reconsider his determination that countervailing duties should not be levied in a particular case. There would be no time frame for the Secretary to reach a decision on the merits of the complaint by the petitioner. However, if the Secretary decides that his negative countervailing duty decision is correct the petitioner could serve notice that he will contest in the Customs Court and thereby initiate the process of judicial review.

D. Unfair Import Practices, Chapter 4 of Title III (section 341)

Section 337 of the Tariff Act of 1930 authorizes the Tariff Commission to investigate alleged unfair methods of competition in the importation of articles or in the sale of imported articles in the United States. It has been most often applied to articles entering the United States in violation of U.S. patent laws. If the Tariff Commission finds the effect of such methods is to destroy or substantially injure an indus-

try efficiently and economically operated in the United States, to prevent the establishment of an industry or to restrain or monopolize trade or commerce in the United States, the articles involved may be excluded from entry into the United States by the Secretary of the Treasury at the direction of the President.

1. Tariff Commission Power To Exclude Articles in Patent Infringement Cases

Section 341 of the bill would amend section 337 of the Tariff Act of 1930 to authorize the Tariff Commission, itself, to order the exclusion of articles involved in unfair methods of competition based upon violations of United States patent laws. In the case of patent violations, the President would be removed from any responsibility under section 337. The bill would not alter the existing roles and authorities of the President and the Tariff Commission with respect to unfair import practices not involving patents.

Under the proposed amendments to section 337 of the Tariff Act, whenever the Commission has reason to believe that any article entered into the United States in violation of United States patent laws would, in the absence of exclusion, result in immediate and substantial harm, it would so notify the Secretary of the Treasury. The Secretary would then exclude such articles from entry until an investigation by the Commission could be completed. Such articles, however, would be entitled to entry under bond. If the existence of such unfair method were established to the satisfaction of the Commission, such article would be excluded from entry into the United States until such time as the Commission found that the conditions leading to such refusal of entry no longer existed. No lesser remedies than outright exclusion would be provided. [An exclusion order is equivalent to a cease and desist order with respect to articles entered or sold in violation of patent laws.]

2. Hearings and Judicial Review

Any order entered into under this section would be made on the record after opportunity has been made for a full hearing. Any person adversely affected by an action of the Commission or the refusal of the Commission to act would have the right to seek judicial review.

TITLE IV. TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TREATMENT (SECTIONS 401–407)

Title IV of the bill would authorize the President, under specified conditions, to extend nondiscriminatory or column 1 concessionary tariff treatment to countries whose imports into the United States do not currently receive such treatment. The term "nondiscriminatory" has been used in the bill as a substitute for the term "most favored-nation" treatment. The only countries not enjoying nondiscriminatory treatment today in the U.S. market are the Communist nations, with the exception of Poland and Yugoslavia whose products do receive such treatment.

1. Authority To Extend Nondiscriminatory Treatment

Under section 231(a) of the Trade Expansion Act, the President is precluded from extending nondiscriminatory or column 1 treatment to Communist countries not currently enjoying such treatment. The Trade Reform Act would authorize the President to extend this treatment to any such country which enters into a bilateral or multilateral trade agreement (The GATT) with the United States. Since Czechoslovakia, Romania, and Hungary are already members of the GATT, they would be automatically eligible for column 1 treatment under this Title. Nondiscriminatory treatment would remain in effect only so long as the relevant trade agreement remained in force with respect to the United States and the country concerned. The President, however, would have the authority to suspend or withdraw the application of column 1 treatment to any country at any time.

If the President chooses to enter into a bilateral agreement for the purposes of this Title, he would be required to determine that the agreement would promote the purposes of the bill and would be in the national interest. Any bilateral agreement would be limited to an initial period not exceeding three years. Thereafter, an agreement could be renewed for additional periods, each of not more than three years, providing that a satisfactory trade balance had been maintained and that U.S. reductions in trade barriers had been reciprocated by the other party.

Bilateral agreements would be required to include provisions for: (1) suspension or termination for reasons of national security, (2) safeguards against disruption of domestic markets, (3) protection of patents if the other party is not a member of the Paris Convention

for the Protection of Industrial Property, (4) settlement of commercial disputes, and (5) consultations for reviewing the operation of the agreement and relevant aspects of relations between the United States and the other party. Bilateral agreements could, in addition, include arrangements for the protection of industrial rights such as copyrights, promotion of trade, and other commercial arrangements promoting the purposes of the bill.

2. Freedom of Emigration in East-West Trade

Title IV would lay down several conditions with regard to the extension of nondiscriminatory treatment, which are aimed most directly at the Soviet Union. Section 402 would provide that no country shall be eligible to receive nondiscriminatory tariff treatment or U.S. Government credits, credit guarantees or investment guarantees if the President determines such country:

(1) denies its citizens the right or opportunity to emigrate,

(2) imposes more than a nominal tax for emigration or on visas or other documents required for emigration, for any purpose or cause whatsoever,

or

(3) otherwise imposes more than a nominal tax, levy, fine, fee or other charge on any citizen as a result of his or her desire to emigrate.

A country would become eligible for nondiscriminatory treatment under this title only after the President determined that it was not violating any of the above conditions and submitted a report to that effect to the Congress. Any country which was found to be denying its citizens the right to emigrate would also be prohibited from receiving any U.S. government credits, credit guarantees, or investment guarantees. This prohibition would have the primary effect of cutting off U.S. Export-Import Bank credits and guarantees to the Soviet Union.

Under section 403 the application of nondiscriminatory treatment with respect to any country which had entered into an agreement with the United States concerning the settlement of lend-lease debts would be limited to periods in which the country was not in arrears on its obligations under the agreement. The U.S.-Russian lend-lease settlement agreement, on the other hand, conditions Russia's fourth and all subsequent lend-lease settlement payments upon the extension of MFN treatment by the United States.

3. Market Disruption (Section 405)

Section 405 applies the concept of market disruption to imported articles receiving column 1 treatment under this Title. Under this provision, the President could impose import relief measures if the Tariff Commission determined that imports from a Communist nation were causing market disruption *and* material injury to industries producing like or directly competitive articles. Market disruption would be deemed to exist whenever such imports were substantial, increasing rapidly, absolutely and relative to domestic consumption, *and* were being offered at prices substantially below those of comparable domestic articles. If the Tariff Commission finds in the affirmative, the President could impose any import measures under section 203 (duty increases, quotas, etc.) with respect to only those products coming from the country in question. The President could also impose import relief measures with respect to the products of all countries under the market disruption formula, providing that any portion of the products receive column 1 treatment as a result of Title IV.

4. Procedure for Congressional Disapproval of Extension or Continuance of Nondiscriminatory Treatment

Under section 406, before a proclamation extending nondiscriminatory treatment to any country can enter into effect, the President would be required to submit to the Congress the proclamation along with the agreement pursuant to which such treatment is to be extended, as well as his report stating that the country does not restrict emigration in violation of section 402. The proclamation would not enter into effect if, within 90 days from the receipt of the proclamation, either House of Congress votes to disapprove it by the affirmative vote of a majority of those present and voting.

The President is required to report on a semi-annual basis concerning the emigration policies of any country receiving nondiscriminatory treatment pursuant to this Title. Congress, following receipt of the December report, could apply the congressional veto procedure to discontinue nondiscriminatory treatment for any country receiving such treatment pursuant to this act.

Trade Relations with Communist Countries

1. President authorized, under specified conditions, to grant most favored nation treatment to countries not currently receiving MFN treatment
2. Country must enter into a bilateral or multilateral trade agreement
3. MFN treatment would remain in effect only so long as trade agreement remained in force
4. Bilateral agreements would include:
   - suspension or termination for national security reasons
   - safeguards against disruption of domestic markets
   - protection of patents
   - settlement of commercial disputes
   - consultative procedures
5. Freedom of emigration.—No country would be eligible to receive MFN treatment, U. S. Government credits or investment guarantees if the President determines that the country
   - denies its citizens the right to emigrate,
   - imposes more than a nominal tax for emigration, or
   - otherwise imposes more than a nominal tax or other charge on any citizen as a result of his desire to emigrate

Trade Relations with Communist Countries (cont.)

6. Market disruption provision.—President could impose import relief measures if the Tariff Commission determined imports from Communist countries were causing market disruption and material injury. Market disruption would be deemed to exist whenever imports were:
   - substantial,
   - increasing rapidly, absolutely and relative to domestic consumption, and
   - being offered at prices substantially below those of comparable domestic articles

7. Proclamations and trade agreements under these provisions are subject to Congressional veto procedure

TITLE V. GENERALIZED SYSTEM OF PREFERENCE (SECTIONS 501–505)

Title V of the bill would provide the President with general authority to extend *duty-free treatment* to products imported into the United States from eligible developing countries. The authority would be complementary to that already exercised by Japan and the EC countries pursuant to the 10-year GATT waiver authorizing generalized preferences for developing countries. The Japanese and European preference schemes, however, are wholly different from the plan proposed in the House bill.

In determining whether or not to provide duty-free treatment to any product from any country, the President would be required to have due regard for the effect of such action on the economic development of the countries, the extent to which other developed countries have extended comparable preferences, and the impact of such action on U.S. producers of like or directly competitive products.

1. Beneficiary Developing Country (Section 502)

Beneficiary developing countries would be designated by Executive order under section 502 of the bill. The President could terminate the designation of any country as a "beneficiary developing country", but only after he notifies both Houses of Congress of his intent at least thirty days before such termination goes into effect. The bill lists 27 specific developed countries which would be prohibited from being designated as beneficiaries under this Title. Countries which do not receive nondiscriminatory tariff treatment (Title IV) and countries which do not agree to eliminate reverse preference to other developed countries would also be precluded from receiving duty-free treatment. It is not clear whether, once communist nations not now receiving MFN treatment were granted such treatment under Title IV authority, they would be eligible for tariff preference treatment. Conceivably the People's Republic of China could qualify for tariff preference treatment under this bill if it were granted MFN treatment.

In determining whether to designate any country a beneficiary under this Title, the President would be directed to take into account the country's expression of desire to become a beneficiary (self-election procedure), its level of economic development, whether it receives preferential treatment from other developed countries, and whether it has expropriated property owned by U.S. citizens without provision for prompt, adequate, and effective compensation.

Generalized Tariff Preferences

- Authorizes President to extend duty-free treatment to products imported from developing countries
- Beneficiary developing countries designated by President; 27 countries specifically excluded
- To be eligible, articles must be imported directly from the developing country; the value added in that country must be at least a minimum percentage of the value of the article (to be set at from 35% to 50%)
- Excludes articles subject to escape clause relief
- Excludes an article imported from any one country if the imports of the article from that country exceed $25 million or 50% of total U.S. imports of that article
- Provision limited to 10-year duration; complete report to Congress after 5 years

2. Eligible Articles (Section 503)

Title V would lay down no specific guidelines as to the product or class of products which may or may not be given duty-free treatment pursuant to Title V. The administration bill originally specified manufactured and semi-manufactured articles, but did not preclude the extension of duty-free treatment to other products. However, the bill does require that in order to be eligible, the article must be imported directly from the beneficiary developing country into the customs territory of the United States and that it satisfy certain local cost requirements. Specifically, the cost of materials and processing originating or carried on in the particular country would be required to equal or exceed a specific percentage of the total value of the article at the time of its entry into the U.S. customs area. This percentage, which is to be determined by the Secretary of the Treasury, must be greater than 35 percent but not more than 50 percent. In practice, a 50-percent requirement would mean that a country would have to double the value of any product introduced into its territory for processing.

Articles which were the subject of import relief actions under Title II of the bill, would not be eligible for duty-free treatment. Upon the specific recommendation of the Tariff Commission in a Title II (import relief) proceeding, the President could also terminate duty-free treatment for any product otherwise eligible under Title V. Under section 504, the President would be required to terminate the eligibility of an article imported from any one country if the imports of the article from such country exceeded $25,000,000 or 50 percent of the total U.S. import of such article in any one calendar year. However he could continue to designate any country as a beneficiary if determined it was in the national interest to do so. It is not clear how the President would define "article."

3. Time Limit; Comprehensive Review

Duty-free treatment extended pursuant to Title V would cease to be in effect 10 years after the date of enactment of the bill. This time period coincides with the 10 year duration of the general GATT waiver on generalized tariff references. The bill would require the President to submit a full and complete report on the operation of this title within five years from the date of enactment of the bill.

TITLE VI. GENERAL PROVISIONS

Title VI of the bill contains standard general provisions covering definitions, relations to other laws, changes in the tariff schedules to reflect actions taken under the bill and separability.

Section 603 would authorize the Tariff Commission to take certain procedural actions—such as preliminary investigations and consideration of proceedings—in order to facilitate the carrying out of its functions under the bill.

Section 606 would direct the President to embargo trade and investment, public and private, with any nation which does not take adequate steps to prevent narcotics and other controlled substances from unlawfully entering the United States. Any suspension of trade and investment would continue until the President determined that the government of the country had taken adequate steps to carry out the purposes of this section.

APPENDIX A

COMPARISON OF TARIFF LEVELS AMONG MAJOR INDUSTRIAL COUNTRIES: A REVIEW OF THE PROBLEMS OF COMPARISON AND OF RECENT DATA ON TARIFF AVERAGES

There is no simple, straightforward method for comparing tariff levels among countries. Even a direct comparison of duties on individual items may be ambiguous, due to differences in product specification, methods of valuation, preferences, etc. This ambiguity is compounded when we attempt to compare tariff levels for groups of items, or to calculate a single figure which can meaningfully represent a whole tariff structure. Tariff level comparisons must proceed from an understanding of these ambiguities. They must include several kinds of tariff averages, with full cognizance of the limitations on the meaning of each average. This paper will initially address itself to some of the pitfalls of tariff level comparisons, and summarize some of the results of a major comparative tariff study undertaken by the GATT secretariat.

I. CUSTOMS VALUATION

The first problem of comparing tariffs concerns customs valuation. An *ad valorem* tariff is levied on the value of an imported item. There are, however, several ways for determining this value. A major study of this problem, with recommendations for adoption of a uniform system, has been published by the U.S. Tariff Commission.[1] In considering very broad tariff level comparisons we may ignore most aspects of valuation practices. But one variation in customs valuation must be considered. It is important to know whether tariffs being compared are levied on a f.o.b. (free on board) or a c.i.f. (cost, insurance, freight) basis.

Neither f.o.b. nor c.i.f. are unambiguous concepts, but the main distinction between them can be clearly stated. The former decrees that the value of an import on which a duty is levied shall be the value of that good at the point of exportation, exclusive of subsequent costs incurred in transporting it to the point of importation. According to the c.i.f. method, the value of an import shall be its value at the point of importation, inclusive of insurance, freight, and transportation costs.

The Tariff Commission supports the f.o.b. method, though neither method is obviously superior, and good arguments can be made on

[1] U.S. Tariff Commission, *Customs Valuation*. Published as a committee print of the Senate Finance Committee, 93d Congress, 1st Session, March 14, 1973.

behalf of each.[2] It is desirable to have trade statistics based on both methods of valuation, as each method is appropriate to different kinds of economic analyses. A comparison of tariff levels should, ideally, be based on the same method of valuation, either f.o.b. or c.i.f. Two countries may have the same nominal tariff rate, but the country with c.i.f. valuation will exact a tariff payment higher than that demanded by the country with the f.o.b. valuation. Direct comparison of nominal tariff levels will suffer from this distortion unless the nominal rates are adjusted to reflect the actual tariff burden.

In order to transform U.S. trade statistics from an f.o.b. to a c.i.f. basis, the International Monetary Fund adopted the rule of adding 10 percent to the value of U.S. imports. This estimate of the *average* cost of freight and insurance was generally supported by past studies of the U.S. Tariff Commission. The Office for Special Trade Negotiations reports that a sample of imports in 1971 revealed an upward adjustment of about 6 percent would be required to transform the f.o.b. values into c.i.f. values. Any direct comparison of U.S. nominal tariff levels with those of c.i.f. countries implicitly assumes, therefore, that the duties actually paid on U.S. imports are around 6 to 10 percent higher than they really are, that is, by the margin by which c.i.f. valuation exceeds f.o.b. To render *average* U.S. nominal tariffs directly comparable to the tariffs of c.i.f. countries, the U.S. tariffs should be reduced by about 5–10 percent.

There are, however, some qualifications to this adjustment rule. It is required only when the U.S. valuation is substantially f.o.b. It could not be invoked for those tariffs levied on the "American Selling Price."[3] And it would be justified only for average tariff levels calculated for very broad groups of imports. The 5–10 percent upward adjustment required to switch from f.o.b. to c.i.f. valuation is the average additional cost of freight and insurance for all imports. This average permits no conclusions about the degree of adjustment required for individual items, or for narrowly defined groups.

The GATT comparative tariff data reported below are not adjusted to remove the distortion inherent in a comparison of c.i.f. with f.o.b. tariff levels. (The tariffs of the U.S. and of Canada are levied on an f.o.b. basis, in general, while those of the other countries are generally on a c.i.f. basis.) The magnitude of the distortion is not serious enough to warrant the considerable effort required to achieve greater precision, at least not for the purpose of comparing entire tariff structures. It could, however, assume greater significance in the comparison of tariffs on items whose transportation costs substantially exceed the 5–10 percent average differential between f.o.b. and c.i.f. valuations.

II. WEIGHTING AND AVERAGING

A more serious problem in comparing tariffs arises with the selection of an appropriate weighting method for calculating tariff averages. We are concerned not with a comparison of tariffs on individual

[2] For a summary of these arguments, see pgs. 137–143 of *Customs Valuation*. At present the U.S. utilizes the f.o.b. method, with the variation that the dutiable value is taken to be the "principal market" value within the country of export, not at the port of export. In practice the "principal market" value means the cost of the good at the factory, exclusive of transportation costs to the port of export.

[3] *Customs Valuation* reports that duties in 1969 were levied according to the A.S.P. on less than 1 percent of imports. (p. 71)

items, but with the comparison of tariff structures for large groups of imports. It is necessary to calculate an "average" tariff to represent the entire tariff structure. Even if the calculation of "the" average poses no problem, to use just one figure for interpreting the significance of a whole array of figures is inherently ambiguous. The dispersion of the figures about the average, the value of the highest and lowest—such considerations may invalidate the use of "the" average for different kinds of comparisons. This is a quite familiar problem, however, as it pertains to the analysis of all forms of data. The problem peculiar to the analysis of trade data arises at an earlier stage, namely, the choice of methods for calculating various kinds of averages.

The first choice is whether or not to weight the tariffs. If each tariff within a tariff structure is of equal importance, "the" average may be calculated in the straightforward manner of summing all tariffs and dividing by the number of tariffs. But we generally want to accord greater importance to some tariffs; namely, those which have greater impact on trade. Tariffs which fall on items of great importance to a country's trade should obviously have greater weight in the calculation of "the" average than tariffs on items of trivial importance. We must, therefore, select a factor by which to weight the tariffs. The value of imports under each tariff is the obvious candidate.

Weighting by value of imports raises further problems. The ideal procedure would be to weight each tariff by the value of goods that would have been imported in the absence of any tariff. Weighting by the value of goods actually imported is potentially subject to distortions as severe as those connected with non-weighting. The more effective tariffs are in curtailing trade, the *less* weight they will have in the calculation of the average. Weighting by the value of actual imports could produce the absurd conclusion that, if the tariffs were high enough to prohibit all trade, the average tariff would be zero! Since the purpose of tariffs is protection against imports, we need a tariff average that conveys some notion of the actual restrictive impact. This requires at least an estimate of the amount of trade that would have occurred without tariffs. Such estimates are usually difficult to make, especially when tariffs have been in place for some time. None of the averages reported below are weighted by the trade that might have flowed.

III. THE GATT STUDY

Faced with the necessity of using actual trade data, the only recourse is to calculate several averages, each designed to correct the most pronounced distortions of the other. The most ambitious and comprehensive effort at computing and comparing tariff averages has been undertaken by the GATT secretariat. The President's Office for Special Trade Negotiations has furnished the Economics Division of the Congressional Research Service with one of the documents resulting from this study. According to that Office, the data in this document[4] reflect the tariffs in effect after completion of the Kennedy Round, but they are weighted by *1967* trade figures. Averages weighted by more recent

[4] The document is entitled *Basic Documentation for the Tariff Study, Supplementary Tables*, GATT, Geneva, July 1970.

trade figures have reportedly been compiled by GATT, but, according to the Office for Special Trade Negotiations, they are restricted to the member governments and are not yet to be released to Congress.

The GATT study contains four kinds of tariff averages. They are calculated for each item in a comprehensive list of import categories, and for very broad groupings of categories. Averages for the broadest groupings, defined as "all industrial products," "finished manufactures," "semimanufacturers," and "raw materials" are calculated on the basis of all items within the group, and on the basis of dutiable items only. The results are:

TARIFFS

[Definitions and explanations of averages are found on pp. 12-14 in text]

All industrial products	On all items (average)				On dutiable items			
	No. 1	No. 2	No. 3	No. 4	No. 1	No. 2	No. 3	No. 4
World	8.7	6.7	5.3	6.5	10.5	9.4	9.6	9.2
EEC	6.9	6.0	3.9	6.0	7.5	8.0	8.0	8.1
United States	10.9	7.1	6.1	6.2	11.9	9.0	6.5	8.2
Canada	9.2	6.4	6.4	6.9	15.2	13.0	14.1	12.6
Japan	10.1	9.7	5.7	9.6	11.1	11.5	10.7	11.6
Finished manufactures:								
World	10.1	8.6	7.7	8.6	12.0	10.7	10.4	10.3
EEC	7.8	8.7	8.0	8.6	8.0	9.0	8.3	9.0
United States	12.8	8.1	8.4	7.2	13.4	9.0	9.2	8.1
Canada	10.6	9.2	6.6	9.9	16.1	15.3	14.3	14.7
Japan	11.4	12.0	12.0	12.5	11.7	12.2	12.3	12.8
Semimanufactures:								
World	7.9	7.1	5.4	6.6	9.3	9.2	9.0	8.9
EEC	6.7	6.2	4.7	6.3	7.1	7.8	8.5	8.1
United States	9.5	8.3	5.1	6.9	10.4	10.4	8.3	9.5
Canada	7.5	6.2	9.4	7.4	13.3	11.3	14.0	11.4
Japan	9.5	9.3	6.2	8.2	10.4	10.5	7.6	9.9
Raw materials:								
World	2.5	2.5	1.4	2.1	6.3	4.0	6.2	3.7
EEC	1.6	.6	.3	.4	3.9	1.3	3.4	1.4
United States	4.5	3.8	2.7	3.3	8.4	4.7	5.7	4.5
Canada	3.4	1.2	.4	.3	11.0	1.7	6.4	1.2
Japan	2.5	5.5	3.2	5.2	8.0	9.5	11.2	8.4

Note: The GATT document also includes averages for Sweden, Denmark, Norway, Finland, Switzerland, Austria, and the United Kingdom. Denmark and the United Kingdom are now harmonizing their tariffs with those of the EEC.

Tariff averages calculated on the basis of all imported items will always be lower than those calculated only on the basis of dutiable items, as long as some imports are duty free. While tariff averages on all times are the best reflection of the tariff structure as a whole, since recognition should be given to zero tariffs, it is necessary to compare them to the averages on dutiable items only. A large discrepancy can call attention to the possibility of a significant degree of tariff protection despite rather low averages on all imported items. Effective protection often requires tariffs which exceed some critical level, below which a tariff may be a nuisance to foreign producers, may somewhat reduce their profits, but will not really prevent them from penetrating the domestic market. If low tariffs of this nature are abolished, while tariffs high enough to afford effective protection are retained, the average tariff on all imports may be very low, but the degree of meaningful protection, as reflected in the averages on dutiable items, can still be rather high.

These averages are not easy to interpret. Average No. 1 is simply the unweighted average: each tariff is of equal importance in its calculation. Goods imported at low tariffs, as are many raw materials, tend

to fall under a few comprehensive tariffs, whereas high duty goods are covered by a larger number of tariffs, each covering an import category of much finer definition. The summation of all tariffs will likely contain a large number of high duty tariffs, even though the bulk of trade may flow under the lower tariffs. If this is the case, average No. 1 will be significantly inflated. It could be expected to be the highest of the averages.

Average No. 3, on the other hand, could be expected to contain a strong downward bias. It is calculated by weighting each tariff by the value of imports entering under it. High tariffs which effectively reduce imports do not, therefore, receive a weight proportionate to their importance. One could expect average No. 3 to be the lowest average.

These general expectations are not, however, uniformly satisfied by the data. When they are, the difference between average No. 1 and No. 3 is often not striking. Averages calculated for each of twenty-three industrial product categories also refute the general expectation: in 40 percent of the cases, average No. 3 exceeds average No. 1. This can occur only when a disproportionately large amount of trade is flowing under tariffs which are higher than the average, unweighted tariff for that product category. In these cases, larger trade is associated with higher tariffs. Analysis of these cases, as reported in an addendum to the Basic Documentation, produces two general explanations. A tendency for average No. 3 to exceed average No. 1 is associated with labor-intensive products, and with the most specialized or technologically advanced products. These are complementary, not contradictory generalizations. In the first instance, it appears that the industrialized countries are at an increasing disadvantage in the production of labor-intensive goods, so that the most labor-intensive items within a general category of products will be imported in disproportionately large amounts despite duties on them higher than the duties on other items in the category. Despite higher tariffs, these goods can still be price-competitive. The second explanation refers to goods that do not compete on the basis of price with equivalent products. Because of their exceptionally high quality, or very advanced international specialization in their production, they do not face much competition for equivalent products of similar quality or special refinement. These are goods of which there are only a few suppliers in the world, or, if the general good is widely produced, a few particular suppliers dominate the high quality, specialized variations on the general good. High tariffs will not necessarily impede their importation.

Averages No. 2 and 4 were calculated to moderate the distortions normally characteristic of averages No. 1 and 3. They employ a two-stage weighting procedure. The GATT study utilizes the BTN (Brussels Tariff Nomenclature) system for classifying traded commodities. The BTN system consists of a list of tariff "headings", each of which groups together a set of individual tariff "lines." In the first stage, an average is calculated for the tariff lines within a BTN heading, producing an average tariff for each BTN heading. For average No. 2 there is no weighting of the tariff lines. It corresponds, at this stage, to average No. 1. For average No. 4 each tariff line is weighted by the value of the nation's imports under that line. It corresponds, at this stage, to average No. 3. In the final stage an average for the entire group is calculated from the averages for the BTN headings within the group.

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Both averages No. 2 and 4 employ, in this final stage, a common weighting scheme. The tariffs for each BTN heading are weighted by the value of world imports under that heading. Weighting by world imports in the second stage should, for average No. 2, tend to remove the distortion of no weighting in the first stage. Weighting by world imports should, for average No. 4, tend to remove the distortion of weighting by national imports in the first stage. As a pair they should represent a better measurement of "the" tariff level than averages No. 1 and 3.

Weighting by world imports is not, however, without its own distorting effect. The rationale for averages No. 2 and 4 is that the distortions of the second stage offset the distortions of the first stage. But some skepticism concerning such beneficial offsetting is warranted. Weighting by world imports implicitly assumes that, in the absence of trade barriers, the composition of each nation's imports would roughly conform to the composition of world trade. Were that true, this method would be the best practical procedure. But it cannot be true, for it would contradict the basic rationale of trade; namely, that different countries have comparative advantages in the production of different goods, so all can benefit by each exporting those goods it produces most efficiently, and importing those it can only produce at a disadvantage. With international specialization, the composition of each country's imports would be markedly different from the composition of world imports. Weighting by world trade is distorting because it places undue emphasis on tariffs covering goods which other nations import in large amounts. The virtue of weighting by world trade is to restore a needed emphasis on those tariffs which are genuinely protective.

IV. INTERPRETATION

Since no tariff average is very satisfactory, the only recourse is to examine several of them, keeping in mind their limitations, and to venture generalizations about comparative tariff levels only when a consistent pattern can be discerned. These figures can support several generalizations. In the industrialized world, tariffs on raw materials are, as one would expect, very low. (The difference between tariff levels on manufactured goods and raw materials assumes considerable significance when one attempts to compare "nominal" with "effective" tariff levels, as discussed below.) Tariffs on finished manufactures tend to be higher than those on semimanufactures. Among countries, Canada's tariff structure is not, as a whole, exceptional, but it clearly emerges as the highest structure when only dutiable items are considered. Japan has the highest tariff level on all finished manufactures, but is second to Canada on dutiable finished manufactures. Despite her lack of domestic raw materials, Japan has high tariffs on dutiable raw materials, though the discrepancy between dutiable and all items indicates that a large portion of Japanese raw material imports are duty free. The U.S. appears to have somewhat higher tariffs than the EEC, though some of this difference would disappear if the comparison were adjusted to remove the f.o.b.–c.i.f. distortion. This would leave the U.S. at approximate equality with the EEC in industrial goods, though U.S. tariffs on raw materials would remain higher.

Tariff averages of this nature can provide a useful overview, and point to any gross differences among countries. One must stress, how-

ever, their limited validity. Aside from the difficulties of calculating a meaningful average, any average can conceal the impact of very high tariffs on a few strategic items. The larger the dispersion of very high and very low tariffs around an average, the less reliable that average as a meaningful interpretation of the tariff structure. In addition to pure averages, therefore, one should have some measure of this dispersion.

The GATT study contains data on the frequency distribution of the individual tariff lines. We can construct a comparison of the percentage of tariff lines within various tariff ranges:

All industrial products	DUTIES				
	Less than 5 percent	5 to 10 percent	10 to 15 percent	15 to 20 percent	Over 20 percent
World	42	28	14	9.0	7.0
EEC	31	56	11	1.6	.4
United States	32	30	14	12.0	12.0
Canada	42	13	16	24.0	5.0
Japan	18	49	22	7.0	4.0

This reveals that 32 percent of all U.S. tariff lines carry duties of less than 5 percent, 30 percent of the tariff lines have duties between 5 and 10 percent, etc. The United States and Canada have the larger portion of tariff lines in the higher ranges, where tariff protection is more effective. European and Japanese tariff show less variance from their "average" tariffs. This evidence suggests that, although U.S. tariff averages are, on the whole, very close to those of our major partners, the more dispersed American (and Canadian) tariff structure may be more restrictive of trade.

The divergence of tariffs can also be judged from data on the highest and lowest average tariffs (weighted by OECD trade) in each of twelve industrial sectors accounting for 85 percent of OECD nonagricultural imports. These averages, as published in the Report of the President's Commission on International Trade and Investment Policy,[5] are:

[In percent]

Industrial sector	Highest average	Lowest average	Point spread
Pulp and paper	[1] 7.8	[2] 2.5	5.3
Textiles	[2] 17.7	[3] 8.3	9.4
Mineral products	[2] 7.6	[3] 3.8	3.8
Ores and metals	[1] 6.5	[4] 4.1	2.4
Coal, petroleum, gas	[3] 10.8	[1] .9	9.9
Chemicals	[3] 10.0	[4] 7.4	2.6
Nonelectrical machinery	[3] 10.9	[2] 5.6	5.3
Electrical machinery	[1] 11.5	[2] 7.8	3.7
Transport equipment	[3] 14.0	[2] 5.0	9.0
Scientific instruments	[2] 16.1	[5] 8.0	8.1
Footwear	[5] 22.6	[1] 10.4	12.2
Furniture	[5] 17.3	[4] 8.3	9.0

[1] United Kingdom.
[2] United States.
[3] Japan.
[4] EEC.
[5] Canada.

[5] John C. Renner, "National Restrictions on International Trade," *United States International Economic Policy in an Interdependent World*, Compendium of Papers: Vol. I, p. 665.

Consideration of this spread, in conjunction with data on tariff distribution similar to those we presented, tends to confirm the view expressed by John C. Renner, that "The close grouping of the general average tariff rates of the major industrialized countries disguises considerable differences in the sectoral tariff rates . . . the level of tariffs is higher and the spread is greater than generally supposed." [6]

V. NOMINAL VERSUS EFFECTIVE TARIFFS

The difficulties in interpreting the restrictive impact of tariff levels do not lie solely in the computation of appropriate averages. A real measure of the effective protection afforded national industries by tariffs should take account of the difference between tariffs on imports used in the manufacture of finished products, and tariffs on finished products. Domestic industries utilize raw materials, and semi-manufactures, in the production of finished manufactures. Some of those raw materials and semi-manufactures are imported. Tariffs on these imports increase the cost of production for domestic industry, and thus influence their competitiveness with foreign industries. Tariffs on imports may operate to offset the nominal protection afforded by tariffs on finished manufactures. Effective protection could be considerably reduced.

In practice, however, tariffs on raw materials are usually much lower than tariffs on finished manufactures. In this case, "effective" protection is greatly enhanced. To understand the difference between "effective" and "nominal" tariff rates one must understand just what is being protected. A tariff on a finished manufacture is protection for the "value added" in the process of transforming imported raw (or semimanufactured) inputs into finished outputs.

An example can clarify the explanation. Assume a simple case in which a domestic industry imports all the materials it uses in the manufacturing process. These imports are duty-free, but there is a 10 percent tariff on the finished product. Assume the competitive world price of the materials required to manufacture one unit of output is $50. Assume the competitive world price of the finished good is $100. Businesses in foreign countries which export the raw materials face a choice: to export the raw materials for $50, or to manufacture the finished product themselves and export it for $100. The raw materials will be duty-free, but the finished good will bear a duty of $10. Assuming that, to compete with the domestic manufacturer, the foreign manufacturer cannot raise the price of his export, his revenue from exporting the finished good will be $90, compared to a revenue of $50 from exporting the raw materials. He has earned $40 from the "value added" by his manufacturing process. But the domestic manufacturer, who bears no tariff on the $100 price of the final good, earns $50 from the value added in the domestic manufacturing process. The "effective rate of protection" enjoyed by the domestic manufacturer is the ratio of $10 to $50, or 20 percent, not the nominal tariff rate of 10 percent. The "effective rate of protection" can be defined as "the maximum proportion by which the value added per unit of output by primary resources employed in the domestic industry can exceed

[6] *Ibid.*

the value added per unit of output by primary resources employed in the foreign competitive industry." [7]

This example illustrates the theory of effective rates in the simplest form. In practice the calculation of effective rates can be very difficult. It requires accurate data on the value added in the manufacturing process, and on the proportions of various material inputs into the manufacturing process.

Despite these difficulties, a meaningful comparison of tariff levels, with the purpose of judging the relative degrees of protection they afford manufacturing industries, should be based on effective, not nominal, tariff rates. This is particularly true when the question concerns preferential treatment to less-developed countries. The nominal tariff rates on finished goods in which they might be able to develop an export competitiveness may appear deceptively low, while the effective rate which provides the real barrier against their exports is nonetheless prohibitive.

We have not been able to uncover any recent attempts to calculate effective tariff rates. The most recent figures at our disposal are calculations of nominal and effective rates in 1962. Though these obviously have no validity today, we include a few examples solely to illustrate the degree of divergence possible between nominal and effective rates;

NOMINAL AND EFFECTIVE TARIFF RATES, 1962

Commodity	U.S.		EEC		Japan	
	Nominal	Effective	Nominal	Effective	Nominal	Effective
Textile fabrics	24.1	50.6	17.6	44.4	19.7	48.8
Clothing	25.1	35.9	18.5	25.1	25.2	42.4
Metal manufactures	14.4	28.5	14.0	25.6	18.1	27.7
Automobiles	6.8	5.1	19.5	36.8	35.9	75.7

THE 1962 OVERALL WEIGHTED TARIFF AVERAGES

Country	Nominal	Effective
United States	11.6	20.0
United Kingdom	15.5	27.8
EEC	11.9	18.6
Japan	16.2	29.5

Source: Bela Belassa, "Tariff Protection in Industrial Countries: An Evaluation," Journal of Political Economy (December 1965).

[7] Giorgio Basevi, "The United States Tariff Structure: Estimates of Effective Rates of Protection of United States Industries and Industrial Labor," *The Review of Economics and statistics* (May 1966).

VALUE OF U.S. IMPORTS FOR CONSUMPTION, DUTIES COLLECTED, AND RATIO OF DUTIES TO VALUES, UNDER THE TARIFF ACT OF 1930, 1930–72

[Dollar amounts in thousands]

Year	Imports for consumption					Duties collected [1]		
	Free		Dutiable				Ratio to values	
	Amount	Percent of total	Amount	Percent of total	Total	Amount	Dutiable imports (percent)	Free and dutiable imports (percent)
1930 (June 18–Dec. 31)	$979,016	69.5	$429,063	30.5	$1,408,079	$192,528	44.9	13.8
1931	1,391,639	66.6	696,762	33.4	2,088,455	370,771	53.2	17.7
1932	885,536	66.8	439,557	33.2	1,325,093	259,600	59.1	19.6
1933	903,547	63.1	529,466	36.9	1,433,013	283,681	53.6	19.8
1934	991,161	60.6	644,842	39.4	1,636,003	301,168	46.7	18.4
1935	1,205,987	59.1	832,918	40.9	2,038,905	357,241	42.9	17.8
1936	1,384,937	57.1	1,039,040	42.9	2,423,977	408,127	39.3	16.5
1937	1,765,248	58.6	1,244,604	41.4	3,009,852	470,509	37.8	15.5
1938	1,182,696	60.7	766,928	39.3	1,949,624	301,375	39.3	15.9
1939	1,397,280	61.4	878,819	38.6	2,276,099	328,034	37.3	14.4
1940	1,648,965	64.9	891,691	35.1	2,540,656	317,711	35.6	12.5
1941	2,030,919	63.0	1,191,035	37.0	3,221,954	437,751	36.8	13.6
1942	1,767,592	63.8	1,001,693	36.2	2,769,285	320,117	32.1	11.6
1943	2,192,702	64.7	1,197,249	35.3	3,389,951	392,294	32.8	11.6
1944	2,717,986	69.9	1,169,504	30.1	3,887,403	382,109	32.7	9.8
1945	2,749,345	67.1	1,348,756	32.9	4,098,101	391,476	29.0	9.6
1946	2,934,955	60.8	1,889,946	39.2	4,824,902	498,001	26.4	10.3
1947	3,454,647	61.0	2,211,674	39.0	5,666,321	445,355	20.1	7.9
1948	4,174,523	58.9	2,917,509	41.1	7,092,032	417,401	14.3	5.9
1949	3,883,186	58.9	2,708,454	41.1	6,591,640	374,291	13.8	5.7
1950	4,766,778	54.5	3,976,304	45.5	8,743,082	529,621	13.3	6.1
1951	5,993,442	55.4	4,823,900	44.6	10,817,341	603,468	12.5	5.6
1952	6,256,950	58.2	4,490,546	41.8	10,747,497	574,733	12.8	5.3
1953	5,919,501	54.9	4,859,403	45.1	10,778,905	597,760	12.3	5.5
1954	5,667,904	55.4	4,571,613	44.6	10,239,517	556,939	12.2	5.4
1955	6,036,634	53.2	5,300,153	46.8	11,336,787	669,579	12.6	5.9
1956	6,234,514	49.8	6,281,233	50.2	12,515,747	739,228	11.8	5.9
1957	6,036,400	46.6	6,914,206	53.4	12,950,606	776,884	11.2	6.0
1958	5,341,561	41.9	7,397,868	58.1	12,739,429	832,155	11.2	6.5
1959	5,821,729	38.8	9,165,346	61.2	14,987,075	1,056,536	11.6	7.1
1960	6,142,076	40.9	8,871,834	59.1	15,013,910	1,086,115	12.2	7.2
1961	5,922,298	40.4	8,734,599	59.6	14,656,897	1,052,702	12.1	7.2
1962	6,224,850	38.3	10,026,213	61.7	16,251,063	1,234,921	12.3	7.6
1963	6,265,096	36.8	10,739,791	63.2	17,004,887	1,262,156	11.8	7.4
1964	7,045,056	37.8	11,568,138	62.2	18,613,193	1,371,265	11.9	7.4
1965	7,434,414	34.9	13,847,409	65.1	21,281,823	1,622,920	11.7	7.6
1966	9,343,899	36.8	15,022,695	63.2	25,366,594	1,920,755	12.0	7.6
1967	10,203,477	38.2	16,528,817	61.8	26,732,294	2,016,421	12.2	7.5
1968	12,266,825	37.2	20,724,900	62.8	32,991,725	2,341,058	11.3	7.1
1969	13,061,617	36.4	22,808,742	63.6	35,870,359	2,551,174	11.2	7.1
1970	13,877,262	34.9	25,890,412	65.1	39,767,674	2,584,092	10.0	6.5
1971	15,309,317	33.6	30,263,575	66.4	45,545,892	2,767,980	9.2	6.1
1972	18,911,798	34.2	36,370,512	65.8	55,282,310	3,123,673	8.6	5.6

[1] Calculated.

Note: The ratio of duties collected to the value of imports (sometimes referred to as the "average ad valorem equivalent") should be used with great reservation as a measure of the "height" of a country's tariff or of the tariff's restrictiveness of imports. Such a ratio for the schedule of duties as a whole (or even a ratio for most individual tariff categories) is heavily weighted by imports that enter either free of duty or at low unrestrictive rates; it is weighted less by imports that enter at high restrictive rates and not at all by imports that are precluded from entry. Moreover, an upward or downward trend in the "ratio" of duties collected may reflect alterations in the rates of duty applied, changes in the composition of imports from year to year, or changes in the prices of imported commodities.

Source: U.S. Tariff Commission, March 1973.

VALUE OF U.S. IMPORTS FOR CONSUMPTION, DUTIES COLLECTED, AND RATIO OF DUTIES TO VALUES, UNDER SPECIFIED TARIFF ACTS, 1891–1930

[Dollar amounts in thousands]

Fiscal years 1891–1918; calendar years 1919 and succeeding years	Free		Dutiable		Total	Amount	Ratio to values	
	Amount	Percent of total	Amount	Percent of total			Dutiable imports (percent)	Free and dutiable imports (percent)
McKINLEY LAW								
Effective Oct. 6, 1890:								
1891	$379,028	44.8	$466,455	55.2	$845,483	$215,791	46.3	25.5
1892	448,771	55.8	355,527	44.2	804,298	173,098	48.7	21.6
1893	432,405	51.9	400,283	48.1	832,733	198,373	49.6	23.8
1894	372,462	59.1	257,646	40.9	630,108	128,882	50.0	20.6
Annual average—McKinley law	408,178	52.4	369,978	47.6	778,155	179,036	48.4	23.0
WILSON LAW								
Effective Aug. 28, 1894:								
1895	376,890	51.6	354,272	48.4	731,162	147,901	41.8	20.2
1896	368,898	48.6	390,797	51.4	759,694	156,105	40.0	20.6
1897	381,902	48.4	407,349	51.6	789,251	171,779	42.2	21.8
Annual average, Wilson law	375,897	49.4	384,139	50.6	760,036	158,595	41.3	20.9
DINGLEY LAW								
Effective July 24, 1897:								
1898	291,534	49.6	295,620	50.4	587,154	144,259	48.8	24.6
1899	299,669	43.7	385,773	56.3	685,442	200,873	52.1	29.3
1900	366,760	44.2	463,759	55.8	830,519	228,365	49.2	27.6
1901	339,093	42.0	468,670	58.0	807,763	232,641	49.6	28.9
1902	396,542	44.0	503,252	56.0	899,794	250,550	49.8	28.0
1903	437,291	43.4	570,669	56.6	1,007,960	279,780	49.0	27.8
1904	454,153	46.3	527,669	53.7	981,823	257,331	48.8	26.3
1905	517,073	47.6	570,045	52.4	1,087,118	257,898	45.2	23.8
1906	548,696	45.2	664,722	54.8	1,213,418	293,558	44.2	24.2
1907	641,953	45.5	773,449	54.6	1,415,402	329,122	42.6	23.3
1908	525,705	44.4	657,416	55.6	1,183,121	282,273	42.9	23.9
1909	599,376	46.8	682,266	53.2	1,281,642	294,377	43.2	23.0
Annual average, Dingley law	451,487	45.2	546,942	54.8	998,430	254,252	46.5	25.5
PAYNE-ALDRICH LAW								
Effective Aug. 6, 1909:								
1910	761,353	49.2	785,756	50.8	1,547,109	326,562	41.6	21.1
1911	776,964	50.8	750,981	49.2	1,527,945	309,966	41.3	20.3
1912	881,513	53.7	759,210	46.3	1,640,723	304,899	40.2	18.6
1913	986,972	55.9	779,717	44.1	1,766,689	312,510	40.1	17.7
Annual average, Payne-Aldrich law	851,701	52.6	768,916	47.4	1,620,617	313,484	40.8	19.3
UNDERWOOD LAW								
Effective Oct. 4, 1913:								
1914	1,152,393	60.4	754,008	39.6	1,906,400	283,719	37.6	14.9
1915	1,032,863	62.7	615,523	37.3	1,648,386	205,747	33.4	12.5
1916	1,495,881	68.6	683,153	31.4	2,179,035	209,726	30.7	9.6
1917	1,852,531	69.5	814,689	30.5	2,667,220	221,659	27.2	8.3
1918	2,117,555	73.9	747,339	26.1	2,864,894	180,590	24.2	6.3
1918 (July–December)	1,149,882	79.1	303,079	20.9	1,452,961	73,854	24.4	5.1
1919	2,711,462	70.8	1,116,221	29.2	3,827,683	237,457	21.3	6.2
1920	3,115,958	61.1	1,985,865	38.9	5,101,823	325,646	16.4	6.4
1921 [1]	1,564,278	61.2	992,591	38.8	2,556,869	292,397	29.4	11.4
1922 [1]	1,888,240	61.4	1,185,533	38.6	3,073,773	451,356	38.1	14.7
Annual average, Underwood law	1,903,268	66.3	968,211	33.7	2,871,479	261,279	27.0	9.1

See footnotes at end of table.

VALUE OF U.S. IMPORTS FOR CONSUMPTION, DUTIES COLLECTED, AND RATIO OF DUTIES TO VALUES, UNDER SPECIFIED TARIFF ACTS, 1891–1930—Continued

[Dollar amounts in thousands]

Fiscal years 1891–1918; calendar years 1919 and succeeding years	Free		Dutiable		Total	Amount	Ratio to values	
	Amount	Percent of total	Amount	Percent of total			Dutiable imports (percent)	Free and dutiable imports (percent)
FORDNEY-McCUMBER LAW								
Effective Sept. 22, 1922:								
1923	$2,165,148	58.0	$1,566,621	42.0	$3,731,769	$566,664	36.2	15.2
1924	2,118,168	59.2	1,456,943	40.8	3,575,111	532,286	36.5	14.9
1925	2,708,828	64.9	1,467,390	35.1	4,176,218	551,814	37.6	13.2
1926	2,908,107	66.0	1,499,969	34.0	4,408,076	590,045	39.3	13.4
1927	2,680,059	64.4	1,483,031	35.6	4,163,090	574,839	38.8	13.8
1928	2,678,633	65.7	1,399,304	34.3	4,077,937	542,270	38.8	13.8
1929	2,880,128	66.4	1,458,444	33.6	4,338,572	584,837	40.1	13.5
1930 (Jan. 1–June 17)	1,102,107	64.6	603,891	35.4	1,705,998	269,357	44.6	15.8
Annual average, Fordney-McCumber law	2,565,490	63.8	1,458,080	36.2	4,023,570	561,615	38.5	14.0

[1] The Emergency Tariff Act became effective on certain agricultural products on May 28, 1921, and continued in effect until Sept. 22, 1922.

Note: The ratio of duties collected to the value of imports (sometimes referred to as the "average ad valorem equivalent") should be used with great reservation as a measure of the "height" of a country's tariff or of the tariff's restrictiveness of imports. Such a ratio for the schedule of duties as a whole (or even a ratio for most individual tariff categories) is heavily weighted by imports that enter either free of duty or at low unrestrictive rates; it is weighted less by imports that enter at high restrictive rates and not at all by imports that are precluded from entry. Moreover, an upward or downward trend in the "ratio" of duties collected may reflect alternations in the rates of duty applied, changes in the composition of imports from year to year, or changes in the prices of imported commodities.

Source: U.S. Tariff Commission.

APPENDIX B

A SUMMARY OF THE PRINCIPAL TRADE BARRIERS*

This summary is based on an extensive study of trade barriers made by the U.S. Tariff Commission in which U.S. producers, exporters and importers were requested to report obstacles which they encountered in international trade. Ranked in the order of the number of their responses to the Commission, the areas of concern to U.S. traders are: Quantitative restrictions and similar specific limitations on trade, nontariff charges on imports, government participation in trade, tariffs, requirements on product and other standards, and customs procedures and administrative practices.

Complaints submitted to the Commission named most countries of the world, but were almost evenly divided between developed and developing nations, although less than one-fourth of U.S. trade is with the less-developed countries.

The eight countries making up the former European Free Trade Association (EFTA) were the object of about 13 percent of the complaints against tariffs. The European Community (of six countries as constituted before enlargement) received about 9 percent of the complaints; Canada and Australia, each about 5 percent; and the United States and Japan, each about 4 percent. Less developed countries (a large number were named) were the object of 53 percent of the complaints against tariffs.

With respect to nontariff trade barriers, the European Community (of six nations) drew 14 percent of the complaints. Countries formerly making up the EFTA drew 12 percent; the United States 8 percent, Japan about 6 percent, and Canada about 2 percent. Less developed countries in Latin America drew 22 percent of the complaints; in Asia, 9 percent; in Europe, 10 percent, and in Africa, about 9 percent.

About 80 percent of the complaints were concerned with practices affecting industrial products, 20 percent with agricultural products—a division that roughly corresponds to the distribution of U.S. trade. In industrial products, the largest number of problems seem to be encountered in the following product sectors: Transport equipment; chemicals, nonelectrical machinery; electrical machines and apparatus; ores, metals, and metal manufactures; and textiles. The largest number of complaints in the agricultural sectors were in beverages and spirits, foodstuffs, and animals and animal products.

Tariffs

Customs tariffs of the large trading nations are extremely complex. It is virtually impossible to summarize them meaningfully in any manner that correctly reflects the actual impact of the various duties

*Prepared by the Tariff Commission at the request of the Senate Committee on Finance.

upon the flow in trade. When comparing national tariffs, the basic difficulties are further compounded by differences in product definition and methods of customs valuation.

Calculating average duty levels for aggregations of different product classifications is the only practical method for making such comparisons, even though it is almost universally conceded that there is no satisfactory method for averaging rates of duty.

When the GATT contracting parties set out to assemble data on the post Kennedy Round tariff levels of the larger members, they realized agreement could never be achieved on a single type of average as the "fairest" indicator of a country's tariff level. Thus, four averages were calculated:

1. A simple arithmetic average;
2. An average weighted by "world" imports; [1]
3. An average weighted by each country's own imports; and
4. Average number 3 weighted a second time by "world" imports.[1]

It is generally assumed that the simple arithmetic average (average number 1) has the strongest bias upward, since it gives equal weight to each line provision and national tariff nomenclatures usually are more detailed in competitive product areas, where higher rates are found, and less detailed in noncompetitive products which frequently are duty free. The average weighted by a country's own imports (average number 3) is assumed to have the strongest bias downward because it minimizes the importance of high rates which deter trade and emphasizes the importance of large trade items which are likely to be products with lower rates of duty. The purpose of weighting is to moderate the bias of the two extremes; so presumably, averages 2 and 4 could be expected to fall between the levels of the arithmetic and own-trade-weighted averages. The averages which were calculated were found not always in conformance with these assumptions.

AVERAGE MFN INDUSTRIAL TARIFFS

Average MFN tariffs on industrial products are shown in table 1–A for the European Community and 12 other industrialized nations. The rates of duty used in calculating the averages were MFN rates scheduled to be in effect after Kennedy Round concessions were implemented. Japan, Australia, and Canada have made further temporary reductions in many of their rates in the past two years which would significantly lower averages shown for those countries. Findings from a comparison of the averages are quite different, depending upon whether all items in a tariff are under consideration or only dutiable items, as well as which method of averaging has been employed.

[1] "World" imports in this instance were total imports of the 18 developed countries for which tariff data were being assembled.

TABLE 1-A.—INDUSTRIAL PRODUCTS: AVERAGE MFN TARIFFS FOR SELECTED COUNTRIES [1]

Country	Simple arithmetic average [2]	Averages weighted by— World trade	Country's own trade	Country's own and world trade
	All products			
All countries, average	9.0	7.3	5.9	7.1
United States	11.1	7.3	6.8	6.3
Canada [3]	9.3	6.8	6.6	7.3
Japan [3]	10.1	10.1	6.3	10.1
European Community	6.9	6.4	4.5	6.5
United Kingdom	9.2	7.8	6.2	7.3
Denmark	4.5	3.5	4.2	3.9
Austria	10.8	10.4	11.0	11.3
Finland	8.6	5.4	4.6	5.3
Norway	8.3	5.5	4.5	5.1
Sweden	5.8	4.4	4.6	4.3
Switzerland	4.3	3.2	3.0	3.0
Australia [3]	18.5	15.5	13.1	14.5
New Zealand	25.2	21.1	14.6	18.0
	Dutiable products			
All countries, average	10.7	8.4	9.8	8.1
United States	12.1	8.1	8.8	7.1
Canada [3]	15.2	11.5	14.1	11.0
Japan [3]	11.2	10.8	11.6	10.7
European Community	7.5	6.7	8.1	6.9
United Kingdom	10.5	8.5	10.2	8.1
Denmark	8.3	4.3	8.5	4.6
Austria	13.5	11.4	16.3	12.3
Finland	13.3	6.4	9.5	6.4
Norway	11.4	7.6	11.0	7.2
Sweden	7.7	4.8	7.3	4.6
Switzerland	4.4	3.5	3.4	3.2
Australia [3]	26.5	22.1	23.0	20.7
New Zealand	32.3	24.1	23.4	20.3

[1] The averages shown were calculated using 1970 import data and MFN tariff rates scheduled to be in effect after implementation of Kennedy round tariff concessions. Since these averages were calculated, however, Japan, Australia, and Canada have made significant further temporary reductions in their tariffs. For Japan, about 80 percent of the rates were reduced by 20 percent, about 2 percent were made duty free, and about 6 percent were cut by amounts ranging from 10 to 95 percent. Australia has reduced all rates by 25 percent. Canada has made reductions on a wide range of products, particularly consumer goods, by an average of 5 percentage points.

[2] The implicit weight contained in a simple average is the number of tariff lines in the schedule; thus, the average is in fact weighted by the degree of detail within the tariff schedules.

[3] Averages for Canada, Japan, and Australia were calculated from rates higher than those being applied in 1974 (see footnote 1).

Source: Basic documentation for the tariff study, GATT.

AVERAGE MFN AGRICULTURAL TARIFFS

Similar calculations were carried out for agricultural product tariffs of the United States, Canada, Japan, the European Community, and the United Kingdom, and the results are shown in table 1-B. It was not possible to reflect in these calculations the variable levies applied on a wide scale by the European Community and on a much smaller scale by the United Kingdom. Consequently, these two averages (and especially that of the Community), are not really satisfactory indicators.

DISCRIMINATORY TARIFF TREATMENT

Customs unions and other regional trade groups and preferential trading arrangements have proliferated throughout the world in the past 15 years and created significant discrimination against products of countries outside those arrangements. Even a modest duty can foreclose participation in a market if other competing foreign suppliers are permitted free entry. In 1955, almost 90 percent of imports by GATT contracting parties paid MFN rates of duty; by 1970, this figure had declined to only 75 percent.

TABLE 1-B.—AGRICULTURAL PRODUCTS: AVERAGE MFN TARIFFS FOR SELECTED COUNTRIES[1]

Country	Simple arithmetic average[2]	Own trade weighted average
	All products	
United States	15.1	4.8
Canada	9.6	5.7
Japan[3]	40.6	27.4
European Community[4]	16.5	8.4
United Kingdom[5]	10.8	5.0
	Dutiable products	
United States	16.8	8.5
Canada	13.1	9.9
Japan[3]	44.2	39.7
European Community[4]	17.9	13.9
United Kingdom[5]	12.7	9.9

[1] The averages shown were calculated using trade data for 1970, and rates of duty scheduled to be in effect after implementation of Kennedy round concessions. Japan, however, has made significant further temporary reductions in about ¼ of its rates which were used in the calculations. More than half of the reductions were by 20 percent, and most of the remainder were by amounts ranging from 33 percent to complete removal of the duty.

[2] The implicit weight contained in a simple average is the number of tariff lines in the schedule. Thus the average is in fact weighted by the degree of detail within the tariff schedules.

[3] Averages for Japan were calculated using rates which were higher than those being applied in 1974 (see footnote 1).

[4] Rates shown for the European Community reflect fixed tariffs only and do not include variable levies applicable to a wide range of agricultural products. If data were available to reflect the variable levy charges, the rates would be very substantially higher than indicated here.

[5] The rates shown for the United Kingdom reflect fixed tariffs only and do not reflect variable levies applicable to a limited number of products in the year for which the averages were calculated.

Source: Compiled from national tariffs and trade statistics.

TARIFF DISPARITIES

A common complaint received by governments from domestic producers seeking to export their products is that higher tariff rates are encountered in foreign countries than are charged on imports into the producer's own domestic market. U.S. producers have made such complaints most frequently against tariff rates of Canada and Japan. This is a common complaint heard in the European Community against the United States.

Significant tariff disparities are most likely to be found when a country has a wide range of rates applicable to a category of products. This situation occurs more commonly in the U.S. tariff than in the schedules of most other nations. A study of duty rate ranges and own-trade-weighted averages for leading items of export from the United States to Canada and Japan and leading items of imports from these countries into the United States indicates that characteristically the United States has the greater range of duty rates and the greater likelihood of having the disparate high tariff. On own-trade-weighted averages, U.S. and Canadian rates divide fairly evenly between higher

and lower; but in the case of Japan, there are more situations where U.S. rates are higher than Japan's than vice versa.

In an exhaustive study of "possible" disparities at a more disaggregated product level and without regard to whether trade is occurring under the particular categories. Canada has markedly more disparities vis-a-vis the United States than the United States vis-a-vis Canada, but the United States has more disparities vis-a-vis Japan and the European Community than vice versa.

Quantitative Restrictions and Similar Specific Limitations on Trade

Quantitative import and export restrictions, the most obvious and easily identifiable nontariff barriers to trade, appear in three basic elemental forms: *Embargoes*, where trade is prohibited; *absolute quotas*, where a specified maximum amount of trade is permitted in a given period; or *licensing systems*, under which administrative officials have discretionary authority to permit trade. Other indirect, more sophisticated and subtle quantitative restrictions include: *Exchange controls*, where foreign exchange to pay for imports is limited and allocated by kind, quantity, and source of goods; *local content and mixing regulations*, where specified amounts of local products are required with consumption of a unit of a foreign product; minimum or maximum price controls, permitting trade only above or below stipulated prices; *restrictive business practices*, under which cartels or similar arrangements control market access; and *discriminatory bilateral agreements*, where two countries agree to purchase specified amounts of given products from each other before purchases are made from third countries.

Nearly one-third of the complaints against all trade barriers submitted in the Commission's investigation dealt with these types of restrictions, and the three basic elemental forms draw two-thirds of the complaints in this area. The largest number were against licensing requirements, while embargoes and quotas were next in number of complaints.

U.S. quantitative restrictions drew more complaints than those of any other single nation, but less than the total of complaints against either the European Community or EFTA countries. Over 60 percent of the complaints were against developing nations. Complaints against developed countries primarily concerned quotas, while licensing practices were the object of most of the complaints against LDC's.

The pattern of actual restrictions contrasted sharply with the distribution of complaints received by the Commission. For example, the countries of the European Community represent about half of the counted restrictions but received only 27 percent of the complaints. The United States and Japan, on the other hand, each had about 5 percent of the restrictions, but accounted for about one-fifth (each) of the complaints. About 80 percent of the complaints were in the industrial sector; only 20 percent concerned agricultural products, where some of the more significant restrictions are found.

Conclusions reached from an analysis of quantitative restrictions in 16 major trading countries indicate that France exhibits the heaviest use of such measures, followed by (in this order) Italy, the United States, West Germany, the United Kingdom, Japan, Netherlands,

Belgium-Luxembourg, Canada, Austria, Norway, Portugal, Switzerland, Denmark, Ireland, Sweden, and Australia. The study indicated that among the countries, quantitative restrictions tend to be found on similar products. When the restriction count is weighted by the level of trade, the high concentration of quantitative restrictions in agricultural products is apparent, as well as their heavy use in certain industrial areas by some countries. The six product sectors having the heaviest concentrations of quantitative restrictions are foodstuffs; coal, petroleum, and natural gas; animals and animal products; grains; beverages and spirits; and textiles. These sectors account for 70 percent of the total trade-weighted restrictions.

A few countries (e.g., France, Italy, Norway, and Sweden) tend to use quantitative restrictions to complement tariffs, but evidence generally indicates that such restrictions do not substitute for tariffs on a broad product sector basis.

VOLUNTARY EXPORT RESTRAINTS AND OTHER EXPORT CONTROLS

The use of "voluntary" export restraints has become increasingly important as a barrier to trade in recent years. Eleven countries have registered complaints against their GATT trading partners, stating that such limitations are resorted to only as a means of avoiding the unilateral application of more stringent import restrictions. Restraints on textiles and steel have received the most publicity in recent years, although exports of a wide variety of commodities have been restricted from time to time.

Exports are sometimes controlled for military or strategic reasons, or to conserve domestic supplies, or for political purposes. The United States has employed major restrictions on its export trade with the Communist countries for over 20 years. The Export Administration Act of 1969 began to relax these U.S. restrictions. In February 1972, the list of items for China was liberalized and made the same as that for the Soviet Union. Several countries have restricted exports of products in short supply. The recent limitations on oil exports from the Middle East has had worldwide attention.

EXCHANGE CONTROLS

Another type of widely-used trade barrier is a system of restrictions on the payments and/or financial cycle of a trade flow. Types of financial barriers include: Multiple exchange rates; prior import deposits; allocation of exchange only to holders of import licenses; and various other types of restrictions to conserve foreign exchange.

Under the rules of the International Monetary Fund and the GATT, countries are generally expected to maintain convertible currencies and no payments restrictions. If a country faces a deficit situation, however, it is granted a period of transition in which exchange restrictions are allowed while they undertake policies to correct the deficit situation. Developing countries have most often been granted this temporary relief, the removal of which is sometimes slow when they again return to satisfactory financial positions.

Some countries tend to exert stronger financial restrictions than are needed, given their financial situation. There is an indisputable link between balance of payments difficulties, poor international credit ratings, and financial barriers to trade.

RESTRICTIVE BUSINESS PRACTICES

While attention has been focused on trade barriers erected by governments and efforts to dismantle them, private organizations have been creating barriers of their own. The development of methods to deal with these problems have been of a limited nature.

International restrictive business practices are usually of two types: (1) those engaged in by the collective restraint of competition by independent organizations (cartels), and (2) restrictions resulting from concentration of economic power or control in one organization (multinational corporations). However, international trade may also be restricted by single firms if they have a dominating position as suppliers or purchasers of the commodity involved. Certain types of business discrimination engaged in by governments (e.g., flag discrimination in shipping) and labor unions have also caused some concern.

DISCRIMINATORY BILATERAL AGREEMENTS

Bilateral trade agreements are frequently concluded between countries to facilitate trade between them by granting special advantages to each other. They are implicitly discriminatory against third countries. Discriminatory sourcing is one type of bilateral arrangement which favors specific countries as sources for certain imports. Such arrangements are often tied to economic assistance programs.

Nontariff Charges on Imports

In most countries, imports pay a variety of charges in addition to a customs duty. Some of these charges, such as the variable levies found in Europe, are protective devices used to restrict imports, while others, such as U.S. excise taxes or value-added taxes in Europe, are collected to equalize the tax treatment of imported goods with that of domestic output. Some charges, such as port taxes, are levied in payment for services. Sometimes import "surcharges" are levied by countries with serious balance of payments deficits. Among these various charges are found some of the greatest barriers to world trade.

VARIABLE LEVIES

Variable levies are charges on imports in lieu of, or in addition to, normal custom duties. The levies vary far more frequently than normal customs duties, sometimes daily, and are used to raise the cost of imports to stipulated minimum prices. They have most commonly been used with domestic agricultural support programs.

Variable levies have risen to great prominence in the past decade because the European Community made the variable levy an essential element in its Common Agricultural Policy (CAP). The variable levy thus affects a large segment of world trade and is probably the most important single measure adversely affecting U.S. exports. Variable levies exclude imports from price competition with domestic products, and reduce imports to the position of a residual supply. Some shippers find the variable levy even more onerous than import quotas because of the uncertainty for traders caused by the frequent changes in rates and consequent changes in the amounts of imports which are able to enter.

Variable levies are found in several countries outside the European Community, including Austria, Finland, Greece, Portugal, Spain, Sweden, and Switzerland.

Under the European Community's CAP, details vary by product, but in general, the amount of the variable levy is the difference between the lowest offer price on the world market and an internal Community support price. The level of the tax is determined so that the lowest cost imports cannot undercut the highest cost producers within the Community, and thus tends to increase prices of imports above those for domestic goods. Examples of ad valorem equivalents of variable levies range as high as 480 percent.

Devices used under the CAP—including variable levies to limit or exclude imports, support of internal prices at high levels, a general absence of production controls, and export subsidies to remove excess production—have produced a continuing rise in EC agricultural prices, impressive increases in EC agricultural production, and an increasing necessity to subsidize the disposal of excess production in the world market.

The impact of the EC variable levy and its companion measures has been significant. From 1961 to 1970, the value of U.S. agricultural exports to countries outside the Community grew more than twice as much as exports to EC countries. For U.S. export commodities affected by the levy in 1971, the growth of exports from the 1959–61 period was less than one-fourth that of commodities not subject to the levies.

For variable levy products, the U.S. share of the EC market declined in favor of increased trade among EC member countries. If the growth of agricultural exports between 1961 and 1971 had followed the same trend as in the 1954–61 period (before the introduction of the CAP), EC imports of U.S. agricultural commodities would have increased 150 percent (instead of less than 50 percent).

As the CAP is extended to the new EC members (the United Kingdom, Ireland, and Denmark), the severity of the impact on U.S. agricultural exports will undoubtedly increase. U.S. and other third country agricultural exports to the United Kingdom are expected to decline. The United Kingdom could become self-sufficient in beef and veal and might even achieve a small surplus in grains through entry in the Community. CAP incentives could make the United Kingdom a net exporter of pork, poultry, and eggs.

BORDER TAX ADJUSTMENTS FOR INTERNAL TAXES

Border tax adjustments are any fiscal measure which enables imported products to be charged with a tax charged in the importing country on similar domestic products, and which enables exported products to be relieved of a tax charged in the exporting country on domestic products sold to consumers in the home market. Thus, "border" tax adjustments include taxes on imports not only at importation but also at any subsequent point in the distribution channel. Virtually all countries, including the United States, make some border tax adjustments on their imports and exports.

Under fairly longstanding international practices, which were incorporated into the General Agreement of Tariffs and Trade when it was drafted, taxes on products (usually referred to as indirect taxes

or consumption taxes) are considered eligible for border tax adjustments, while direct taxes such as income taxes, profits taxes, payroll taxes, and social security charges are not regarded as eligible.

Foreign countries rely much more heavily than the United States does upon indirect (consumption) taxes for government revenue. In foreign tax systems, the major consumption taxes are generally types which, with respect to imports, are collected when the goods enter the country, rather than at later stages of distribution. Therefore, imports are immediately assessed with taxes which are both substantial [1] and highly conspicuous. Moreover, products exported from these countries are shipped abroad at prices substantially below the internal domestic price by virtue of the fact that the consumption tax is not collected on the exported goods.

On the other hand, very few products imported into the United States are subject to a border tax adjustment at the time of entry. Most U.S. border tax adjustments are found later in the distribution channel, and occur principally as state and local retail sales taxes.

A large percentage of U.S. businessmen regard this situation as unfair to them in their efforts to compete with foreign producers both in markets abroad and in the United States. Their general complaint is that when selling abroad they bear the burden of the substantial U.S. direct taxes (corporate profits taxes, etc.) plus the significant indirect taxes of the foreign country; when selling in the United States, the imported product of their foreign competitors has been relieved of a substantial part of its national tax burden through the border tax adjustment process, and bears none of the U.S. direct taxes.

Economic analysts argue that the situation in which border tax adjustments may discriminate against imports or act as an aid to exports is much more complex than indicated by the traders' views; and so long as the same rate is applied to imports and domestic products, any discriminatory price effects would not equal the border tax rate itself (as businessmen assume), but would be only a small percentage of the rate. Moreover, the discriminatory effect would be confined to the short term, because in the long run other counterbalancing economic forces come into operation and negate the discrimination.

General border tax adjustments, such as those for the value-added tax widely used in Europe, under certain economic conditions, can affect trade in a manner similar to an exchange rate change. Changes in tax rates and accompanying border tax adjustments can theoretically disturb trade over short periods of time.

The U.S. proof-gallon/wine gallon system.—A special situation in the application of border taxes which has had much attention for many years is found in the manner in which the U.S. excise tax on distilled spirits is assessed. If distilled spirits are below 100 proof at the time the tax is assessed, they are nevertheless taxed as 100 proof; if above 100 proof, a proportional incremental amount of the basic 100 proof rate is applied. U.S. producers can arrange their production process so that the tax is always assessed when proof is 100 or above and before the beverage has been cut to normal bottling strength. Foreign

[1] In France, for example, a standard effective rate of 23.45 percent applies to most goods; in West Germany, most goods are taxed at the rate of 11 percent.

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producers may also do this if they ship their product in bulk to the United States and bottle it after entry. If it is bottled abroad, it will bear the additional revenue burden resulting from tax assessment after the proof has been cut to bottling strength.

The effect of this so-called wine-gallon/proof gallon method of tax assessment is that imported bottled spirits pay a significantly higher tax than domestic products and imported bulk products. Foreign producers of distilled spirits have described this situation as one of the major U.S. nontariff trade barriers.

OTHER CHARGES

There are numerous other nontariff charges on imports. The better known are consular fees, stamp taxes, statistical taxes, port charges, and import surcharges. Some, such as port fees or import surcharges, are levied solely on imports. Others, in effect, apply only to imports because there is no domestic production. In complaints to the Tariff Commission, automobiles, motion picture films, and alcoholic beverages were stressed as products subjected to unusually heavy or discriminatory taxes or charges in many countries.

All ports charge fees on vessels and/or cargo using the port. In some developing countries, the charges are found to run as high as 12 or 15 percent of the c.i.f. value of the shipment.

Prior import deposit systems require importers to deposit a percentage of the value of an import (usually in a noninterest bearing account for a fixed term.) Since World War II, such systems have been increasingly used to retard the flow of imports by countries with balance of payments difficulties. Countries without such difficulties have sometimes used such systems for control or surveillance of trade. In either case, the cost of imports is increased by preventing alternative productive uses of deposited funds.

Consular fees or charges must be paid on exports to many countries (principally developing nations), usually in relation to the issuance of a consular invoice or other required documentation. Complaints against such charges as high as 7 percent of the c.i.f. value of shipments were raised against 23 countries, largely in Latin America.

"Stamp taxes" are excise taxes paid through the purchase of stamps which must be affixed to articles or documents before they may be lawfully sold, purchased or used. The procedure is a common method for collecting taxes on tobacco or alcoholic beverages or assessing taxes on the transfer of documents. In the Commission's survey, complaints were received against stamp tax requirements in over 20 developing countries, and in France and Italy.

"Surcharges" on imports are taxes or levies applied in the same manner as customs tariffs, but in addition to the normal import duty, collected as a percentage of the normal duty. Nominal surcharges are sometimes collected for such purposes as port fees, statistical taxes, administrative taxes, etc. Substantial surcharges are usually applied to stem the flow of imports to correct balance of payments difficulties. Denmark, the United Kingdom and the United States have resorted to temporary use of import surcharges for balance of payments reasons in recent years.

Government Participation in Trade

Governments participate directly and indirectly in trade in several ways. Various forms of government monopolies are found in almost every country. The significance of government procurement in the market place increases daily. Virtually all governments, to some degree, give financial or other assistance to domestic industries which may result in subsidized exports or the displacement of imports in the local market. Some of the most significant trade distortions result from government participation in trade. Problems in this area are also the most deep rooted and difficult to deal with.

Complaints submitted to the Tariff Commission listed subsidies and other aids as the major concern in this area, followed by government monopolies and state trading, and government procurement. Seventy percent of the complaints were against practices of developed countries. About one-fifth involved members of the European Community, 16 percent were against EFTA countries, 13 percent against Japan, and 8 percent against the United States.

The industrial area received 82 percent of the complaints, with the largest number going to nonelectrical machinery, textiles, electrical machinery, and transport equipment. Agricultural sectors where complaints were concentrated were alcoholic beverages and grains.

SUBSIDIES AND OTHER AIDS

International trade can be distorted by government aids designed explicitly to stimulate exports, but also by general government subsidies given to domestic producers. Subsidized domestic producers obtain an artificial competitive advantage in export markets and are given a special advantage in their competition against imported products. In contrast to export aids, general subsidies have as their prime objective some desirable domestic goal such as regional development or national defense; the competitive advantage conferred upon domestic producers in foreign markets or in the domestic market may be only a secondary consequence of the subsidy program.

Under certain conditions subsidies may also serve to counterbalance distortions of international trade caused by some other factor. For example, a country with a grossly overvalued currency may find it impossible to export without subsidies. For this reason, export subsidies are more widely applied by less-developed countries than by developed nations.

A wide range of government activity may constitute a subsidy. However, the principal forms subsidies may take are generally:

(a) Explicit cash payments (cash subsidies)

(b) Implicit payments through a reduction of a specific tax liability (tax subsidies)

(c) Implicit payments by means of loans at preferential interest rates (credit subsidies)

(d) Implicit payments through provisions of goods and services at prices or fees below market value (benefit-in-kind subsidies)

(e) Implicit payments through government purchases of goods and services above market price (purchase subsidies)

Export subsidies.—Export subsidies are designed exclusively with the intent to stimulate exports. Agricultural exports are principally subsidized by direct cash payments on exports (cash subsidies), or through direct sales by the government at world market prices of products the government formerly purchased at higher prices from the farmer (purchase subsidies). Such subsidies on certain farm exports are employed for example both by the United States and the European Community. Governments rarely admit to the granting of direct export subsidies on industrial products. They, however, sometimes admit to actions which, while not explicitly export subsidies, have an export-promoting effect.

Government aids to export financing (credit subsidies) constitute probably the fastest growing area of subsidization in recent years. Such assistance occurs principally in the provision of direct loans, guarantees of loans made by commercial banks to foreign buyers of the country's exports, insurance and guarantee of credits extended by exporters. The purpose of these operations is to finance exports that would not otherwise be purchased.

The United States and most U.S. trading partners have similar arrangements for export financing aids. U.S. assistance is handled through the Export-Import Bank of Washington. Concessional financing by the U.S. government of agricultural exports under various laws is especially significant. Medium-term and long-term export credits in France are financed by private companies but then refinanced by special government-controlled credit institutions. The Export-Import Bank of Japan also directly finances long-term export credits charging significantly lower interest rates than commercial banks. The Japanese Government insures exporters against a wide range of risks; even against the risk of tariff increases in export markets.

In the United Kingdom, the Export Credit Guarantee Department (ECGD) provides credit insurance to exporters, guaranteed rates of return to banks, and refinancing of bank credit in order to keep export credit rates on a low level.

Several governments give special tax advantages (tax subsidies) to exporters.

Coal and petroleum subsidies.—The coal and petroleum industries are widely subsidized by governments that wish to sustain indigenous energy resources. In the European Community, in 1967, the total average subsidy of bituminous coal amounted to $7.56 per metric ton, i.e., over 40 percent of the price. Under a new system of reduced subsidization established in December 1969, the member States were authorized to grant production aids not exceeding $1.63 per ton to undertakings that deliver coking coal for the iron and steel industry. "Disposal aids" on deliveries to destinations within the Community far away from the coal basin were additionally authorized to be applied under specified conditions.

In the Federal Republic of Germany, federal and state assistance to coal production and consumption is substantial. Various subsidies, including tax concessions, amounted in 1972 to approximately DM1.2 billion. Subsidies included grants to encourage the use of E.C. coal instead of imported oil in the electrical industry.

U.S. coal exports may have been adversely affected on the markets of Japan and the United Kingdom by subsidization of the coal

industry in those countries, and on the Japanese market, also by the aids to the coal industry in Canada. Canada subsidizes the transport costs of coal that is exported to the Far East, competing thereby more effectively with U.S. coal exports to Japan. The Japanese government has aided its coal industry by providing long-term interest-free loans. In the United Kingdom, a program announced in December, 1972, allocated about $3 billion assistance to the coal industry over the next five years.

The U.S. government aids the petroleum industry by an oil depletion allowance from the tax liability of producers, and other write-offs. The industry in other countries receives direct grants in some countries and special tax privileges in most.

Electronic products subsidies.—Electronics, as a growth industry and standard bearer of technological progress, receives government aids in a number of industrial countries. In recent years France and the Federal Republic of Germany provided low interest or interest-free loans to firms in the industry. In 1972, the federal budget of the FRG provided subsidies of DM 43 million for "promotion of electronic data processing." The United Kingdom and France support their private computer industries by significant grants, and also participate directly in the industry.

Japan's aids to electronics appear most damaging to U.S. interests. In the framework of its export promotion policy, and under laws enacted in 1957 and 1971, the Japanese government has provided the electronics industry, especially in the area of research and development for computers and sophisticated industrial products, with massive financial assistance in the form of low-interest loans, grants and tax incentives.

The complaints of U.S. electronic manufacturers regarding Japanese subsidization of the electronic industry are challenged by the Japanese, as well as interested U.S. importers. These claim that over the years U.S. assistance to the domestic electronics industry has been incomparably higher than the Japanese government's assistance to its own industry, if research and development subsidies of the U.S. government to U.S. producers are considered. Although a large portion of the U.S. subsidies have been allocated for defense and space objectives, they have provided the technological foundation for many industrial and consumer electronic products.

Motion picture films.—The film industry enjoys government aids to production, distribution, exhibition and exports in various combinations in different countries. The United States does not subsidize the industry but all major U.S. trading partners and many other countries do. U.S. interests are hurt predominantly by subsidies granted by the United Kingdom, Italy and France. However, American film companies frequently qualify to share foreign subsidies; therefore, they are attracted by them (in addition to other factors) to produce abroad, with concomitant adverse effects on the U.S. domiciled film industry.

Shipping, shipbuilding.—Shipping and shipbuilding is widely subsidized owing to the relationship of these industries to foreign trade, the specific problematic nature of the shipbuilding industry, and the fact that these industries relate to national defense. Some countries support shipbuilding to the point where it can meet the demands of a national merchant marine and navy, and make no attempt to export

third markets. Principal examples are the United States, Canada, and Italy. Important exporters of ships (Japan, and to a smaller extent West Germany) subsidize their exports while preventing at the same time imports of foreign ships.

Other industry subsidies.—In addition to the aforementioned few, other manufacturing industries receive government aids which may affect international trade. A well subsidized growth industry, besides electronics, is the aircraft industry. The best known example in this field is the subsidization in France and the United Kingdom of the supersonic commercial aircraft. Moreover, the RB-211 engines, the production of which the United Kingdom supports heavily, are exported at this time exclusively to the United States.

In some countries steel and the paper and pulp industries are subsidized with concomitant effects on international trade. As a generally depressed industry, the textile industry obtains government aids in several advanced industrial countries.

Establishments in almost any industry can obtain government aids in some countries if they are located in so-called development areas (principally EC countries and the United Kingdom). For example, the aluminum industry of the United Kingdom obtains massive investment grants and low interest loans on grounds of regional economic assistance programs.

In most advanced countries several industries receive government aids for purposes of research and development. U.S. subsidies are devoted principally to atomic-, space-, defense-related and medical research, whereas in other countries R&D subsidies may act as stimulators to exports or import substitution in the subsidized industry.

Agricultural product subsidies.—Subsidies are generally applied in agriculture. In the framework of their agricultural policies, the governments of most industrial countries aid their domestic agriculture materially, protecting it, at the same time, from import competition principally by various other nontariff barriers. Subsidization may take the form of direct payments to the farmer per unit of acreage, output or exports, or purchases by the government of surpluses at supported prices, or a combination of both. In addition to direct aids, governments aid agricultural production and exports in a number of indirect ways. Heavy subsidization of production and exports in many countries has led to worldwide surpluses in certain farm products such as grains and dairy products.

GOVERNMENT PROCUREMENT PRACTICES

Most governments favor domestic suppliers over foreign ones in their procurement of goods. This is evidenced by the fact that the share of imports to total purchases in the public sector is much smaller than in the private sector. Governments are major purchasers of internationally traded commodities, hence the preferences they grant to domestic producers constitute a significant impediment to international trade. In several countries, also, governments below the national level are known to engage in preferential procurement practices.

Preferences accorded domestic suppliers may be incorporated in published laws and regulations, but in most countries they are effected through a wide variety of practices and procedures. Under

the so-called Buy-American Act of 1933 the Federal Government of the United States openly favors domestic suppliers in its procurement. On the other hand, in Europe and Japan, laws and published regulations providing for discriminatory practices are rare, nonetheless discrimination against foreign suppliers exists and is practiced in a number of ways generally surrounded by secrecy.

The principal practices that inhibit foreign participation in government procurement are insufficient publicity in the solicitation of bids and in the disclosure of the criteria on the basis of which contracts are awarded. Most trading partners of the United States, such as Japan, the United Kingdom and most European Community countries use predominantly the selective and single tender bid procedures. It is generally recognized that these lend themselves much better to discriminatory practices against foreign suppliers than public tendering.

Foreign suppliers can also be suppressed through specific conditions of bidding which put them at a disadvantage, such as certain administrative requirements or inadequate time allowed for submission of bids. Moreover, purchasing authorities may specify technical requirements in advance collaboration with domestic suppliers limiting thereby the competitiveness of the foreign bidder. In some countries only resident firms may undertake government contracts of certain types.

GOVERNMENT MONOPOLIES AND STATE TRADING

Most governments in market economy countries maintain monopolies of the manufacture or sale of certain goods. In several countries such monopolies have been traditionally instituted for fiscal purposes or social ones, such as guaranteeing a steady supply of a product and keeping the prices at a desired level. Traditional product areas for state monopolies are salt, tobacco and alcohol. State monopolies are organized in different ways, such as branches of government, or public or private corporations.

State import monopolies may also serve the objective of protecting domestic producers against foreign competition. Therefore, when the State handles the imports of a product, it may discriminate against foreign suppliers, restricting imports by administrative means, or by charging an unduly high markup on the landed price of the imported product. State import monopolies may also discriminate against certain foreign suppliers only, while favoring others.

State export monopolies may have the objective of facilitating export sales, and their operations may interfere on third country markets with the exports of other countries, which do not maintain export monopolies. Export monopolies may also discriminate against certain foreign countries only in allocating exports.

Import monopolies may have effects similar to quantitative restrictions or tariffs, and export monopolies similar to export subsidies.

Listed below are some products which come under state trading or government monopolies:

Canada—Wheat, oats, barley, and alcoholic beverages.

France—Tobacco, and tobacco products, newsprint, petroleum products, coal, potash fertilizer.

West Germany—Ethyl alcohol.

Italy—Tobacco and related products.

Japan—Tobacco, alcohol, rice, wheat, barley, dairy products.
United Kingdom—Coal, iron and steel.
United States—Alcoholic beverages.

STANDARDS AS TECHNICAL BARRIERS TO TRADE

Standards are laws, regulations, specifications, or other requirements with respect to the properties of products or the manner, conditions, or circumstances under which products are produced or marketed. These requirements usually deal with: A product's quality, purity, component materials, dimensions, level of performance, or other important characteristics; the health, sanitary, safety, technical, or other conditions or circumstances under which a product is produced or marketed; and the product's packaging or labelling.

Standards perform an extremely constructive and necessary role in commerce and trade, but they sometimes impede international trade and can be used as protective devices against import competition. Obstacles to trade arise because of differences among national standards and diverse requirements for testing, production, inspection, and certification. Inspection requirements during production are often especially troublesome to foreign suppliers and can amount to a virtual embargo. Regulations can particularly hinder trade if they are expensive to comply with, are based on characteristics peculiar to national production, foster uncertainty as to the acceptability of merchandise, are administered in a discriminatory fashion, or cause extra delay. In spite of several cases of discriminatory application, standards are not presently classed among the serious barriers to trade. Nevertheless, they hold the potential for becoming one of the greatest of trade barriers if appropriate steps are not taken internationally to prevent such a development.

The types of standards which have given rise to complaints as hindrances to trade have been: (1) industrial and product standards, (2) labelling and marketing requirements, (3) health and sanitary standards, and (4) pharmaceutical and veterinary standards.

INDUSTRIAL AND PRODUCT STANDARDS

Industrial and product standards relate principally to weights, measures, container sizes, nomenclature, quality, product content, production processes, safety, ecology, and environment. Industrial regulations have been greatly expanding in virtually all countries, particularly in the areas of environment and product safety. Electrical and electronic equipment and automotive products, two sectors which are closely regulated by virtually all countries and which are of particular importance for U.S. exports, illustrate this development.

A European organization called the Multipartite Accord for Assessment and Certification of Electronic Components, including all of the larger European countries, establishes standards and inspection procedures for electrical components. The Accord is now administered through the European Committee for Coordination or Electrical Standardization (CENEL). As the arrangement initially developed, it held the probability of virtually excluding U.S. products from the

European market. However, members of the Accord approved a U.S. request for membership in 1971, but the U.S. Government has not yet established the necessary administrative machinery for participation.

Motor vehicle safety and emission laws have been enacted increasingly both in the United States and other countries. Specifications vary widely, a fact which adds to production costs in compliance. For U.S. exporters, the new standards are often difficult to meet and inspection is time-consuming and costly. In many cases, U.S. products must be certified abroad, rather than being tested in the United States.

European Community.—The European Community has undertaken a program of harmonization of industrial and product standards among its members. EC requirements that containers for liquid foods be exclusively in metric units have presented difficulties for U.S. exporters. U.S. seed exporters have encountered problems in getting seeds approved for importation into the Community. Wine standards recently instituted will inhibit U.S. wine exports.

Complaints of standards hindering U.S. exports to individual members of the Community concerned the following products: gold jewelry in France and Italy; container-board liners and aircraft in France and Germany; hardware in Germany and the Netherlands; spirits and pressure vessels in France, Germany, and Italy; steam generating equipment in France, Germany, and Belgium; gas appliances and hybrid seeds in France; and film, welding and cutting equipment, and scientific apparatus in West Germany.

Canada.—Standards in Canada for electric ranges necessitate reengineering of U.S. products. The number of can sizes for retailing of certain foods is restricted, and five standard U.S. can sizes are prohibited. U.S. fruit and vegetables which do not meet grade and quality standards of any U.S. marketing order cannot be imported from the United States but may be entered from other countries.

United States.—Complaints against U.S. industrial standards were directed principally against the Department of Transportation standards for high pressure gas cylinders; Coast Guard inspection of safety equipment on U.S. flag vessels; Federal Housing Administration standards for window glass; Department of Agriculture marketing orders on vegetables and fruit; safety and emission standards for motor vehicles; Underwriters Laboratory guarantee of inspection on products such as electrical appliances and apparatus, medical equipment, and gas and oil burning equipment; standards of professional and industrial associations covering products such as plumbing, heating, and fire-fighting equipment, lumber, pressure vessels, boilers, industrial fans, bicycles, and steel. Many of these organizations have their seal of approval required by local jurisdictions.

The United States was also criticized by domestic manufacturers for its failure to adopt the metric system, thus restricting acceptance of U.S. products overseas.

Other developed countries.—The following U.S. exports were said to meet industrial and product standards barriers in other major countries: Electrical equipment or electrical appliances in Denmark, Finland, Norway, and Sweden; aircraft in the United Kingdom, Switzerland, and Japan; articles of precious metal in the United Kingdom, Sweden, Switzerland, and Japan; distilled spirits in the

United Kingdom and Japan; fertilizers in Finland; shoes in Norway; lawn mowers in Sweden; canned food in Australia; and packaged food, medical and clinical apparatus, and sensitized photographic supplies in Japan.

LABELLING AND MARKING REQUIREMENTS

The growing concern for consumer protection is bringing an increasing number of products under labelling requirements and expanding information required on labels. The cost of compliance may become significant, especially if information required is detailed and differs considerably from one country to the next.

Most industrialized nations and many developing countries have extensive lists of commodities which must be marked to show the country of origin. "Marks of origin" requirements are probably the most universally criticized of all labelling regulations. Several countries have formally complained that U.S. requirements are excessive and more difficult to meet than those of most countries. The method required for marking the origin can significantly affect the cost of complying with the regulation. France, for instance, requires the mark of origin for some canned foods to be embossed on the end of the can.

In many countries, labelling requirements for alcoholic beverages and pharmaceutical products are especially complex and costly to comply with. U.S. exports of wine to Western Europe are severely inhibited by appellation of origin requirements which restrict use of names such as "champagne" or "chianti" to wines from specific areas of Europe.

HEALTH AND SANITARY STANDARDS

Laws to protect the health of humans, animals, and plants exist in all countries. The health and sanitary standards of many countries (including the United States) were the subject of complaint. Most of the complaints concerned regulations on the use of food additives, regulations governing meat, poultry and seafood, and phytosanitary requirements for agricultural products. A number of complaints concerned the spreading ban on the use of DDT. Common complaints were that trade was hampered by different regulations among countries concerning food additives and pesticides or that inspection requirements were costly, repetitive, or impossible to meet. In a number of cases, there are blanket prohibitions against importation of products of certain countries or areas.

PHARMACEUTICAL AND VETERINARY STANDARDS

Complaints against the burden of pharmaceutical and veterinary standards principally concerned requirements for testing, plant inspection, special documentation, and the use of a specific pharmacopoeia. Testing requirements especially were cited as causing unreasonable delay and expense. Several countries do not accept the validity of tests and approval by the U.S. Food and Drug Administration. French regulations virtually exclude pharmaceutical imports. Italy does not recognize foreign tests. Japanese testing requirements differ from those of the United States.

Both U.S. and foreign firms complained against several U.S. requirements, including compulsory inspection of plants in the country of exploration by U.S. inspectors and repetition in the United States of research and tests.

Pharmaceutical regulations in developing countries cause problems to traders because of language requirements for documentation, conformance to any of a variety of pharmacopoeia, certification requirements, and restrictions on distributors, Some countries only permit importation of products not produced domestically.

Customs Procedures and Administrative Practices

Administrative procedures and customs matters other than rates of duty frequently impinge upon the free flow of trade. Obstacles can be found in tariff classification systems, customs valuation, documentation requirements, consular formalities, antidumping practices and other administrative practices connected with the international exchange of goods. In the Tariff Commission survey, about one-third of the complaints in this area dealt with customs valuation practices, and one-fourth with documentation requirements.

CUSTOMS VALUATION

Generally speaking, most nations assess customs duties on the c.i.f. value of imports. Five developed countries (the United States, Canada, Australia, New Zealand, and South Africa) and a few small nations apply duties on the f.o.b. value of imports. Many countries using the c.i.f. value operate with the so-called Brussels Definition of Value. Other countries have their individual valuation systems, which usually are more complex than the Brussels system.

By far the most numerous complaint against customs valuation received in the Tariff Commission's trade barrier survey came from U.S. exporters who objected to the prevalent use of c.i.f. values for customs purposes in most other countries. Because U.S. import duties are chiefly on an f.o.b. basis (which are lower than the c.i.f. value because they do not include freight and insurance charges), U.S. producers and exporters apparently look upon assessment on the c.i.f. value in other countries as inherently unfair.

Several countries assess duties on the "domestic value" of merchandise in the country of origin if it is higher than the invoice value for the imports being considered. This practice drew complaints principally against Canada, Australia, New Zealand, and South Africa.

A large number of developing countries were criticized for using "arbitrary" values for assessment of duties. Several of these use "official values" set by the government, rather than some form of commercial value, for customs purposes. Particularly singled out for criticism in this respect were Mexico, Brazil, Argentina, Venezuela, and Peru.

A problem in virtually all valuation systems is establishing a correct customs value for imports not shipped as arms-length transactions between independent unrelated parties. Most countries adjust upward the invoice values of such imports to establish the customs value. As multinational corporations and exclusive distributorships spread among the world, problems arising from non-arms-length transactions multiply. The upward adjustment of invoice values for customs pur-

poses in non-arms-length transactions is commonly referred to as "uplift," especially in countries using the Brussels Definition of Value. Japan, the United Kingdom, France, and Italy were particularly mentioned in complaints to the Commission concerning uplift procedures.

The American selling price valuation method used by the United States for four products (benzenoid chemicals, rubber footwear, low-priced wool knit gloves, and canned clams) has long been a major target of criticism. The complexity of the U.S. valuation system, which operates with nine different standards, is also strongly criticized. Five of these standards apply to 1,015 products which have come to be referred to as the "Final List." Many objections have been made to the Final List valuation standards, which employ as the primary standard "foreign value" or "export value," whichever is higher.

DOCUMENTATION REQUIREMENTS AND CUSTOMS FORMALITIES

Every country requires some form of documentation to be submitted on products crossing its borders. A serious detriment to trade in terms of costs to the exporter or importer is recognized to exist in the cost of complying with documentation requirements which are excessive in terms of quantity, complexity, formality, and the time consuming procedures associated with obtaining or clearing the documents. A recent study found that an average international shipment requires 46 different documents in about 360 copies requiring 64 hours of preparation and processing time.

Several nations, among which are Canada, Australia, New Zealand, South Africa, the United States, and a number of South American countries, require a special customs or consular invoice on merchandise shipped to them. Some nations also require these invoices to be certified at a consulate nearest the port of shipment of the cargo. Venezuela recently equated the revenue it received from consular invoices to a tariff of 3.5 percent ad valorem.

CUSTOMS NOMENCLATURE

The customs classification systems of the major trading nations each contain a few thousand product categories. The growing complexity of these systems led to a world-wide movement to a standardized customs nomenclature. The majority of nations today classify their imports according to the Brussels Tariff Nomenclature. Canada and the United States are the only major trading nations which do not use this system. Because the classification nomenclatures of these two countries differ substantially from the widely used standard system, they have been criticized as constituting barriers to trade.

ANTIDUMPING PRACTICES

For several years, the manner in which nations respond to the unfair competition of foreign dumping in their domestic markets has been the subject of international discussion. Laws and regulations to discourage the practice probably exist in most nations. However, Canada and the United States take antidumping actions far more frequently than any other major trading country. The frequency of these actions and some of the related procedures are often criticized as trade barriers.

Discriminatory Ocean Freight Rates

Many U.S. producers and exporters reported to the Tariff Commission that discriminatory treatment in ocean freight rates greatly weakens their ability to compete abroad and enhances the competitive strength of foreign industries in the U.S. market. For example, ocean freight rates on many commodities from the United States to Japan are higher than the rates from Japan to the United States on the same products. The differences frequently are large, ranging from 20 percent to well over 100 percent. Moreover, since most foreign tariffs are applied on a c.i.f. basis, and most foreign consumption taxes, such as the value-added taxes in Europe and the commodity taxes in Japan, are applied on a landed duty paid basis, the effects of the discriminatory rate treatment are multiplied.

On the basis of a series of hearings from 1963 to 1965, the Joint Economic Committee of the U.S. Congress issued this finding:

> The international ocean freight rate structure is weighted against U.S. exports. Our exports bear most of the cost of vessel operation, even in trades where imports approximate exports in value and quantity. Government studies reveal that on trade between U.S. Pacific coast and the Far East, freight rates on American exports exceeded rates on corresponding imports on 80 percent of the sampled items. This same discrimination prevails on 70 percent of the products shipped by American exporters from U.S. Atlantic and gulf ports to the Far East and on 60 percent of the commodities shipped from the Atlantic coast to Western Europe."

APPENDIX C

THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)*

Introduction

The Committee on Finance directed its staff to prepare a memorandum on certain provisions of the General Agreement on Tariffs and Trade which appear to discriminate against U.S. commerce, or which appear to be inadequate guides for the establishment of fair and reciprocal principles for governing the expansion of world trade. This memorandum is not an exhaustive treatment of all the GATT principles. Rather, it attempts to highlight some of the issues raised by the GATT which the staff feels are important.

GATT and the International Trade Organization

The collapse of international trade in the 1930's and the resulting political and economic effects led some world leaders to conclude that new international economic institutions were essential for international cooperation in international trade and payments matters. The ultimate goals envisaged for such institutions were the prevention of war and the establishment of a just system of economic relations.

During World War II preparations were underway for the establishment of these institutions. The Bretton Woods Conference in 1944 resulted in the emergence of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). But it was recognized that an international organization to regulate trade was a necessary complement to the IMF and the IBRD.[1] During the war years, the U.S. State Department had prepared a draft charter of an International Trade Organization.[2]

At the first session of the United Nations, the Economic and Social Council resolved that a conference to draft a charter for an ITO should be called. Four conferences were held. The last of these conferences was held in Havana from November 21, 1947 to March 24, 1948.

The ITO never came into being. Many of its provisions were considered too extreme. They would have amounted to a virtual delegation of congressional tariff setting and trade regulating powers under the Constitution to the Executive.

To fill the gap caused by the death of the ITO, many of the clauses in the drafts of the ITO charter were taken and put into a document called the General Agreement on Tariffs and Trade (GATT).

[1] The Bretton Woods Conference resolved: "Complete attainment of * * * purposes and objectives [of the IMF] * * * cannot be achieved through the instrumentality of the Fund alone; * * *" and recommended that the government seek agreement "to reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations * * *."

[2] U.S. State Department Document 2411, December 1945.

*This document was published by the Committee on Finance in December 1970. Although there have been many changes in the world economy since then, it is still relevant to any discussion of institutional reform of GATT.

The basic GATT agreement was completed in 1947 but it has never been submitted to the Congress for its study and approval. It is being observed by the United States through a "protocol of provisional application."

The "protocol of provisional application" stated that the eight governments who signed it would undertake "not later than November 15, 1947, to apply provisionally on and after January 1, 1948:

(*a*) Parts I and III of the General Agreement on Tariffs and Trade, and

(*b*) Part II of that Agreement to the fullest extent *not inconsistent* with existing legislation." [3]

This protocol is still in effect, although the GATT has been amended a number of times and affected by other protocols, including some that are not in force themselves. Thus, the basic treaty is a complex set of instruments, applying with different rigor to different countries.[4]

In spite of the fact that the GATT has never been specifically approved by the U.S. Congress as a treaty or otherwise, the executive branch trade spokesmen tend to view GATT as "the law." Whenever the Congress contemplates taking any action to protect a domestic interest, the Executive pointedly reminds it of the "international commitments" of the United States.[5] It is not clear however, that the executive branch demands the same respect for adhering to "international commitments" from other signatories of the Agreement as it demands of itself.

For example, Japan has import quotas on 98 commodities without any finding of serious injury; Britain imposed a "surtax" on imports

[3] The eight signatures, some with reservations, were Australia, Belgium, Canada, France, Luxembourg, The Netherlands, United Kingdom, and the United States.

[4] For example, the GATT provisions regarding subsidies apply to some countries, but not to others. Even the fundamental principle of GATT—nondiscrimination—has been compromised by numerous exceptions in recent years. The GATT provisions have not prevented the widespread use of nontariff barriers in recent years as substitutes for tariff protection.

[5] The prospect of "retaliation" against U.S. exports if the United States applied "unilateral" restrictions to foreign imports, was discussed by Secretary of State Dean Rusk before the Committee on Finance in these terms:

"Retaliation would simply be what is permitted by the rules of the game as that game is now practiced by some seventy countries accounting for about 85 percent of world trade. I refer, of course, to the General Agreement on Tariffs and Trade—the GATT.

"The GATT is essentially a code of conduct for fairplay in international trade. The United States played a major role in its negotiation in 1947. Like many of the great initiatives of the early post-World War II days, it reflected a conviction that there must surely be a better way to organize man's affairs than had been the case in the preceding decades of self-centered nationalism. In the area of international trade policy, the GATT represents an attempt to prevent a repetition of some of the economic blunders of the 1930's.

"The GATT does this by establishing *a legal framework* for the stability of trade concessions negotiated in good faith among sovereign countries. We accord others access to our market in return for the right of our exporters to sell in their markets. If we impair the access we have agreed to give others, two courses of action are available under the GATT. We ourselves can offer reductions of our import barriers on other products equivalent in trade value to the impaired concession or the foreign country can withdraw concessions affecting an equivalent trade value for American exports in the foreign market. This may sound a bit complicated—*the legal language* of the GATT is much more complicated—but the idea is clear. It is retaliation—by agreement among all parties in advance that restrictive action by one party entitles the aggrieved party, *as a matter of legal right*, to compensatory action." [Emphasis supplied.]

and an "import deposit scheme," in violation of GATT; the Continental Europeans have entered into "special commercial arrangements" on citrus fruits and other products in violation of GATT MFN principles, and its common agricultural policy is significantly more protectionist than the previous individual country restrictions on agricultural imports, another violation of GATT principles. Outside of complaining, the United States has done nothing to demand compensation or to retaliate against these violations of GATT principles.

The GATT was born more than 20 years ago at a time when Europe and Japan were in ruins and the United States completely dominated world trade as well as other matters. In the year in which GATT was negotiated, 1947, the United States had a $10 billion trade surplus. The attitude of many U.S. officials at that time was one of redistributing the wealth. We embarked on an ambitious Marshall plan aid program and later on a technical assistance program. U.S. officials were worried about the so-called "dollar gap" meaning that foreign countries did not have enough dollars to purchase needed imports. It is somewhat understandable that under these circumstances, the GATT would contain certain provisions designed to favor European countries and Japan.

Conditions in 1970 are vastly different from those in 1947. At this point, the GATT should be redrawn to take out the inequitable provisions which effectually discriminate against certain countries, mainly the United States, and to put in new provisions to cope with new conditions in the world economy.

Most-Favored-Nation Treatment

Nondiscrimination is intended to be the cardinal principle of GATT. It is embodied in article I. What you give to one you give to all. This principle is aimed at making anathema discriminatory bilateral trade agreements, preferences, and special commercial relationships.

However, the GATT sanctions the departure from unconditional MFN treatment in the case of customs unions and free trade areas (article XXIV), certain exceptions in article XIV, and the existence of certain preferences in article I, paragraph 2. These "exceptions" effectively allow European countries to depart from MFN treatment when it suits their commercial interests.

The United States generally observes the unconditional MFN principle although in recent years the United States has compromised on its rigid adherence to this GATT principle.[6] This is particularly

[6] For 140 years, until 1923, the United States adhered to a "conditional" most-favored-nation principle, under which we would extend tariff and other trade benefits negotiated with one party to another, only if the latter offered reciprocal benefits. Under "conditional" MFN, no country would get a "free ride." The major considerations in the U.S. decision to change to an "unconditional" MFN principle were:

A. By 1923 international commercial relations were dominated by tariff rates and regulations, whereas previously tariffs were of relatively minor importance as compared with the right to trade at all. Bilateral negotiations with such trading partners were cumbersome and time-consuming.

B. The United States had become a major manufacturing nation and sought immunity from discrimination by other countries in order to compete abroad for markets.

C. Under the Tariff Act of 1922, the President was authorized to impose additional duties on the whole or on any part of the commerce of any country which discriminated against American commerce. Consistency, therefore, required that we not initiate discriminatory rates.

evident in the U.S. request for a GATT waiver on the United States-Canadian automobile pact and the Presidential announcements in favor of a system of special "generalized tariff preferences" for less developed countries.

One of the provisions of article XXIV in defining customs unions was that such formations were required to "facilitate trade between the parties" by eliminating regulations of commerce on "substantially all trade between constituent territories of the union." In fact, however, this was violated in 1952 when the six European nations set up the European Coal and Steel Community to pool resources of coal, steel, iron ore, and scrap in a single market without internal frontier barriers. The GATT considered this project as limited to one sector of the economy and therefore not covered by the provisions relating to customs unions. Nevertheless, in light of the fact that the ECSC would have been agreed to by the six with or without GATT approval, the GATT granted a waiver.

France, West Germany, Italy, Belgium, Luxembourg, and The Netherlands signed in 1958 the Treaty of Rome, establishing the European Economic Community, a common market agreement. The legal question of whether the Rome Treaty is consistent with article XXIV of the GATT has never been settled but is obviously academic. Since the common market of Europe was established in 1958, other important trade blocs have also developed. The outer countries of Europe established the European Free Trade Association in 1959. The countries of South America signed the Montevideo Treaty in 1960, creating the Latin American Free Trade Area (LAFTA), a free trade association among the South American countries. A common market among the Central American countries is in existence and now at Punte del Este agreement has been reached to integrate the Central American Common Market and the Latin American Free Trade Area into a Latin American common market. Japan is currently considering the establishment of a free trade area or common market with Australia and New Zealand (which already have a free trade area between themselves) hoping that it will later include Canada and the United States.

There are also tariff preferences, "reverse preferences" and special commercial arrangements sprouting up all over the world.

In Asia, Australia has unilaterally violated MFN by granting preferences to less developed countries. There is growing sentiment of a Pacific Free Trade Area among Japan, Australia, and New Zealand. The British Commonwealth preference system violates the MFN principle. In short, there are very few countries if any, who observe unconditional MFN treatment, without exceptions.

But, the problem is that the exceptions are growing and threaten to make the MFN principle a mockery. The EEC has special preferences for its 19 former African colonies which in turn give "reverse preferences" to EEC goods. The EEC has concluded or is in the process of negotiating discriminatory commercial arrangements with Greece, Turkey, Israel, Spain, Tunisia, and Morocco. Applications for membership with the community are being considered for Austria, Spain, Ireland, Great Britain, and others. All this involves a massive movement away from MFN.

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Tariff preferences are by nature discriminatory, and yet the whole developed world seems to have accepted this as a necessary concession to the demands of the less developed countries. In short, the principle of nondiscrimination is being observed more and more in the breach.

It concerns us to see developing in the world a situation in which more and more trading partners of the United States are being incorporated in regional trade blocs which do not adhere to the unconditional most-favored-nation clause. The United States has eschewed joining a free trade area with North Atlantic countries mainly because of its concern for dividing up the world into competitive regional blocs. But, we have actively supported the participation of other countries in regional trade blocs, which threaten to accomplish the same unwanted result. In addition, as more countries enter into regional trade blocs the U.S. competitive position is bound to suffer from the inherently discriminatory nature of these arrangements. This fact has important ramifications in determining a future U.S. trade policy.

GATT Provisions on Subsidies and Border Taxes

Another important area in which GATT principles are both inadequate and discriminatory concerns subsidies and border tax adjustments.

In essence, the GATT provisions on subsidies and border taxes have been interpreted to permit the rebate of "indirect taxes" (such as value added or turnover taxes) on exports and the imposition of such taxes on imports, but to deny equivalent treatment for "direct taxes," such as income taxes.

TAX SHIFTING ASSUMPTIONS IN GATT

The entire border tax adjustment theory and practice is based on the assumption that "indirect taxes" are always and wholly shifted forward into the final price of a product and that "direct taxes" are always and wholly shifted backward to the factors of production.

The distinction between direct and indirect taxes on the basis of their presumed difference in incidence, though generally accepted two generations ago, is now widely questioned. All taxes on business are increasingly thought of as costs, with varying effects and differential impacts depending on their form, but in one way or another constituting a cost which must be recovered from customers or those who supply resources if the enterprise is to survive. Indirect taxes, at least in the short run, are partially absorbed by the manufacturer depending upon the degree of competition in his markets, and in the markets for his raw materials. Direct taxes, especially the corporate income tax, are shifted forward to the price of the product sold to consumers to the extent that market conditions allow. Well known economists and fiscal experts brought together in a symposium, organized by the Secretary-General of the Organization for Economic Cooperation and Development, in September 1964, reached the following conclusions, (1) "In practice, indirect taxes are not fully shifted into product

prices . . ." and, (2) "Certain direct taxes, and particularly the corporate profits tax, may be partially shifted into product prices: although the degree of shifting may vary from country to country."

Businessmen operate with target rates of return in mind and will pass-on all costs, including taxes, into the price structure of their products to the extent that price elasticity of demand in the market will permit. Thus, modern economic theory suggests that the distinction in the GATT treatment of direct and indirect taxes is an extreme and arbitrary assumption which does not stand the test of economic reality. The Business and Industry Advisory Committee of the OECD (BIAC) in a report on the problem of tax shifting stated: "In a strongly competitive situation the prices obtainable—and hence the degree of tax shifting—are substantially determined by the market itself." In short the GATT on border taxes are not "trade neutral."

Actually, the distinction between "direct" and "indirect" taxes is itself somewhat arbitrary and appears to be based more on prevailing practice than on reason. The distinction is, in fact, not made explicit in the GATT provisions, but flows from interpretations of, and amendments to, various provisions. For example, value added taxes, according to GATT classification are considered to be indirect taxes. However, value added taxes fall on both costs and profits of the producer (value added being defined as the difference between the value of a firm's purchases and sales) and to the extent that they fall on profits how can they be distinguished from a profits tax in effect? Corporate profits taxes are classified by GATT as "direct" falling entirely on the producer. Logically, if corporate taxes were reduced, prices should fall. But to the extent that tax reductions stimulate increased spending and demand, they could stimulate price increases. For example, there is no evidence that corporate tax reductions in 1964, led to price reductions.

HISTORY OF GATT DISTINCTION

The provisions in GATT relevant to border taxes and subsidies, basically articles II, III, and XVI, are drawn from the Havana Charter of the 1940's. These provisions were themselves either a compromise (for example, article XVI) or were adapted from provisions of numerous bilateral trade treaties, including especially the United States-Canada reciprocal trade agreement of the midthirties.[7] The lack of precise or concentrated thinking about the border tax problem is illustrated by the absence of explicit definitions of key concepts.[8]

There is no unified section of the GATT which deals exclusively with border taxes and is quite clear that the provisions of GATT which do cover border tax adjustments were not the product of carefully reasoned theory, or of experience molded in the crucible of extensive usage.

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[7] 49 Stat. 3960 (1936). Effective May 14, 1936.

[8] For example, the meaning of linking the import charge at the border with "charge * * * applied, directly, or indirectly, to like domestic products" is not defined.

When the present GATT language was drawn up more than two decades ago, the question of border taxes did not appear to be a major one. Levels of indirect taxes were much lower. Under these circumstances, overlying simple and sweeping assumptions about tax shifting seemed acceptable, and already existing practices were incorporated in very general terms without searching examination.

IMPORT "EQUALIZATION" CHARGES

Border tax adjustments on the import side, i.e., import equalization charges, are permitted under Article II and III of the GATT, but only for "indirect taxes." Article II (Schedules of Concessions) provides that its terms shall not prevent any contracting party from imposing charges "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". This exemption of indirect taxes gives a GATT blessing to the European practice of imposing "equalization" charges at the border. Article III (National Treatment of Internal Taxation and Regulation) provides in paragraph 2 thereof that "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." This article is apparently being ignored by European countries which impose discriminatory road taxes against larger American cars. Japan and other countries also discriminate against American cars through their tax system.

EXPORT REBATES

Article XVI, adopted in 1955 deals with the question of border tax adjustments for exports in the following terms:

> 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 as subsidy.

This Article contains many vague terms which need clarification. For example, what is meant by "borne by the like product when destined for domestic consumption" or "remission of such duties or taxes in amounts not in excess of those which have accrued"? These terms seem to be an attempt to apply the "destination principle" to indirect taxes, but the meaning of indirect taxes itself is not at all clear.[9]

[9] This principle states that internationally traded commodities should be subject to some specified taxes of the importing country and exempt from similar taxes of the exporting country in order to avoid double taxation. The principle contrasts with (a) the origin principle as applied to other forms of taxation on transactions, (b) income taxes levied according to source of income, or domicile or residence of the taxpayer, and (c) property taxes imposed according to the situs of the taxable object.

In 1960, the contracting parties adopted a Working Party Report which listed a number of practices construed to be subsidies.[10] Among these were the remission of direct taxes or social welfare charges on industrial or commercial enterprises and "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. The implications of practices listed in (b), (c) and (d) of footnote 10 below were not fully appreciated by the United States. They, in effect permitted the European countries to impose border taxes on imports and rebate indirect taxes on exports in accordance with their value added or cascade turnover taxes.

In the late forties and early fifties it is not surprising that U.S. trade officials were willing to incorporate existing commercial practices on border tax adjustments into the GATT agreement. There were much larger problems in international trade than border tax adjustments, which at that time were low—in the range of 2–4 percent and limited to around one-sixth of the goods traded—and then only in the case of a few nations. The United States and a $10 billion trade surplus in 1947 which must have had an effect on our negotiators' attitudes.

But the failure to appreciate the consequences of excluding the so-called "indirect tax" rebates in 1960 from the general prohibition

[10] Point 5 of the report adopted on November 19, 1960, dealing with subsidies stated:

"The following detailed list of measures which are considered as forms of export subsidies by a number of contracting parties was referred to in the proposal submitted by the Government of France, and the question was raised whether it was clear that these measures could not be maintained if the provisions of the first sentence of paragraph 4 of Article XVI were to become fully operative:

"(a) Currency retention schemes or any similar practices which involve a bonus on exports or re-exports;

"(b) The provision by governments of direct subsidies to exporters;

"(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 connexion 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 connexion with importation or in both forms;

"(e) In respect of deliveries by governments or governmental agencies of imported raw materials for export business on different terms than for domestic business, the charging of prices below world prices;

"(f) 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;

"(g) The grant by governments (or special institutions controlled by governments) of export credits at rates below those which they have to pay in order to obtain the funds so employed;

"(h) The government bearing all or part of the costs incurred by exporters in obtaining credit.

"The Working party agreed that this list should not be considered exhaustive or to limit in any way the generality of the provisions of paragraph 4 of Article XVI. It noted that the governments prepared to accept the declaration contained in Annex A agreed that, for the purpose of that declaration, these practices generally are to be considered as subsidies in the sense of Article XVI: 4 or are covered by the Articles of Agreement of the International Monetary Fund. The representatives of governments which were not prepared to accept that declaration were not able to subscribe at this juncture to a precise interpretation of the term 'subsidies,' but had no objection to the above interpretation being accepted by the future parties to that declaration for the purposes of its application."

against export subsidies while including a specific prohibition against rebating "direct taxes", was a major blunder. The United States by that time had run into serious balance of payments difficulties. Western Europe had become a prosperous "third force." Giving away commercial advantages to prosperous Europe for the sake of their own internal tax harmonization objectives was an unwise and costly move, in which vague political objectives out-weighted clear commercial considerations.

Balance-of-Payments Safeguards

Balance-of-payments considerations have exerted and will continue to exert a powerful influence on major countries' dispositions to deal with trade matters. Recent history shows that countries will adopt whatever measures they deem necessary to protect their balance of payments irrespective of GATT. The British imposed an import deposit scheme to control imports and prior to that they and the Canadians adopted import surcharges to protect their balance of payments. The French subsidized their exports even beyond what the inequitable GATT rules allow. In developed as well as the less developed countries quantitative restrictions and licensing arrangements are legion.

The GATT recognizes that member countries may have to protect their balance of payments and international reserve positions and to this end Article XII sanctions the use of quantitative restrictions (quotas). Export subsidies or import surcharges are not allowed under GATT rules as balance-of-payments adjustment mechanisms; import quotas are. This rigidity in the GATT flies in the face of other provisions of the GATT which are more flexible. Limiting available options to quotas also is inconsistent with the main emphasis of GATT to eliminate quotas as a trade protective device.

It is also difficult to understand why, if quotas are sanctioned by GATT as a balance of payments safeguard, the United States would be violating either the letter or the spirit of the agreement if it imposed quotas for balance of payments reasons—a position that has been stated by administration spokesmen. The United States has experienced deficits in its balance of payments in every year since 1950, with two exceptions, and its international reserve position has deteriorated substantially. This would appear to fully justify the application of Article XII quotas for the United States. Member countries in GATT should face up to the lack of flexibility in Article XII, and decide whether quotas should be the only recourse available to a country suffering from chronic balance of payments problems. In facing this issue, the member countries should consider that in recent years many countries have not hesitated to use whatever means they deemed necessary to restore equilibrium notwithstanding the GATT.

Conclusion

In a number of areas the GATT is deficient and discriminatory. Its exceptions to unconditional MFN treatment favor common markets and free trade areas, and threaten to break up the trading world into competitive regional blocs. Recent bilateral commercial arrangements involving the European Common Market and other countries do not even pretend to justify their existence under article XXIV. The United States could gradually become isolated as a trading

nation if it continues to adhere to a policy of encouraging other nations to join regional trade blocs which violate MFN principles, while eschewing U.S. participation in such arrangements under the theory of "multilateralism."

The GATT treatment of subsidies and import charges discriminate against countries relying principally on one form of tax structure—direct or income taxes—in favor of other countries whose revenues are derived from a different system—such as value added taxes.

The GATT safeguard on balance of payments is an anachronism and is inconsistent with other principles in GATT. Furthermore, in recent years major countries such as England and France have imposed import restrictions for balance of payments reasons in complete disdain of GATT principles.

The GATT does not even pretend to be a guide in agricultural trade which is now heavily controlled and subsidized, especially in the European Community.

In short, as presently constituted, the GATT is not a guide to fair trade. Its rules are often inequitable and outdated. It was written at a time when the United States held a virtual monopoly over production and trade and when the rest of the world suffered from an acute shortage of dollars. Trade at that time was mainly between unrelated parties at arms length transactions. Today, trade is increasingly becoming a movement of goods within a multinational business complex. The drafters of GATT may not have forseen all the postwar economic and structural changes. But no one can claim that world conditions have not changed sufficiently to require a new look at the GATT. It is the view of the staff that the GATT should be redrawn to provide for principles of fair and free trade before the Congress approves its provisions.

(Excerpts From the General Agreement on Tariffs and Trade Referred to in the Text of this Print)

ARTICLE I

GENERAL MOST-FAVOURED-NATION TREATMENT

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

2. The provisions of paragraph 1 of this Article shall not require the elimination of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 4 of this Article and which fall within the following descriptions:

(a) preferences in force exclusively between two or more of the territories listed in Annex A, subject to the conditions set forth therein;

(b) preferences in force exclusively between two or more territories which on July 1, 1939, were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C, and D subject to the conditions set forth therein;

(c) preferences in force exclusively between the United States of America and the Republic of Cuba;

(d) preferences in force exclusively between neighbouring countries listed in Annexes E and F.

3. The provisions of paragraph 1 shall not apply to preferences between the countries formerly a part of the Ottoman Empire and detached from it on July 24, 1923, provided such preferences are approved under paragraph 5 of Article XXV,[1] which shall be applied in this respect in the light of paragraph 1 of Article XXIX.

4. The margin of preference on any product in respect of which a preference is permitted under paragraph 2 of this Article but is not specifically set forth as a maximum margin of preference in the appropriate Schedule annexed to this Agreement shall not exceed:

(a) in respect of duties or charges on any product described in such Schedule, the difference between the most-favoured-nation and preferential rates provided for therein; if no preferential rate is provided for, the preferential rate shall for the purposes of this

[1] Pending the entry into force of the Protocol Amending Part I and Articles XXIX and XXX, this reference to Article XXV actually reads "sub-paragraph 5(a) of Article XXV," although paragraph 5 is no longer divided into sub-paragraphs (a), (b), etc., as was formerly the case. The present text of paragraph 5 was formerly sub-paragraph 5(a) of Article XXV.

paragraph be taken to be that in force on April 10, 1947, and, if no most-favoured-nation rate is provided for, the margin shall not exceed the difference between the most-favoured-nation and preferential rates existing on April 10, 1947;

(b) in respect of duties or charges on any product not described in the appropriate Schedule, the difference between the most-favoured-nation and preferential rates existing on April 10, 1947.

In the case of the contracting parties named in Annex G, the date of April 10, 1947, referred to in sub-paragraphs (a) and (b) of this paragraph shall be replaced by the respective dates set forth in that Annex.

ARTICLE II

SCHEDULES OF CONCESSIONS

1. (a) Each contracting party shall accord to the commerce of the other contracting parties treatment no less favourable than that provided for in the appropriate Part of the appropriate Schedule annexed to this Agreement.

(b) The products described in Part I of the Schedule relating to any contracting party, which are the products of territories of other contracting parties, shall, on their importation into the territory to which the Schedule relates, and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for therein. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date.

(c) The products described in Part II of the Schedule relating to any contracting party which are the products of territories entitled under Article I to receive preferential treatment upon importation into the territory to which the Schedule relates shall, on their importation into such territory, and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for in Part II of that Schedule. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date. Nothing in this Article shall prevent any contracting party from maintaining its requirements existing on the date of this Agreement as to the eligibility of goods for entry at preferential rates of duty.

2. Nothing in this Article shall prevent any contracting party from imposing at any time on the importation of any product:

(a) a charge equivalent to any 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;

(b) any anti-dumping or countervailing duty applied consistently with the provisions of Article VI;

(c) fees or other charges commensurate with the cost of services rendered.

3. No contracting party shall alter its method of determining dutiable value or of converting currencies so as to impair the value of any of the concessions provided for in the appropriate Schedule annexed to this Agreement.

4. If any contracting party establishes, maintains or authorizes, formally or in effect, a monopoly of the importation of any product described in the appropriate Schedule annexed to this Agreement, such monopoly shall not, except as provided for in that Schedule or as otherwise agreed between the parties which initially negotiated the concession, operate so as to afford protection on the average in excess of the amount of protection provided for in that Schedule. The provisions of this paragraph shall not limit the use by contracting parties of any form of assistance to domestic producers permitted by other provisions of this Agreement.

5. If any contracting party considers that a product is not receiving from another contracting party the treatment which the first contracting party believes to have been contemplated by a concession provided for in the appropriate Schedule annexed to this Agreement, it shall bring the matter directly to the attention of the other contracting party. If the latter agrees that the treatment contemplated was that claimed by the first contracting party, but declares that such treatment cannot be accorded because a court or other proper authority has ruled to the effect that the product involved cannot be classified under the tariff laws of such contracting party so as to permit the treatment contemplated in this Agreement, the two contracting parties, together with any other contracting parties substantially interested, shall enter promptly into further negotiations with a view to a compensatory adjustment of the matter.

6. (a) The specific duties and charges included in the Schedules relating to contracting parties members of the International Monetary Fund, and margins of preference in specific duties and charges maintained by such contracting parties, are expressed in the appropriate currency at the par value accepted or provisionally recognized by the Fund at the date of this Agreement. Accordingly, in case this par value is reduced consistently with the Articles of Agreement of the International Monetary Fund by more than twenty per centum, such specific duties and charges and margins of preference may be adjusted to take account of such reduction; *Provided* that the Contracting Parties (i.e., the contracting parties acting jointly as provided for in Article XXV) concur that such adjustments will not impair the value of the concessions provided for in the appropriate Schedule or elsewhere in this Agreement, due account being taken of all factors which may influence the need for, or urgency of, such adjustments.

(b) Similar provisions shall apply to any contracting party not a member of the Fund, as from the date on which such contracting party becomes a member of the Fund or enters into a special exchange agreement in pursuance of Article XV.

7. The Schedules annexed to this Agreement are hereby made an integral part of Part I of this Agreement.

Article III

NATIONAL TREATMENT ON INTERNAL TAXATION AND REGULATION

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 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.

4. The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

5. No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources. Moreover, no contracting party shall otherwise apply internal quantitative regulations in a manner contrary to the principles set forth in paragraph 1.

6. The provisions of paragraph 5 shall not apply to any internal quantitative regulation in force in the territory of any contracting party on July 1, 1939, April 10, 1947, or March 24, 1948, at the option of that contracting party; *Provided* that any such regulation which is contrary to the provisions of paragraph 5 shall not be modified to the detriment of imports and shall be treated as a customs duty for the purpose of negotiation.

7. No internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions shall be applied in such a manner as to allocate any such amount or proportion among external sources of supply.

8. (a) The provisions of this Article shall not apply to laws, regulations or requirements governing the procurement by governmental agencies of products purchased for governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

(b) The provisions of this Article shall not prevent the payment of subsidies exclusively to domestic producers, including payments to domestic producers derived from the proceeds of internal taxes or charges applied consistently with the provisions of this Article and subsidies effected through governmental purchases of domestic products.

9. The contracting parties recognize that internal maximum price control measures, even though conforming to the other provisions of this Article, can have effects prejudicial to the interests of contracting parties supplying imported products. Accordingly, contracting parties applying such measures shall take account of the interests of exporting contracting parties with a view to avoiding to the fullest practicable extent such prejudicial effects.

10. The provisions of this Article shall not prevent any contracting party from establishing or maintaining internal quantitative regulations relating to exposed cinematograph films and meeting the requirements of Article IV.

Article XII

RESTRICTIONS TO SAFEGUARD THE BALANCE OF PAYMENTS

1. Notwithstanding the provisions of paragraph 1 of Article XI, any contracting party, in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported, subject to the provisions of the following paragraphs of this Article.

2. (a) Import restrictions instituted, maintained or intensified by a contracting party under this Article shall not exceed those necessary:

(i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of such contracting party or its need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

(b) Contracting parties applying restrictions under sub-paragraph (a) of this paragraph shall progressively relax them as such conditions improve, maintaining them only to the extent that the conditions specified in that sub-paragraph still justify their application. They shall eliminate the restrictions when conditions would no longer justify their institution or maintenance under that sub-paragraph.

3. (a) Contracting parties undertake, in carrying out their domestic policies, to pay due regard to the need for maintaining or restoring equilibrium in their balance of payments on a sound and lasting basis and to the desirability of avoiding an uneconomic employment of

productive resources. They recognize that in order to achieve these ends, it is desirable so far as possible to adopt measures which expand rather than contract international trade.

(b) Contracting parties applying restrictions under this Article may determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential.

(c) Contracting parties applying restrictions under this Article undertake:

(i) to avoid unnecessary damage to the commercial or economic interests of any other contracting party;

(ii) not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and

(iii) not to apply restrictions which would prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

(d) The contracting parties recognize that, as a result of domestic policies directed towards the achievement and maintenance of full and productive employment or towards the development of economic resources, a contracting party may experience a high level of demand for imports involving a threat to its monetary reserves of the sort referred to in paragraph 2(a) of this Article. Accordingly, a contracting party otherwise complying with the provisions of this Article shall not be required to withdraw or modify restrictions on the ground that a change in those policies would render unnecessary restrictions which it is applying under this Article.

4. (a) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification of the measures applied under this Article shall immediately after instituting or intensifying such restrictions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the Contracting Parties as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(b) On a date to be determined by them, the Contracting Parties shall review all restrictions still applied under this Article on that date. Beginning one year after that date, contracting parties applying import restrictions under this Article shall enter into consultations of the type provided for in sub-paragraph (a) of this paragraph with the Contracting Parties annually.

(c) (i) If, in the course of consultations with a contracting party under sub-paragraph (a) or (b) above, the Contracting Parties find that the restrictions are not consistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the Contracting Parties determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that damage to the trade of any contracting party

is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within a specified period of time. If such contracting party does not comply with these recommendations within the specified period, the Contracting Parties may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(d) The Contracting Parties shall invite any contracting party which is applying restrictions under this Article to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the Contracting Parties have ascertained that direct discussions between the contracting parties concerned have not been successful. If, as a result of the consultations with the Contracting Parties, no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified within such time as the Contracting Parties may prescribe, they may release the contracting party initiating the procedure from such obilgations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(e) In proceeding under this paragraph, the Contracting Parties shall have due regard to any special external factors adversely affecting the export trade of the contracting party applying restrictions.

(f) Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

5. If there is a persistent and widespread application of import restrictions under this Article, indicating the existence of a general disequilibrium which is restricting international trade, the Contracting Parties shall initiate discussions to consider whether other measures might be taken, either by those contracting parties the balances of payments of which are under pressure or by those the balances of payments of which are tending to be exceptionally favourable, or by any appropriate intergovernmental organization, to remove the underlying causes of the disequilibrium. On the invitation of the Contracting Parties, contracting parties shall participate in such discussions.

ARTICLE XIV [1]

EXCEPTIONS TO THE RULE OF NON-DISCRIMINATION

1. A contracting party which applies restrictions under Article XII or under Section B of Article XVIII may, in the application of such restrictions, deviate from the provisions of Article XIII in a manner having equivalent effect to restrictions on payments and transfers

[1] Text as amended Feb. 15, 1961, on which date Annex J was deleted.

for current international transactions which that contracting party may at that time apply under Article VIII or XIV of the Articles of Agreement of the International Monetary Fund, or under analogous provisions of a special exchange agreement entered into pursuant to paragraph 6 of Article XV.

2. A contracting party which is applying import restrictions under Article XII or under Section B of Article XVIII may, with the consent of the Contracting Parties, temporarily deviate from the provisions of Article XIII in respect of a small part of its external trade where the benefits to the contracting party or contracting parties concerned substantially outweigh any injury which may result to the trade of other contracting parties.

3. The provisions of Article XIII shall not preclude a group of territories having a common quota in the International Monetary Fund from applying against imports from other countries, but not among themselves, restrictions in accordance with the provisions of Article XII or of Section B of Article XVIII on condition that such restrictions are in all other respects consistent with the provisions of Article XIII.

4. A contracting party applying import restrictions under Article XII or under Section B of Article XVIII shall not be precluded by Articles XI to XV or Section B of Article XVIII of this Agreement from applying measures to direct its exports in such a manner as to increase its earnings of currencies which it can use without deviation from the provisions of Article XIII.

5. A contracting party shall not be precluded by Articles XI to XV, inclusive, or by Section B of Article XVIII, of this Agreement from applying quantitative restrictions:

(a) having equivalent effect to exchange restrictions authorized under Section 3(b) of Article VII of the Articles of Agreement of the International Monetary Fund, or

(b) under the preferential arrangements provided for in Annex A of this Agreement, pending the outcome of the negotiations referred to therein.

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 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.

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 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 charged 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.

Article XXIV

TERRITORIAL APPLICATION—FRONTIER TRAFFIC—CUSTOMS UNIONS AND FREE-TRADE AREAS

1. The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. Each such customs territory shall, exclusively for the purposes of the territorial application of this Agreement, be treated as though it were a contracting party; *Provided* that the provisions of this paragraph shall not be construed to create any rights or obligations as between two or more customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application by a single contracting party.

2. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate

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tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.

3. The provisions of this Agreement shall not be construed to prevent:

(a) advantages accorded by any contracting party to adjacent countries in order to facilitate frontier traffic;

(b) advantages accorded to the trade with the Free Territory of Trieste by countries contiguous to that territory, provided that such advantages are not in conflict with the Treaties of Peace arising out of the Second World War.

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

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; *Provided* that:

(a) with respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;

(b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement, as the case may be; and

(c) any interim agreement referred to in sub-paragraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

6. If, in fulfilling the requirements of sub-paragraph 5(a), a contracting party proposes to increase any rate of duty inconsistently with the provisions of Article II, the procedure set forth in Article XXVIII shall apply. In providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union.

7. (a) Any contracting party deciding to enter into a customs union or free-trade area, or an interim agreement leading to the formation

of such a union or area, shall promptly notify the Contracting Parties and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate.

(b) If, after having studied the plan and schedule included in an interim agreement referred to in paragraph 5 in consultation with the parties to that agreement and taking due account of the information made available in accordance with the provisions of sub-paragraph (a), the Contracting Parties find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the Contracting Parties shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.

(c) Any substantial change in the plan or schedule referred to in paragraph 5 (c) shall be communicated to the Contracting Parties, which may request the contracting parties concerned to consult with them if the change seems likely to jeopardize or delay unduly the formation of the customs union or of the free-trade area.

8. For the purposes of this Agreement:

(a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

(b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

9. The preferences referred to in paragraph 2 of Article I shall not be affected by the formation of a customs union or a of free-trade area but may be eliminated or adjusted by means of negotiations with contracting parties affected. This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (a) (i) and paragraph 8 (b).

10. The contracting parties may by a two-thirds majority approve proposals which do not full comply with the requirements of paragraphs 5 to 9 inclusive, provided that such proposals lead to the formation of a customs union or a free-trade area in the sense of this Article.

11. Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.

12. Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territory.

Article XXX

AMENDMENTS

1. Except where provision for modification is made elsewhere in this Agreement, amendments to the provisions of Part I of this Agreement or to the provisions of Article XXIX or of this Article shall become effective upon acceptance by all the contracting parties, and other amendments to this Agreement shall become effective, in respect of those contracting parties which accept them, upon acceptance by two-thirds of the contracting parties and thereafter for each other contracting party upon acceptance by it.

2. Any contracting party accepting an amendment to this Agreement shall deposit an instrument of acceptance with the Secretary-General of the United Nations within such period as the Contracting Parties may specify. The Contracting Parties may decide that any amendment made effective under this Article is of such a nature that any contracting party which has not accepted it within a period specified by the Contracting Parties shall be free to withdraw from this Agreement, or to remain a contracting party with the consent of the Contracting Parties.

Appendix C

Staff Data and Materials on U.S. Trade and Balance of Payments

93d Congress
2d Session } COMMITTEE PRINT

STAFF DATA AND MATERIALS ON

U.S. TRADE AND BALANCE OF PAYMENTS

COMMITTEE ON FINANCE
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

FEBRUARY 26, 1974

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TABLE I.—U.S. TRADE AND BALANCE-OF-PAYMENTS DEFICITS

[In billions of dollars]

	U.S. trade position				Trade balance		Balance of payments		
	Exports (X)		Imports (M)			C.i.f. (M) Excluding foreign aid (X)			
	Total	Minus foreign aid	F.o.b.	C.i.f.[1]	F.o.b.		Liquidity[2]	Official settlements[2]	Basic balance
1960	19.6	17.9	15.1	16.3	4.5	1.6	−3.7	−3.4	
1961	20.2	18.3	14.7	16.0	5.5	2.3	−2.3	−1.3	
1962	21.0	18.7	16.5	17.8	4.5	0.9	−2.9	−2.7	
1963	22.5	19.9	17.2	18.6	5.3	1.3	−2.7	−1.9	[3] −0.8
1964	25.8	23.1	18.7	20.3	7.1	2.8	−2.7	−1.5	
1965	26.7	24.3	21.5	23.2	5.2	1.1	−2.5	−1.3	
1966	29.5	27.0	25.6	27.7	3.9	−0.7	−2.2	.2	−1.7
1967	31.0	28.5	26.9	28.8	4.1	−.3	−4.7	−3.4	−3.3
1968	34.1	31.8	33.2	35.3	.9	−3.5	−1.6	−1.6	−1.4
1969	37.3	35.3	36.0	38.2	1.3	−2.9	−6.1	2.7	−3.0
1970	42.7	40.7	40.0	42.4	2.7	−1.7	−4.7	−10.7	−3.0
1971	43.5	41.7	45.6	48.3	−2.1	−6.6	−22.7	−30.5	−9.6
1972	49.2	47.5	55.6	58.9	−6.4	−11.4	−14.7	−11.1	−9.8
1973[4]	70.8	69.4	69.1	73.2	+1.7	−3.8	−7.9	−5.3	+1.7

[1] C.i.f. imports for the years 1960–66 are assumed to be roughly equivalent to 108.3% of f.o.b. imports in accordance with a Bureau of Customs—Tariff Commission—Bureau of Census study based on 1966 arrivals. For the years 1967–73 estimates are based on Bureau of Customs-Bureau of Census studies showing estimated freight and insurance charges to be 6.9 percent (1967), 6.3 percent (1968), 6.1 percent (1969), 6.2 percent (1970), 6.1 percent (1971), and 5.9 percent for 1972 and 1973.

[2] The liquidity and official settlements deficits for 1966–73 excludes SDR allocations.

[3] Annual average.

[4] Estimated on basis of partial data.

Source: U.S. Department of Commerce.

TABLE 2.—A COMPENDIUM OF U.S. FOREIGN TRADE BALANCES

Each year the public is presented a variety of U.S. trade balances reflecting different figures prepared for different purposes. The most widely-used balances are shown below for 1972 and January–September 1973, seasonally adjusted:

Billions of dollars						
Exports	Imports 1972	Balance	Exports	Imports 1973[1]	Balance	
49.8	55.6	—5.8	70.8	69.1	1.7	*Customs basis*—Full coverage of all international trade transactions as recorded in customs documents.
49.2	55.6	—6.4	70.3	69.1	1.2	*Customs basis (nonmilitary)*—The same as above, but excluding exports of military equipment shipped under Department of Defense contracts. This set of figures is the one traditionally used in the United States.
48.8	55.6	—6.8	69.9	69.1	0.8	*Balance-of-payments basis*—Numerous minor adjustments are made to the customs data to achieve the most complete nonmilitary coverage of merchandise transactions. For example, parcel

						post shipments are included. The resulting figures are conceptually on a balance-of-payments basis and thus used in discussing the U.S. balance of payments and in making international payments comparisons.
47.5	58.9	−11.4	69.1	73.2	−3.8	*Imports on a cost, insurance and freight (c.i.f.) basis.* Exports exclude government-financed shipments. In this case, the freight and insurance costs of shipping goods from a foreign port to a U.S. port are included (referred to as c.i.f.). With the exception of the United States and Canada, most countries report the value of their imports on this landed cost basis. Thus, this set is commonly used for international comparisons and in computing total world trade. The export figures exclude an estimated $1.7 and $1.2 billion respectively, for 1972 and Jan–Sept 1973, in nonmilitary foreign aid financed exports. See Table 4 for a breakdown of foreign aid shipments.)

[1] Preliminary.

Source: U.S. Department of Commerce.

TABLE 3.—U.S. EXPORTS, IMPORTS, AND MERCHANDISE TRADE BALANCE

[Millions of dollars]

Year	U.S. exports, excluding military grant-aid		U.S. imports		Gross merchandise trade balance f.o.b. (customs basis)
	Value	Year-to-year percent change	Value	Year-to-year percent change	
1960	19,659	.....	15,073	.....	4,586
1961	20,226	2.9	14,761	—2.1	5,465
1962	20,986	3.8	16,464	11.5	4,522
1963	22,467	7.1	17,207	4.5	5,260
1964	25,832	15.0	18,749	9.0	7,083
1965	26,742	3.5	21,427	14.3	5,315
1966	29,490	10.3	25,618	19.6	3,872
1967	31,030	5.2	26,889	5.0	4,141
1968	34,063	9.8	33,226	23.6	837
1969	37,332	9.6	36,043	8.5	1,289
1970	42,659	14.3	39,952	10.8	2,707
1971	43,549	2.1	45,563	14.0	—2,014
1972	49,219	13.0	55,583	22.0	—6,364
1973	70,798	43.8	69,121	24.4	1,677

Source: U.S. Department of Commerce.

TABLE 4.—U.S. EXPORTS EXCLUDING GOVERNMENT-FINANCED SHIPMENTS

[Millions of dollars]

Year	Total U.S. exports	Foreign Assistance Act		Public Law 480	Exports, excluding MGA, AID, and Public Law 480 shipments
		Military grant-aid	AID loans and grants		
1960	20,608	949	432	1,304	17,923
1961	21,036	810	623	1,304	18,299
1962	21,713	727	832	1,444	18,710
1963	23,387	920	1,085	1,509	19,873
1964	26,650	818	1,077	1,621	23,134
1965	27,521	779	1,140	1,323	24,279
1966	30,430	940	1,186	1,306	26,998
1967	31,622	592	1,300	1,229	28,501
1968	34,636	573	1,056	1,178	31,829
1969	38,006	674	993	1,021	35,318
1970	43,224	565	957	1,021	40,681
1971	44,130	581	915	982	41,652
1972	49,768	560	658	1,065	47,485
1973 [1]	71,314	516	600	[1] 750	69,448

[1] Preliminary estimates.

Source: U.S. Department of Commerce.

TABLE 5.—TRADE IN MANUFACTURES

[Dollars in billions]

Period	United States	EEC[1] Total	EEC[1] Excluding intra-EEC	Federal Republic of Germany	France	United Kingdom	Japan	Canada
	Exports, f.o.b.							
1960	$12.7	$32.1	$21.5	$10.1	$5.1	$8.4	$3.6	$2.5
1966	19.5	55.2	31.8	18.0	8.0	12.3	9.1	4.8
1967	21.1	58.1	33.4	19.5	8.4	12.1	9.8	5.9
1968	24.1	65.8	37.1	22.3	9.4	13.0	12.2	7.3
1969	27.1	77.7	41.8	26.2	11.0	15.0	15.0	8.5
1970	29.7	90.1	47.6	30.7	13.5	16.3	18.1	9.7
1971	30.8	102.1	53.6	35.0	15.1	19.0	22.6	10.4
1972	34.3	131.4	62.7	41.5	19.1	20.7	27.1	9.4
1973[1]	43.6	152.6	N.A.	57.2	24.7	25.1	32.6	13.0
Percent change[2]	27	16	17	38	29	21	20	38
	F.o.b.	Imports, c.i.f.						F.o.b.
1960	$6.8	$19.1	$8.4	$4.2	$2.4	$4.0	$1.0	$4.0
1966	14.4	38.3	14.8	9.0	6.4	6.9	2.1	6.9

1967	15.8	40.2	15.6	8.5	7.0	7.8	3.1	7.9
1968	20.6	46.9	18.2	10.6	8.4	9.1	3.5	9.0
1969	23.0	58.3	22.1	13.9	10.9	9.9	4.4	10.7
1970	25.9	68.6	26.0	17.4	12.0	11.0	5.6	10.7
1971	30.4	75.7	26.2	20.0	13.3	12.7	5.5	12.5
1972	37.7	91.9	32.3	23.8	15.7	15.3	6.8	15.3
1973[1]	44.4	N.A.	N.A.	30.8	22.1	20.9	10.6	18.0
Percent change[2]	17	21	23	29	41	37	56	18
	Trade balance							
1960	$5.9	$13.0	$13.1	$5.9	$2.7	$4.4	$2.6	—$1.5
1966	5.1	16.9	17.0	9.0	1.6	5.4	7.0	—2.1
1967	5.3	17.9	17.8	11.0	1.4	4.3	6.7	—2.0
1968	3.5	18.9	18.9	11.7	1.0	3.9	8.7	—1.7
1969	4.1	19.4	19.7	12.3	.1	5.1	10.6	—2.2
1970	3.8	21.5	21.6	13.3	1.5	5.3	12.5	—1.0
1971	.4	26.4	27.4	15.0	1.8	6.3	17.1	—2.1
1972	—3.4	39.5	30.4	17.7	3.4	5.4	20.3	—5.9
1973[1]	—.8	N.A.	N.A.	26.4	2.6	4.2	22.0	—5.0

[1] January–September at annual rate except EEC and France which are January–June data at annual rate.
N.A. Not available.

[2] Latest year from preceding year.

Source: U.S. Department of Commerce.

TABLE 6.—U.S. FOREIGN TRADE TRENDS: AGRICULTURAL PRODUCTS [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	3.9	3.9	0
1959	4.0	4.1	—.1
1960	4.9	3.8	1.1
1961	5.0	3.7	1.3
1962	5.0	3.9	1.1
1963	5.6	4.0	1.6
1964	6.3	4.1	2.2
1965	6.2	4.1	2.1
1966	6.9	4.5	2.4
1967	6.4	4.5	1.9
1968	6.2	5.1	1.1
1969	5.9	5.1	.8
1970	7.2	5.8	1.4
1971	7.7	5.8	1.9
1972	9.4	6.5	2.9
1973	17.7	8.4	9.3

[1] Exports and imports are f.o.b. Source: U.S. Department of Commerce.

TABLE 7.—U.S. FOREIGN TRADE TRENDS: MINERALS AND FUELS [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	1.9	3.7	−1.8
1959	1.9	4.1	−2.2
1960	2.3	4.0	−1.7
1961	2.3	4.1	−1.8
1962	2.1	4.5	−2.4
1963	2.4	4.6	−2.2
1964	2.6	4.9	−2.3
1965	2.6	5.4	−2.8
1966	2.7	5.8	−3.1
1967	3.1	5.6	−2.5
1968	3.2	6.3	−3.1
1969	3.5	6.7	−3.2
1970	4.5	7.0	−2.5
1971	3.8	7.9	−4.1
1972	4.3	9.7	−5.4
1973	6.0	14.1	−8.1

[1] Exports and imports are f.o.b.

Source: U.S. Department of Commerce.

TABLE 8.—U.S. FOREIGN TRADE TRENDS: MANUFACTURED PRODUCTS [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	11.2	5.3	5.9
1959	10.9	7.1	3.8
1960	12.7	6.9	5.8
1961	12.9	6.5	6.4
1962	13.8	7.6	6.2
1963	14.5	8.1	6.4
1964	16.7	9.1	7.6
1965	17.6	11.2	6.4
1966	19.5	14.4	5.1
1967	21.1	15.8	5.3
1968	24.1	20.6	3.5
1969	27.1	23.0	4.1
1970	29.7	25.9	3.8
1971	30.8	30.4	.4
1972	34.3	37.7	—3.4
1973	45.5	44.8	.7

[1] Exports and imports are f.o.b.

Source: U.S. Department of Commerce.

TABLE 9.—U.S. TRADE BALANCE IN SELECTED COMMODITIES [1]

[In millions of U.S. dollars]

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973 [2]
Products with a rising trade surplus trend:														
Nonelectric machinery [2]	2,576	2,775	2,986	3,002	3,409	3,504	3,508	3,474	3,579	3,976	4,364	4,183	4,334	5,687
Aircraft and parts	970	766	857	726	791	989	823	1,270	2,016	2,139	2,382	3,049	2,504	3,570
Computers and parts	44	105	128	177	214	219	280	412	524	768	1,176	1,142	1,167	1,606
Basic chemicals and compounds	52	141	155	329	521	589	556	644	690	739	883	818	653	1,034
Products with a declining trade balance trend:														
Motor vehicles and parts	643	803	850	955	1,063	934	537	237	−588	−1,104	−1,823	−2,897	−3,492	−3,675
Steel products	204	108	−2	−93	−51	−533	−646	−750	−1,380	−783	−764	−1,855	−1,944	−1,511
Textiles, clothing, and footwear	−396	−284	−540	−567	−548	−824	−978	−1,016	−1,498	−1,819	−2,220	−2,823	−3,296	−3,278
Consumer electronics	−53	−80	−109	−130	−164	−258	−374	−431	−632	−912	−1,123	−1,304	−1,748	−1,951

[1] Exports and imports are f.o.b.
[2] Excluding aircraft and auto engines and parts, computers, and other office machinery.

Source: U.S. Department of Commerce.

TABLE 10.—U.S. TRADE BY MAJOR END-USE CATEGORIES

[Values in millions of dollars]

Commodity	1968	1969	1970	1971	1972	1973	Percent change from 1968 to 1973
Exports, total [1]	34,636	38,006	43,224	44,130	49,768	71,314	+106
Food, feed, and beverages	4,813	4,688	5,839	6,054	7,492	15,070	+213
Industrial supplies and materials	11,004	11,776	13,782	12,691	13,982	19,774	+80
Capital goods, including trucks and buses	11,504	12,877	14,931	15,720	17,356	22,371	+94
Consumer goods, including automobiles, and parts	5,354	5,933	5,811	6,642	7,930	10,163	+90
"Special category" and other exports	1,961	2,731	2,862	3,023	3,008	3,937	+101
Imports, total	33,226	36,043	39,952	45,563	55,555	69,121	+108

Food, feed, and beverages	5,271	5,238	6,154	6,366	7,257	9,081	+72
Industrial supplies and materials	14,159	14,160	15,106	16,968	20,323	26,542	+87
Capital goods, including trucks and buses	3,298	3,949	4,534	4,961	6,677	8,813	+167
Consumer goods, including automobiles and parts	9,152	11,199	12,727	15,642	19,556	22,696	+148
Other imports	1,347	1,471	1,399	1,627	1,742	1,989	+48
Trade balance, total [1]	1,410	1,963	3,272	−1,433	−5,787	2,193	.....
Food, feed, and beverages	−458	−550	−315	−312	235	5,989	.....
Industrial supplies and materials	−3,155	−2,384	−1,324	−4,277	−6,341	−6,768	.....
Capital goods, including trucks and buses	8,206	8,928	10,397	10,759	10,679	13,558	.....
Consumer goods, including automobiles and parts	−3,798	−5,266	−6,916	−9,000	−11,626	−12,533	.....
All other	614	1,260	1,463	1,396	1,266	1,948	.....

[1] Includes military grant-aid shipments.

Source: U.S. Department of Commerce.

TABLE 11.—U.S. SHARE OF FREE WORLD EXPORTS

Year	Free world exports (billions)	U.S. share of free world exports [1] (percent)
1960	$113	21.0
1961	119	20.3
1962	125	20.0
1963	136	19.7
1964	153	19.9
1965	165	19.1
1966	181	19.5
1967	191	19.3
1968	213	19.2
1969	244	18.2
1970	280	18.0
1971	314	16.5
1972	371	15.8
1973 (estimate)	490	16.9

[1] Excluding exports to the United States.

Source: U.S. Department of Commerce.

TABLE 12.—U.S. AND MAJOR COMPETITORS' SHARE OF FREE WORLD EXPORTS OF MANUFACTURES

[Percent of free world exports to foreign markets [1]]

Year	United States	European Community [2]	France	Federal Republic of Germany	Italy	United Kingdom	Japan
1960	25.3	42.3	9.5	18.7	4.7	15.3	5.3
1964	24.0	44.3	8.7	19.0	6.1	13.4	6.3
1965	22.8	44.8	8.8	18.8	6.6	13.3	7.1
1966	23.0	45.2	8.7	19.2	6.8	12.7	7.3
1967	23.3	45.3	8.7	19.5	6.9	11.8	7.6
1968	23.6	45.4	8.6	19.3	7.3	11.0	8.1
1969	22.5	46.3	8.6	19.5	7.2	11.0	8.4
1970	21.3	47.0	9.1	19.8	7.1	10.4	8.9
1971	19.9	47.6	9.1	20.2	7.3	10.9	9.9
1972	18.6	49.5	9.7	20.3	7.6	9.9	10.1
1973 [3]	19.0	49.9	10.2	21.1	6.3	9.5	9.7

[1] World exports are defined as exports from the 14 major industrial countries. These nations, which account for approximately four-fifths of world exports of manufactures to foreign markets, are as follows: United States, Austria, Belgium-Luxembourg, Canada, Denmark, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and Japan. Exports to foreign markets are total exports excluding exports to the United States.

[2] Original 6 member countries.

[3] January–June, seasonally adjusted.

Note: The term "manufactures" refers to chemicals, machinery transport equipment, and other manufactures except mineral fuel products, processed food, fats, oils, firearms of war, and ammunition.

Source: U.S. Department of Commerce.

TABLE 13.—ORIGIN OF IMPORTS FOR SELECTED AREAS

[In percent][1]

Imported by	Exported by 1960 United States	1960 European Community	1960 Japan	1965 United States	1965 European Community	1965 Japan	1972 United States	1972 European Community	1972 Japan
United States	.....	22	8	.....	23	11	.....	22	16
Canada	67	16	2	70	13	3	66	11	6
Japan	35	7	.....	29	7	.....	25	8	.....
European Community	13	36	1	11	43	1	8	52	2
Other Western Europe	11	56	1	10	56	2	8	54	3
Other Asia	17	25	13	24	24	19	18	16	28
Western Hemisphere, other	39	28	2	38	28	4	34	26	8
New Zealand, Australia, and South Africa	17	46	5	20	43	8	18	39	13
Communist Countries	1	11	1	1	12	1	2	16	3
Other	10	55	4	13	49	8	11	48	7

[1] Calculated from data of importing country or area.

Source: U.S. Department of Commerce.

TABLE 14.—U.S. TRADE WITH JAPAN [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	1.0	0.7	0.3
1959	1.1	1.0	.1
1960	1.5	1.1	.4
1961	1.8	1.1	.7
1962	1.6	1.4	.2
1963	1.8	1.5	.3
1964	2.0	1.8	.2
1965	2.1	2.4	−.3
1966	2.4	3.0	−.6
1967	2.7	3.0	−.3
1968	3.0	4.1	−1.1
1969	3.5	4.9	−1.4
1970	4.7	5.9	−1.2
1971	4.1	7.3	−3.2
1972	4.9	9.1	−4.2
1973	8.3	9.6	−1.3

[1] Exports and imports are f.o.b.
Source: U.S. Department of Commerce.

TABLE 15.—U.S. TRADE WITH THE LESS DEVELOPED COUNTRIES [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	8.1	6.1	2.0
1959	7.1	6.3	.8
1960	7.7	6.2	1.5
1961	8.0	6.0	2.0
1962	8.3	6.3	2.0
1963	8.9	6.6	2.3
1964	9.9	7.0	2.9
1965	9.9	7.5	2.4
1966	11.1	8.2	3.0
1967	11.0	8.2	2.8
1968	11.8	9.4	2.4
1969	12.5	9.9	2.6
1970	14.4	11.0	3.3
1971	14.8	12.2	2.5
1972	16.3	15.3	1.0
1973	23.3	[2] 21.3	[2] 2.0

[1] Exports and imports are f.o.b.
[2] Includes estimated crude petroleum imports in November and December.
Source: U.S. Department of Commerce.

TABLE 16—U.S. TRADE WITH CANADA [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	3.5	3.0	0.5
1959	3.8	3.4	.4
1960	3.8	3.2	.6
1961	3.8	3.3	.5
1962	4.1	3.7	.4
1963	4.3	3.9	.4
1964	4.9	4.3	.6
1965	5.7	4.9	.8
1966	6.7	6.2	.5
1967	7.2	7.1	*Negl.*
1968	8.1	9.0	—.9
1969	9.1	10.4	—1.3
1970	9.1	11.1	—2.0
1971	10.4	12.7	—2.3
1972	12.4	14.9	—2.5
1973	15.1	[2] 17.7	[2] —2.6

[1] Exports and imports are f.o.b.
[2] Includes estimated crude petroleum imports in November and December.
Source: U.S. Department of Commerce.

TABLE 17.—U.S. TRADE WITH THE EUROPEAN COMMUNITY [1]

[In billions of U.S. dollars]

	Exports	Imports	Balance
1958	3.9	2.6	1.3
1959	4.1	3.7	.4
1960	5.7	3.4	2.3
1961	5.6	3.3	2.3
1962	5.9	3.6	2.3
1963	6.4	3.8	2.6
1964	7.2	4.1	3.1
1965	7.2	4.9	2.3
1966	7.6	6.2	1.4
1967	8.0	6.5	1.5
1968	8.7	8.3	.4
1969	9.7	8.3	1.4
1970	11.3	9.2	2.1
1971	11.1	10.4	.7
1972	11.9	12.5	—.6
1973	16.7	15.5	1.2

[1] Exports and imports are f.o.b.
Source: U.S. Department of Commerce.

COMMUNIST COUNTRY TRADE

TABLE 18.—FREE WORLD TRADE WITH THE U.S.S.R. AND EASTERN EUROPE

[In U.S. dollars]

	Free World (billions) [1]		United States (millions) [2]	
	Exports	Imports	Exports	Imports
1950	1.1	1.3	27	80
1951	1.2	1.4	3	64
1952	1.2	1.3	1	40
1953	1.1	1.2	2	36
1954	1.5	1.5	6	42
1955	1.8	1.9	7	56
1956	2.1	2.3	11	65
1957	2.6	2.6	86	61
1958	2.6	2.7	113	62
1959	3.0	3.0	89	81
1960	3.6	3.6	194	81
1961	3.8	3.9	134	81
1962	4.1	4.1	125	79
1963	4.5	4.6	167	81
1964	5.4	5.3	340	98
1965	5.8	6.0	140	137
1966	6.6	6.7	198	179
1967	6.8	7.0	195	177
1968	7.3	7.7	215	198
1969	8.3	8.4	249	195
1970	9.7	9.3	354	226
1971	10.1	9.9	384	223
1972	13.2	11.2	818	320
1973	N.A.	N.A.	1,797	519

[1] Exports are f.o.b. and imports, in general, are c.i.f.
[2] Exports and imports are f.o.b.
N.A. Not Available.

Source: U.S. Department of Commerce.

TABLE 19.—CHINESE FOREIGN TRADE [1]

[In millions of U.S. dollars]

	Total trade	Communist countries				Non-Communist countries			
		Total	Eastern Europe	U.S.S.R.	Other [2]	Total	Developed Countries	Less developed countries	Hong Kong and Macao
1960:									
Exports	1,960	1,335	310	850	175	625	240	245	140
Imports	2,030	1,285	335	815	135	745	505	235	Negl.
1961:									
Exports	1,530	965	145	550	270	560	220	225	115
Imports	1,495	715	160	365	190	775	600	175	Negl.
1962:									
Exports	1,525	915	105	515	295	605	210	260	140
Imports	1,150	490	65	235	190	660	475	185	Negl.
1963:									
Exports	1,570	820	115	415	290	755	265	305	185
Imports	1,200	430	50	185	195	770	580	190	Negl.
1964:									
Exports	1,750	710	100	315	295	1,040	415	350	270
Imports	1,470	390	60	135	195	1,080	685	395	Negl.

1965:									
Exports	2,035	650	95	225	330	1,385	575	455	355
Imports	1,845	515	110	190	215	1,330	920	405	5
1966:									
Exports	2,210	585	130	145	310	1,625	715	510	400
Imports	2,035	505	140	175	190	1,530	1,140	385	5
1967:									
Exports	1,945	485	110	55	320	1,460	635	515	310
Imports	1,950	345	135	50	160	1,605	1,345	260	Negl.
1968:									
Exports	1,945	500	140	35	325	1,445	620	500	325
Imports	1,820	340	135	60	145	1,480	1,250	230	Negl.
1969:									
Exports	2,030	490	145	30	315	1,540	685	515	340
Imports	1,830	295	120	25	150	1,535	1,245	290	Negl.
1970:									
Exports	2,045	475	160	20	295	1,570	675	525	370
Imports	2,175	350	160	25	165	1,825	1,555	265	5
1971:									
Exports	2,415	585	195	75	315	1,830	810	575	445
Imports	2,305	500	250	80	160	1,805	1,430	370	5
1972:									
Exports	3,055	750	240	135	375	2,305	1,065	715	525
Imports	2,775	520	250	120	150	2,255	1,670	580	5

[1] Exports are f.c.b. and imports c.i.f.

[2] Including data for Yugoslavia, Mongolia, Cuba, and Albania.

Source: U.S. Department of Commerce.:

TABLE 20.—U.S. FOREIGN TRADE WITH EASTERN EUROPE, THE U.S.S.R., AND CHINA [1]

[In millions of U.S. dollars]

	U.S. exports			U.S. imports		
	Eastern Europe	U.S.S.R.	China	Eastern Europe	U.S.S.R.	China
1950	25.9	0.8	45.7	42.2	38.3	146.5
1951	2.8	.1	0	36.3	27.5	46.5
1952	1.1	Negl.	0	22.7	16.8	27.7
1953	1.8	Negl.	0	25.6	10.8	.6
1954	5.9	.2	Negl.	30.5	11.9	.2
1955	6.7	.3	Negl.	38.8	17.1	.2
1956	7.4	3.8	0	40.8	24.5	.2
1957	81.6	4.6	Negl.	44.5	16.8	.1
1958	109.8	3.4	Negl.	45.0	17.5	.2
1959	81.9	7.4	Negl.	52.2	28.6	.2
1960	154.9	39.6	0	58.2	22.6	.3
1961	87.9	45.7	Negl.	57.8	23.2	.4
1962	105.1	20.2	Negl.	62.5	16.3	.2
1963	143.9	22.9	Negl.	60.2	21.2	.3
1964	193.5	146.4	Negl.	77.7	20.7	.5
1965	94.8	45.2	Negl.	94.7	42.6	.5
1966	155.8	41.7	Negl.	129.0	49.6	.1
1967	134.9	60.3	Negl.	135.7	41.2	.2
1968	157.3	57.7	0	140.0	58.5	Negl.
1969	143.7	105.5	0	144.0	51.5	Negl.
1970	234.9	118.7	0	153.5	72.3	Negl.
1971	222.2	162.0	0	165.8	57.2	4.9
1972	271.5	546.8	60.2	225.0	95.5	32.3
1973	606.3	1,190.3	689.6	304.7	213.9	64.0

[1] Exports are f.a.s. and imports are f.o.b.

Source: U.S. Department of Commerce.

TABLE 21.—U.S. AND MAJOR FOREIGN COUNTRIES' EXPORTS AND IMPORTS IN RELATION TO GROSS NATIONAL PRODUCT

[Percent of GNP]

Country	1960	1966	1968	1970	1971	1972
EXPORTS						
United States	4.1	4.0	4.0	4.4	4.1	4.3
Canada	14.8	16.8	19.1	19.9	19.2	19.4
European Community [1]	15.5	15.8	16.7	18.2	18.6	18.8
France	11.4	10.2	10.1	12.3	12.7	13.3
Federal Republic of Germany	16.1	16.4	18.4	18.3	17.9	18.0
Italy	10.8	12.6	13.5	14.2	14.9	15.7
United Kingdom	14.7	13.8	14.9	15.9	16.4	15.9
Japan	9.6	9.6	9.0	9.8	10.6	9.7
IMPORTS						
United States	3.0	3.4	3.8	4.1	4.3	4.8
Canada	15.1	16.4	17.3	16.5	16.9	18.1
European Community [1]	15.5	16.1	16.1	18.2	18.3	18.0
France	10.5	11.0	11.0	13.0	13.1	13.6
Federal Republic of Germany	14.3	14.7	15.1	16.0	15.8	15.6
Italy	14.0	13.5	13.6	16.1	15.7	16.3
United Kingdom	18.1	15.6	18.3	17.9	17.6	18.2
Japan	10.6	9.4	9.0	9.6	8.7	8.0

[1] Original 6 member countries.

Source: U.S. Department of Commerce.

U.S. BALANCE OF PAYMENTS TRENDS *

TABLE 22.—U.S. CURRENT ACCOUNT BALANCE [1]

[In billions of U.S. dollars]

1950	−2.1	1962	2.5
1951	0.3	1963	3.2
1952	−0.2	1964	5.8
1953	−1.9	1965	4.3
1954	−0.3	1966	2.3
1955	−0.3	1967	2.1
1956	1.7	1968	−0.4
1957	3.6	1969	−1.0
1958	Negl.	1970	0.4
1959	−2.1	1971	−2.8
1960	1.8	1972	−8.4
1961	3.1	1973 [2]	2.7

[1] Includes merchandise, services, private remittances, and government transfers.
[2] Preliminary.

TABLE 23.—U.S. BASIC BALANCE

[In billions of U.S. dollars]

1950	−3.2	1962	−1.0
1951	−.3	1963	−1.3
1952	−1.6	1964	−Negl.
1953	−2.6	1965	−1.8
1954	−.9	1966	−1.7
1955	−1.3	1967	−3.3
1956	3.0	1968	−1.4
1957	−.3	1969	−3.0
1958	−3.5	1970	−3.0
1959	−4.3	1971	−9.6
1960	−1.2	1972	−9.8
1961	Negl.	1973 [1]	1.7

[1] Preliminary; seasonally adjusted.

TABLE 24.—U.S. BASIC BALANCE TRENDS: MERCHANDISE

[In billions of U.S. dollars]

1950	1.1	1962	4.5
1951	3.1	1963	5.2
1952	2.6	1964	6.8
1953	1.4	1965	5.0
1954	2.6	1966	3.8
1955	2.9	1967	3.8
1956	4.8	1968	.6
1957	6.3	1969	.6
1958	3.5	1970	2.2
1959	1.1	1971	−2.7
1960	4.9	1972	−6.9
1961	5.6	1973 [1]	−0.7

[1] Preliminary data.

Source: U.S. Department of Commerce.

TABLE 25.—U.S. BASIC BALANCE TRENDS: SERVICES

[In billions of U.S. dollars]

	Net				
	Royalties and fees	Travel and passenger fares	Investment income	Other [1]	Total
1950	0.3	−0.4	1.2	−0.2	0.9
1951	.3	−.3	1.5	−.2	1.3
1952	.3	−.4	1.4	−.2	1.2
1953	.4	−.4	1.4	−.5	.9
1954	.4	−.5	1.8	−.5	1.2
1955	.4	−.6	2.0	−.4	1.4
1956	.5	−.7	2.1	−.4	1.5
1957	.5	−.7	2.2	−.3	1.7
1958	.6	−.8	2.2	−.8	1.2
1959	.6	−.9	2.2	−.7	1.2
1960	.8	−1.2	2.3	−.5	1.4
1961	.8	−1.2	2.9	−.6	1.9
1962	1.0	−1.4	3.3	−.7	2.2
1963	1.1	−1.5	3.3	−.7	2.2
1964	1.2	−1.4	3.9	−.7	3.0
1965	1.4	−1.5	4.2	−.8	3.3
1966	1.5	−1.5	4.1	−.8	3.3
1967	1.7	−2.0	4.5	−1.0	3.2
1968	1.8	−1.7	4.8	−1.2	3.7
1969	2.0	−2.0	4.4	−1.1	3.3
1970	2.3	−2.3	4.5	−1.1	3.4
1971	2.6	−2.5	5.9	−1.2	4.8
1972	2.8	−3.0	5.6	−.5	4.9
1973 [2]	3.2	−2.8	7.6	−1.5	6.5

[1] Including private remittances.
[2] Preliminary data.

Source: U.S. Department of Commerce.

TABLE 26.—U.S. BASIC BALANCE TRENDS: GOVERNMENT

[In billions of U.S. dollars]

	Military	Foreign aid	Total
1950	−0.6	−3.6	−4.2
1951	−1.3	−2.9	−4.2
1952	−2.0	−2.5	−4.5
1953	−2.4	−2.1	−4.5
1954	−2.5	−1.6	−4.1
1955	−2.7	−2.2	−4.9
1956	−2.8	−2.4	−5.2
1957	−2.8	−2.6	−5.4
1958	−3.1	−2.6	−5.7
1959	−2.8	−2.2	−5.0
1960	−2.8	−2.6	−5.4
1961	−2.6	−2.8	−5.4
1962	−2.4	−2.8	−5.2
1963	−2.3	−3.1	−5.4
1964	−2.1	−3.2	−5.3
1965	−2.1	−3.3	−5.4
1966	−2.9	−3.4	−6.3
1967	−3.1	−4.2	−7.3
1968	−3.1	−3.9	−7.0
1969	−3.3	−3.6	−6.9
1970	−3.4	−3.8	−7.2
1971	−2.9	−4.4	−7.3
1972	−3.6	−3.5	−7.1
1973 [1]	−2.4	−3.8	−6.2

[1] Preliminary data.

Source: U.S. Department of Commerce.

TABLE 27.—U.S. BASIC BALANCE TRENDS: PRIVATE CAPITAL

[In billions of U.S. dollars]

	U.S. long-term direct investment abroad	Foreign, long-term direct investment in the United States	Net portfolio investment	Net total private foreign capital
1950	−0.6	0.1	−0.3	−1.0
1951	−.5	.1	−.2	−.7
1952	−.9	.1	−.1	−.9
1953	−.7	.2	.2	−.3
1954	−.7	.1	−.1	−.7
1955	−.8	.2	.2	−.7
1956	−2.0	.2	−.1	−2.0
1957	−2.4	.2	−.2	−2.9
1958	−1.2	.1	−1.2	−2.5
1959	−1.4	.2	−.2	−1.6
1960	−1.7	.1	−.4	−2.1
1961	−1.6	.1	−.4	−2.2
1962	−1.7	.1	−.8	−2.6
1963	−2.0	−Negl.	−.8	−3.4
1964	−2.3	−Negl.	−.8	−4.5
1965	−3.5	.1	−1.1	−4.6
1966	−3.7	.1	.4	−2.6
1967	−3.1	.3	−.2	−2.9
1968	−3.2	.3	3.2	1.2
1969	−3.3	.8	1.6	−0.1
1970	−4.4	1.0	1.2	−1.4
1971	−4.9	−.1	1.3	−4.4
1972	−3.4	.2	3.7	−0.2
1973 [1]	−4.0	1.9	3.8	0.9

[1] Preliminary; seasonally adjusted.

Source: U.S. Department of Commerce.

Table 28. US Basic Balance by Area, 1972 [1]

Billion US $

	Global [2]	EC	Japan	Canada	Other Developed	Developing Countries	Communist Countries	International Organisations and Unallocated
Trade								
Exports	48.8	11.8	5.0	12.6	4.6	13.9	0.9	.....
Imports	−55.7	−12.6	−9.1	−14.4	−4.4	−14.8	−0.4	.....
Net Trade	−6.9	−0.8	−4.1	−1.8	0.3	−0.9	0.5	.....
Services (Non-Military)								
Investment Income Receipts	10.8	2.0	0.4	2.0	1.0	4.9	.....	0.5
Investment Income Payments	−5.7	−2.7	−0.9	−0.6	−1.0	−0.3	.....	−0.2
Net Investment Income	5.1	−0.7	−0.5	1.4	*	4.6	.....	0.3
Travel Income	3.4	0.5	0.2	1.0	0.3	1.4	*	*
Travel Expenditures	−6.4	−1.8	−0.2	−1.0	−1.1	−2.2	*	*
Net Travel	−3.0	−1.3	.....	.....	−0.8	−0.8	.....	.....
Royalties and Fees Net	2.8	0.8	0.4	0.4	0.4	0.8	.....	.....
Other Services and Private Remittances Net	−0.6	−0.2	0.2	−0.3	−0.3	−0.1	0.1	−0.2
Net Non-Military Services Balance	4.3	−1.4	0.1	1.5	−0.7	4.5	0.1	0.1
Government (Military and Foreign Aid)								
Military Sales	1.2	0.3	*	*	0.2	0.6	.....	.....
Military Expenditures	−4.7	−1.9	−0.8	−0.2	−0.3	−1.5	.....	.....
Net Military	−3.5	−1.6	−0.7	−0.2	−0.1	−0.9	.....	.....
Government Grants (excluding military)	−2.2	.....	*	.....	.....	−1.9	.....	−0.3
Government Long-Term Capital Flows	−1.3	*	*	.....	−0.1	−1.1	−0.1	−0.1
Net Foreign Aid	−3.5	*	*	.....	−0.1	−3.0	−0.1	−0.4
Net Government	−7.0	−1.5	−0.6	−0.2	−0.2	−3.9	−0.1	−0.4
Private Long-Term Capital								
US Direct Investment Abroad	−3.4	−1.0	−0.2	−0.4	−0.5	−0.9	*	−0.4
Foreign Direct Investment in US	0.2	−0.1	*	0.1	0.1	*	*	*
Net Portfolio Investments	3.7	3.0	0.2	−0.7	1.3	−0.2	*	0.2
Other Long-Term Private Capital	−0.7	0.1	0.3	−0.2	*	−1.1	*	*
Net Long-Term Private Capital Flows	−0.2	2.0	0.3	−1.1	1.0	−2.2	*	−0.1
BASIC BALANCE	−9.8	−1.7	−4.3	−1.6	−0.3	−2.5	0.4	−0.4

* Less than $50,000,000.

[1] May not add due to rounding.

[2] Global data are preliminary and others estimates.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 29. US Basic Balance by Area, 1973[1]

Billion US $

	Global	EC	Japan	Canada	Other Developed	Developing Countries	Communist Countries	International Organizations and Unallocated
Trade								
Exports	69.9	16.7	8.4	15.4	6.7	20.0	2.7	.....
Imports	−69.1	−15.4	−9.7	−17.2	−5.8	−20.4	−0.6	.....
Net Trade	0.8	1.3	−1.3	−1.8	0.9	−0.4	2.1	.....
Services (Non-Military)								
Investment Income Receipts	16.2	3.0	0.7	2.5	1.4	8.1	*	0.5
Investment Income Payments	−8.6	−4.2	−1.1	−0.8	−1.7	−0.6	*	−0.2
Net Investment Income	7.6	−1.2	−0.4	1.7	−0.3	7.5	*	0.3
Travel Income	4.2	0.7	0.4	1.1	0.4	1.6	*	*
Travel Expenditures	−7.0	−2.1	−0.2	−1.1	−1.1	−2.3	−0.1	−0.1
Net Travel	−2.8	−1.4	0.2	*	−0.7	−0.7	−0.1	−0.1
Royalties and Fees Net	3.2	1.2	0.5	0.4	0.4	0.7	*	.....
Other Services and Private Remittances Net	−1.5	−0.2	0.1	−0.3	−0.2	−0.6	*	−0.3
Net Non-Military Services Balance	6.5	−1.6	0.4	1.8	−0.8	6.9	−0.1	−0.1
Government (Military and Foreign Aid)								
Military Sales	2.2	0.4	*	0.1	0.4	1.3	.....	.....
Military Expenditures	−4.6	−2.2	−0.8	−0.2	−0.3	−1.1	.....	.....
Net Military	−2.4	−1.8	−0.8	−0.1	0.1	0.2	.....	.....
Government Grants (excluding military)	−2.2	*	.....	.....	.....	−2.0	.....	−0.2
Government Long-Term Capital Flows	−1.6	*	0.6	.....	−0.1	−1.6	−0.4	−0.1
Net Foreign Aid	−3.8	*	0.6	.....	−0.1	−3.6	−0.4	−0.3
Net Government	−6.2	−1.8	−0.2	−0.1	.....	−3.4	−0.4	−0.3
Private Long-Term Capital								
US Direct Investment Abroad	−4.0	−2.1	−0.1	−0.3	−0.5	−0.7	*	−0.3
Foreign Direct Investment in US	1.9	0.8	0.2	0.1	0.2	0.6	*	*
Net Portfolio Investments	3.8	1.6	0.7	−0.2	1.3	*	*	0.4
Other Long-Term Private Capital	−0.8	*	0.3	−0.1	*	−0.7	−0.3	*
Net Long-Term Private Capital Flows	0.9	0.3	1.1	−0.5	1.0	−0.8	−0.3	0.1
BASIC BALANCE	2.0	−1.8	*	−0.6	1.1	2.4	1.3	−0.4

* Less than $50,000,000.

[1] Estimated. May not add due to rounding.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 30. US Balance of Payments Summary by Area[1]

Billion US $

	Global		European Community		Japan		Canada		Other Developed[2]		Developing Countries		Communist Countries		International Organization and Unallocated[3]	
	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973
Exports	48.8	69.9	11.8	16.7	5.0	8.4	12.6	15.4	4.6	6.7	13.9	20.0	0.9	2.7	.....	.....
Imports	−55.7	−69.1	−12.6	−15.4	−9.1	−9.7	−14.4	−17.2	−4.4	−5.8	−14.8	−20.4	−0.4	−0.6	.....	.....
Net Trade	−6.9	0.8	−0.8	1.3	−4.1	−1.3	−1.8	−1.8	0.2	0.9	−0.9	−0.4	0.5	2.1	.....	.....
Military Sales	1.2	2.2	0.3	0.4	*	*	*	0.1	0.2	0.4	0.6	1.3	.....	.....	.....	.....
Military Expenditures	−4.7	−4.6	−1.9	−2.2	−0.8	−0.8	−0.2	−0.2	−0.3	−0.3	−1.5	−1.1	.....	.....	.....	.....
Net Military	−3.5	−2.4	−1.6	−1.8	−0.7	−0.8	−0.2	−0.1	−0.1	0.1	−0.9	0.2	.....	.....	.....	.....
Investment Income Receipts	14.0	18.8	2.8	4.0	0.6	0.8	2.4	2.9	1.3	1.8	6.3	8.8	*	*	0.5	0.5
Investment Income Payments	−6.1	−8.8	−2.8	−4.2	−0.9	−1.1	−0.7	−0.9	−1.0	1.8	−0.4	−0.6	*	*	−0.2	−0.2
Net Investment Income	7.9	10.0	*	−0.2	−0.3	−0.3	1.7	2.0	0.3	*	5.9	8.2	*	*	0.3	0.3
Travel Income	3.4	4.2	0.5	0.7	0.2	0.4	1.0	1.1	0.3	0.4	1.4	1.6	*	*	*	*
Travel Expenditures	−6.4	−7.0	−1.8	−2.1	−0.2	−0.2	−1.0	−1.1	−1.1	−1.1	−2.2	−2.3	*	−0.1	*	−0.1
Net Travel	−3.0	−2.8	−1.3	−1.4	*	0.2	*	*	−0.8	−0.7	0.8	−0.7	*	−0.1	*	−0.1
Other Services Net	0.5	0.9	0.1	0.1	0.3	0.5	*	−0.2	0.1	0.2	0.4	0.6	*	*	−0.2	−0.3
BALANCE ON GOODS AND SERVICES	−4.6	6.5	−3.6	−2.0	−4.8	−1.7	−0.3	−0.1	−0.3	0.5	3.9	7.9	0.5	2.0	0.1	−0.1
Remittances	−1.6	−1.6	*	−0.1	*	*	−0.1	−0.1	−0.3	−0.3	−1.1	−1.1	*	*	*	*
US Government Grants (excluding military)	−2.2	−2.2	*	*	*	*	*	*	*	*	1.9	−2.0	*	*	−0.3	−0.2
BALANCE ON CURRENT ACCOUNT	−8.4	2.7	−3.7	−2.1	−4.8	−1.7	−0.4	−0.2	−0.6	0.2	0.9	4.8	0.5	2.0	−0.2	−0.3
US Government Capital Flows	−1.3	−1.6	*	*	*	0.6	*	*	−0.1	−0.1	−1.1	−1.6	−0.1	−0.4	−0.1	−0.1
US Direct Investment Abroad	−3.4	−4.0	−1.0	−2.1	−0.2	−0.1	−0.4	−0.3	−0.5	−0.5	−0.9	−0.7	*	*	−0.4	−0.3
Foreign Direct Investment in US	0.2	1.9	−0.1	0.8	*	0.2	0.1	0.1	0.1	0.2	*	0.6	*	*	*	*
Net Portfolio Investments	3.7	3.8	3.0	1.6	0.2	0.7	−0.7	−0.2	1.3	1.3	−0.2	*	*	*	0.2	0.4
Other Long Term Private Capital[4]	−0.7	−0.8	0.1	*	0.3	0.3	−0.2	−0.1	*	*	−1.1	−0.7	*	−0.3	*	*
Net Long Term Private Capital Flows	−0.2	0.9	2.0	0.3	0.3	1.1	−1.1	−0.5	1.0	1.0	−2.2	−0.8	*	−0.3	−0.1	0.1
BASIC BALANCE	−9.8	2.0	−1.7	−1.8	−4.3	*	−1.6	−0.6	0.3	1.1	−2.5	2.4	0.4	1.3	−0.4	−0.4
Allocations of SDRs	0.7															
Private Short Term Flows	−1.6	−6.0														
Errors and Omissions	−3.1															
NET LIQUIDITY BALANCE	−13.9	−4.0														
Liquid Private Capital	3.5	−1.0														
OFFICIAL SETTLEMENTS BALANCE	−10.3	−5.0														

* Less than $50,000,000.

[1] May not add due to rounding. 1973 figures estimated (based on three-quarters of a year data).

[2] Australia, New Zealand, South Africa and other Western Europe.

[3] *Includes transactions with shipping companies operating under the flags of Honduras, Liberia and Panama.*

[4] Includes changes in claims on or liabilities to private foreigners reported by US banks and changes in loans or other long term claims or liabilities of US nonbanking concerns to foreigners other than foreign affiliates.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 31. Free World Countries: Value of Oil Imports

Billion US $ c.i.f.

	1973 Estimated	1974 Projected [1]	Increase 1974/1973
Total	46.2	120.0	73.8
United States	9.3	25.0	15.7
Western Europe	22.2	55.5	33.3
Of which:			
West Germany	5.2	12.0	6.8
France	3.9	10.7	6.8
United Kingdom	3.8	9.5	5.7
Italy	3.4	9.1	5.7
Japan	6.6	18.0	11.4
Canada	1.3	4.0	2.7
Others	6.8	17.5	10.7

[1] Assuming that the volume of oil imports will be the same in 1974 as in 1973 and that average prices in 1974 will be the same as present prices.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 32. Selected Consuming Countries' Dependence on Arab Oil[1] 1972

Thousand b/d and Percent of Imports

		Origin of Imports										
			Arab Oil									
	Total Consumption	Total[2] Imports	Total Arab	Saudi Arabia	Kuwait	Libya	Iraq	Abu Dhabi	Algeria	Other	Iran	Venezuela	Others
United States[3]	16,350	4,750	850	300	50	250	.....	100	100	50	200	1,700	2,000
Percent	.....	100.0	17.9	6.3	1.0	5.3	.....	2.1	2.1	1.0	4.2	35.8	42.1
Total Western Europe	14,200	14,400	9,902	3,573	1,873	1,889	867	369	684	647	1,648	276	2,574
Percent	.....	100.0	68.8	24.8	13.0	13.1	6.0	2.6	4.8	4.5	11.4	1.9	17.9
Italy	2,005	2,217	1,534	566	303	421	244	.....	.....	.....	353	.....	330
Percent	.....	100.0	69.2	25.5	13.7	19.0	11.0	.....	.....	.....	15.9	.....	14.9
France	2,315	2,364	1,836	495	342	196	287	227	219	70	142	36	350
Percent	.....	100.0	77.7	20.9	14.5	8.3	12.1	9.6	9.3	3.0	6.0	1.5	14.8
United Kingdom	2,195	2,057	1,411	418	399	294	70	90	22	118	264	100	282
Percent	.....	100.0	68.6	20.3	19.4	14.3	3.4	4.4	1.1	5.7	12.8	4.9	13.7
West Germany	2,885	2,052	1,466	380	87	570	38	.....	228	163	196	74	316
Percent	.....	100.0	71.4	18.5	4.2	27.8	1.9	.....	11.1	7.9	9.6	3.6	15.4
Netherlands	787	1,810	1,258	608	372	82	8	.....	23	165	308	9	235
Percent	.....	100.0	69.5	33.6	20.6	4.5	0.4	.....	1.3	9.1	17.0	0.5	13.0
Belgium-Luxembourg	624	879	424	268	127	.....	29	.....	.....	.....	100	.....	355
Percent	.....	100.0	48.2	30.5	14.4	.....	3.3	.....	.....	.....	11.4	.....	40.4
Spain	700	775	520	226	66	62	38	.....	97	31	48	17	190
Percent	.....	100.0	67.1	29.2	8.5	8.0	4.9	.....	12.5	4.0	6.2	2.2	24.5
Portugal	87	80	67	25	.....	.....	32	.....	.....	10	6	.....	7
Percent	.....	100.0	83.7	31.2	.....	.....	40.0	.....	.....	12.5	7.5	.....	8.8
Other	2,602	2,166	1,386	587	177	264	121	52	95	90	231	40	509
Percent	.....	100.0	64.0	27.1	8.2	12.2	5.5	2.4	4.4	4.2	10.7	1.8	23.5
Japan	4,800	4,757	2,162	1,067	595	4	30	269	.....	197	1,680	8	907
Percent	.....	100.0	45.4	22.4	12.5	0.1	0.6	5.7	.....	4.1	35.3	0.2	19.1
Canada	1,665	730	183	77	3	38	16	39	1	9	98	373	76
Percent	.....	100.0	25.1	01.6	0.4	5.2	2.2	5.4	0.1	1.2	13.4	51.1	10.4

[1] Expressed in crude oil equivalents
[2] Imports exceed consumption in some countries because they export products; the Netherlands transships some crude oil to other West European countries.
[3] US imports are allocated on a direct and indirect basis, i.e., refined products from export refineries are traced to the source of the crude oil.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 33. US Foreign Trade Trends: Crude Oil

Year	Exports		Imports		Net Imports	
	Thousand bpd	Trillion Btu per Year	Thousand bpd	Trillion Btu per Year	Thousand bpd	Trillion Btu per Year
1947	126	269	268	565	142	296
1948	110	228	353	779	244	551
1949	90	191	422	885	332	694
1950	96	201	488	1,029	392	828
1951	79	167	490	1,045	411	878
1952	74	156	575	1,224	501	1,068
1953	55	118	649	1,398	594	1,280
1954	38	78	658	1,380	619	1,302
1955	33	67	781	1,659	748	1,592
1956	79	168	937	2,004	858	1,836
1957	137	294	1,022	2,189	885	1,895
1958	11	25	953	2,011	942	1,986
1959	8	14	964	2,006	956	1,992
1960	8	18	1,019	2,116	1,011	2,098
1961	8	19	1,047	2,209	1,038	2,190
1962	5	10	1,126	2,380	1,121	2,370
1963	5	10	1,132	2,360	1,126	2,350
1964	3	8	1,203	2,469	1,200	2,461
1965	3	6	1,238	2,528	1,235	2,522
1966	5	8	1,225	2,499	1,219	2,491
1967	74	149	1,129	2,317	1,055	2,168
1968	5	10	1,293	2,638	1,288	2,628
1969	3	8	1,408	2,880	1,405	2,872
1970	14	28	1,323	2,716	1,310	2,688
1971	1	2	1,680	3,449	1,679	3,447
1972	*	.....	2,222	4,597	2,222	4,597
1973 [1]	1	2	3,229	6,680	3,228	6,678

*Less than 500 bpd.
[1] Preliminary.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 34. World Crude Oil Refining Capacity Yearend 1973

	Thousand b/d	Percent of Total
Total	61,454.0	100.0
Eastern hemisphere	39,017.2	63.5
Middle East	2,882.2	4.7
Iran	660.0	1.1
Kuwait	646.0	1.1
Saudi Arabia	428.3	0.7
Turkey	305.5	0.5
Bahrain	250.0	0.4
Other	592.4	0.9
Africa	1,092.2	1.8
South Africa	331.0	0.5
Egypt	180.0	0.3
Other	581.2	1.0
Asia-Pacific	8,932.7	14.5
Japan	4,939.8	8.0
Singapore	699.6	1.1
Australia	680.9	1.1
India	499.1	0.8
Indonesia	427.7	0.7
South Korea	420.0	0.7
Other	1,265.6	2.1
Western Europe	18,110.1	29.5
Italy	3,882.0	6.3
France	3,140.0	5.1
West Germany	2,825.7	4.6
United Kingdom	2,762.1	4.5
Netherlands	1,825.5	3.0
Spain	1,163.0	1.9
Belgium	816.7	1.3
Greece	313.6	0.5
Sweden	248.0	0.4
Denmark	226.5	0.4
Austria	220.0	0.4
Finland	196.0	0.3
Norway	168.0	0.3
Switzerland	140.0	0.2
Portugal	110.0	0.2
Ireland	58.0	0.1
Cyprus	15.0	Negl.
Communist countries	8,000.0	13.0
USSR	6,500.0	10.6
Eastern Europe	1,500.0	2.4
Western hemisphere	22,436.8	36.5
North America	15,796.1	25.7
United States	13,383.0	21.8
Canada	1,788.1	2.9
Mexico	625.0	1.0
South America	6,640.7	10.8
Venezuela	1,531.6	2.5
Netherlands Antilles	945.0	1.5
Brazil	791.8	1.3
Argentina	623.6	1.0
Virgin Islands	590.0	1.0
Bahamas	500.0	0.8
Trinidad and Tobago	461.0	0.8
Other	1,197.7	1.9

Source: Council on International Economic Policy Annual Report, February 1974.

Table 35. Venezuelan Crude Oil Prices

	US $ per Barrel				Percent Increase 1 Jan 1974 over 1 Jan 1973
	1 Jan 1973	1 Oct 1973	1 Nov 1973	1 Jan 1974	
Venezuelan 26° gravity oil					
1. Posted price[1]	3.094	4.925	6.720	13.670	342
2. Estimated royalty (16-2/3%)	0.620[2]	0.620[2]	0.620[2]	2.280	.....
3. Production cost	0.510	0.510	0.510	0.510	.....
4. Profit for tax purposes (1-(2+3))	1.964	3.795	5.590	10.880	.....
5. Tax (58% of 4)	1.139	2.201	3.242	6.310	.....
6. Government revenue (2+5)	1.759	2.821	3.862	8.590	388
7. Oil company cost (3+6)	2.269	3.331	4.372	9.100	301
8. Estimated oil company profit	0.500	0.500	0.500	0.500	.....
9. Estimated sales price (f.o.b.) (7+8)	2.769	3.831	4.872	9.600	247
10. Estimated transportation cost (to US Gulf Coast)	0.460	0.460	0.460	0.460	.....
11. Estimated sales price (c.i.f.) (to US Gulf Coast)	3.229	4.291	5.332	10.060	212

[1] Including a short-haul freight premium.

[2] These royalties were derived using a complex formula using the price of Texas crude. In November the oil companies agreed to apply the royalty to the Venezuelan posted price. Some of the newer concessions pay 20% or 25% royalties.

Table 36. Libyan Crude Oil Prices

	US $ per Barrel				Percent Increase 1 Jan 1974 over 1 Jan 1973
	1 Jan 1973	1 Oct 1973	1 Nov 1973	1 Jan 1974	
Libyan 40° gravity oil					
1. Posted price	3.770	4.688	8.925	15.768	318
2. Royalty (12-1/2% of 1)	0.471	0.586	1.116	1.971	.....
3. Production cost	0.300	0.300	0.300	0.300	.....
4. Profit for tax purposes (1-(2+3))	2.999	3.802	7.509	13.497	.....
5. Tax (55% of 4)	1.649	2.091	4.130	7.423	.....
6. Retroactive payment[1]	0.100	0.100	0.100	0.100	.....
7. Government revenue (2+5+6)	2.220	2.777	5.346	9.494	328
8. Oil company cost (3+7)	2.520	3.077	5.646	9.794	289
9. Estimated oil company profit	0.500	0.500	0.500	0.500	.....
10. Estimated sales price (f.o.b.) (8+9)	3.020	3.577	6.146	10.294	241
11. Estimated transportation cost[2] (to the US East Coast)	0.650	0.650	0.650	0.650	.....
12. Estimated sales price (c.i.f.) (to the US East Coast)	3.670	4.227	6.796	10.944	198

[1] During negotiations in the spring of 1971, the Libyans demanded substantial retroactive payment for their oil. Rather than make a large lump-sum payment the companies agreed to a permanent increase of US $0.10 per barrel.

[2] Using tankers rates of Worldscale 100.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 37. Nigerian Crude Oil Prices

	US $ per Barrel				Percent Increase 1 Jan 1974 over 1 Jan 1973
	1 Jan 1973	1 Oct 1973	1 Nov 1973	1 Jan 1974	
Nigerian 34° gravity oil					
1. Posted price	3.561	4.287	8.404	14.690	313
2. Royalty (12-1/2% of 1)	0.445	0.536	1.050	1.836	.....
3. Production cost	0.350	0.350	0.350	0.350	.....
4. Profit for tax purposes (1-(2+4))	2.766	3.401	7.004	12.504	.....
5. Tax (55% of 4)	1.521	1.871	3.852	6.877	.....
6. Harbor tax	0.020	0.020	0.020	0.020	.....
7. Government revenue (2+5+6)	1.986	2.427	4.922	8.734	340
8. Oil company cost (3+7)	2.336	2.777	5.272	9.084	289
9. Estimated oil company profit	0.500	0.500	0.500	0.500	.....
10. Estimated sales price (f.o.b.) (8+9)	2.836	3.277	5.772	9.584	238
11. Estimated transportation cost (to US Gulf Coast)	0.670	0.670	0.670	0.670	.....
12. Estimated sales price (c.i.f.) (to US Gulf Coast)	3.506	3.947	6.442	10.254	192

Table 38. Persian Gulf Crude Oil Prices[1]

	US $ per Barrel				Percent Increase 1 Jan 1974 over 1 Jan 1973
	1 Jan 1973	1 Oct 1973	1 Nov 1973	1 Jan 1974	
Saudi Arabian 34° gravity oil					
1. Posted price	2.591	3.011	5.176	11.651	350
2. Royalty (12-1/2% of 1)	0.324	0.376	0.647	1.456	.....
3. Production cost	0.100	0.100	0.100	0.100	.....
4. Profit for tax purposes(1-(2+3)	2.167	2.535	4.429	10.095	.....
5. Tax (55% of 4)	1.192	1.394	2.436	5.552	.....
6. Government revenue (2+5)	1.516	1.770	3.083	7.008	362
7. Oil company cost (3+6)	1.616	1.870	3.183	7.108	340
8. Estimated oil company profit	0.500	0.500	0.500	0.500	.....
9. Estimated sales price (f.o.b.) (7+8)	2.116	2.370	3.683	7.608	260
10. Estimated transportation cost[2] (to US Gulf Coast)	1.480	1.480	1.480	1.480	.....
11. Estimated sales price (c.i.f.) (to US Gulf Coast)	3.596	3.850	5.163	9.088	153

[1] Price increases shown are for Saudi Arabian light crude oil 34° API gravity. Saudi light is used as the benchwork for Persian Gulf crude because it is the largest single type of crude oil produced there and represents a good average between higher priced low-sulfur crude and lower priced heavier oil.

[2] Using tanker rates of Worldscale 100.

Source: Council on International Economic Policy Annual Report, February 1974.

Table 39. Price Structure for Selected Crude Oils, 1 January 1974
(See also oil price tables in Appendix B)

US $ per Barrel

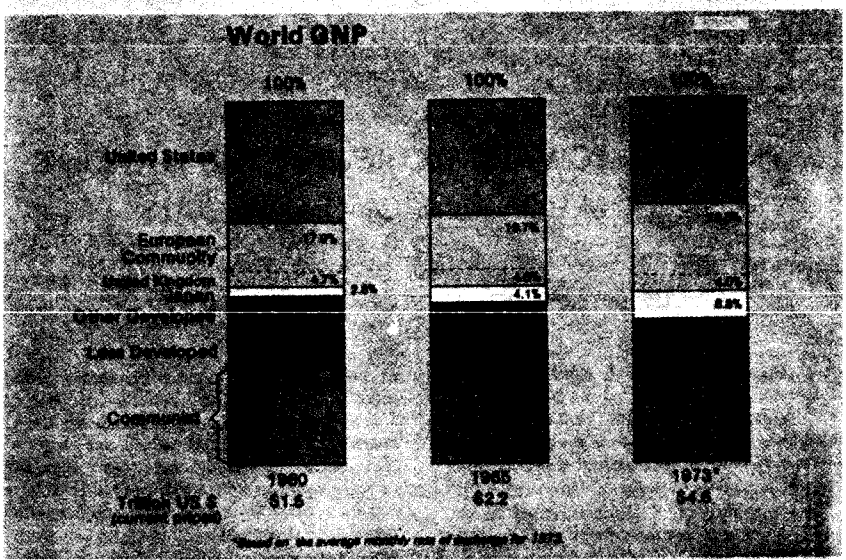
	(34° Crude) (Saudi Arabian) Persian Gulf	(34° Crude) Nigerian	(40° Crude) Libyan	(26° Crude) Venezuelan
Posted price [1]	11.65	14.69	15.77	13.67
Production cost	0.10	0.35	0.30	0.51
Government revenue	7.01	8.73	9.49	8.59
Of which:				
Royalty	1.46	1.84	1.97	2.28
Profit tax	5.55	6.88	7.42	6.31
Estimated oil company profits	0.50	0.50	0.50	0.50
Estimated sales price (f.o.b.)	7.61	9.58	10.29	9.60
Estimated transport cost [2] (to US Gulf Coast)	1.48	0.67	0.65	0.46
Estimated sales price (c.i.f.) (to US Gulf Coast)	9.09	10.25	10.94	10.06

[1] Differences in posted prices reflect differences in oil quality and transport costs.

[2] Transport costs are assumed to be about the same as the average for 1973 (i.e., World-scale 100).

Source: Council on International Economic Policy Annual Report, February 1974.

Figure 1



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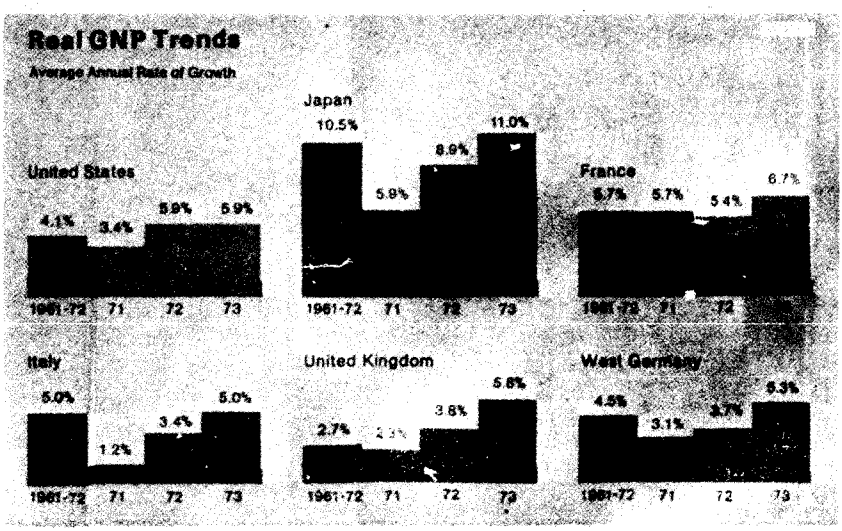
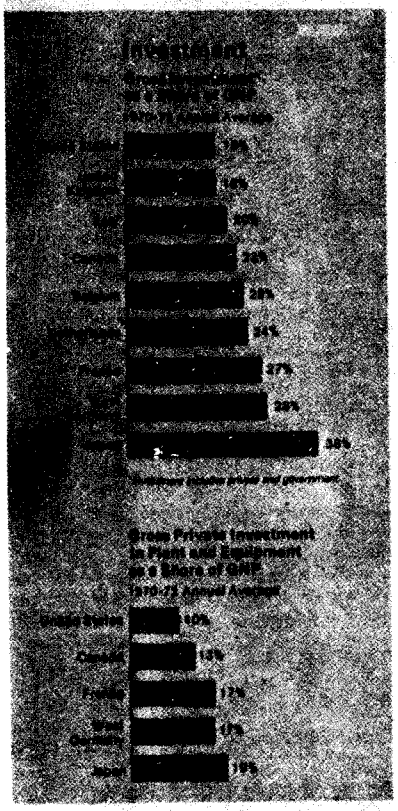


Source: Council on International Economic Policy Annual Report, February 1974.

Figure 3



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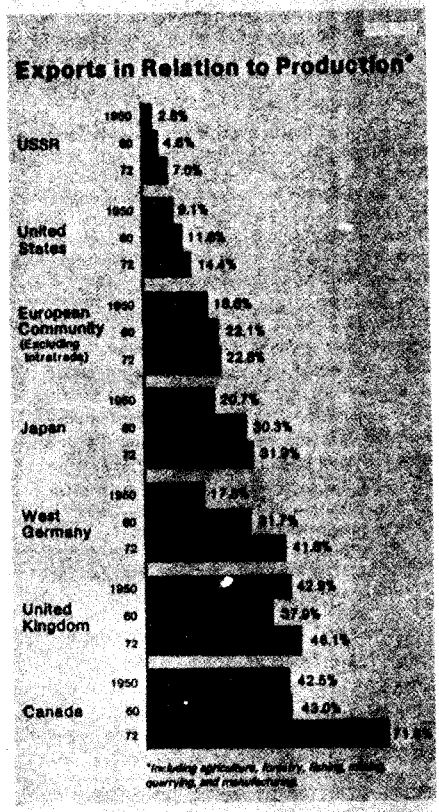

Source: Council on International Economic Policy Annual Report, February 1974.

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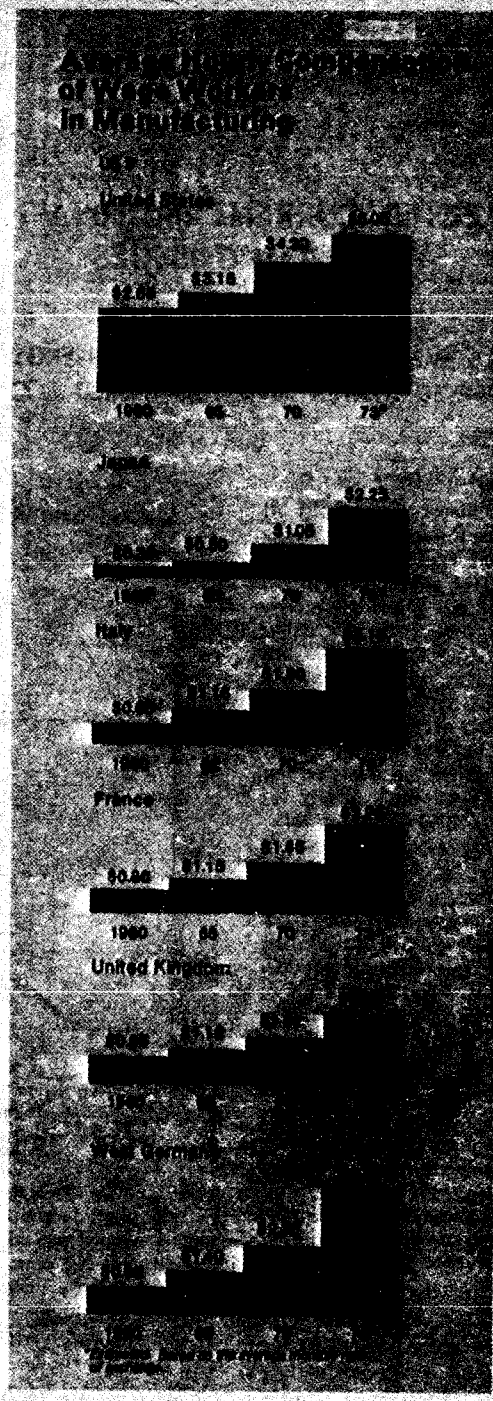
Figure 5



Source: Council on International Economic Policy Annual Report, February 1974.

Figure 6

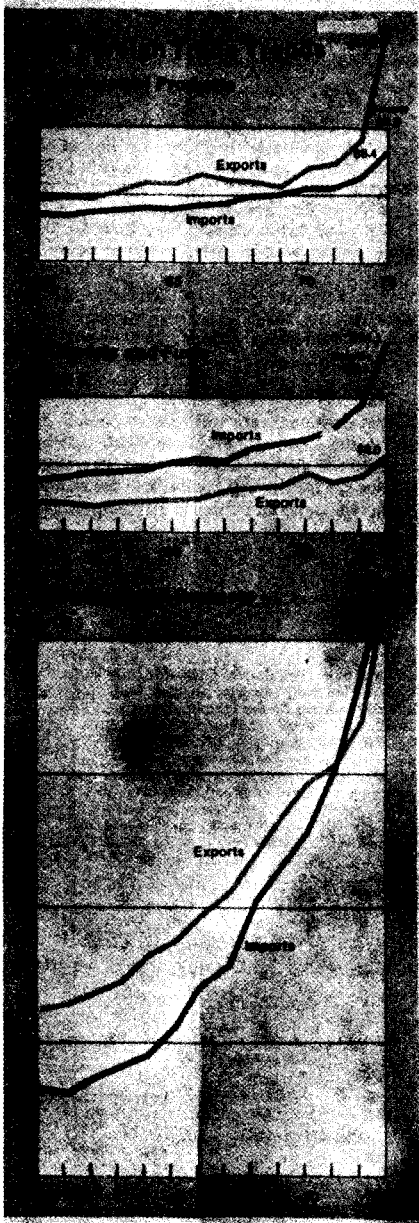


Figure 7

Source: Council on International Economic [illegible] Report, February 1974.

Figure 8

Source: Council on International Economic Policy Annual Report, February 1974.

Figure 9

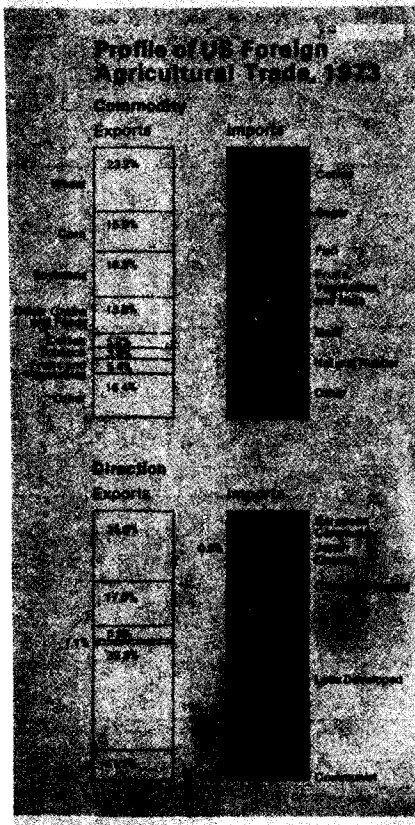
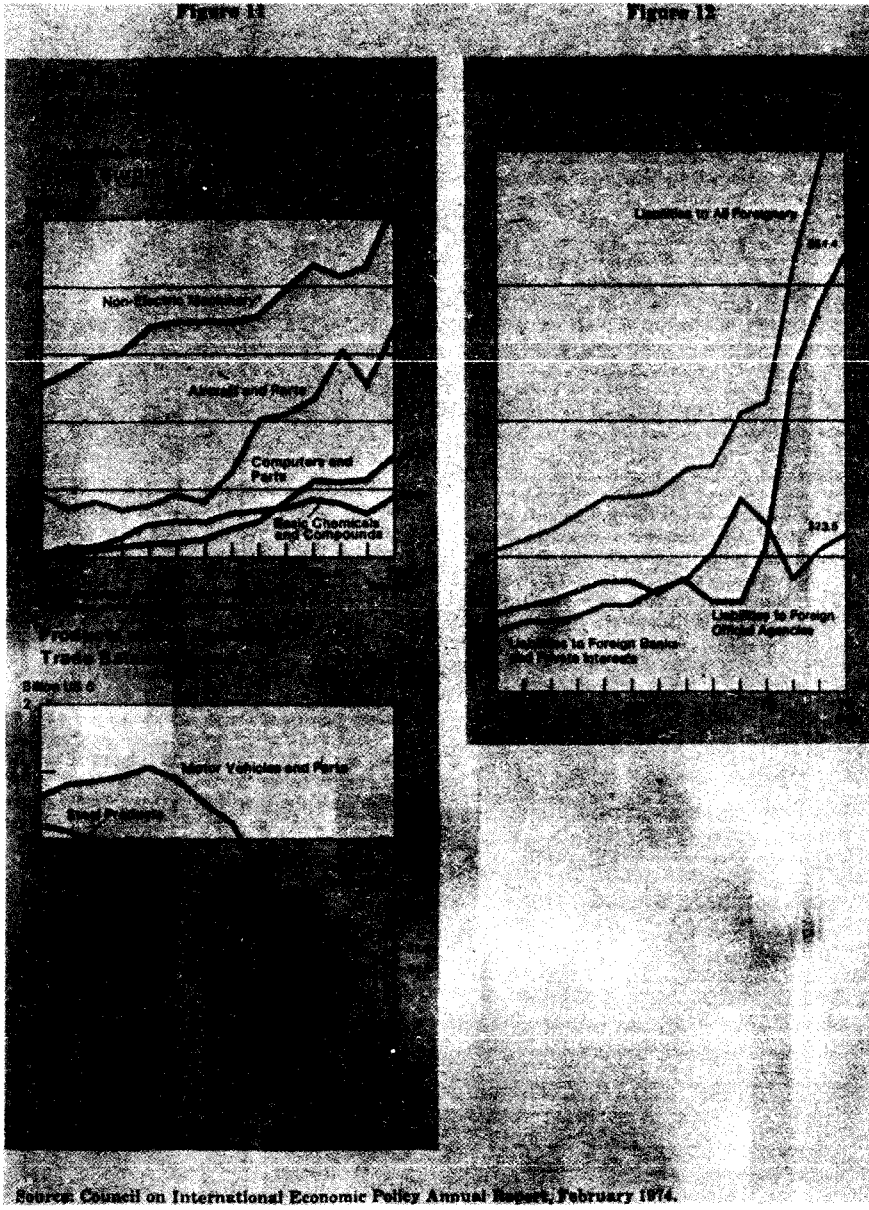


Figure 10

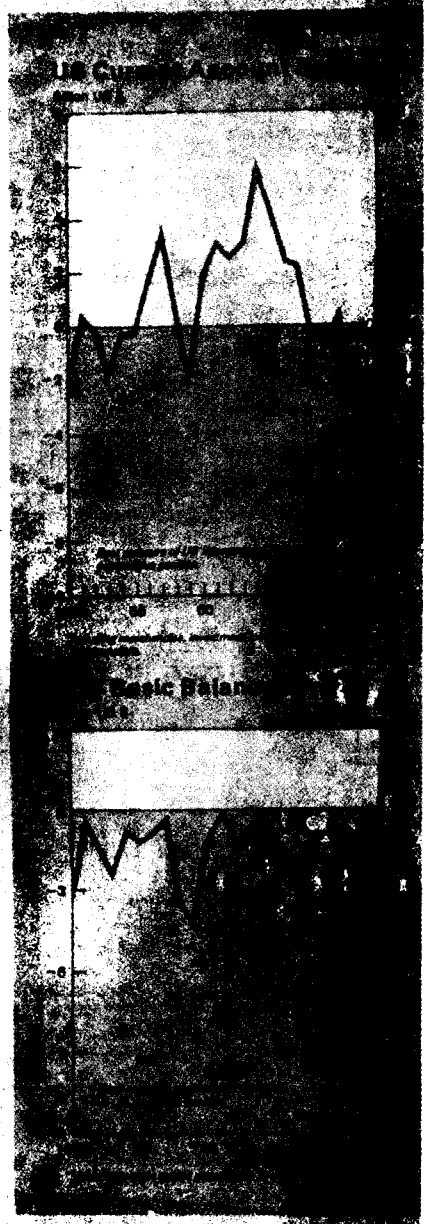
Source: Council on International Economic Policy Annual Report, February 1974.



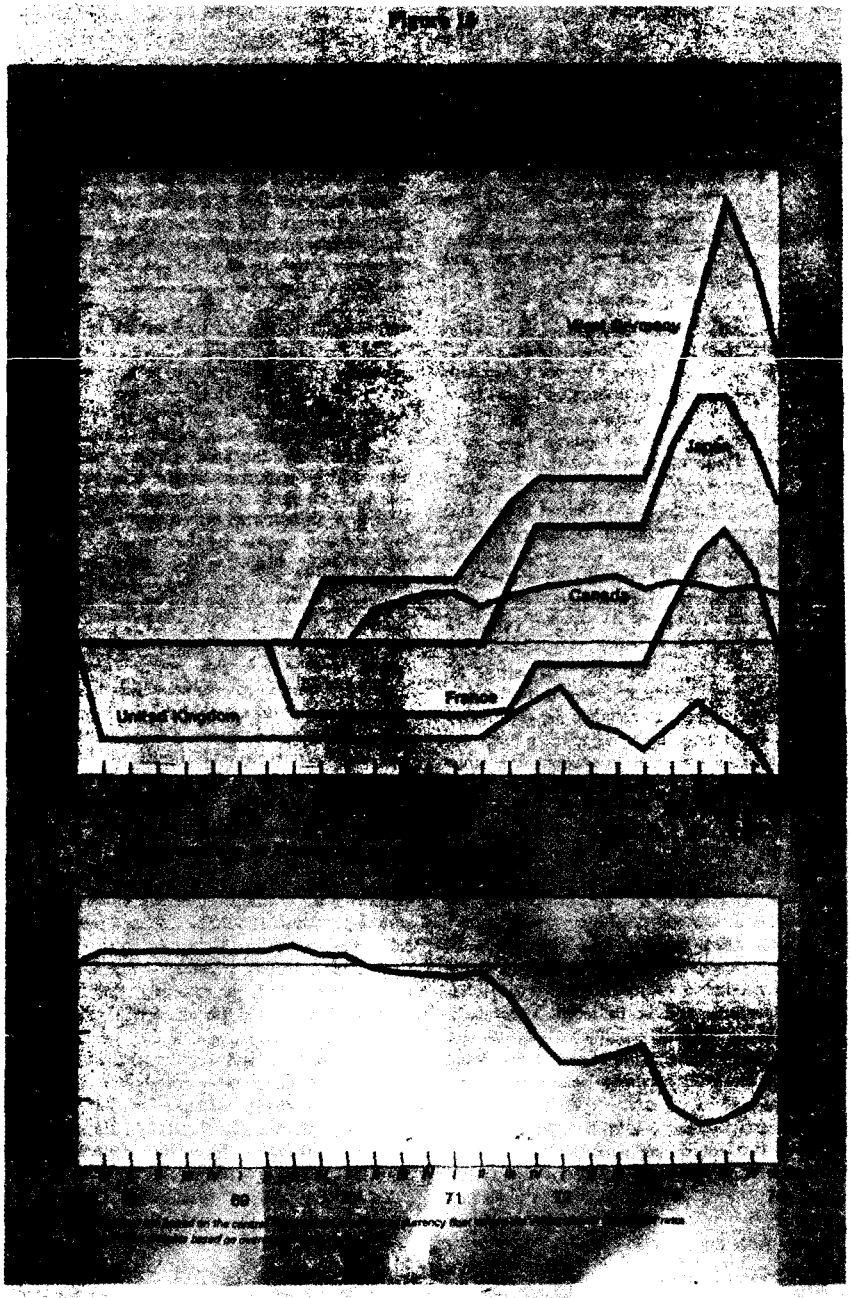
Source: Council on International Economic Policy Annual Report, February 1974.

Figure 13

Figure 14

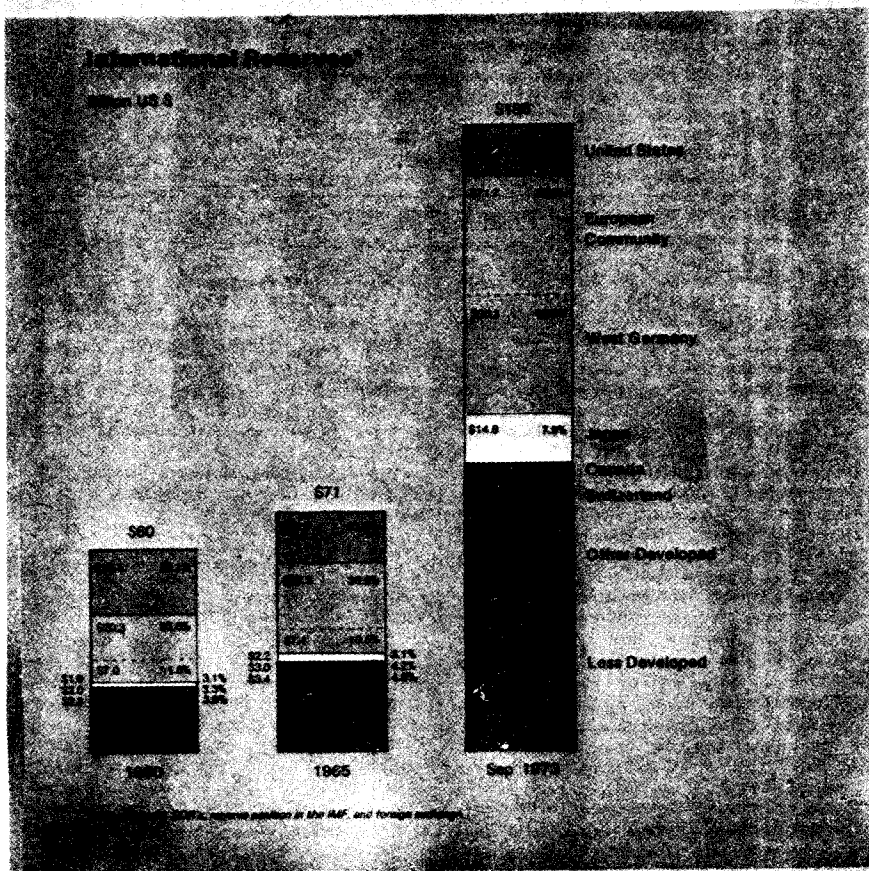


Source: Council on International Economic Policy Annual Report, February 1974.



Source: Council on International Economic Policy Annual Report, February 1974.

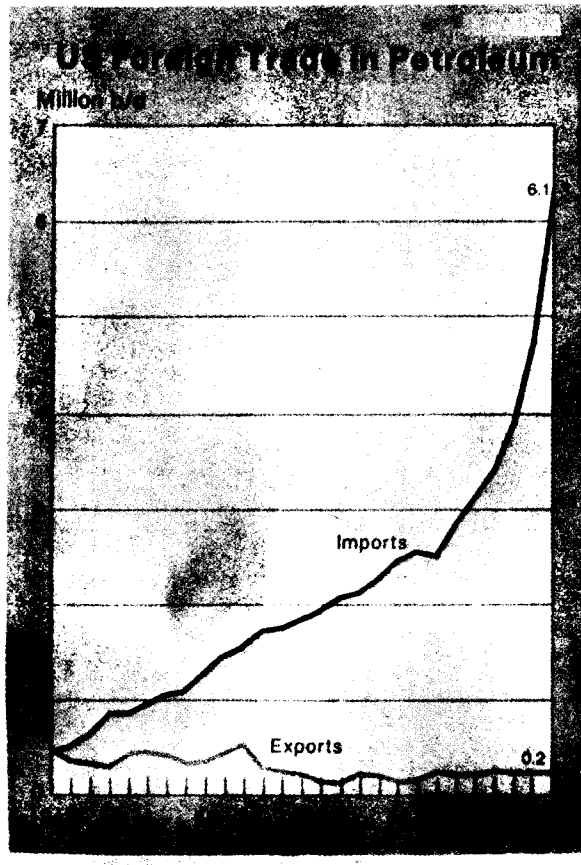
Figure 16



Source: Council on International Economic Policy Annual Report, February 1974.

Source: Council on International Economic Policy Annual Report, February 1974.

Figure 18



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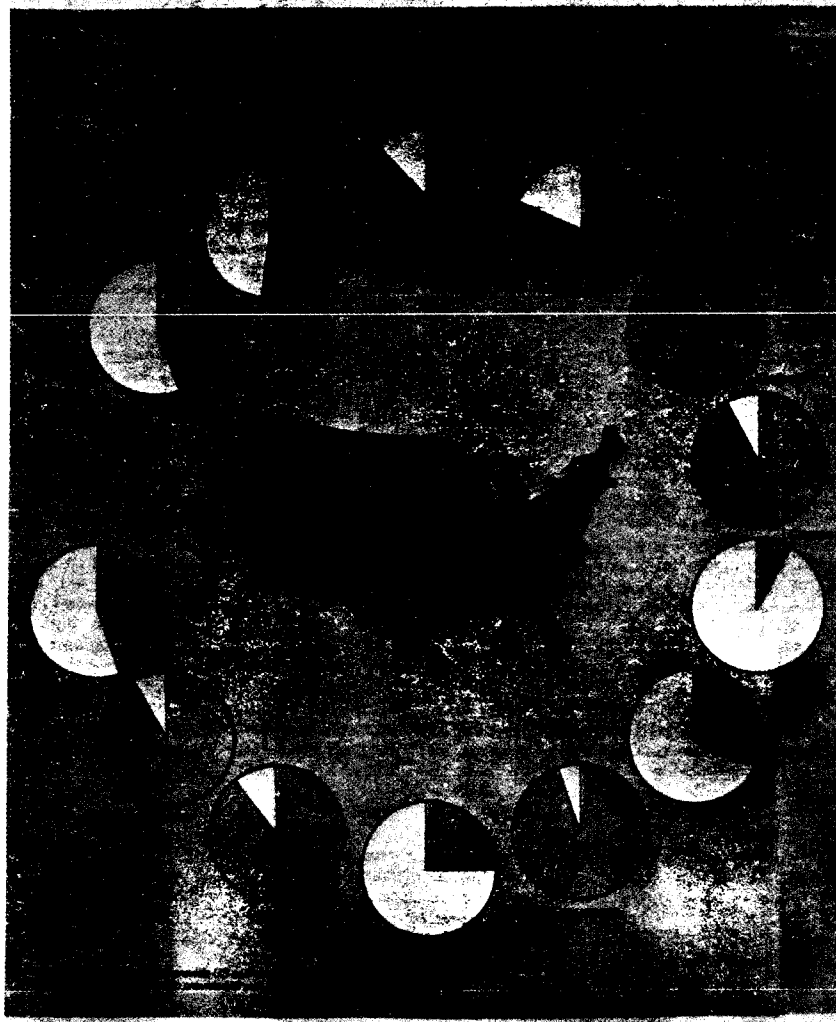

Source: Council on International Economic Policy Annual Report, February 1974.

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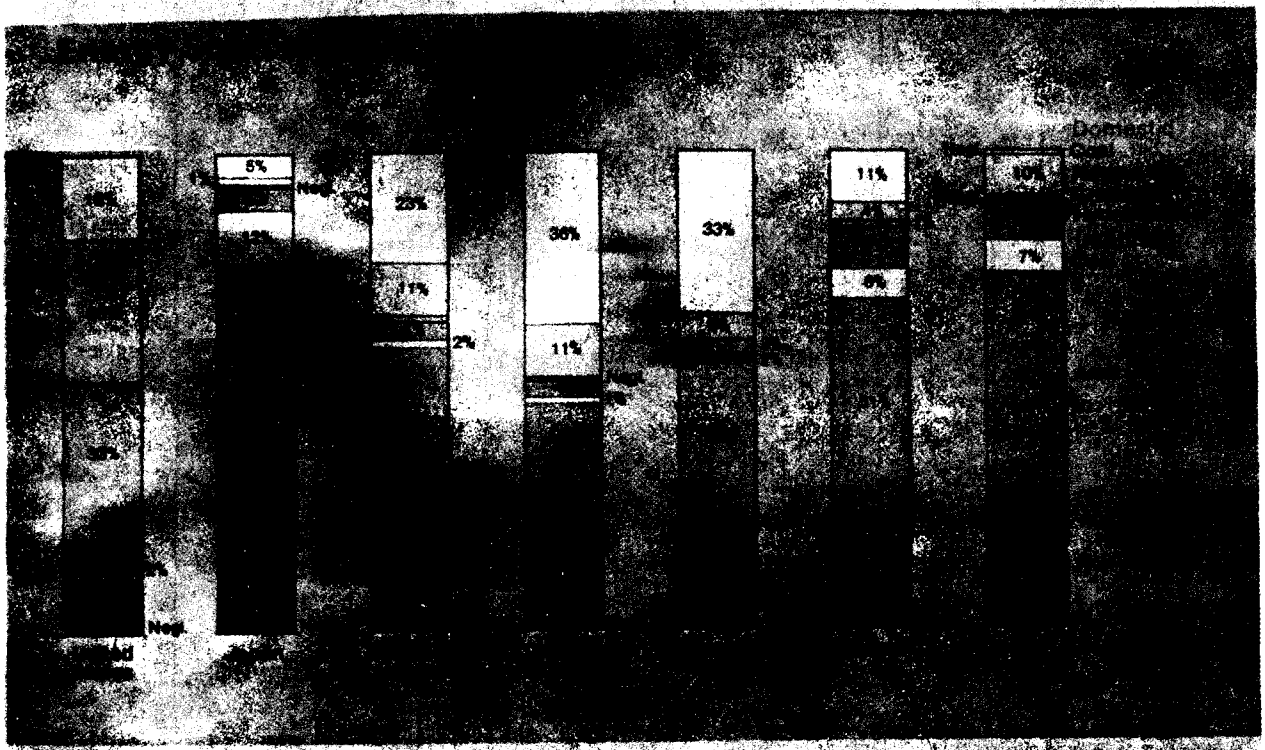
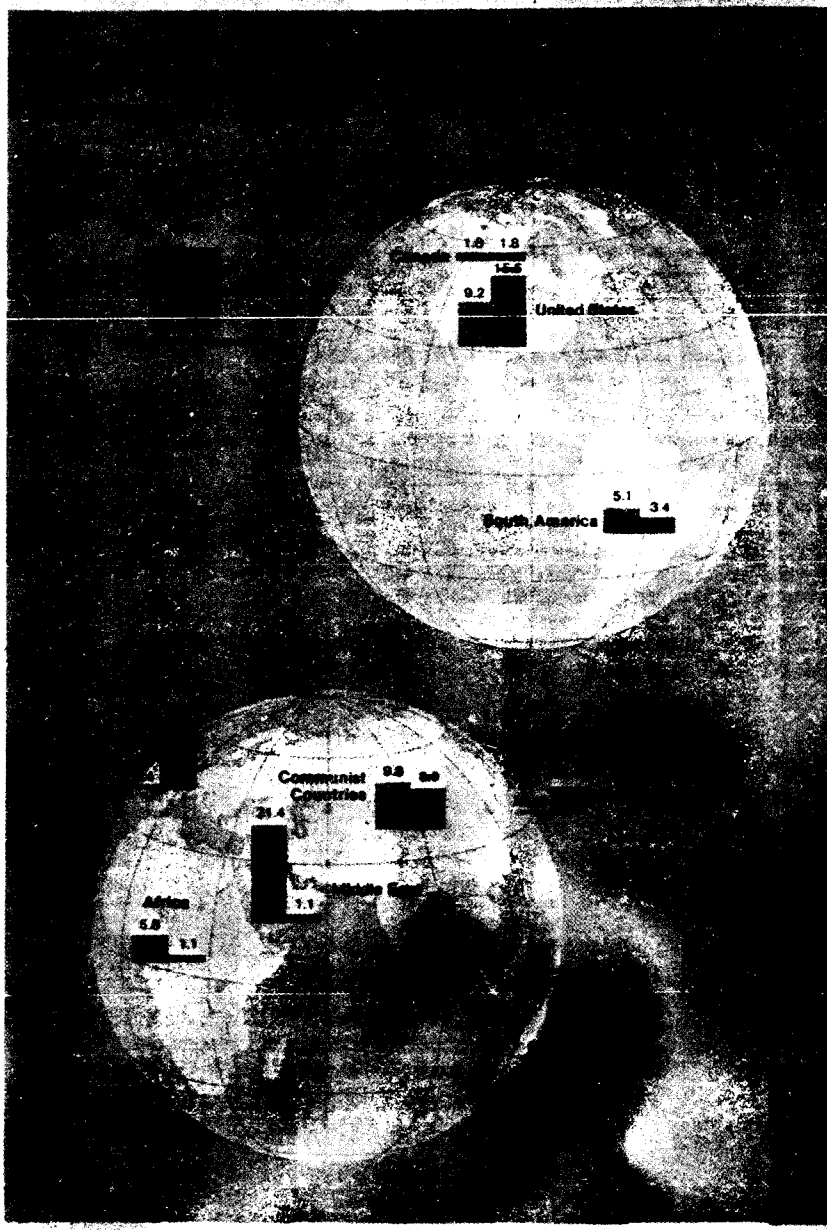


Source: Council on International Economic Policy Annual Report, February 1974.

Figure 21



Source: Council on International **Economic Policy** Annual Report, February 1974.