DEPOSITORY

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 3

Public Witnesses

(March 21, 22, and 25, 1974)

Printed for the use of the Committee on Finance

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TRADE REFORM ACT OF 1973

THURSDAY, MARCH 21, 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, Hon. Herman E. Talmadge presiding.

Present: Senators Talmadge (presiding), Hartke, Ribicoff, Byrd, Jr., of Virginia, Bennett, Fannin, Hansen, and Packwood.

Senator TALMADGE. The hearing will come to order.

This morning we will begin taking testimony from the private sector on H.R. 10710, the Trade Reform Act of 1973. The administration witnesses testified on this bill during the week of March 4.

All witnesses have been instructed to confine their remarks to a 10-minute summary of their written briefs. More time will be offered throughout these hearings. In consolidation to the witnesses, the 10-minute rule will also apply to the Senators' interrogation of the witnesses.

Senators who wish to interrogate a witness for a longer period will have a stenographer available and may use the executive room after all the witnesses have been heard.

In order to expedite the hearing, the staff has organized panels with like demands into groups wherever possible. The first panel will consist of Mr. E. Douglas Kenna, president, National Association of Manufacturers; Daniel L. Goldy, chairman, International Committee, Chamber of Commerce of the United States; and Ian MacGregor, chairman and chief executive officer, American Metal Climax, Inc., on behalf of the U.S. Council of the International Chamber of Commerce.

Gentleman, we are delighted to have you with us. We welcome you to the committee. We look forward to your testimony, and after you have completed your summaries, the Senators will make any inquiries, if they wish to do so.

I take the pleasure to welcome a constituent of mine, Mr. Kenna, who is president of the National Association of Manufacturers.

You may proceed, sir.

STATEMENTS OF E. DOUGLAS KENNA, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS; DANIEL L. GOLDY, CHAIRMAN, INTERNATIONAL COMMITTEE, CHAMBER OF COMMERCE OF THE UNITED STATES; AND IAN MacGREGOR, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN METAL CLIMAX, INC., ON BEHALF OF THE U.S. COUNCIL OF THE INTERNATIONAL CHAMBER OF COMMERCE

STATEMENT OF E. DOUGLAS KENNA

Mr. KENNA. Mr. Chairman, I am E. Douglas Kenna. We are happy to appear before you.

The companies represented in NAM membership represent about three-fourths, 75 percent, of the industrial production in the country and employ approximately 15 million people, so that as concerned taxpayers and employees we have a very direct and substantial interest in the deliberations of the committee.

A large number of our members are engaged in international trade on a major basis. We also have thousands of members primarily represented in the domestic market and who at times are troubled by unfair import competition. We think, therefore, we can present a balanced view of all sides of the issues involved in the international trade negotiations.

We are faced now with an array of political and economic problems, particularly in the international arena, which threatens to undermine traditional world trade and monetary systems.

Some of the recent problems include the Arab oil embargo, a tighter world supply of food and other basic commodities, strained relations between the United States and the European community, and the awesome escalation of global inflation. These diverse forces demonstrate the dangers to continued world economic growth which are posed by disorderly, unmanaged change.

The development of stabilized trading relationship has been a traditional U.S. policy objective aimed at assuring fair competition in a growing international market. With greater interdependence among national economics, the achievement of a stable and equitable trading system is even more imperative.

It is in this context we think it is necessary to press forward with multilateral trade negotiations which can serve as, first, a counterbalance to the increased level of economic and political conflict among nations, providing a forum for participating nations to redefine a flexible, cooperative framework of rules governing international trade and payments mechanisms.

Second, a necessary lead-in for multilateral talks and action on world resource management.

Third, a mechanism to develop more coordination on governmental policies toward industrial sectors facing trade-related transitions.

Fourth, a needed forum to develop more effective dialog between the industrialized nations and the developing nations.

Failure to push forward promptly toward the objective of multilateral trade negotiations with renewed U.S. leadership will leave the United States squarely facing a second, clearly less desirable alterna-

tive; that is, spiraling economic confrontations, characterized by increased government interventionism and "beggar-thy-neighbor policies."

This path can lead only toward a less efficient allocation of global resources, decreased world trade, and ultimately, the prospect of severe worldwide recessions.

At this critical juncture, the United States can afford nothing less than a bold, outward-looking initiative aimed at expanding international commerce and improving domestic adjustment programs.

Specifically, we would recommend the following objectives for the committee's consideration as it acts upon this legislation:

First, continued restoration of U.S. international competitiveness through improved productivity and effective inflation control at home and multilateral fair trade practice in world markets.

Secondly, reducing and/or harmonizing the distortions to trade caused by nontariff barriers and export incentives through negotiation to gain greater access for U.S. exports in world markets.

Thirdly, strengthening the ability of domestic industries to meet import competition through government-industry self-help programs, financial assistance, R. & D. support, "early-warning" information analysis and selective use of temporary import safeguards.

Fourthly, developing foreign trade policy to more effectively complement overall U.S. foreign policy, particularly in strengthening détente with nonmarket economies and encouraging better relations with developing countries.

The only policy appropriate to America's traditional leadership role in competitive free enterprise must embrace a step toward a more responsible world economic order, where fair trade begets freer trade.

It is in this context I would like to comment very briefly on the five titles that appear in this bill to give you generally our position on them.

First, we would support the provisions of title I as being consistent with the negotiating authority and flexibility necessary to support U.S. negotiators.

There are two particular sections of this title we would like to comment on. First, in the area of nontariff barriers. These barriers have become increasingly important as tariff levels have declined. Upcoming trade negotiations will be the first to seriously attempt a reduction and/or harmonization of these diverse and little-known restraints to trade.

We have just completed a major study, or are in the process, which will be made available on an updated basis to our negotiators. During the negotiations we are working with them closely and this study embraces an industry-by-industry and country-by-country approach. We are working in coordination with some 30 major trade associations in this area.

To clarify the scope and importance of the NTB negotiation efforts, this committee might consider a couple of points. First, specifically including export subsidies within the definition on nontariff barriers. These distortions to trade have traditionally been placed in several different categories, but clearly merit active consideration in upcoming trade talks.

Secondly, to establish a joint congressional body to insure adequate supportive services for Congress during periodic legislative branch consideration of submitted NTB agreements.

The second area where we want to comment is on the advice of the private sector. Mr. Goldy will cover this in detail in his testimony.

In title II, relief from import injury, we think that expanding international trade will inevitably create some dislocations and disruptions for individual manufacturing sectors, firms, and their employees. We don't think that currently these problems are adequately handled by the programs that are in effect. We support this particular amendment approach.

We think it should be carefully looked at toward the view of cost, toward the view of making it more effective as an early-warning fact rather than an after-the-fact unemployment compensation. NAM applauds the House rejection of a plan to impose Federal standards on individual State unemployment compensation systems.

We recommend that this committee place full reliance on the State systems, eliminating a separate benefit level for import-injured workers and concentrating Federal efforts at developing an effective early-warning system backed by an industrial self-help program and worker re-employment aids.

We have completed a major study on this particular thing, Mr. Chairman, and I would ask that the results and detailed recommendations of this NAM 8-month study be included in the record.

Senator TALMADGE. Without objection it is so ordered.[1]

Mr. KENNA. On title III, relief from unfair trade practices, we strongly support the need for a tough, fair trade policy within the guideposts of international treaty obligations. We think the provisions of H.R. 10710 will add new "legislative teeth" to U.S. trade policy.

We, therefore, endorse the improvements offered within this title to upgrade both the procedures and range of Government responses to unfair foreign trade practices.

This would include the removal of distinctions between agricultural and nonagricultural products which had restricted authorized responses to unfair practices involving industrial goods.

Second, the extension of retaliatory authority to cover foreign export subsidies in third country markets.

Third, improved procedural timetables which provide greater assurance of timely determinations.

Fourth, the right of domestic producers to seek judicial review of negative countervailing duty determinations.

Fifth, the intended definition of "commerce" in section 310(a) to include U.S. service industries, many of which are important to effective industrial production.

A second area that we think is deserving of the committee's attention is the more difficult problem posed by weighing possible effects of domestic retaliatory action on trade negotiation progress.

The currently proposed regulation says the Secretary of the Treasury has 4 years to make decisions, if negotiations are pending, except in cases with Government subsidies or Government corporations involved.

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[1] See p. 766.

We think this should be tightened to the point that domestic industries not go through prolonged periods prior to some adjustments being made. We have seen industries badly hurt in this respect in the past.

Senator TALMADGE. I am sorry. Your time has expired. All of your remarks will appear in the record.

Mr. KENNA. Fine, sir.

I would like to say in summary we are generally supportive of this legislation. We think it is needed. We think it is timely at this time.

Senator TALMADGE. Thank you, sir.

You may proceed, Mr. Goldy.

STATEMENT OF DANIEL L. GOLDY

Mr. GOLDY. Mr. Chairman, I am Daniel L. Goldy, president, International Systems and Controls Corp., Houston, Tex.; chairman of the international committee and a member of the board of directors of the Chamber of Commerce of the United States, on whose behalf I am appearing today.

The national chamber, representing over 46,000 firms, 2,600 local and State chambers of commerce, 1,100 trade associations, and 35 American chambers of commerce abroad, is testifying in general support of the Trade Reform Act, H.R. 10710, with the exception of title IV, with which we are in disagreement in its present form.

The Association of American Chambers of Commerce—Europe and the Mediterraneans representing American business abroad in 11 countries—has requested to be associated with our statement.

Now to confine myself to the 10-minute rule, Mr. Chairman, I request that our full statement be incorporated in the record.

Senator TALMADGE. Without objection, it is so ordered.

Mr. GOLDY. The National Chamber has long supported the freest movement of goods, services, and capital across boundaries, national and international. During much of the postwar era, it has been the United States that has consistently led and encouraged a sometimes reluctant developed world to move in the direction of the basically open international trading system responsible for the unprecedented prosperity of the past quarter century. Such a system has been, is, and will continue to be in our national interest.

There are problems today, very serious problems, which require immediate attention. But they are problems that result in some measure from the successess of our postwar policies and they can be resolved effectively only within the traditional framework of international negotiations and cooperation. Too much is at stake to being experimentation with international anarchy in 1974.

At the conclusion of the Kennedy round of trade negotiations in 1967, U.S. exports totaled $31 billion and imports roughly $27 billion. Today, as we consider the Trade Reform Act which would authorize our participation in a new round of trade negotiations, our 1973 exports were nearly $71 billion—an increase of 130 percent—and our imports reach $69 billion—an increase of 155 percent.

Over the same period, world trade has increased nearly threefold. Clearly, this growth in U.S. trade and world trade is a reflection of the growing interdependence of the economies of the world.

Interdependence means that all nations are exporting more, importing more, and thus prospering more. But prosperity in any one country depends in large measure on what policies are followed in other countries.

It is essential therefore that fair rules of the game be further negotiated and maintained so that all nations can continue to sell abroad to pay for what they must purchase in foreign markets.

While the policies followed in the movement toward an open global trading system have been successful, that system, designed and negotiated at the conclusion of World War II, requires further review and modification to take into account the economic realities of 1974.

As the predominant economic and political power of the developed world, the U.S. faces a very real choice. We can allow the western economies to continue down the current path of nondecision; we can lead the world back to the depression of the 1930's by retreat to Fortress America and initiation of economic warfare; or we can take an enlightened and expansive view of our national self-interest and lead the world to the negotiating table in a cooperative and multilateral fashion.

Certainly, if negotiation can hold the promise of a modus vivendi with our traditional enemies, it must hold even greater promise with our allies and trading partners with whom, despite current problems, we share a tremendous commonality of interest.

I would like now to turn to comment on specific sections. The chamber supports basic authority for the President to enter into multilateral trade agreements aimed at lowering existing tariff levels and removing nontariff distortions to foreign trade. These are sections 101 and 102.

As tariff levels have fallen under the trade agreements program initiated in 1934, nontariff barriers in many forms have come to play an increasingly larger role in preventing American products from entering foreign markets.

Diminishing NTB's in all segments of foreign commerce, agricultural and service as well as industrial, is a prime prerequisite to the conclusion of a successful negotiation.

In regard to section 135, advice from the private sector, the chamber notes with gratification on a consistent move toward development of a meaningful Government-industry consultative system through proposals reflected in H.R. 10710 and the statement of the special representative for trade negotiations submitted for the record.

In addition, we have the following specific comments on this subject of great importance to the business community.

First, it is essential to an effective trade negotiation that there be a two-way flow of information and advice between Government and industry on a timely and continuing basis. Moreover, this exchange must be directly between the responsible negotiators and industry spokesmen.

We are concerned, based on our experience with previous trade negotiations, that industry information and advice would not be sought or heeded; in fact, it might even be cut off at lower levels of a department or agency and never transmitted to the U.S. negotiators. We are also concerned that the flow of information would be unilateral, industry to Government, instead of bilateral.

Second, we endorse the administration's recommended amendment of section 135(e) to exempt meetings of industry advisory committees from section 11 of the Federal Advisory Committee Act.

Third, we endorse the administration's recommended amendment of section 135(c) to provide for a general policy advisory committee for each of industry, labor, and agriculture.

Fourth, we urge an additional amendment to provide the special representative and participating agencies with more staff assistance.

Fifth, we believe that specific provision must be made to assure that small- and medium-sized businesses are able to make appropriate inputs into the liaison structure. We are concerned that, as has been the case in past negotiations, liaison efforts will be unduly tilted toward the very largest of American business enterprises.

This would be a mistake. If the negotiating position of the United States is to reflect fully the nature and strengths of our economy, the negotiators must be cognizant of the role and receptive to the opinions of small and medium as well as large firms.

Access to supplies of raw materials has arisen as a policy issue in the past 6 months. The chamber supports revision of the bill to mandate U.S. negotiators to deal with this problem in multilateral negotiations and to grant the President certain powers for use against unfair foreign export restrictions.

We support the recommendations submitted by the administration to deal with this problem, and the thrust of the amendments submitted by Senators Mondale and Ribicoff.

Title II, sections 201–204, import relief. We support the proposals embodied in H.R. 10710 to liberalize the "escape clause" criteria.

Under current law, petitioners for relief are required to prove to the Tariff Commission that increased imports were the major cause of injury and that such increased imports result, in major part, from past tariff concessions.

The criteria proposed in H.R. 10710—that is, that imports need be a substantial cause of injury—and severing the link to past tariff concessions are changes which should insure fair and adequate consideration of all petitions.

We oppose section 203(f) which would allow the President, as a form of import relief, to suspend application of items 806.30 and 807.00 of the tariff schedules of the United States. That this should even be included as a form of relief, much less treated as a duty increase and therefore first in preference, indicates a profound misunderstanding of the role and importance of these tariff schedule items. This is dealt with much more fully in the full text of our statement.

Trade adjustment assistance. One of the key issues underlying the debates on the trade bill is the unemployment in the United States. Review of the basic figures indicates employment and unemployment do not rise or fall based on trade surpluses or deficits. That is, during a period of trade deficits there is frequently an employment increase and unemployment decrease. During a trade surplus we have sometimes had a reduction in employment and an increase in unemployment.

That is because the basic levels of employment and unemployment are essentially related to domestic economic policies pursued by

the administration and not the issue of trade. This doesn't mean have aren't trade-related impacts. There are and that is why we believe the trade adjustment assistance provisions should be strengthened materially to deal with such impacts.

We want to comment specifically on the adjustment in terms of firms. We urge the committee to continue as under present law tax assistance in the form of extended loss carrybacks, a form of assistance that is not included in H.R. 10710. Our experience with firms having gone through adjustment assistance shows that these tax privileges were of great benefit in promoting viable adjustment.

We also feel there should be adjustment assistance for communities not now provided in the bill.

Finally, I have not had a chance to review here the issue of title IV, trade relations with countries not enjoying nondiscriminatory tariff treatment.

In essence, our position is we support the recommendation for compromise in this program recommended by Secretary Kissinger when he was before this committee. That is essentially our position.

I think I had better conclude and hope I get an opportunity in questions to answer questions in connection with the generalized system of preferences, which we support.

Senator TALMADGE. Thank you, Mr. Goldy.

STATEMENT OF IAN K. MacGREGOR

Mr. MACGREGOR. Thank you for the opportunity to appear here today, Mr. Chairman.

I am Ian K. MacGregor, and I am chairman and chief executive officer of American Metal Climax, Inc. Today I am pleased to be here in my capacity as chairman of the U.S. Council of the International Chamber of Commerce.

The U.S. council is the American branch of the International Chamber of Commerce, an organization which for more than 50 years has advocated the expansion of international trade and investment.

I have here copies of prepared testimony and a summary which I respectfully request be included in the record of today's hearings.

Senator TALMADGE. Without objection, the full text will be inserted in the record.

Mr. MACGREGOR. In the council's view, the need for a trade bill is just as pressing now as when it was under discussion in the House last year. Much has happened on the international economic scene since then. The trend to national go-it-alone policies seems to be increasing.

Cohesion among the industrialized countries which has existed since World War II is weakening in an alarming way. I testify today to express the U.S. council's urgent and strong support for passage of the Trade Reform Act.

The sharp increase in the price of oil and other imported materials tempts countries to seek to protect their balances of payments by imposing import controls and/or by artificially stimulating exports, leading to retaliation by other countries, and a general worsening of trade relationships.

The implications of bilateral deals between certain consuming and producing countries are alarming. We see preferential bilateral trading arrangements which limit the access of third countries to important markets for their exports and sources of essential raw materials.

The President must be armed with negotiating authority in the trade field, which he now lacks, if he is to be in a position to exert the full influence of the United States against these dangerous trends.

The emerging situation has dangers, but it brings challenging opportunities. We have the chance to turn the present crisis into constructive channels; to stimulate multilateral cooperation; to achieve economies in the use of limited supplies; to learn how to achieve their better distribution in a manner that meets the needs of consumer and producer; to insure that market forces basically determine the most economic use of available resources.

The most positive step which the Government of the United States, and you gentlemen in the Senate, can take to help realize these constructive alternatives is early passage of the Trade Reform Act in substantially the form in which it came to you from the House of Representatives late last year.

Passage of the Trade Reform Act underscores the continued commitment of the United States to the objectives agreed upon in Tokyo last September.

It will clear the way for General Agreements on Tariff and Trade negotiations which are now stalled awaiting congressional passage of this bill.

When the Trade Reform Act was first under discussion in the Committee on Ways and Means of the House 1 year ago, the United States was deemed to be in a relatively weak international financial position.

We were then running a serious trade deficit. Our balance of payments was at record levels. The dollar was under attack. There was much talk of an unacceptable dollar overhang. In this context, the Trade Reform Act was regarded largely as a means of regaining some of our earlier international trading strength.

Today the position is markedly different. The trade balance has improved and the dollar has strengthened.

This presents a unique opportunity to assume all over again our leadership in working toward greater international economic order. To seize this opportunity, the President must be armed with the authorities in the Trade Reform Act.

The United States cannot expect to gain tariff concessions from other countries without granting some in return. Since the Trade Expansion Act expired, there is no mechanism for the United States to negotiate with its trading partners to assure that the effort toward trade liberalization is continued.

The President similarly needs authority to negotiate in the area of nontariff barriers to trade. This has been an intractable problem for a number of years.

Some headway is now being made within the General Agreements on Tariff and Trade to sort out those nontariff barriers which are most troublesome and to define possible approaches to minimizing their effect on international trade.

While the sector-by-sector approach to reciprocity, embodied in the present version of the Trade Reform Act, may appear to some to be equitable, experience indicates that wider flexibility is necessary for a broadly successful outcome.

Since the inauguration of the trade agreements program, the United States has conducted trade negotiations on the basis of overall reciprocity, allowing concessions in one product sector to be compensated by concessions in another, provided that an overall balance of advantage is secured in the total trade package. This flexibility is especially necessary in dealing with nontariff barriers.

The Council believes that the President needs the new authorities with respect to safeguard mechanisms, balance of payments, and escape clause provisions that are embodied in the Trade Reform Act.

Such measures are essential to give the President the authority to take remedial actions if U.S. business is discriminated against in other countries.

The inclusion of export controls is a new element in a trade bill.

Historically, trade negotiations have concerned themselves with import restrictions as a major limitation to the international move-
good in short supply, have vecome of increasing concern.
goods in short supply, have become of increasing concern.

The Council believes that restraint on export controls is as important as restraint on import controls in an interdependent world, and that the United States should seek agreement with its trading partners on a framework of cooperation in cases of worldwide shortages.

When appearing before the Ways and Means Committee last May, the U.S. Council urged that most-favored-nation treatment be granted on a bilateral basis to those nonmarket economies not now eligible for it, a position we have held for many years.

We continue to feel that on economic grounds it is in the interest of the United States to bring the Communist countries into the trade and monetary system of the Western industrialized countries.

This is an issue fundamentally economic in nature rather than a political one.

Title IV of the House version of the Trade Reform Act reflects the introduction of political issues into trade legislation. We believe that the trade provisions of a bill, so important to so many U.S. objectives, should not be jeopardized by this political issue.

The U.S. Council also believes that the Trade Reform Act should not be burdened with provisions relating to taxes on foreign source income which should be treated independently of trade legislation.

Most major foreign competitors of American companies already operate under more liberal tax regulations than we do with respect to foreign-source income. The national interest is not served when the United States unilaterally imposes further tax handicaps on American business in the competitive world economy.

Nor is American policy consistent if it seeks fairness and equity in international trade and monetary matters but fails to provide its own nationals with such fairness in matters of taxation.

The Council respectfully submits that it is a matter of highest priority that the President be given the authority to enable the General Agreements on Tariff and Trade negotiations begun in Tokyo to proceed.

To accomplish this the Trade Reform Act should be enacted without delay. In the rapidly changing economic conditions of today, the President must have the authority and the flexibility to meet the challenge of negotiating a sounder trade basis for the United States and its trading partners.

Thank you.

Senator TALMADGE. Thank you, Mr. MacGregor.

I have only one qustion that I would like to submit to all three of you gentlemen. If you will respond, please, in the order that you testified and limit your response to about 3 minutes so that each will have an opportunity to respond in the time allotted, I would appreciate it.

In your statements, all of you strongly support providing the President with the authority to negotiate trade agreements aimed at reducing tariff and nontariff barriers, both here and abroad.

Now, no country will enter into negotiations unless it feels it would improve its position. Page 7 of this document that the staff has prepared, "U.S. Trade and Balance of Payments," indicates that the United States has underestimated the real deficit in trade and manufactured items.

In 1973, West Germany had a surplus of $26,400 million and Japan had a surplus of $22 billion, in spite of the shifting values of the dollar and the Deutsche mark. How do you explain the U.S deficit and the German and Japan surpluses, and how will trade negotiations reverse this trend?

Mr. KENNA. I think, Senator, that we have seen a reversal in trade balances since we had the two devaluations. It has swung over really to the U.S. plus column.

Senator TALMADGE. I am talking about manufactured items now, Mr. Kenna. That is where the jobs are, as you know.

Last year we had a deficit of $800 million in that area.

Mr. KENNA. Yes. I think those figures are correct. I think we are looking for mechanisms in negotiations addressing these imbalances.

I find, as we had discussions particularly with the European community, that they are willing to negotiate, albeit they certainly are making things favorable to their own country.

I would like to emphasize, I think the entire international economic picture has changed radically with the new pricing of energy. We are going to see a dramatic shift of deficit balances. The European countries will be affected. I think the countries, particularly Japan and Germany, will be going into major deficit balances because of this new energy price.

For that reason, and for a number of other reasons, we find they are receptive to negotiations, that they are receptive to discussions about elimination of certain nontariff barriers. We feel the NTB's problem is really one of the major problems facing the negotiations. And particularly on the part of the manufacturing community, we feel that the NTB problem is the kind of thing that must be corrected if we are to change this imbalance we have had.

So we are giving a great deal of attention to it. As I said earlier, we have some 30 national trade organizations making studies of the problem. We are working closely with Mr. Eberle to give them this information on a country-by-country and industry-by-industry basis.

We are encouraged by what we see, even though we recognize that each country, of course, has its own self-interest in mind. We do think it is possible at this juncture in time to make substantial progress in addressing these trade imbalances.

Mr. GOLDY. Mr. Chairman, I would like to address myself as specifically as possible to the question you raise, which is a very interesting one.

It relates only to the manufacturing segment, and it does not relate to services, agricultural items, and other areas where we have done better.

Now you mention two countries, West Germany and Japan, specifically. Japan, as I think all the members of this committee know, has been a special case. They have had a special system, unlike anybody else's, which has conferred on them a major advantage in obtaining market positions abroad in exports.

That system, incidentally, can be coped with better with the authority that is given to the President by the bill that is before the committee in terms of dealing with the indirect export subsidies that the Japanese have used. That is one of the reasons why this bill is very important.

It is also important to improve the rules of the game, to strengthen the GATT rules and the GATT mechanisms so that export subsidies can be dealt with. That acts in part with what Japan has done.

Japan went from a $4.2 billion surplus to a $1.8 or $1.9 billion trade surplus in 1973. That is in large measure the result of the pressures that were on Japan to curtail their trade surplus with the United States, but also in part due to the devaluations that went into effect.

But I can see that in effect there are systems operating abroad that need to be dealt with, and that is what, in effect, the thrust of the bill is designed to do.

Now, West Germany is a somewhat different situation. I think if you talk to any of the businessmen or manufacturers in West Germany, you will find they are not very optimistic about maintaining their situation.

As a matter of fact, their labor costs are escalating very rapidly under what they call codetermination or the business of putting the union representatives on the board of directors.

Many of them are seeking opportunities to go abroad, or even opportunities in the United States. The basic point is we need better international rules to cope with the kind of problem you are talking about, the kind of problems the United States has faced.

We need those rules because the United States is going to have to obtain and maintain more market positions abroad to earn what it needs to pay for the imports it needs. We have to do it, in a word, with some better rules. That is the basic thrust of this negotiation; to set up the rules so, in effect, the United States could pursue its interest in that context.

Mr. MACGREGOR. Mr. Chairman, I believe there are three important points that you should observe in connection with these figures.

First of all, there is lag. By lag I mean it was only for part of 1973 that the full impact of our last and important devaluation took place. Therefore, international markets do not turn around just at the drop of a hat. These are huge, dynamic motions with long leadtime from

the basic concept all the way through to where it reaches its end market.

We have a great deal of momentum in the manufactured products input into this country from abroad, which stems from the long years when the United States represented a market with overpriced dollars buying products from all over the world at bargain prices.

As you know, every kid in the country has about 14 tape recorders and all sorts of other things which were totally underpriced.

The second point is products. The United States has enjoyed the luxury for many, many years of not being concerned about exports. Our manufactured products are directed at our own huge internal market. We haven't geared our products to the external world.

This is a process which is now taking place. As a matter of fact, we have left, if you will, shelf goods. Those that want to take our Mustangs, our DC–10's, or 747's can get them.

We don't design them for these markets. We design them for our own internal use. Now that we have an advantage of a currency which makes us a reasonably equal trading partner in the world, we will start, I am sure, in the manufacturing community to design for the world market.

The third thing, of course, is demand. Where in the name of goodness could you get anything to export. We don't even get manufactured goods to take care of the internal demand. That is one of the reasons for the immense inflation.

We have been stimulating the economy with vast inputs of money. There are no credit controls and, as a result, who is there in the manufacturing segment who was concerned about exports. We couldn't take care of our internal demand.

Thank you.

Senator TALMADGE. Mr. MacGregor, our first devaluation was in August 1971. How long do you think that lag would take?

Mr. MACGREGOR. I think the first devaluation, obviously wasn't effective, otherwise something would have happened earlier.

This led to the second devaluation. Clearly the balance had not been achieved. A second and very substantial devaluation became necessary.

Senator TALMADGE. My time has expired.

Mr. Ribicoff?

Senator RIBICOFF. Thank you, Mr. Chairman.

I would like to follow up on Senator Talmadge's question because I think he has placed his finger on a key point.

Senator TALMADGE. Would you yield?

Senator RIBICOFF. Yes, sir.

Senator TALMADGE. I was about to point out Japan's trade balance increased by 10 percent from 1972 to 1973 while Germany's increased by 40 percent, even with the approaches at the end and the deutsche mark and the devaluation of the dollar.

Senator RIBICOFF. I think what bothers Senator Talmadge is what basically bothers me, too.

We are talking about our concern over labor-intensive industries and consequent unemployment. When you look at the actions of the European community and Japan during this oil crisis, and you see the

changes in trade patterns that will come into being because of a huge amount of money that the European community and Japan will need to pay for oil, won't the European community and Japan, have to start flooding the American market with their exports in order to get the currency to pay for oil?

Mr. GOLDY. I would like to respond to the Senator by saying that that is certainly the danger, not only from Germany and Japan, but the forecast is that with the increased price of oil, all of the developed countries in the world will go simultaneously into trade deficits this year, with the exception of Canada. That is the forecast.

This underscores the absolute urgency and why the trade bill is more relevant now than when it was proposed.

I think what these countries will try to do is overcome their trade deficits with more exports. We need better rules to strengthen the GATT. We need to have some concept of what a decent system of multilateral safeguards is about so that in effect we can avoid that kind of economic warfare waged in order to overcome the problems of trade deficits.

Senator RIBICOFF. What gives you confidence that the European countries and Japan will play more by the rules of the game?

When the oil crisis first developed, the greatest shock to me was the division in the European community, such as the willingness of France, to throw the Netherlands overboard. There was a failure to get together on a common policy.

So when the going got tough, which the oil crisis proved, you found every European country and Japan looking out for themselves.

What makes you think the European community and Japan will go by the rules of the game?

Mr. GOLDY. I would like to make three points in answer to that. No. 1, it is far better, it seems to me, to get on with the negotiations in which this issue is focused on so that we try to get better rules of the game than in effect, leave it to anarchy and let everybody go in their own direction.

No. 2, the business community itself has been engaged in discussions. We have had some tripartite meetings, the most recent being 4 or 5 weeks ago in Puerto Rico, with representatives of Japan, Germany and the United States communities.

In those discussions, it is clear that the businessmen of those countries clearly recognize the dangers if rules of the game are not adopted and followed by their governments. So we have had real indications that the businessmen understand the necessity for this, even if the governments haven't always followed it.

The third point is that there clearly is recognition in the governments of the disaster that would befall everybody if they pursue wild, extreme policies to overcome the deficits that are a result of the higher oil policies.

In the end, it would be self-destructive, and my feeling is there is no alternative but to make the most constructive approach policy. That is what the negotiation is about. The negotiation can't go forward until the United States is authorized to carry that out.

Senator RIBICOFF. During the course of your testimony you talked about the history of trade. If you look at the recent pattern of trade,

exports and imports, there is a shift to service-oriented employment. But basically, the exports of this country still depend on manufactured goods.

The figures Senator Talmadge showed you indicate a fantastic gap between ourselves, Germany and Japan in the export of labor-intensive goods. This is what causes reverberations in our own communities.

I am concerned with what happens in Waterbury, Conn., just as Senator Talmadge is concerned with what happens in Atlanta.

When it comes to textiles, typewriters, and ball bearings, this is where the problems come in. What do we do for example when Litton Industries takes Royal Typewriter out of Hartford and sends it to Hull, England, and 1,600 people lose their jobs?

Fifty-five percent of the cost of manufacturing a typewriter is direct labor so you can see the problem.

But other multinationals or conglomerates failed to move other lines of production to Hartford that could maintain employment at the $3.60 an hour wage. Where was the responsibility of the American manufacturers?

Against that situation you have IBM. If they ever find the necessity to move a plant, they make a job available for everyone from the man who sweeps a floor to the highest position in their organization.

So you have these difficult problems we have to face in our own States and communities. We are just not going to abdicate our responsibility to our own home States.

Mr. GOLDY. Senator, I would like to again answer in several ways. One, the devaluation that occurred has led a considerable shift in production of certain capital goods, manufactured items, for the world from sources abroad to sources in the United States.

I know this from my own company. I know it from other companies. It has made U.S. goods more competitive. As a matter of fact, it has been a factor in increasing exports. I think this is what Mr. MacGregor is referring to when he says a lag.

But the point you are making about items going out and items coming in, there has been such an increase recently in foreign investment in the United States in the location of supply by foreign multinational corporations that it has actually led to hearings and bills in the Congress as to whether or not restrictions ought to be placed on foreign investors to come here.

This is also a reflection of the shift that has occurred. It has been going both ways. It is true that individual communities, individual plants, specific numbers of workers, can be adversely affected by trade-impacted flows.

My point, the basic point I wanted to make was that those impacts are exacerbated during periods of generally high unemployment in the United States when adjustments can't be made and those high levels of unemployment, or low levels, if you look at history, appear to be essentially related to the economic policies in the United States rather than the trade situation.

In other words, the context in which these impacts occur seem to be related to the basic economic policy of the United States that the executive branch controls. But it is exacerbated by trade-generated dislocations when they occur.

Senator RIBICOFF. That is going to continue now. The financial pages today indicate the dollar has taken a precipitous drop. I think you will find that France, Germany, and Japan will start devaulating their currency to become more competitive. This is the reality we are going to have to deal with.

Do you want to comment on that? It isn't going to stay this way. You can rest assured that West Germany, Japan, and France are going to be looking out for themselves.

They are going to adopt trade policies that are going to protect their own industries. Now how do we take care of America in times such as these?

Mr. MACGREGOR. Mr. Chairman, I would like to respond briefly to the Senator's remarks.

I think where you have cited instant cases where you have very disturbing happenings which, obviously, will affect the labor situation and be disruptive to the economy of the community, I think that my colleague here put his finger on the question.

The question is whether we are going to work on a system of world trade anarchy or whether we are going to establish some attempt at rules. The fact there will be a push on nations to increase their exports to pay for the inputs of energy does put the United States in a rather interesting situation.

This has in the past and will in the future represent a very interesting and intriguing market. These figures show it. This puts us surely in the situation, and I think the trade bill gives the President the power to do some trading as to what access there will be to our markets and that we should seek a larger part in the world that we can divide rather than everyone trying to steal a piece of the other man's cake. I think this is the philosophy we believe we should go after.

If we do proceed on something other than the anarchy, and working from the relatively strong position the United States now holds as a perspective market for people. I believe we are in a position to produce a lot better rules than we have in the past.

We were supine in the past with the totally over-valued currency and today, with floating rates, there will be not too many countries where countries can long sustain artificially depressed currency value nor artificially high currency value.

This is one of the blessings of the new systems we have thrust upon ourselves. It does tend to equalize the impact of the internal fiscal policies upon the world competitiveness of the country.

What we are seeking to do is to prevent the direction of barriers to circumvent the true market forces by governments other than our own. I think the United States is in a stronger position to do this today than at any time in the recent 10 years.

I think with the powers in this proposed act our negotiators should be able to produce some order out of this chaos you feel is upon us.

Senator TALMADGE. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman.

I think we have discussed this phase of it enough for the time being. I would like to move on to another.

Mr. Kenna, you said you were in favor of a joint congressional body. Can you give us some more details because we in the Finance Committee are interested in any change that might affect our relationship with the problem.

Mr. KENNA. I think, Senator Bennett, our suggestion there has to do with the nontariff barrier area. We see this as an area that is going to require a great deal of attention. There will be different sorts of agreements reached.

We seek the best kind of quick supporting service that can be given to the Congress as different agreements are reached, that this could be very helpful. The area of nontariff barriers is enormously complex. It covers a very broad range of business and economic considerations.

We have felt that rapid joint consideration of these sorts of things could be useful. That was the context in which we made that suggestion.

Senator BENNETT. Were you thinking of setting up a new set of committees in the Congress? If not, which committees would you join?

Mr. KENNA. I don't think we are really proposing to the Congress how you should organize committees. But we do think joint consideration of the NTB problem could be useful and particularly in the time constraint written in the bill on NTB agreements.

Senator BENNETT. We would have to put specifics in here as to which committees of the Congress would be involved. You are probably aware that on the House side Congressman Bolling is proposing to take everything away from the Ways and Means Committee except the imposition of the tariffs, which would badly alter the control of our operation.

Mr. KENNA. We do not favor the proposition Mr. Bolling has made. I think as we look at specifics we would be happy to study this and make a suggestion to you as far as committee structure. But we are not prepared to do that at this time.

Senator BENNETT. We would appreciate it because this is a new proposal. It isn't in the bill. If you are in favor of it, maybe you should suggest the form.

Are you talking about joint staff? Are you talking about a new committee structure? What kind of relationship are you actually suggesting?

Mr. KENNA. I think we would be suggesting new joint committee structure with proper staff support to consider this broad range of problems that do occur in the NTB area.

Senator BENNETT. You have to decide which committees would be joined or else suggest new committees.

Mr. KENNA. Right.

Senator BENNETT. The other thing that intrigued me was the use of the phrase "early warning system" with respect to a proposal to help mitigate the effects of the system on particular companies and communities.

I went back and hurriedly reread the actual text of your testimony. I can't quite understand that. As I read that, do you mean that the Government should get at the damage sooner than it is getting at it?

Early warning system gives the idea you are going to foresee the problem and ask us to do something before the damage actually occurs. Can you clarify that?

Mr. KENNA. Yes, sir. I think the thing we are advocating is an early warning system. We believe there are statistics available through the Commerce Department and other agencies. We think it is possible to see things that would impact an industry at a reasonably early point. That is the time for action to be taken and funds to be

applied for retraining, for other ordinary remedial measures, rather than having trade adjustment assistance just becoming another unemployment compensation package that occurs a couple year after the fact.

Our interest is job retraining and re-establishing of industries and applying money early to make that industry more productive. We do think it is possible, with present computerized techniques, to predict at an earlier stage and move in than rather after the fact.

Senator BENNETT. That is good generality. Now down to the specifics.

I am the head of a company whose product is being affected by the program. Are you going to say, 2 years from now you are going to be broke so we are going to move in and retrain your help and we are going to give you financial assistance, when I may decide that, in view of the situation, I can make a deeper penetration of the market and I can protect my people by internal management policies?

How can you forecast the reaction of management to that situation with sufficient ability to make sure that you do not, in effect, in some cases hasten something that might be avoided?

Mr. KENNA. I think the last thing we would want to do is attempt to second-guess or forecast management in what it might do in response to a problem.

Rather, I think we are saying, if there is an industry and if it is provable—and we think it is—that this particular industry is being drastically affected and that particular company is being drastically affected, that is the time to apply funds for training, that is the time to apply funds for any sort of remedial work, rather than waiting until the industry is out of business and making another form of unemployment compensation.

Rather, we think unemployment compensation should be the same, whether it comes from import impact or some other reason.

Senator BENNETT. Let me try it again.

There is a company and its volume is being reduced and the management says we are losing our volume because of impact competition. Therefore, here are 20 employees we would like you to retrain, or here are 50 employees. Is that the way you are going to do it?

Mr. KENNA. I think a determination would have to be made basically on an industry basis first, that an industry is being materially and drastically affected. After making that determination, we would then make a company-by-company determination in the event a particular company were having problems. We just don't believe that the current system, which has become an after-the-fact compensation, is the way to handle trade adjustment systems.

Senator BENNETT. I am still puzzled as to how you can develop a specific program to apply specific benefits to individual companies in an industry on the basis of an overall projection of the effect on that industry of foreign competition when, in fact, management may have its own solution, may be able to take care of itself, and suddenly finds itself qualified, authorized, to receive benefits that either it doesn't want or which, if it accepts them, gives it competitive advantage over other parts of the industry.

I can't see how you can move before the fact to set up a system of Government, support a Government intervention, when in fact, in some companies, there will be no justification.

Mr. KENNA. I think what we are advocating is not a move before the fact but to take a specific instance—if we have an industry like the footwear industry that has been damaged considerably with imports, I think back at a much earlier time that could have been determined. We did not take remedial measures; our Government did not.

I think there are many companies that have gone out of business where it would have been possible to take action earlier to provide remedial assistance.

The last thing we would want is to discourage businessmen from reaching solutions on their own. We certainly recognize the temptation that you have put forth that could exist in that case.

But I think our position is that we would rather see funds applied that would attempt to do things of a remedial measure, to retrain people back into the trade market rather than into the unemployment situation.

Senator BENNETT. I guess what you and I can't agree on is the point in time at which it is possible to say, from here on out, this industry is doomed, and we have to start doing this.

Mr. KENNA. That is a difficult thing to do. But I think even with that difficulty, it represents a better approach than waiting until after the fact and then coming in with more competition.

Senator TALMADGE. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

May I ask the witnesses this: Which one or two aspects of this bill do you regard as the most important and, second, which aspect do you regard as being the most undesirable, if there is an undesirable portion?

Mr. GOLDY. Senator Byrd, I think that the bill has to be taken together, by and large. That is, all of the negotiating authorities, all of the import relief authorities are designed in essence to authorize the United States to proceed in a multilateral context to negotiate with the other countries toward a new set of rules.

The line of questioning Senator Ribicoff was pursuing indicates what some of the major perils are now. Those perils are increasing. The extraordinary events of 1973 in the trade area which are continuing in 1974 underscore the urgency of establishing better rules of the game, so that countries can export with greater security with respect to access to markets and import with greater security with respect to access to supplies. You have to take a look at the bill as a whole. There are certain provisions of the bill that can be looked at somewhat separately. Title IV deals with extending most-favored-nation treatment, which should be more properly labeled non-discriminatory tariff treatment.

That might be treated separately because it deals with a group of countries which do not have nondiscriminatory treatment today.

The rest of the bill, however, has to be looked at as an integrated approach to essentially setting and providing authorization to go in and negotiate for a better system in a more interdependent, complex

world, and also to protect the United States better in that new interdependent system.

I think you have to look at it as a whole and you have to support or not support it as a whole.

Mr. MacGregor. Mr. Chairman, I would like to make these comments in response to Senator Byrd's question. Titles I and II provide the President with something I referred to earlier, really a great deal of negotiating power at a very opportune time because of the world's need for reallocation of markets.

For the first time, I think we have set up, or proposed to set up, the President with a combination of power to make concessions and, on the countervailing side, the idea of retaliatory actions. In other words, this puts teeth in our ability to tackle such things as nontariff barriers, which has been a very intractable problem. We haven't had the chance to really get our hands on it until now.

I think these two titles give the President the unique opportunity to force as much equality in the trading arrangements as possible. Looking at it from the other side, to detract from the effectiveness of the bill is the introduction of tax concepts which weaken our total industry activities. Today, you cannot slice away all of the things that happen outside of the United States from those that happen inside the United States.

If we are to participate in global markets we have to be able to do things both inside and outside the United States. They complement each other in a most remarkable way today.

Lastly, I think the bill's forceful effect in quite seriously impaired by dragging in the political aspects. I think it is going to be difficult enough to keep everyone's eye on the ball of the sheer economic relationship without dabbling in politics on the side. I think this weakens the U.S. position.

Mr. Goldy. Senator Byrd, I want to be sure that my remarks could not be construed as suggesting that we think that title IV is less important than other parts of the bill. We feel very strongly that it is important to build bridges of trade if we can with nonmarket economies of the world.

We hope that that can be done in a context which encourages those countries to, in effect, provide more humane treatment for their people, and that we do it in such a way there is continued incentive in front of them.

We hope that legislative language can be developed so that we can go forward with constructive, normalized, mutually beneficial trade and at the same time encourage the recent movements in the direction of more humane treatment of their people.

We feel that that is a very important objective.

Senator Byrd. In that connection, may I ask this: One important witness 2 weeks ago testified that he would be inclined to recommend that the Preident veto this legislation if title IV remains in the bill as it is now. Could I ask the three of you what your view is in regard to that?

Mr. Kenna. I think that we would prefer to see separate consideration given to this title prior to that. But I think it would be our recommendation that such a veto be made in light of the negotiations that took place, in light of the commitment that the President had made previously.

Mr. GOLDY. Our view is a little different. We would hope and trust that there will be legislative compromise, that that issue will not have to arise.

We think it would be unfortunate indeed if the issue as posed by the House bill is also posed by the final bill as it passes the Senate and goes through the conference committee.

However, if the bill, as it emerges, contains the provisions that are now in title IV—and the bill is otherwise satisfactory—authorizing the United States to go forward in trade negotiations, then it would be the view of the chamber of commerce that the bill not be vetoed but that the trade negotiations go ahead and the issue involved in title IV be taken up in separate legislation in the Congress, with the hope that the present provisions of title IV could be modified so that trade on a normalized basis could go forward with the nonmarket economies.

Mr. MACGREGOR. Senator Byrd, I think I would like to expand on that with some history. As far back as 1934, this was one of the functions of the Ex-Im Bank, to help stimulate trade with these countries.

Our position, of course, changed with the Korean War, I believe. I don't know how long it takes to get over wars in this country.

Senator BYRD. The Vietnamese War was also involved. That was only settled 14 months ago.

Mr. MACGREGOR. I was thinking about the Civil War which took 100 years, or whatever.

I do believe we are maybe reaching the point to cause us to change our direction back to something that we apparently thought highly of 40 years ago.

On the other hand, the Council's specific position is that rather than see this bill fail, to provide us with at least some outward-looking attempt to work with the rest of the world, we prefer to see title IV eliminated from the bill.

Senator BYRD. But if it is not eliminated, what would be your view on the bill?

Mr. MACGREGOR. I think we would like to see the bill go forward.

Senator BYRD. So you have the same view as the chamber of commerce?

Mr. MACGREGOR. Yes. Generally, we do need the bill more than anything else.

Senator BYRD. NAM would prefer a veto if it is left as it is?

Mr. KENNA. With proviso, we would like to see new legislation which would in turn address this problem and attempt to have the trade bill along with title IV.

We certainly feel that the trade legislation is very badly needed.

Mr. GOLDY. One last comment. There is a whole group of nonmarket economies in Eastern Europe.

I would hope that the Senate committee in its wisdom, if there is any tendency to go along with the provision that is in the bill now that the House has provided you with, would give very careful consideration to making exceptions for countries like Romania and others where those problems don't arise.

We believe in view of all the events that have occurred on the economic and political front it is most important to proceed to normalize economic and trade relations as soon as possible.

Senator BYRD. Thank you very much.

Senator TALMADGE. Senator Fannin?

Senator FANNIN. I will just continue for a short time on what the results might be as far as title IV is concerned.

I understand that our trade balance with major nonmarket countries for 1973 was strongly in our favor. I don't know exactly how much was involved.

Do you have any projection for trade with Eastern Europe and Russia assuming no restrictions in our trade laws? In other words, what are we actually talking about? What is the potential? Do you have any ideas in that regard?

Mr. GOLDY. We know, Senator Fannin, that the trade in our favor with the nonmarket economies in 1973 was $2 billion. In terms of projection, I guess you can get quite a variety of projections.

It may be fruitless to suggest this, but I will offer it in answer, that trade increased faster with the extension of credit, even without MFN, than anybody reasonably anticipated it would.

There is no reason to believe that trade won't continue to increase at a very rapid rate. In this context I want to say that on behalf of the U.S. Chamber of Commerce I traveled last year to the U.S.S.R., to Poland, Romania, and Bulgaria.

With respect to Poland, Romania, and Bulgaria, we have been setting up councils between the U.S. Chamber of Commerce and the chambers of commerce of those countries to increase the interface with the business organizations of those countries.

The work of those councils, I think, would do much to assure a rapid increase in trade, and I think trade in our favor, if in effect we normalize those trade relationships with those countries.

Senator FANNIN. The reason I am pushing this question is naturally, we should know what we are talking about; what are the consequences of this particular decision that will be made.

We know that in many countries of the world there is limited population. We might talk about Saudi Arabia. There are 6 million people. With all the people they have, we actually have limited extension of trade.

With the countries we are talking about, Eastern Europe and Russia, we have a vast population. At the present time there is what we would call a limited per capita consumption as compared to the United States.

What I was hoping you might have is a projection as to just what is the potential and what could we expect naturally from a competitive standpoint to achieve if we have no restrictions in our trade bill in this respect.

Mr. KENNA. I would like to make a comment on that. If we look strictly at trade with the Soviet Union, in the past 3 years we have come from roughly $160 million to $500 million to $1.2 billion.

In 1973 our imports were around $200 million. We have had a $1 billion trade surplus.

We would see, if those restrictions are removed, probably a doubling in the trade again probably in the next year to 18 months.

We would not see a proportionate increase from imports from the Soviet Union. In other words, we think we would continue to see exports outstripping imports. We would continue, certainly, over the near term with a favorable trade balance.

I think long term there is, of course, strong interest on the part of the Soviet Union of achieving a balance of trade and attempting, finally, to sell things into these markets other than natural resource type products.

We think, for many years, we would have a very, very substantial trade balance.

Senator FANNIN. I am concerned about labor-oriented products and their potential. We know from the agricultural problem that at certain times we will have certain markets. I am talking about potential on manufactured goods.

Mr. MACGREGOR. I do believe that with the rather large GNP developed by Russia and its extraordinary unbalanced economy in which the consumer has little or nothing in terms of what we regard as normalcy in our world, Russia represents a unique opportunity for the marketing of manufactured products particularly.

In the first instance I am sure Russia would move in the direction of machinery, which is, of course, our most labor-intensive manufacturing industry. One can perceive rates of expansion of trade, provided that the mechanism exists of something like 20 percent per annum.

I think the figures show a higher rate, assuming that in the takeoff from zero to $2 billion we have had an enormous increase per annum. I hazard a guess that trade with Russia in manufactured goods could increase at something like 20 percent per annum minimum, provided there is a mechanism for doing it on the basis of credits and reasonable trade arrangements.

On the other side of the coin, there are great opportunities to help supply the United States with essential raw materials, which we are increasingly finding difficult to get around the world.

Senator FANNIN. I was over there less than a year ago. My observations would verify what you said.

This Nation will be looking for means with which to pay for our energy imports. If we are successful in responsible trade, what contribution could be made by this corporation to our balance of payments?

Mr. GOLDY. If I may, I made quite a speech about this when I appeared before the House Ways and Means Committee. I did it on the basis of the studies that have recently been made in the Office of Business Economics of the Commerce Department.

What it shows is that the multinational corporations have produced the largest increases in exports as compared with business as a whole in the United States. They have had the largest increases in domestic employment as compared with other companies in the United States. And they have consistently provided the largest balance-of-payments surpluses company by company of any companies in the United States.

Essentially, the reason for this is obvious. Multinational corporations are a device for going over and obtaining and once obtained, maintaining, market positions abroad or procuring supplies that are needed from abroad. It is a way of obtaining market and business positions. They are designed for that purpose.

Now the fact that they are designed for it means they are the most effective instrument we have for improving our foreign trade position. The figures reflect it.

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Other countries have learned the same thing we have, and increasingly our multinational corporations are facing severe competition from the multinational corporations of other countries.

The notion that Japan has achieved the position of super economic power, is primarily related to the success of their trading communities which have been, in effect, their method of going out and obtaining the position in those export markets.

Our companies are confronted with Japanese trading companies and with foreign-based multinational companies. Basically what we should be doing is everything possible to support the activities of our multinational corporations maintaining their market positions abroad instead of in effect devising tax or other notions that would put them at a competitive disadvantage.

In the future those who will be successful in the thrust to get the markets to pay for what their countries need to import is going to be based on the success or failure of the multinational corporations of those countries.

Senator FANNIN. I agree, and that is why, of course, the Japanese have been so successful because it has been a cooperative program between government and industry. As they say, Japan is going forward with these programs.

Thank you very much.

Senator TALMADGE. Senator Hartke?

Senator HARTKE. I am delighted to see Mr. Dan Goldy here. He is one of the most friendly persuaders I have ever met in my life.

You supported the relief under title II of the bill. Does the chamber concur with that policy?

Mr. GOLDY. It is the chamber policy. We have an international committee which studied this.

Senator HARTKE. Did they concur? I will be glad to tell them they are no longer under the voluntary agreement. I just want to know if they are playing both sides of the fence.

Mr. GOLDY. If I may explain, we have an international committee. The policies are argued out in the international committee. The positions are taken. It then goes to the board of directors.

With respect to orderly marketing agreements, we support the inclusion of them. But we are saying it is the least preferred method. If the problems can be solved by in effect adjusting the tariff schedules, we think that is the preferred way of solving the problem rather than quotas.

We think that an orderly marketing agreement is the most complex, most difficult, and most restrictive and ought to be a last resort. The members of the national committee, the members of the chamber, have not intervened and said to us you are wrong about that point of view.

Senator HARTKE. Is this international committee a separate organization?

Mr. GOLDY. No. It is a part of the chamber.

Senator HARTKE. How many members in the Chamber of Commerce?

Mr. GOLDY. The chamber has 46,000 firms, 2,600 local and State chambers, 1,100 trade associations, and 35 American chambers of commerce abroad.

Senator HARTKE. How much did they collect in dues last year?

Mr. GOLDY. I don't have those figures at hand. I could get them.

Senator HARTKE. Around $9 billion is my estimate. How much was contributed from the large multinational corporations? Was there an average for a corporation?

Mr. GOLDY. I couldn't tell you that, but I would be happy to supply it for the record.

Senator HARTKE. I would be glad to receive it. Would you also tell us how much those big multinationals contributed, and if it was as much as $50,000 to that program?

[Information furnished follows:]

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., April 11, 1974.

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

DEAR MR. CHAIRMAN: On March 21, 1974, Daniel L. Goldy appeared before your committee to present the National Chamber's testimony on H.R. 10710, the Trade Reform Act.

During his appearance, Senator Hartke asked several questions which Mr. Goldy was not then in position to answer.

I confess I don't understand the relevance of the questions to the substance of the issue; however, here are the answers:

The Chamber's annual dues income is around $10 million. Our membership, as of March 13, 1974, numbered 49,674—with 75% of that number paying dues of less than $200 a year, and 95% paying dues of less than $500 a year. The bulk of our membership consists of small and medium-sized companies.

The Chamber made no assessment of members for its work against the Burke-Hartke bill, and we know of no letter-writing campaign required of employees.

The Chamber has no knowledge of the American Conference For International Market Development, Inc.—and the number listed in the telephone directory is not a working number.

This information is submitted for incorporation in the transcript of hearings, in the event you consider it pertinent.

Cordially,

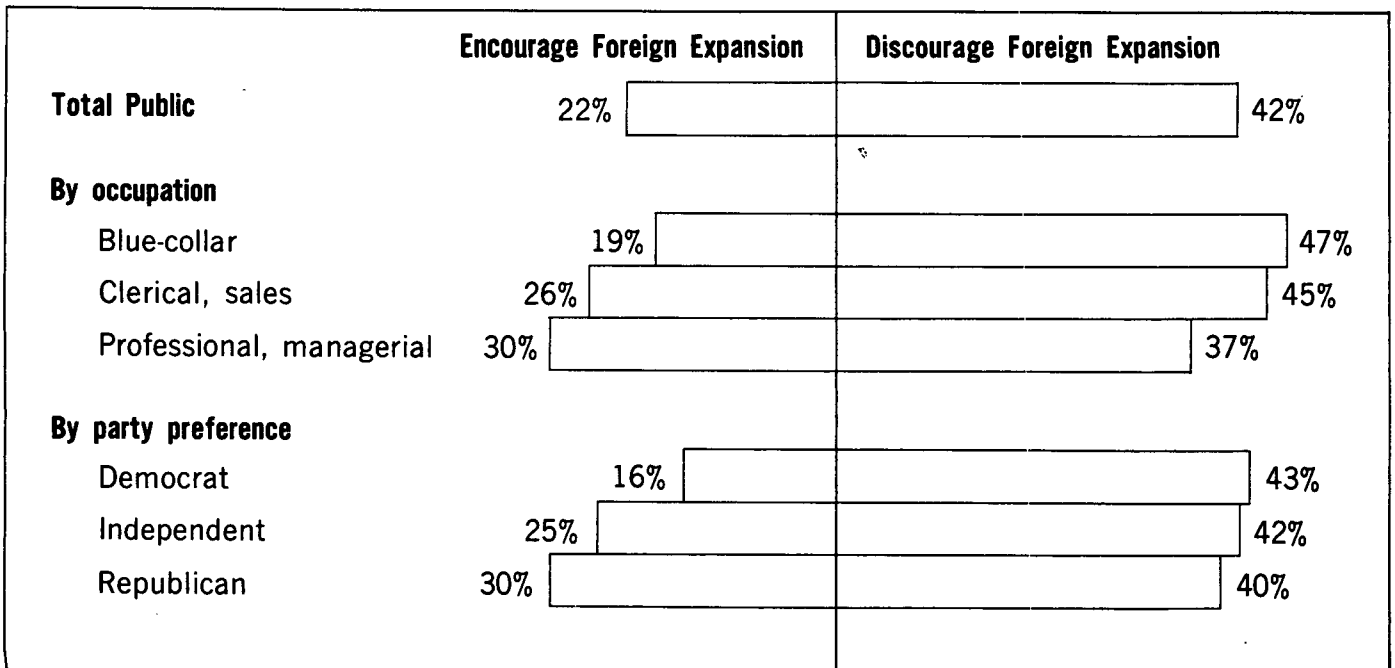
HILTON DAVIS,
General Manager, Legislative Action.

Senator HARTKE. I would also like to add, that public opinion is decidedly against the trading policies of the gigantic multinational corporations. I should like to add to the record at this point, a public opinion poll, carried out for businessmen.

[The material referred to above by Senator Hartke follows:]

Overall, the Public Favors Curtailment of U.S. Companies' Expansion Abroad by Almost a Two-to-One Margin.

"In your opinion, do you think the federal government should encourage the expansion of U.S. companies abroad, or discourage their expansion?"



"Take no action," "No opinion" omitted.

Senator HARTKE. Multinationals have a big interest in the chamber, do they not? They are the biggest contributors?

Mr. GOLDY. No. Without having it firsthand, I would say that that is not so.

Senator HARTKE. All right. What is so, then?

Mr. GOLDY. I think more than any other business organization the U.S. Chamber of Commerce represents the large mass of American business, 46,000 firms. It is the broadest base of any business organization.

Senator HARTKE. I understand that. I just don't think your testimony represents 46,000 firms. I don't think you any longer represent the aggregate business community in this statement.

Have you heard of the emergency committee for trade?

Mr. GOLDY. Yes.

Senator HARTKE. Have you been working with them? Have you talked with them recently and do you do so frequently?

Mr. GOLDY. There are discussions, but the emergency committee for trade has nothing to do with establishing the policies of the U.S. Chamber.

Senator HARTKE. What about the National Association of Manufacturers?

Mr. GOLDY. Yes. We are happy to have the NAM with us today. Again, they have nothing to do with establishing the policies of the U.S. Chamber.

The U.S. Chamber has what some people have described as the very ponderous method of establishing policies for itself. Now it may be ponderous, but the result is that the policies established are clearly the policies of the voting members of the organization.

Senator HARTKE. I don't want the self-declaration of how great you are.

How about the American Conference for International Market Developments, Inc.?

Mr. GOLDY. No.

Senator HARTKE. Would you make an effort to find out who they are? Are you familiar with their activities?

Mr. GOLDY. No.

Senator HARTKE. The chamber has engaged in a rather extensive campaign publicly and in their local communities to have people write editorials against the Burke-Hartke bill, isn't that true?

Mr. GOLDY. I am sorry. Would you ask that again?

Senator HARTKE. The chamber has been very active in an aggressive, well-financed campaign against the Burke-Hartke bill, passing resolutions setting up opposition funds and indirect efforts, isn't that true?

Mr. GOLDY. I don't need time to think about that. I can tell you the chamber and the international committee, all of our members, as far as I know, have been opposed thoroughly to the thrust of the Burke-Hartke bill.

I don't know how well-financed this has been. I don't know there has been an active campaign to get the local chambers to pass resolutions. I don't think there has to be because I think the reaction of the members of the chamber is pretty well against it.

Senator HARTKE. Was it their purpose to delay, prevent, or emasculate this bill or any other unacceptable change of tax structure on the international operation of companies?

Mr. GOLDY. Again, we have a tax committee that very carefully looks at those tax proposals and in the international committee they very carefully considered the tax proposals and we oppose them.

The chamber opposes them for the reasons I just stated a minute ago in answer to Senator Fannin's question which is, in effect, it would impose on internationals a tax burden, but not the multinational corporations, with whom we compete. We think it would destroy our competitive position.

Senator HARTKE. Did the chamber solicit directly in order to beat the legislation?

Mr. GOLDY. No.

Senator HARTKE. Not directly?

Mr. GOLDY. I can say categorically it did not.

Senator HARTKE. Not directly through certain conferences which were held where there would be selection of clients similar to yours? Were they asked to compensate the conference with $10,000, and with an additional $10,000 when it is completed?

Mr. GOLDY. I have never heard of any such thing, Senator.

I can tell you this categorically from personal experience, and that is that the objection to those provisions of the Burke-Hartke bill were spontaneous and universal and it took no stirring up for the members of the chambers to go out and oppose those.

Senator HARTKE. Were any efforts made to get employees to write to Members of Congress, which they were forced to write, and mailed in plain envelopes and with company stamps?

Mr. GOLDY. You are talking about employees of the chamber?

Senator HARTKE. I am talking about any of your groups participating in such type of activities.

Mr. GOLDY. Not to my knowledge, no.

Senator HARTKE. You are saying that did not happen?

Mr. GOLDY. I am saying I know of no efforts.

Senator HARTKE. Would you be kind enough to go back and check with your sponsors and find out whether such activities were engaged in and report them to the committee?

Mr. GOLDY. Let me just say I can go back and find out what, if anything, the chamber did in this regard. My understanding is they did not do that. I do not know what individual companies have done.

Senator HARTKE. Did the members of the chamber meet with administration officials prior to the time the administration bill was introduced on April 10 to help draft the bill?

Mr. GOLDY. I don't know that the chamber helped draft the bill.

Senator HARTKE. Did you give them instructions?

Mr. GOLDY. I personally had, for example, some meetings with the administration to discuss their views about certain things they were considering because we were considering our own views on the bill.

I do not believe, however, that the administration sought the chamber's views on what ought to go into the bill, and I am not aware of any specific meeting in which the chamber had an opportunity to recommend to the administration what went into the bill.

Senator HARTKE. Isn't it fair to say, Mr. Goldy, that this bill came out of the House really as an answer to your fondest desires? You would like to see it passed like it is?

Mr. GOLDY. No. I am sorry you weren't here earlier when we were outlining our position.

Senator HARTKE. But generally speaking, the general thrust of it is what you want? You could accept it, couldn't you?

Mr. GOLDY. The general thrust of the bill, with the exception of title IV, is what we want.

Senator HARTKE. Let me ask this of any member of the panel. Would you extend trade benefits to a country which either uses raw materials as a political weapon or encourages others to do so?

Mr. GOLDY. We specifically recommend amendments to empower the President to deal with that problem. The answer is when countries use their raw materials as weapons of economic welfare, we believe there ought to be power in the President to deal with the problem.

Senator HARTKE. I have a UPI story from March 13 reporting that today some Arab leaders are requiring the lift on the ban on oil before demands are fulfilled. They are taking a chance by challenging the whole Arab world.

What is your comment on this tactic?

Mr. GOLDY. I think the tactic is very bad. I think it came at a very unfortunate time with the Senate considering the bill here.

I think, however, if one deals not the verbal manifestations but the basic policy issues, as Secretary Kissinger describes them, I would like to see the President empowered to, in effect, counter that type of issue as it arises.

The fact is that they weren't effective, that the bulk of the Arab countries that were imposing the embargo have lifted it.

Senator HARTKE. Do you favor the provision of the bill that provides most-favored-nation treatment to Japan but not to underdeveloped countries?

Mr. GOLDY. I am not aware that this bill would provide this.

Senator HARTKE. I don't think there are any favors of this bill that would qualify as getting trade preference. Not alone would they be given equal treatment.

This is really Senator Talmadge's question: Should the Chinese make all the linens and all the transistors and all the automobiles, that we should resort to becoming the laundry people?

Mr. GOLDY. No; I don't think that is what we would be advocating.

I understand Mr. MacGregor was saying they don't qualify under Treasury rules.

Senator TALMADGE. Is there any objection at this point to excusing Mr. Kenna who must catch a plane?

Thank you very much for appearing before us, Mr. Kenna.

Senator Hansen?

Senator HANSEN. Mr. Chairman, I would like to yield, if I may, to the Senator from Oregon.

Senator PACKWOOD. Thank you.

Gentlemen, I would appreciate it if you could help me with a couple provisions here I am not sure I understand.

On negotiated tariff increases, or decreases, as the case may be, there is no congressional veto; is that right?

Mr. GOLDY. That is correct.

Senator PACKWOOD. These are tariff or nontariff?

Mr. GOLDY. On tariffs there is no veto. On nontariff there is.

Senator PACKWOOD. On negotiated nontariff exchanges there is a congressional veto?

Mr. GOLDY. Right.

Senator PACKWOOD. Getting away from the negotiations, let's go to the balance-of-payments provisions.

There, there are four types of actions that can be taken: duty increases, tariff rate quotas, quotas, and orderly marketing arrangements. Do I understand that only marketing arrangements and quotas are subject to the veto?

Mr. GOLDY. That is correct.

Senator PACKWOOD. So the President will be in a position, if we pass this bill, to increase tariffs 50 percent ad valorem above existing rates and Congress cannot veto that?

Mr. GOLDY. That is correct.

Senator PACKWOOD. Does that delegation of power bother you?

Mr. GOLDY. Basically, the thrust of the bill is to authorize the President, the executive branch, to negotiate in a multilateral context and to do that means that discretion has to be given to, in effect, adjust tariffs down; some authority here to adjust them up.

I guess you are talking now about import relief situations within certain parameters. We have recommended and there is, I believe, in the bill now procedures with respect to public hearings, reviews, of the actions taken.

The reason that certain actions were singled out for congressional veto I believe is that they are much more drastic in their scope and also they are much more difficult to deal with as against adjusting tariffs themselves. I guess that is why the distinction has been made. But the distinctions are reflected in the bill and we have no particular objection to it.

Senator PACKWOOD. One thing that bothers we on this, in regard to the veto provision in this bill, is that it is almost illusory. It is unlikely the Congress is going to veto much of anything that is negotiated. Further, it is unlikely that they would veto quotas or orderly marketing agreements entered into by the President.

But if a President were to do a complete flip of position to defer to the Senate or Congress and decides to ban typewriter imports and uses tariffs to keep them out, we don't have a chance to veto it. It seems to me a dangerous delegation of authority. Are you at all concerned we might have a President with that philosophy?

Mr. GOLDY. I hope we don't have a President with that philosophy. I think that is a reasonable question to raise. I think it may be correct, as you say, that in a practical fact the veto would not be used.

I think the existence of a veto power in the Congress serves the purpose of providing some discipline on the person who will exercise judgments of this sort to make them more prudent. I think that is probably the thrust of your comments.

Senator PACKWOOD. The specific thing that bothers me is that he can raise these tariffs 50 percent and they are not even subject to veto. We are going to have to change the law.

Mr. MacGregor. Senator Packwood, I think that the mechanism for tariff raising is essentially aimed at retaliatory tactics to try to force some equitable treatment in these things.

The long history of trade legislation has accepted pretty well this concept of delegating powers. Congress never, to my knowledge, has been prepared to abrogate its sovereign rights anyway.

All you have to do is amend the bill, if you are so pressed. It would seem to me in order to make clear to our trading partners that the executive branch—they have to work out the nuts and bolts on this thing—has something that is real and has teeth in it, this delegation looks like the correct way to do it and is consistent with past practices.

Senator Packwood. I posed this question before. I regard this as a substantial delegation of powers. But how do you write a bill granting sufficient powers to the President to negotiate with heads of government who have the power to deliver? How do you write into the bill provisions for Congress to hold some review authority afterward that is meaningful without hobbling the negotiations? That is my first question.

The next thing that bothers me is not the negotiating change, it is the power to increase the tariffs 50 percent and you say "Well, it is basically meant as a retaliatory mechanism," and I agree it is for that purpose.

But we have seen in the last decade in this country a substantial shift of opinion about America's role in the world. We have seen a substantial change in the view of organized labor, about freer trade.

I can foresee a President knuckling under to individual pressure, not overall, but individual pressure from different Members of Congress, different industries, for increases in tariffs that would be a political decision to gain certain benefits in certain States that would not be in the interest of the United States, and the Congress would be almost helpless to change it.

Mr. Goldy. Senator Packwood, these specific provisions, as I understand it, were written in the House itself. The thrust of our testimony when we appeared before the House Ways and Means Committee was that generally we supported the President's trade bill.

But we were concerned with the exercise of executive power and, therefore, we had a whole series of recommendations with respect to procedural safeguards. We were concerned with the basic question you are raising.

Many of those procedural safeguards have been inserted in the bill which is before you now. They were inserted by the House. These relate to hearings, judicial review, and so forth.

As far as I can see, if you feel that this is a danger, we would hope and expect that any President, no matter what his views were before he became President, would exercise these authorities in the overall interest of the United States, the public, the economy, and so forth, and would act with prudence.

I can see no particular objection, however, if the Senate decided it would prefer to see the kind of a veto you mention.

Our basic view is that the President should be empowered to go out and negotiate multilaterally to get the job done, to get the new rules of the game. We recognize that in view of the realities of the world

being as they are and the fact that in response to Senator Talmadge's question earlier on, I indicated yes, the Japanese have a different system; yes, other countries do operate in ways that provide subsidies to their exports.

The President needs to be armed with authority to retaliate to do things that in effect provide a good balance. If you feel that there may be an excess of authority or it may be exercised in a way that is extreme, any procedural safeguard such as that type where Congress can review and veto it, I think, would be perfectly in line. I don't see any particular objection to it.

Senator PACKWOOD. I have mixed feelings about this as I listen to different members of this committee, and others. Every question is phrased towards "my district" or "my State" or "my products"; not particularly a national interest but what is it going to do to "my State."

If that is going to be the attitude of Congress, I am almost reluctant to have us have the veto. There are disproportionately influential committees in the Congress.

But, if I had a President who was headed the wrong way and wanted to raise tariffs, again, I would like to have Congress have the power to veto. I don't know how to resolve that dilemma.

Senator TALMADGE. Any further questions desired of these gentlemen?

If not, thank you, gentlemen, for your valuable contribution.

Mr. GOLDY. Thank you, Mr. Chairman.

Mr. MACGREGOR. Thank you, Mr. Chairman.

[The prepared statements of Messrs. Kenna, Goldy, and MacGregor and the study referred to by Mr. Kenna at page 716 follow. Hearing continues on p. 838.]

PREPARED STATEMENT OF E. DOUGLAS KENNA, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

SUMMARY

Title I.—Recognizing the pressing need for a new round of multilateral trade talks, NAM *supports* the extension of negotiating authority within the constraints outlined in this title. However, further clarification should be made on several points to insure meaningful industry-government consultation prior to and during the negotiation period.

Title II.—An effective governmental program of self-help assistance could substantially benefit industries and worker groups adversely impacted by sudden import flows. NAM *supports* the relaxation of escape clause criteria, but urges a restructuring of the trade adjustment assistance program. NAM *recommends* earlier industry-oriented procedures with related worker improvement programs—as contained in a published study which will be submitted for the record.

Title III.—NAM *supports* the procedures within this title which improve the flexibility and timeliness of antidumping and countervailing duty action. However, the Association *recommends* further clarification and adjustments be made in these provisions to assure that valid cases receive prompt and justified attention by governmental authorities.

Title IV.—The extension of non-discriminatory tariff treatment to nonmarket economies is favored by the NAM subject to adequate national security and market disruption safeguards. However, the Association opposes the provisions of this title as overly restrictive on both MEN and credit arrangements and urges immediate compromise adjustments or later consideration in separate legislation.

Title V.—NAM *supports* the provisions of this title which seek to promote the economic development of less developed countries. This program should be pursued only in conjunction with similar developed country actions and the proper elimination of reverse preferences by beneficiary countries. Presidential determinations under the program should avoid adverse impact on U.S. producers and should not favorably treat any countries which have expropriated U.S. property without providing prompt, adequate and effective compensation.

Related proposals.—Recent resource shortages have highlighted the need for multilateral discussions of means to guarantee international access to scarce raw materials. NAM would *support* the use of Presidential negotiating authority to promote this objective through multilateral negotiations, without prejudging whether the subject should be directly included in presently conceived trade negotiations or pursued in a related concurrent forum. While recognizing the necessity of maintaining adequate U.S. domestic export control authority, NAM urges the proper consideration of this subject in the context of upcoming deliberations on the Export Administration Act of 1969 and related legislation. NAM also endorses the exclusion of tax revision proposals from this trade reform legislation.

STATEMENT

Mr. Chairman and members of the Committee: I am E. Douglas Kenna, President of the National Association of Manufacturers. NAM appreciates the opportunity to appear before this committee to comment on the proposed Trade Reform Act of 1973 (H.R. 10710) which we consider an exceedingly important piece of legislation. This bill directly addresses several major problem areas existing in the current world economic structure and also plays a central role in the continued development of sound United States policy on foreign trade and interrelated domestic economic issues. We recognize the essential role of the Congress in formulating U.S. policy and commend this Committee for its present consideration of timely international economic legislation.

NAM member companies—large, medium and small in size—account for almost three-fourths of the nation's production of manufactured goods, as well as the employment of approximately 15 million persons. As concerned taxpayers and employers, NAM member companies have a direct and substantial interest in the deliberations of this Committee. A large number of NAM member companies are engaged in international trade and many have investments around the world. Their active involvement in world commerce has proven essential to maintaining U.S. international industrial competitiveness and has produced increased income and jobs for this country. The NAM also includes in its membership many companies which operate almost exclusively in the domestic market and at times are troubled by unfair import competition. We thus can present a balanced view of all sides of the issues involved in new international trade negotiations. It is our belief that the promotion of a stable economic system, conducive to expanding international commerce, yet responsive to domestic adjustment needs, is a task of great importance for insuring a prosperous and growing U.S. economy.

INTRODUCTION TO THE ISSUES

Today, the United States is confronted with an array of political and economic problems—particularly in the international arena—which threaten to undermine traditional world trade and monetary systems. Recent problems include the Arab oil embargo, a tighter world supply of food and other basic commodities, strained relations between the United States and the European community, and the awesome escalation of global inflation. These diverse forces demonstrate the dangers to continued world economic growth which are posed by disorderly, unmanaged change. To be sure, there have been bright spots—most notably reflected in the competitive resurgence of American products in world markets, primarily stimulated by currency realignments which led to a turnabout in the U.S. trade balance last year of $8.1 billion.[1] In addition, the industrialized world can probably expect some short-term benefits from the relaxation of the Arab oil restrictions. However, there is no assurance, with continuing high energy prices, that even these positive developments will not be quickly offset.

[1] The United States' trade balance showed a $1.7 billion surplus in 1973, a sharp upswing from the previous year's record $6.4 billion deficit. This turnaround constituted the largest one-year trade balance change in U.S. history (see appendix chart No. 1).

Despite the increasing competitiveness of U.S. exports, it is evident that we have a long and difficult course ahead of us in maintaining this renewed strength, as well as improving the international economic climate.[2] The United States, with its powerful industrial capacity, highly developed capital market, and skilled, mobile labor force—coupled with a domestic abundance of most natural resources and basic raw materials—never fully recognized its vital stake in the interrelated network of global economics. Recent events have painfully demonstrated the broad reality of international economic interdependence (and in some cases over-dependence on unstable foreign supplies). But these events have also illuminated the alternate courses of action this nation faces in foreign trade policy.

CHOICE OF ALTERNATIVES

The development of stabilized trading relationships has been a traditional U.S. policy objective aimed at assuring fair competition in a growing international market. With greater interdependence among national economics, the achievement of a stable and equitable trading system is even more imperative. In this context, we believe it necessary to press toward multilateral trade negotiations which can serve as:

(1) A counterbalance to the increased level of economic and political conflict among nations, providing a forum for participating nations to redefine a flexible, cooperative framework of rules governing international trade and payments mechanisms.

(2) A necessary lead-in for multilateral talks and action on world resource management.

(3) A mechanism to develop more coordination on governmental policies toward industrial sectors facing trade-related transitions, so as to avoid an increase in destabilizing pressures on world commerce.

(4) A needed forum to develop more effective dialogue between the industrialized nations and the developing nations.

Failure to push promptly toward the objective of multilateral trade negotiations with renewed U.S. leadership, will leave the United States squarely facing a second, clearly less desirable alternative: spiraling economic confrontations—characterized by increased government interventionism and "begger-thy-neighbor policies." This path can lead only toward a less efficient allocation of global resources, decreased world trade, and ultimately, the prospect of severe worldwide recessions.

Since 1967 the United States and other major trading partners have undergone a slippage away from the principals of non-discriminatory, Most-Favored-Nation (MFN) treatment toward new economic blocs. Most recently, monopolistic arrangements among raw materials producers have further aggravated this tendency. Multilateral negotiations are being replaced by the temptation of short-term bilateral deals. It is worthwhile to note that during this period the United States has lacked the Congressionally mandated authority to provide leadership and enter into negotiatons on a wide multilateral basis.

This changing world economic climate fosters renewed pressures for broad trade restrictions, which have been felt within the United States as well. We recognize many of the concerns motivating this approach. There are serious problems—particularly since the United States has not yet received, in some of its key trading relationships, the same equitable market access abroad that it had granted foreign products here. In addition, the problem is exacerbated by the absence or ineffectiveness of U.S. domestic programs to assist economic sectors threatened with sudden import injury. Those firms and workers facing rapid market changes which can accompany trade expansion should have access to adequate safeguard mechanisms.

At this critical juncture, the United States can afford nothing less than a bold, outward-looking initiative aimed at expanding international commerce and improving domestic adjustment programs, while developing additional natural resources at home for greater relative self-sufficiency in energy. Specifically, the NAM recommends the following objectives for Committee consideration as it acts upon this legislation:

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[2] Some of the export recovery gains brought on by currency realignments have already eroded. The wide adoption of a floating exchange rate system has led to a depreciation of many currencies relative to the dollar. Negotiation progress on the trade front now appears essential to the maintenance of competitively priced American products.

1. Continued restoration of U.S. international competitiveness through improved productivity and effective inflation control at home and multilateral fair trade practice in world markets.

2. Reducing and/or harmonizing the distortions to trade caused by non-tariff barriers and export incentives through negotiation to gain greater access for U.S. exports in world markets.

3. Strengthening the ability of domestic industries to meet import competition through government-industry self-help programs, financial assistance, R&D support, "early-warning" information analysis and selective use of temporary import safeguards.

4. Developing foreign trade policy to more effectively complement overall U.S. foreign policy—particularly in strengthening detente with nonmarket economies and encouraging better relations with developing economies.

The only policy appropriate to America's traditional leadership role in competitive free enterprise must embrace a step toward a more responsible world economic order—where fair trade begets freer trade. Mr. Chairman, it is upon this basis that NAM, representing American manufacturers, supports the general thrust of this legislation while seeking clarification and improvement with respect to certain provisions.

TITLE I: NEGOTIATION AUTHORITY

NAM generally supports Title I as being consistent with the negotiating authority and flexibility necessary to support U.S. negotiators in the new trade talks which opened last September 14 in Tokyo. We believe that the various tariff adjustment formulas provide a sufficiently broad basis upon which beneficial agreements can be reached. However, there are two particular sections of this title which we would urge this Committee to clarify.

Section 102: Nontariff barriers

Nontariff barriers (NTB's) to trade have become increasingly important as tariff levels have declined. Upcoming trade negotiations will be the first to seriously attempt a reduction and/or harmonization of these diverse and little-known restraints to trade. The NTB segment of negotiations may be crucial to overall success since beneficial tariff adjustment could easily be negated by new NTB restrictions.

The NAM is coordinating a comprehensive study of NTB's as the project secretariat for nearly thirty major trade associations. Data and case studies and how NTB's operate to discriminate against U.S. goods in foreign trade is being developed by product line and country into industry sector chapters. A preliminary report on the material will be made available to government negotiators within the next several months and continual up-dating activity will be undertaken to parallel negotiation sessions.

To clarify the scope and importance of NTB negotiation efforts, this Committee might consider:

1. Specifically including export subsidies within the definition on non-tariff barriers. These distortions to trade have traditionally been placed in several different categories, but clearly merit active consideration in upcoming trade talks.

2. The establishment of a joint Congressional body to insure adequate supportive services for Congress during periodic legislative branch consideration of submitted NTB agreements. This office could also provide additional support for Congressional delegates to the negotiations, whose active presence is essential to maintaining an overview of negotiation progress.

Section 135: Advice from private sector

Serious, meaningful consultation between government negotiators and private sector representatives is necessary to assure attainment of a beneficial and equitable final trade agreement. An effective consultation channel can provide negotiators with valuable industrial data and facilitate easier identification of technical resource personnel for advice on specific industry-related problems. Some type of government-industry advisory system has been a standard feature of past multilateral talks. However, these mechanisms have not always functioned well from industry's standpoint. Problem areas included (1) the absence of real two-way dialogue beyond industry's provision of requested data (2) lack of coordination between government agencies and between different public

advisory groups and (3) emphasis on high-level advisory panels while supportive technical committees were randomly chosen and then largely neglected.

We believe U.S. business will come well prepared to fulfill its role in the new round of trade talks. Many industries began months, even years ago to gather information and organize coordinating committees to prepare their negotiation inputs. The project mentioned earlier on non-tariff barrier identification is one example. Additionally, those trade associations have now been joined by others in a cooperative framework to discuss ways of improving supportive services available to industry representatives who will serve on public advisory panels.

The government has also taken several steps to improve its side of the consultation mechanism. We commend the organizational meetings already held of technical and advisory panels and hope that passage of this trade legislation will bring prompt subsequent meetings to begin the substantive tasks ahead. We also support the legislative requirement that the advisory committees must be informed of failures to accept their recommendations. However, we would urge this Committee to further clarify this provision to specify that the advisory groups must also be directly informed of the reasons for such negative determinations as well as including these reasons in the President's annual report to Congress as presently provided. This legislative change is necessary to clearly establish the advisory groups as important bodies whose advice must be carefully considered in the negotiators' final decisions.

We would also recommend the following clarifications and adjustments:

1. Clear language should be added exempting all meetings of the advisory committees from Section 11 of the Federal Advisory Committee Act, as well as Section 10(a) and 10(b) as presently provided. Meaningful exchanges cannot take place within these bodies unless negotiating strategy and confidential business information can be freely discussed.

2. The specific authorization of an Industry Policy Advisory Committee would further clarify and support government consultation actions taken to date. This body, to serve as a link between the technical sector committees and the overall public advisory committee, can help collate policy input from a broad-ranging U.S. industrial community into a more integrated and manageable form.

3. Vague antitrust regulations have threatened potential complications relating to industry groups involved in negotiation preparation. We urge prompt Congressional and Executive branch cooperation to clarify this area so that industry can get on with the preparatory support work which is essential to an effective government-industry consultation mechanism.

TITLE II: RELIEF FROM IMPORT INJURY

Expanding international trade will inevitably create some dislocations and disruptions for individual manufacturing sectors, firms, and their employees. Present U.S. statutes do not provide effective recourse to these affected sectors. Unrealistic and overly stringent "escape clause" criteria and a compensation-oriented trade adjustment assistance program offer inadequate relief measures. NAM supports an easing of qualification criteria, particularly elimination of the "casual link" to previous trade concessions. The lifting of this outdated requirement removes the basis upon which most past petitions have been denied. However, coupled with eligibility criteria changes which would allow justified periods of import relief should also come an improved self-help assistance program to spur the adjustment of affected sectors.

Trade Adjustment Assistance

The current trade adjustment assistance program could more appropriately be labelled trade adjustment compensation. Certain improvements have been made in benefits for workers. Notable here is the addition of a job search allowance, a new proposal which was also recommended in a recent NAM report. Unfortunately, the bill's emphasis still remains on after-the-fact financial compensation—the "burial expense" approach which has proven so ineffective in the current program. A restructuring is sorely needed to emphasize early industrial adjustment which will focus on job creation/job retention along with better efforts to quickly reemploy those workers who do become unemployed. This goal will not be accomplished by maintaining—and certainly not by raising—a separate level of weekly compensation payments to these workers.

NAM applauds the House rejection of a plan to impose Federal standards on individual state unemployment compensation systems. We recommend that this Committee place full reliance on the state systems, eliminating a separate benefit level for import-injured workers and concentrating federal efforts at developing an effective early warning system backed by an industrial self-help program and worker reemployment aids.

The NAM would also caution against the high expenditure levels which could be expected unless this program is redirected. Present provisions specifying that the program be financed by a trust fund drawn from customs receipts does not disguise the fact that millions of dollars will be taken from general revenues to operate this program. Estimates of annual costs over $300 million may prove too moderate in light of liberalized eligibility criteria and higher benefit levels. Usually the longer a problem is allowed to develop, the higher the cost of its resolution. Surely smaller amounts of money focused on industrial adjustment is better spent to retain workers' jobs than millions of dollars spent on compensation payments after a job loss.

The NAM supports the decision of the House of Representatives to retain a system of adjustment assistance for small and medium-sized firms. If coupled with the early industrial adjustment measures proposed in the NAM report, these provisions would assist smaller manufacturers who may need more time or assistance to adjust their operations to the demands of increased import competition. This type of self-help assistance serves the two-fold purpose of contributing to the adjustment of workers employed by the firm as well as the firm itself.

It is essential that a new perspective be adopted on the old concept of adjustment assistance. We must underline the adjustment portion of the program, moving early and effectively enough to avert the burial expense compensation which has characterized efforts to date. Mr. Chairman, at this time I would ask that the results and detailed recommendations of NAM's eight-month study of this problem be included in the record.[3]

TITLE III: RELIEF FROM UNFAIR TRADE PRACTICES

NAM strongly supports the need for a tough, fair trade policy within the guideposts of international treaty obligations. We believe provisions of H.R. 10710 will add new "legislative teeth" to U.S. trade policy, as well as dust the cobwebs off existing governmental machinery designed to safeguard U.S. industry, and the economy in general, from subsidized imports. Therefore, we endorse the improvements offered within this title to upgrade both the procedures and range of government responses to unfair foreign trade practices, including:

1. The removal of distinctions between agricultural and nonagricultural products which had restricted authorized responses to unfair practices involving industrial goods.
2. The extension of retailatory authority to cover foreign export subsidies in third country markets.
3. Improved procedural timetables which provide greater assurance of timely determinations.
4. The right of domestic producers to seek judicial review of negative countervailing duty determinations.
5. The intended definition of "commerce" in Section 301(a) to include U.S. service industries, many of which are important to effective industrial production.

During this Committee's deliberations, we would also urge that proper attention be given to remaining potential inequities in these statutes. While other witnesses may provide greater detail, we would point out two particular areas which merit your consideration. First, Section 321 guarantees the right of foreign producers or domestic importers to appear at antidumping hearings concerning their products. Other manufacturers, even those who may be suffering injury due to unfairly priced foreign goods, do not have guaranteed access to the hearing. Instead, they must make application and they *may* be allowed to attend. This wording is inconsistent with the Report of the House Committee on Ways and Means which states (pages 136–137) that any firm who shows good cause has the

[3] This study, entitled *Trade Adjustment Assistance: United States International Competitiveness and Implications for Domestic Adjustment Policy*, is based upon a combination of research techniques, questionnaire surveys and field trips to affected regions. Its conclusions point toward an improved cost-effective program of self-help assistance, as outlined in a two-tier adjustment approach (see appendix chart No. 2).

right to appear by counsel or in person at such hearings. This section should be reworded by this committee to guarantee an injured U.S. manufacturer the same right to appear at a hearing as is accorded the foreign producer or importer.

A second area deserving this Committee's attention is the more difficult problem posed by weighing possible effects of domestic retaliatory action on trade negotiation progress. NAM fully supports the vigorous pursuit of a multilateral trade agreement which may alleviate distortions such as export subsidies. However, we also recognize the legitimate right of domestic manufacturers to seek interim relief from unfair foreign export practices.

Under present proposals, the Secretary of the Treasury is granted special discretionary authority for a period of four years (one year in cases involving products from facilities owned and subsidized by developed countries) during which he can choose not to impose legitimate countervailing duties if he feels imposition would jeopardize the successful completion of a trade agreement. We recognize the need for certain negotiating flexibility to prevent a beneficial trade agreement from falling victim to untimely and after politically sensitive regulatory action. However, we believe that the discretionary latitude provided by present bill language is too wide and urge the Committee to tighten the authorized conditions for its use. Methods should be devised to provide greater assurance that American manufacturers will not be required to sustain serious injury from clearly unfair foreign practices simply to allow tactical negotiating gains. Revisions in Section 331 should stipulate that a countervailing duty action must present a clear and immediate danger of negotiation breakdown before a suspension of required action is authorized. The government should also then be required to seek an end to the unfair foreign practice on a priority basis through all available forums.

The United States cannot afford to unnecessarily weaken its legal retaliatory system at a time when many foreign nations are poised to launch export campaigns.

Soaring oil prices have placed serious strains on most nations' balance-of-payments ledgers. Full government support will be available to producers in many foreign regions to help them increase export receipts in order to pay high oil bills. At this crucial time it would be unwise to expose U.S. manufacturers to unfair export practices which could threaten serious damage to segments of our national economy. We urge very careful reconsideration of these issues by this Committee and a revision of legislative language to more tightly control the discretionary latitude granted for the negotiation period.

TITLE IV: TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TREATMENT

NAM supports the extension of non-discriminatory tariff treatment to nonmarket economies. We urge the Committee to revise provisions which tie this authority to determinations concerning a nation's emigration policies. While sympathetic to such objectives, we believe that the past several years have demonstrated that a mutual opening of commercial relations between the United States and nonmarket economies has been accompanied by encouraging progress in other areas, including freer emigration flows. However, we believe that to couple trade expansion and freer emigration into a legislative formula is a dangerous tactic which could prove counterproductive to recent improvements in both areas.[4]

We likewise endorse a similar position in regard to adequate financing arrangements for trade with nonmarket economies. The requirements of this title as presently phrased seem to offer little chance of long-term success in improving either trade relations or emigration flows, and they set a potentially harmful precedent for use on other issues. Additionally, the purely economic consequences would prevent some American companies from effectively competing with foreign firms for new business opportunities.

Let me here emphasize the realism which NAM believes is necessary in evaluating this relatively new area of East-West trade. Perceptions of large, immediate transactions with these opening markets are exaggerated and probably distorting. Mutually beneficial trade is possible but it must be built up over time and accom-

[4] The 1970's brought a 2,500 average monthly emigration rate of Soviet Jews leaving the U.S.S.R., this being the most publicly prominent area of emigration concern. This relatively steady flow is a large improvement over the small numbers previously granted permission to leave the country and has resulted in over 81,000 Soviet Jews emigrating to *Israel during the* VTFT–VTGC *period. For a picture of concurrent trade relations improvements*, see the appendix, chart No. 3.

paned by adequate precautionary measures and tough *quid pro quo* negotiation. In this regard, the NAM particularly applauds the proposed safeguards in this legislation relating to national security considerations and market disruption measures. The potential problems which can arise during commercial exchanges between a free enterprise and a nonmarket economy should not be underestimated and satisfactory arrangements for their resolution are essential. However, while we believe fully in the American system and free enterprise structure, we cannot support efforts to force our standards and principles upon the internal affairs of other nations. We strongly urge the Committee to reconsider this title and seek a compromise providing the authority to gradually and realistically improve our commercial relations with nonmarket economies while encouraging progress in other areas through more appropriate channels.

TITLE V: GENERALIZED SYSTEM OF PREFERENCES

NAM recognizes the importance of stimulating economic development in other nations—particularly those of the "developing world"—and the important role they will play in the upcoming international negotiations. The greater involvement of these nations in world trade will bring increased economic benefits to all people and lead to a more stable and prosperous international system of commercial exchange. We support the development objectives of this title and believe its careful administration will provide mutually beneficial results for both developing and developed countries.

However, it is important that the limitations set forth in these provisions be followed closely. United States actions should proceed as part of a burden-sharing effort by all major developed nations to assist developing countries. Beneficiaries of U.S. preference grants must themselves responsibly eliminate reverse preference arrangements which discriminate against American exports. No preference should be granted in products subject to import relief measures and careful pre-grant investigation should safeguard other U.S. domestic producers from sustaining serious injury from preferential treatment grants. Additionally, no favorable treatment should be given to countries which have nationalized or expropriated U.S. property without prompt, adequate and effective compensation.

RELATED PROPOSALS

Access to Resources

Recent international events have highlighted a relatively new feature in the world trading system. A cartel of oil-producing nations took restrictive actions which seriously distorted world commerce and reached far into the domestic economic life of many nations. Other raw material producers are reportedly considering their options to curb output or hinder competitive resource exportation.

Multilateral discussion of methods to guarantee international access to scarce resources is a subject warranting the prompt consideration of both legislative and executive branches of government. NAM would support constructive initiatives to spur international negotiations on this important topic and urges this Committee to insure that adequate negotiating authority is available to the President to begin exploratory talks on these issues. We believe it is too early to definitively outline such authority and would suggest negotiating flexibility on deciding the appropriate international forum in which to pursue these objectives.

NAM further recognizes the necessity of maintaining adequate U.S. export control authority, but recommends careful consideration of proposals to expand these powers. The imposition of wage and price controls on the American economy has fostered large distortions in the competitive purchase of U.S. raw materials. Many domestic manufacturers, prohibited from raising their product prices to cover soaring resource costs, were unable to effectively compete with foreign buyers in the resource market, resulting in inordinate amounts of U.S. supplies being shipped abroad. With the ending of these domestic controls—an immediate across-the-board action which NAM has urged in the strongest possible terms—these unusual pressures should become somewhat abated.

The adequacy of present export control legislation should be reviewed. However, we would suggest that such consideration take place in the context of separate legislative hearings. Broad Presidential powers already exist under various statutes and a proper review of these may best be conducted during upcoming deliberations on the Export Administration Act of 1969 and related legislation.

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Tax Revision

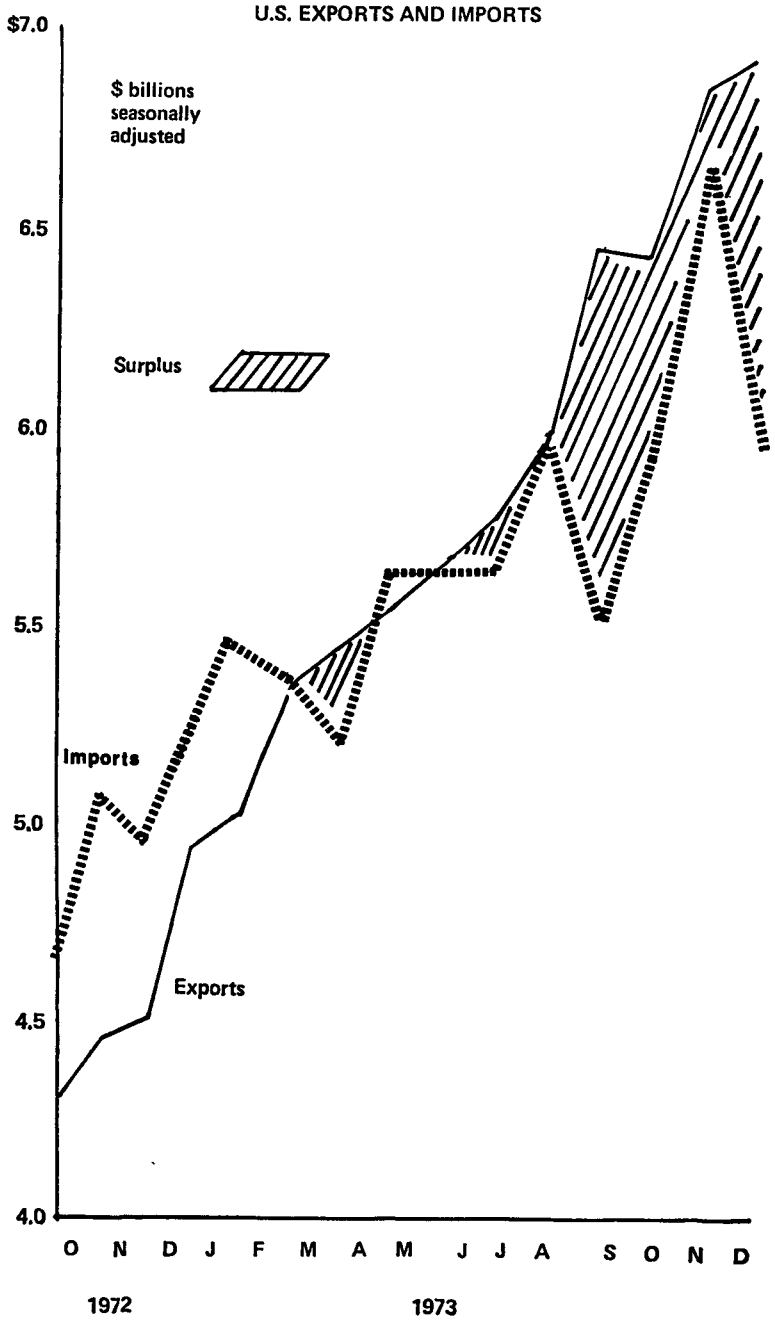
NAM supports the House decision to exclude tax revision proposals from this trade bill. As we discussed in testimony before the House Ways and Means Committee last May, the suggested changes were ill conceived and their end results would have been counterproductive to U.S. industrial competitiveness. Similarly, we urge this Committee to also avoid adding hasty and inappropriate tax legislation onto this trade reform bill. If such proposals are to receive serious consideration during this Committee's deliberations, we would ask for the opportunity to comment specifically on them. The Association would have serious reservations concerning the addition of tax revision proposals to this legislation.

CONCLUSION

In summary, it is the opinion of the NAM that this legislation (H.R. 10710) constitutes a needed and beneficial step toward reforming the world trade structure. We have suggested changes which would insure that legitimate domestic concerns are balanced with the pursuit of expanded trade relations. NAM supports the thrust and objectives of this bill and urges its adoption by this Committee.

APPENDIX

Chart #1



TWO-TIER ADJUSTMENT APPROACH

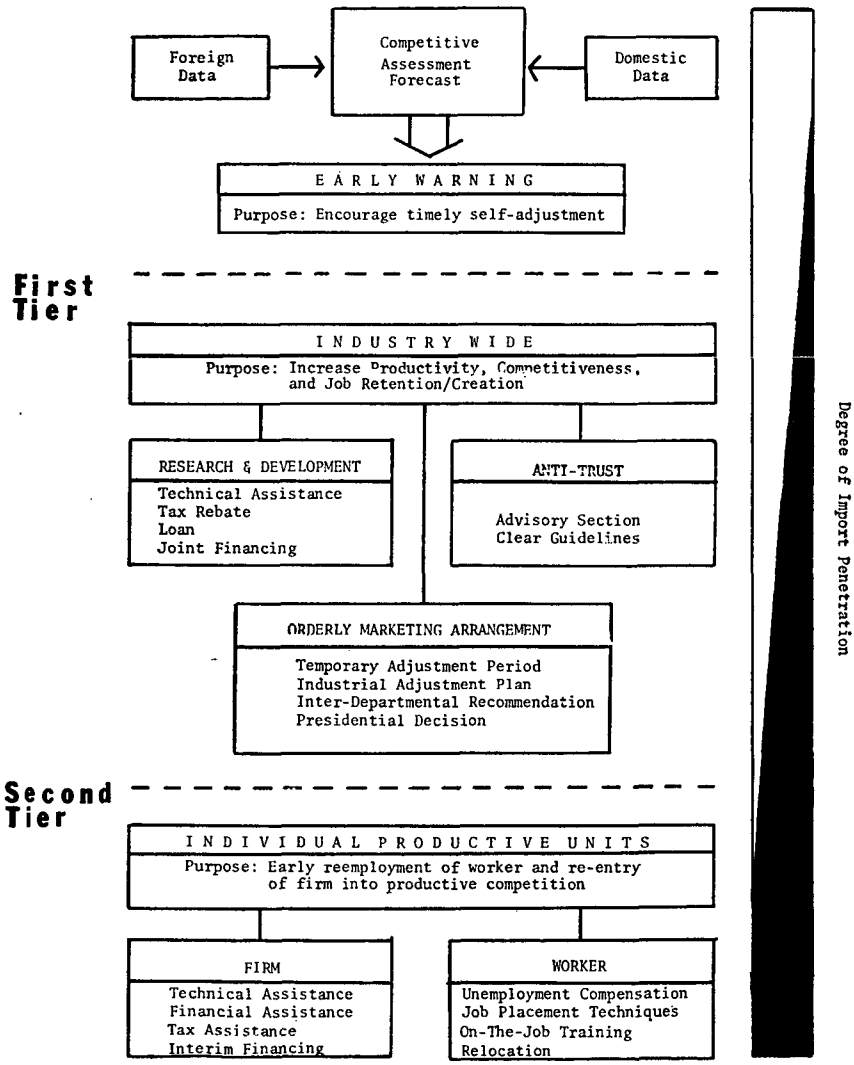


CHART NO. 3[1]

U.S. FOREIGN TRADE WITH MAJOR NONMARKET ECONOMIES

[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	26.1	0.8	45.7	42.3	38.3	146.5
1954	5.9	.2	(2)	30.5	11.9	.2
1958	109.8	3.4	(2)	45.1	17.5	.2
1962	105.1	20.2	(2)	62.6	16.3	.2
1966	156.0	41.7	(2)	129.1	49.6	.1
1970	234.9	118.7	0	153.5	72.3	(2)
1971	222.2	162.0	0	165.8	57.2	4.9
1972	276.9	542.2	63.5	225.0	95.5	32.4
1973	607.0	1,190.0	690.0	305.0	214.0	64.0

[1] Figures from 1974 CIEP Report to Congress.
[2] Negligible.

PREPARED STATEMENT OF DANIEL L. GOLDY, PRESIDENT, INTERNATIONAL SYSTEMS AND CONTROLS CORP., ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

SUMMARY

The National Chamber, representing over 46,000 firms, 2600 local and state chambers of commerce, 1100 trade associations, and 35 American Chambers of Commerce Abroad is in general support of the Trade Reform Act, H.R, 10710, with the exception of Title IV, with which we are in disagreement in its present form.

BASIC NEGOTIATING AUTHORITIES

(1) *Support* basic authority for the President to enter into multilateral trade negotiations aimed at lowering existing tariff levels and removing non-tariff distortions to foreign trade.

(2) *Support* diminishing NTB's in all segments of foreign commerce, agricultural and service, as well as industrial.

ADVICE FROM THE PRIVATE SECTOR

(3) *Support* Administration amendment to Section 135(e) to exempt meetings of the industry advisory committees from Section 11 of the Federal Advisory Committee Act.

(4) *Support* Administration amendment of Section 135(c) to provide for a general policy committee for each of industry, labor and agriculture.

(5) *Urge amendment* to provide the Special Representative and participating agencies with more staff assistance.

(6) *Urge amendment* so that specific provision be made to assure that small and medium-sized businesses are able to make appropriate inputs into the liaison structure.

ACCESS TO SUPPLIES

(7) *Support* Administration amendments to Section 2 and Section 121 which would recognize access to supplies of raw materials in the Act's statement of purposes and in the steps to be taken toward revision of the General Agreement on Tariffs and Trade (GATT).

(8) *Support* broadening retaliatory authority proposed in respect to unfair foreign import restrictions to include such authorities against unfair foreign export restrictions.

IMPORT RELIEF

(9) *Support* liberalization of the escape clause criteria.

(10) *Support* Section 203(a) which lists in order of preference the methods of import relief.

(11) *Oppose* Section 203(f) which would allow the President, as a form, of import relief, to suspend items 806.30 and 807.00, Tariff Schedules of the United States.

TRADE ADJUSTMENT ASSISTANCE

(12) *Urge amendment* to provide, as in present law, tax assistance to firms in the form of extended loss carrybacks.

(13) *Urge amendment* to provide a program of Community Adjustment Assistance.

TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TARIFF TREATMENT (MFN)

(14) *Oppose* Title IV in current form as it would allow the President to grant MFN and export credits only to those countries whose emigration policies meet certain standards.

(15) *Support* Presidential authority to extend MFN to the USSR and certain nations of Eastern Europe—conditioned on obtaining and maintaining satisfactory reciprocal trade concessions from these nations; and adequate safeguards against domestic market disruption.

GENERALIZED SYSTEM OF PREFERENCES

(16) *Support* establishment of a system of generalized preferences to the exports of manufactured, semi-manufactured, and other selected products of developing nations.

(17) *Support* Section 504 which would prohibit the President from granting preferential treatment to LDC's which accord special treatment to the exports of an industrial nation.

STATEMENT

I am Daniel L. Goldy, President, International Systems and Controls Corporation, Houston, Texas; Chairman of the International Committee and a member of the Board of Directors of the Chamber of Commerce of the United States on whose behalf I am appearing today.

The National Chamber, representing over 46,000 firms, 2600 local and state chambers of commerce, 1100 trade associations, and 35 American Chambers of Commerce Abroad, is testifying in general support of the Trade Reform Act, H.R. 10710, with the exception of Title IV, with which we are in disagreement in its present form.

The Association of American Chambers of Commerce—Europe and the Mediterranean (AACCEM) representing American business abroad in eleven countries has requested to be associated with our statement.

Need for Immediate Action

The National Chamber has long supported the freest movement of goods, services, and capital across boundaries, national and international. During much of the postwar era, it has been the United States that has consistently led and encouraged a sometimes reluctant developed world to move in the direction of the basically open international trading system responsible for the unprecedented prosperity of the past quarter century. Such a system has been, is, and will continue to be in our national interest.

There are problems today, very serious problems which require immediate attention. But they are problems that result in some measure from the successes of our postwar policies and they can be resolved effectively only within the traditional framework of international negotiation and cooperation. Too much is at stake to begin experimentation with international anarchy in 1974.

The Trade Reform Act was was submitted to the House in April 1973, to provide American participation in multilateral trade negotiations aimed at:

(1) Continuing the postwar impetus toward a freer international marketplace.

(2) Reforming the international system to make it more adequately responsive to the requirements of economic interdependence.

While 1973 may have been a unique year—underscored for the U.S. by the dramatic impact of the oil embargo—the following events serve to demonstrate the interdependence of economies throughout the world:

(1) Disastrous grain harvests outside the United States, along with drought in Africa, have created an unprecedented demand for supplies of American wheat.

(2) Substantially reduced harvests in international fishing have caused greatly intensified demands for American soybeans, as a protein substitute.

(3) The establishment of an international oil cartel and its reduction in petroleum output accompanied by a steep price increase has awakened the raw material importing and exporting countries to the vital importance of access to scarce natural resources.

(4) A second dollar devaluation was followed by a considerable dollar appreciation and associated weakening of foreign currencies.

(5) Accumulation abroad of large dollar reserves has created fears here about greatly increased foreign investment in the United States.

(6) Unprecedented simultaneous booms in the economies of the developed world have been accompanied by soaring rates of inflation and some shortages of basic materials.

Convergence of these international economic issues in 1973 has led to the question of whether the Trade Reform Act still serves a useful and relevant purpose.

At the conclusion of the Kennedy Round of trade negotiations in 1967, U.S. exports totalled $31 billion and imports roughly $27 billion. Today, as we consider the Trade Reform Act which would authorize our participation in a new round of trade negotiations, our 1973 exports were nearly $71 billion (an increase of 130% and our imports reached $69 billion (an increase of 155%). Over the same period world trade has increased nearly three-fold. Clearly, this growth in U.S. trade and world trade is a reflection of the growing interdependence of the economies of the world.

Interdependence means that all nations are exporting more, importing more, and thus prospering more. But prosperity in any one country depends in large measure on what policies are followed in other countries. It is essential therefore that fair rules of the game be further negotiated and maintained so that all nations can continue to sell abroad to pay for what they must purchase in foreign markets. While the policies followed in the movement toward an open global trading system have been successful, that system, designed and negotiated at the conclusion of World War II, requires further review and modification to take into account the economic realities of 1974.

As the predominant economic and political power of the developed world, the U.S. faces a very real choice: we can allow the western economies to continue down the current path of non-decision; we can lead the world back to the depression of the 1930's by retreat to Fortress America and initiation of economic warfare; or, we can take an enlightened and expansive view of our national self-interest and lead the world to the negotiating table in a cooperative and multilateral fashion. Certainly, if negotiation can hold the promise of a *modus vivendi* with our traditional enemies, it must hold even greater promise with our allies and trading partners with whom, despite current problems, we share a tremendous commonality of interest.

It is because the Trade Reform Act remains a relevant, vital, and enlightened piece of legislation, because it requires speedy action, and because its primary purpose—U.S. participation in multilateral trade negotiations—is so necessary and will be of benefit to our economy that the National Chamber generally supports H.R. 10710 and submits for the Committee's consideration, the following specific comments and recommendations.

TITLE I: NEGOTIATIONS AND OTHER AUTHORITY

Sections 101 and 102: Basic Negotiating Authorities

The Chamber supports basic authority for the President to enter into multilateral trade agreements aimed at lowering existing tariff levels and removing non-tariff distorations to foreign trade. The successive lowering of tariffs through negotiation has been primarily responsible for the unprecedented growth in world trade—and attendant prosperity.

As tariff levels have fallen under the trade agreements program initiated in 1934, non-tariff barriers (NTB's in many forms, have come to play an increasingly larger role in preventing American products from entering foreign markets. Diminishing NTB's in all segments of foreign commerce, agricultural and service as well as industrial, is a prime prerequisite to the conclusion of a successful negotiation. This, of course, implies a negotiating strategy, conceived on a wide-ranging basis, and carried out with the totality of the American economy in mind. We believe that the authorities proposed in H.R. 10710, with the appropriate and necessary Congressional safeguards, will be fully adequate to meet these needs.

Section 135: Advice from the Private Sector

The Chamber notes with gratification a consistent move toward development of a meaningful government-industry consultative system through proposals reflected in H.R. 10710 and the statement of the Special Representative for Trade Negotiations (STR) submitted for the record. In addition, we have the following specific comments on this subject of great importance to the business community.

First, it is essential to an effective trade negotiation that there be a two-way flow of information and advice between government and industry on a timely and continuing basis. Moreover, this exchange must be directly between the responsible negotiators and industry spokesmen. We are concerned, based on our experience with previous trade negotiations, that industry information and advice would not be sought or heeded; in fact, it might even be cut off at lower levels of a department or agency and never transmitted to the U.S. negotiators. We are also concerned that the flow of information would be unilateral, industry to government, instead of bilateral.

The Congressional intent in Section 135 is clear; full and effective exchange between the Special Representative and industry advisory committees on policy and technical matters is mandatory. The Special Representative recognizes such legislative intent, and we commend his explicit assurances in this regard: "The Special Representative must adopt procedures to consult with the advisory com-

mittees to obtain their information and advice, and to provide them with timely information on significant issues and developments during the negotiations." We also note that the Special Representative's statement says the reports of the industry advisory committees "will be submitted directly to the United States negotiators."

The consultative obligations and responsibilities of the Special Representative are spelled out in unambiguous form, and we agree with his statement that "Section 135 requires by far the most extensive consultations with the private sector ever undertaken in preparation for trade negotiations." On the subject of timely and continuing exchange of both policy and technical advice, we note that STR and Commerce have recently established a series of industry technical advisory committees for multilateral trade negotiations to "advise the Secretary and the Special Representative on matter which are of mutual concern to (the particular) industrial sector and the United States." Each committee is to meet "at least semiannually". We recognize that such advisory committees can serve a useful function prior to passage of the Trade Reform Act, but it should also be recognized that they are no substitute for the consultative mechanism spelled out in Section 135 of the bill because (a) they appear to be technical committees only, without the policy responsibilities contemplated by Section 135, (b) semiannual meetings would not meet the requirement of Section 135 of consultation on a "continuing and timely" basis, and (c) they are not exempt from certain requirements of the Federal Advisory Committee Act. We believe that these committees should have clearly defined responsibilities for developing both policy recommendations and the necessary information.

Second, we endorse the Administration's recommended amendment of Section 135(e) to exempt meetings of industry advisory committees from Section 11 of the Federal Advisory Committee Act.

Third, we endorse the Administration's recommended amendment of Section 135(c) to provide for a general policy advisory committee for each of industry, labor and agriculture.

Fourth, we urge an additional amendment to provide the Special Representative and participating agencies with more staff assistance. Since all interested U.S. industries should have the right to participate in the advisory process, it follows that the negotiating team must be staffed wih a sufficient number of experienced persons to conduct effective liaison. An inadequate staff will simply be unable to assimilate and utilize effectively the huge volume of information involved. Unless STR staff and staff of other agencies are adequate, we can expect to repeat the errors of past negotiations. While the Committee on Finance may feel that staffing is a matter outside its normal considerations, we believe this aspect is so critical to the proper use of the negotiating authorities in H.R. 10710 that it requires review. Such review, we believe, will convince the Committee of the staffing inadequacies with which the United States proposes to enter international negotiations which will set the world's trading rules and practices for the next decade.

We therefore urge the Committee, at a minimum, to include authorizations for adequate appropriations, and for an adequate number of supergrade positions for the duration of the negotiations. Such positions could be authorized outside normal civil service requirements as they would be established only to carry out the purposes of H.R. 10710 and for the limited duration of the trade negotiations.

We further believe that the senior personnel should, by statute, be under the full, direct control of the Special Representative and that the past practice of staffing the negotiations largely with persons detailed from other agencies cannot be expected to provide an independent, fully competent staff.

Fifth, we believe that specific provision must be made to assure that small and medium-sized businesses are able to make appropriate inputs into the liaison structure. We are concerned that, as has been the case in past negotiations, liaison efforts will be unduly tilted toward the very largest of American business enterprises. This would be a mistake. If the negotiating position of the United States is to reflect fully the nature and strengths of our economy, the negotiators must be cognizant of the role and receptive to the opinions of small and medium as well as large firms.

Access to Supplies

Access to supplies of raw materials has arisen as a policy issue in the past six months. The Chamber supports revision of the bill to mandate U.S. negotiators

to deal with this problem in multilateral negotiations and to grant the President certain powers for use against unfair foreign export restrictions.

The bill should be amended so that this issue is recognized in the Act's statement of purposes and in the steps to be taken toward revision of the General Agreement on Tariff and Trade (GATT). The Administration amendments to Section 2 and Section 121, submitted for the record in the statement of the Special Representative, appear to meet these needs.

The retaliatory authority proposed in respect to unfair foreign import restrictions should be broadened to include retaliatory authority against unfair foreign export restrictions. We believe that such authorities would be useful and appropriate. However, procedural safeguards, including public hearings, should be provided all interested parties. Further, American importers, exporters, manufacturers, and producers should have the same judicial review rights as they do for actions taken in retaliation against unfair foreign import restrictions.

With respect to the imposition of export controls resulting from scarce domestic supply situations, we do not believe that H.R. 10710 is the proper vehicle for an examination of, or comprehensive policy position on, these issues. They have been and should continue to be considered under the Export Administration Act, which is under review this year.

TITLE II: RELIEF FROM INJURY CAUSED BY IMPORT COMPETITION

Sections 201–204: Import relief

We support the proposals embodied in H.R. 10710 to liberalize the "escape clause" criteria. Under current law, petitioners for relief are required to prove to the Tariff Commission that increased imports were the major cause of injury and that such increased imports result, in major part, from past tariff concessions. The criteria proposed in H.R. 10710—i.e., that imports need be a substantial cause of injury—and severing the link to past tariff concessions are changes which should insure fair and adequate consideration of all petitions.

We are encouraged by Section 203(a) which lists in order of preference the methods of import relief available subsequent to an affirmative finding:

(1) Increases in, or imposition of, duties.
(2) Tariff-rate Quotas.
(3) Quantitative Restrictions.
(4) Orderly Marketing Agreements.

It is useful for the Congress to express its intent clearly on the import relief issue and we concur with the order established. An increase in duties as a form of relief is preferable, since it, unlike either quantitative restrictions or orderly marketing agreements, allows the market mechanism to continue to work. The procedure outlined in Section 204 whereby the Congress can disapprove of quantitative restrictions or orderly marketing agreements as forms or relief will be particularly helpful in safeguarding against their indiscriminate or unwise use.

We oppose Section 203(f) which would allow the President, as a form of import relief, to suspend application of items 806.30 and 807.00 of the Tariff Schedules of the United States. That this should even be included as a form of relief, much less treated as a duty increase and therefore first in preference, indicates a profound misunderstanding of the role and importance of these tariff schedule items.

By facilitating the sequential process, whereby parts manufactured in the United States and sent abroad for assembly or further processing, items 806.30 and 807.00 allow American industry to reduce production costs and therefore the final price of its products sold. The Tariff Commission has concluded that suspension of these items "would not markedly reduce the volume of imports of the articles that now enter the United States under these provisions." Rather, they would continue to be "supplied from abroad by the same concerns but in many cases with fewer or no U.S. components."

It has been charged that these tariff items provide an incentive for U.S. industry to export labor intensive jobs. However, without the ability to reduce costs through duty-free importation of components, the U.S. industries involved would be even less competitive, both domestically and internationally. The Tariff Commission study found that, in 1969, foreign assembly operations utilizing these operations employed approximately 121,000 workers. In the United States, 37,000 jobs were directly dependent on these operations. The Commission study concluded that in the event of these items' suspension, "there is little basis to

presume that there would be a significant increase in U.S. production," and thus "only a small portion of the foreign employment would be returned to the United States." The employment effect, therefore, would be negative since the larger loss in American jobs directly dependent on these operations would more than offset any gain of returned employment.

Sections 221–264: Trade Adjustment Assistance

The unprecedented prosperity of the past decade has exerted enormous pressures on most developed nations to follow policies aimed at full employment. When dislocations, resulting from imports, require adjustment on the part of workers, firms, or industries, nations should avoid attempting to promote such adjustment through the use of trade distorting mechanisms such as tariffs and quotas that can be internationally disruptive. Rather, we should employ economic adjustment programs which are more responsive to the needs of the displaced and can deal more effectively with his problems. A viable program of and progressive U.S. foreign trade policy.

One of the major difficulties in the current program has been the highly unrealistic eligibility criteria. While it has been relatively simple to show that imports have cuased injury to firms and workers, it has been particularly difficult to prove that these imports are the *major* cause of such nijury and that the increased imports have resulted from past trade agreement concessions. H.R. 10710 proposes far more realistic criteria and, as with the escape clause, should result in fairer assessment and judgments on assistance petitions.

Adjustment by Firms

The Chamber generally believes that management itself should be responsible for the response of firms to dislocation from imports. Indeed, firms which fail to adjust to competition from imports, either by improving their ability in their present product line or by shifting to a new product line, may have to go out of business entirely.

Nonetheless, in legislation designed to provide flexibility in our approach to foreign trade policy, there is a logical place for adjustment assistance to individual firms on a limited basis. Depending on the particular case, the objective of assistance should be to help the firm restore its competitiveness in its industry or to undertake a new line of endeavor. Despite the limited nature of the experience gained under the existing program, it appears that both objectives can be achieved.

The most necessary improvement in aid to firms is increasing its timeliness. Firms must adjust rapidly to avoid major losses which may undermine their position for years, or even lead to total collapse. Most of the failures to promote firm adjustment under the present program can be attributed to slowness in identifying a problem and then providing the available assistance. Early help is more effective and cheaper as well. The needed speed up should be achieved through the proposed liberalization of the eligibility criteria and improvements in the delivery system.

The provisions in Sections 253 and 254 of H.R. 10710 for finanical and technical assistance are appropriate and adequate, and represent a realistic approach to a limited but difficult problem. However, we urge the Committee to continue, as under present law, tax assistance in the form of extended loss carrybacks—a form of assistance that is not included in H.R. 10710. Our experience with firms having gone through adjustment assistance shows that these tax privileges were of great benefit in promoting viable adjustment.

Adjusted by Workers

A successful adjustment program for trade-disclosed workers requires four key components. The *first* is early attention to the problem. Part of the success of the Office of Economic Adjustment in the Department of Defense (DOD), in helping whole communities adjust to cutbacks in defense expenditures, can be traced to its early knowledge of developing problems. It would be difficult to replicate as much early warning in the private sector, of course, since DOD obviously knows where defense cuts are coming. Nevertheless, the liberalized criteria should insure much earlier triggering of adjustment efforts.

The *second* requirement is that job training be geared to jobs which will in fact be available when the training is completed. We believe that Sections 235

and 236 of H.R. 10710 provide part of what is required. However, to utilize effectively both the on-the-job and institutional programs, sharp improvements are needed in the Federal-State Employment Service and computerized job-worker matching, including better statistics on "jobs available" and continuous updating of job definitions.

A *third* requirement is adequate training programs. There is criticism today of the effectiveness of current manpower training programs. Few of the present government programs which bear that name, however, have aimed at the kind of adjustment discussed here. Most of them have been adjuncts of the poverty program, aimed at the most disadvantaged and least skilled of all Americans. Even so, a number have been successful—even in extremely difficult circumstances, such as existed in Appalachia. Specific programs for specific cirumstances have worker. The Studebaker and Armour reconversions and DOD programs to smooth the adjustment to reductions in defense spending in Wichita and dozens of other locales are examples. Manpower programs have worked effectively in other countries where they have received a higher priority from national governments and have had longer periods of experience from which to learn. However, it must be noted that these programs have operated within a context of low unemployment. Similar training programs have also been effective in individual states in our country.

The *fourth* requirement is adequate relocation reimbursement. Efforts should be made to avoid the disruption to people's lives caused by relocation. However, such moves are needed in some cases and we thus support Section 238 of H.R. 10710 which would provide alowances for relocation.

Adjustment by Communities

Communities are not eligible for adjustment assistance under present law nor is such a program proposed in H.R. 10710. Yet many of the most severe dislocations caused by trade flows fall on those affected indirectly—the suppliers of the firms and workers that compete internationally.

The Chamber therefore recommends that local governmental units be eligible for assistance when a significant percentage of working people residing in the community has been declared eligible for the program and could qualify by demonstrating that their problems were substantially due to import competition. Eligible communities could then receive attention of the type provided by DOD for over 160 large and small communities (including entire counties) impacted by changes in defense spending since 1961. The primary thrust of this effort is to help affected areas mobilize their own resources effectively, and by doing so attract private resources from outside the area to assist in the adjustment. (In Wichita, for example, $40 million of federal funds played a key role in attracting $700 million of private capital.) DOD sends teams of experts into impacted areas to analyze their problems and devise rehabilitation efforts. Local leaders—from business labor, and other groups—are brought together to agree on a plan of action, assign responsibility for its implementation, and monitor the follow-through. This is a useful precedent. We urge its use in the case of trade adjustment assistance.

TITLE IV: TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TARIFF TREATMENT

The National Chamber opposes Title IV in its currently drafted form.

We support Presidential authority to extend nondiscriminatory tariff treatment (MFN) to the Soviet Union and certain nations of Eastern Europe—conditioned on obtaining and maintaining satisfactory reciprocal trade concessions from these nations, and adequate safeguards against domestic market disruption. We disagree with Title IV, in its present form, because it would allow the President to grant MFN and export credits only to those countries whose emigration policies meet certain standards. The National Chamber deplores any infringement on basic human rights by any government. We believe, however, that nondiscriminatory tariff treatment, subject to carefully prescribed review procedures, can do more to promote respect for human rights than can the curtailment of normal commercial relations which would result in this title, as presently drafted, were adopted.

It is our belief that two-way beneficial trade, on a long-term and regular basis, will be of prime importance in bridging the differences between our systems. We

will mutually benefit from this positive type of commercial interface. The Chamber, for example, has recently sent representatives to the USSR and three countries of Eastern Europe where we are in the process of forging regular ties with counterpart organizations. We have been impressed by the enormous possibilities for developing positive relationships between American businessman and their counterparts in these countries. With this latter objective in mind, the National Chamber has already established a bilateral economic council with Romania, and will do so shortly with Bulgaria and Poland. We are convinced that such relationships will go far to promote widespread understanding of the United States, including its fundamental commitment to human rights.

We thus urge a legislative compromise and support Secretary Kissinger's recent testimony before you and his efforts to reach a workable solution.

TITLE V: GENERALIZED SYSTEM OF PREFERENCES

The National Chamber has, since 1967, supported the establishment of a system of generalized preferences for the exports of manufactured, semi-manufactured, and other selected products of developing nations. Prompt enactment of a preference system, as proposed in H.R. 10710, is long overdue.

This objective has become urgent in recent months as a result of the oil price increases which has placed a serious strain on the balance of payments of many less developed countries (LDC's). In 1974 the cost of oil imports by the developing countries of Africa and Asia is expected to total $5 billion, up from approximately $1 billion in 1972. With the need for oil in their economic development programs, LDC's will place top priority on finding ways to pay for it. We can therefore expect LDC's to seek expanded markets for their export products. The cooperation of the industrial countries is essential for these three reasons:

(1) The majority of the third world, still strikingly "have-not", has a compelling moral case for special consideration. Certainly United States foreign aid programs have been ineffectual. This experience, however, has demonstrated that more lasting results can be obtained by channeling development funds through such multilateral agents as the World Bank. In this connection, the recent action of the House of Representatives in rejecting U.S. participation in the IDA, is most regrettable. We are confident that the Senate, through examination of U.S. interests as well as those of the global economy, will reject the House action and restore the United States to a position of leadership in the difficult but important task of providing assistance to the critically poor nations of the world.

(2) Many of the basic raw materials vital to our economy are found in great abundance in Africa, Asia, and South America. This fact underscores the importance of starting now to establish a fresh and positive understanding between the industrial nations and these developing countries. Such an understanding could serve as a deterrent to actions on their part similar to that taken recently by the petroleum exporting countries.

(3) Several years ago the industrial nations of the world, within the framework of the Organization of Economic Cooperation and Development (OECD), agreed to put a system of generalized preferences into effect. Our major industrial allies and competitors, including Japan and the European Community, have fulfilled their part of this agreement. Because we have not, the European Community has felt free to justify its own special arrangements as proper. We thus support Section 504 which would prohibit the President from granting preferential treatment to any developing country which itself accords special treatment to the exports of an industrial nation. The Chamber stated in February 1971 that any program of preferences should assume the abolition of reverse preferences. Initiation of a generalized system on this basis will, we hope, spur both the developing and the developed world to reconsider the inequity of reverse preferences.

TAXATION OF FOREIGN SOURCE INCOME

In testimony on the Trade Reform Act before the House Ways and Means Committee, we urged that tax reform as it relates to foreign investment be considered in the context of overall tax policy and not in conjunction with, or as part of, H. R. 10710. We commend the House's action in separating the two issues and urge the Senate's concurrence in this decision.

Prepared Statement of Ian MacGregor, Chairman of the U.S. Council of the International Chamber of Commerce

SUMMARY

1. The U.S. Council strongly supports prompt passage of the Trade Reform Act. Rapidly changing circumstances make it essential that the President have the authority and negotiating flexibility as soon as possible to meet the coming challenges to the world economy.

2. Specifically, the U.S. Council urges that the authority which the bill would give the President to negotiate with our trading partners on tariffs and non-tariff barriers is essential if the momentum towards international cooperation is to be maintained.

3. The U.S. Council also believes the President should have the safeguard mechanisms, balance of payments, and escape clause provisions embodied in the Trade Reform Act.

4. The U.S. Council believes that restraint on export controls is as important as restraint on import controls in an interdependent world, and that the United States should seek agreement with its trading partners on a framework of cooperation in cases of worldwide shortages.

5. The U.S. Council believes that the important trade provisions of the bill should not be jeopardized by the essentially political issues raised in Title IV.

6. The Council also believes that the Trade Reform Act should not be burdened with provisions relating to taxes on foreign source income.

Statement

I am Ian K. MacGregor, and I am Chairman and Chief Executive Officer of American Metal Climax, Inc. Today I am pleased to be here in my capacity as Chairman of the United States Council of the International Chamber of Commerce. The U.S. Council is the American branch of the International Chamber of Commerce, an organization which for more than 50 years has advocated the expansion of international trade and investment.

On May 15th, 1973 I had the privilege of testifying on behalf of the U.S. Council before the House Committee on Ways and Means in support of the Trade Reform Act. Much has happened on the international economic scene since then.

However, in the Council's view the need for a trade bill is just as pressing now as when it was under discussion in the House last year. The dangers of countries adopting "go-it-alone" policies seems to be increasing. Cohesion among the industrialized countries which has existed since World War II has clearly weakened. Therefore, my objective in testifying before you today is to express the U.S. Council's strong support for passage of the Trade Reform Act.

The sharp increase in the price of oil and other imported materials may lead countries to seek to protect their balances of payments by imposing import controls and/or by artificially stimulating exports, leading to retaliation by other countries, and a generally worsening of trade relationships. I am also much concerned about the potential implications of bilateral deals between certain consuming and producing countries. I fear that we may see here the possibility of preferential bilateral trading arrangements which would limit the access of third countries to important markets for their exports to resource-rich countries. It is very clear that the President must be armed with negotiating authority in the trade field, which he now lacks, if he is to be in a position to exert the full influence of the United States against these dangerous trends. We are convinced that trade liberalization promotes a more efficient use of the world's resources—an efficiency jeopardized today by the unstable situation as to the availability and pricing of energy and materials. Thus it is doubly important that the United States be in a position to participate effectively in further international trade negotiations.

The situation we are in not only has dangers but also brings challenging opportunities: to turn the present crisis into constructive channels, to find new modes of multilateral cooperation, to achieve fundamental economies in the use of limited supplies, and to learn better how to achieve their distribution in a manner that meets the needs of consumer and producer, of the developed and the developing, while ensuring that market forces basically determine the most economic use of available resources.

One of the most positive steps which the government of the United States, and you gentlemen in the Senate, can take to help realize these brighter alternatives is early passage of the Trade Reform Act in substantially the form in which it came to you from the House of Representatives late last year. Passage of the Trade Reform Act will underscore the continued commitment of the United States to the objectives agreed upon in Tokyo last September. It will provide the essential underpinning for the GATT trade negotiations which are now stalled awaiting Congressional passage of this bill.

The Contracting Parties to GATT in the Tokyo Declaration agreed that a firm link must exist between the proposed trade negotiations and the related discussions on monetary reform. Particularly in the face of the uncertainties of international payments in 1974, it is crucially important that monetary order be maintained. Also it is essential that the major countries of the world continue to cooperate in this highly complex area. It is the U.S. Council's firm conviction that negotiations concerning international trade and monetary cooperation are two sides of the same coin.

When the Trade Reform Act was first under discussion in the Committee on Ways and Means of the House one year ago the United States was deemed to be in a relatively weak international financial position. We were running a serious trade deficit. Also our balance of payments deficit was at record levels. The dollar was under attack. There was much talk of an indigestible dollar overhang. In this context, we looked on the Trade Reform Act largely as a means of regaining some of our earlier international trading strength.

Today the position is markedly different. The trade balance has improved and the dollar has strengthened. This presents us with the enhanced opportunity to assume leadership in working toward greater international economic order. In order to seize this opportunity, the President must be armed with the authorities in the Trade Reform Act.

As to tariffs, the United States cannot expect to gain concessions from other countries without granting some in return. No adequate basis exists since the Trade Expansion Act expired on which the United States can work effectively with its trading partners to assure that the momentum toward trade liberalization is continued.

Equally the President needs authority to negotiate with other countries in the area of non-tariff barriers to trade. This has been a recalcitrant problem for a number of years. At last some headway is being made within the GATT in sorting out those non-tariff barriers which are most troublesome and defining possible approaches to minimizing their effect on international trade. While the sector by sector approach to reciprocity, embodied in the present version of the Trade Reform Act may appear to some to be equitable, experience indicates wider flexibility is necessary for a broadly successful outcome. Since the inauguration of the trade agreements program, the United States has conducted trade negotiations on the basis of overall reciprocity, allowing concessions in one product sector to be compensated by concessions in another, provided that an overall balance of advantage is secured in the total trade package. This flexibility is especially necessary in dealing with non-tariff barriers.

The Council believes that the President still needs the new authorities with respect to safeguard mechanisms, balance of payments, and escape clause provisions that are embodied in the Trade Reform Act. Such measures are important to give the President the authority to take remedial actions if United States business is discriminated against in other countries.

The inclusion of export controls is a new element in a trade bill. Historically, trade negotiations have concerned themselves with import restrictions as a major limitation to the international movement of goods. However, recently export restrictions, particularly on goods in short supply, have become of increasing concern. The Council believes that restraint on export controls is as important as restraint on import controls in an interdependent world, and that the United States should seek agreement with its trading partners on a framework of cooperation in cases of worldwide shortages.

When appearing before the Ways and Means Committee last May, the U.S. Council urged that most-favored-nation treatment be granted on a bilateral basis to those non-market economies not now eligible for it, a position we have held for many years. We continue to feel that on economic grounds it is in the interest of the United States to bring the Communist countries into the trade and monetary system of the Western industrialized countries. This is an issue fundamentally economic in nature rather than a political one.

Title IV of the House version of the Trade Reform Act reflects the introduction of political issues into trade legislation. We believe that the trade provisions of a bill, so important to so many U.S. objectives, should not be jeopardized by this political issue. As Secretary of State Kissinger said before this Committee March 7, "We cannot accept the principle that our entire foreign policy—or even an essential component of that policy such as normalization of our trade relations—should be made dependent on the transformation of the Soviet domestic structure."

The U.S. Council also believes that the Trade Reform Act should not be burdened with provisions relating to taxes on foreign source income which should be treated independently of trade legislation. Many major foreign competitors of American companies already operate under more liberal tax regulations than we do with respect to foreign source income. It is not in the national interest of the United States unilaterally to impose further tax handicaps on American competitiveness in the world economy. Nor is American policy consistent in seeking fairness and equity in international trade and monetary matters but failing to provide them itself in matters of taxation.

The Council considers it a matter of highest priority that the President be given the authority to enable the GATT negotiations begun in Tokyo to proceed. For this, it is essential that the Trade Reform Act be enacted without delay. Economic conditions change rapidly, and the President must have the authority and the negotiating flexibility to meet the coming challenges to the world economy.

Trade Adjustment Assistance

United States International Competitiveness and Implications for Domestic Adjustment Policy

Prepared by the
National Association of Manufacturers
Washington, D.C.

Foreword

We live in an era of accelerating technological change. This fact, coupled with an ever increasing economic interdependence among nations, has opened new challenges for governments seeking balanced internal growth, price stability and full employment. For the United States, as the world's largest market, this recent expansion of international trade has led to serious repercussions on the domestic economy. However, it has also yielded outstanding benefits and increased national wealth. The problem which no one has yet effectively faced is this: How can the United States implement a tough, fair trade posture consistent with trade expansion and through timely adjustment and increased productivity, simultaneously develop a more dynamic industrial base capable of meeting import competition? What type of programs are needed to assist workers, firms and even complete industries which are suffering economic hardship due to increasing imports?

This comprehensive study was prepared by NAM in response to these questions and the growing problem of import dislocation. It represents one important component in the Association's "system's approach" to international economic affairs.

The report concentrates on trade adjustment assistance and offers a no-nonsense approach designed to restructure and revitalize the program and help U.S. industry—both firms and workers—to successfully meet challenges of import competition. The report reviews the history of trade adjustment assistance and analyzes the program's deficiencies and potential within a cost-benefit framework.

Study on trade adjustment assistance was initiated by the NAM International Economic Affairs Committee as a necessary element of the committees' approach to positive business problem-solving on international economic issues. Specific consideration was given to trade adjustment assistance in relation to the proposed Administration trade bill, Burke-Hartke type legislation and the general issues of future trade negotiations.

During the course of the study which was conducted by an NAM interdepartmental working group, it became apparent that the issue of import dislocation and international adjustment to trade competition had direct ties to general unemployment compensation and pension rights on the local level. These subjects are therefore discussed in the text and their relevance is specifically defined.

In this context, care should be taken to avoid the most serious mistakes of past adjustment policies —particularly the substitution of after-the-fact compensation programs for an active adjustment policy. The real interests of the American worker in job retention/job creation point directly at the private firm as the vehicle of employment and economic growth rather than to the expansion of government hand-outs for job loss. More encouragement must be given to *early* industrial adjustment where workers and management alike benefit from a healthy industrial climate within the framework of a fair trade policy.

Admittedly, trade adjustment assistance is no panacea for the complications of our present economic difficulties. However, if properly directed, it could be important as a model mechanism for spurring productivity, increasing employment for the American worker and reducing inflationary pressures. Trade adjustment assistance could also play a significant role in the present struggle over international trade and investment policies, by helping to defuse the negative platform of Burke-Hartke type legislation spawned in the myopia of the "adversary relationship".

This report is submitted with the hope that labor, management and government can unite behind its recommendations, resolving to strengthen trade adjustment assistance as a model program—and show that United States industry and labor can compete in international competition. This is a goal worthy of our best efforts and the National Association of Manufacturers is pleased to offer these recommendations as a step in this direction.

E. Douglas Kenna
President
National Association of
Manufacturers

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Trade Adjustment Assistance Project
Reading Group

Herbert Jarvis — CHAIRMAN
President
U.S.M. Corporation

Orville V. Bergren
Executive Vice President
Illinois Manufacturers Association

Hugh M. Comer
Vice President, Administration
Bibb Manufacturing Company

James Fender
Governmental Affairs Manager
Caterpillar Tractor Co.

Dr. Charles Frank
Visiting Fellow
The Brookings Institution

Theodore R. Gates
Vice President & Director
of Economic Research
International Business &
Economic Research Corp.

K. Robert Hahn
Executive Vice President
Lear Siegler, Inc.

Francis M. Hernan
Executive Vice President
A.S.G. Industries, Inc.

Russell H. Hubbard, Jr.
Corporate Employee Relations
General Electric Co.

L. Howard Karelis
President
Allen Shoe Company

Eugene Larson
Consultant
Longyear Co.

H. C. Lumb
Consultant
Cleveland, Ohio

Robert F. Mitchell
Vice President & Counsel
Industrial Systems & Equipment Group
Litton Industries

J. R. Pobst
Executive Director, International
Libbey-Owens-Ford Company

Staff:

Nicholas E. Hollis*
Director, International Economic
Affairs
National Association of Manufacturers

*Research Support Provided by:

John M. Kline
Staff Associate

Karin Holmen
Research Assistant

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Introduction

Amid the emerging confrontation on international trade and investment, and its legislative implications, is a recognized need among all elements of national leadership for greater U.S. productivity and relative competitiveness in world markets. This central and irrefutable fact stands above the raft of widely-divergent arguments and analyses on how the nation got into its competitive predicament, and proposals on how it should get itself out. At the heart of this dilemma remains the question: How do we improve the national productivity, and what measures will work to effect this objective within the traditional framework of our free enterprise system? Clearly, in an era of rapid technological change characterized by "future shock", and coupled with increasing trade and the growing interdependence of national economies, any "solution" will place considerable premium on flexible adjustment processes.

As the current debate intensifies, there is a danger that this recognition, as it relates to America's competitive position and productivity itself, may be lost within a confluence of relatively less important issues. Politico-economic pressures on decision-makers will be enormous, underscored by the erosion of the United States' trade position, high unemployment (and a related sensitivity in certain sectors due to severe import dislocation), persistant inflation and a chronically weak international payments position. Proponents of the Burke-Hartke bill and similar types of legislation have benefitted from this current economic uncertainty. However, these are negative, superficial responses to deep-rooted problems; they should not be permitted to divert attention away from the core issues which the United States must face if it is to continue as a responsible member of the international commercial community.

Clearly, more can and must be done to strengthen the international economic standing of the United States. American workers, unions and industry (both multinational corporations and the small, family owned enterprise) have much to lose with a continued deterioration of our competitive position.

This Administration has expressed concern with respect to the unfavorable balance of trade, and has taken strong and needed steps in recent months (particularly evidenced with the actions of August 15, 1971, the subsequent Smithsonian Agreement in December 1971, and the second devaluation of February 1972) to correct certain inequities on the international front in an overall effort to restore a modicum of global economic equilibrium. On the domestic side, necessary efforts to dampen the inflationary spiral characterizing the last half of the sixties have been a qualified success, through a combination of monetary and fiscal policies and the wage-price controls. Yet, these actions, strong as they were, have not had the anticipated remedial effect on the United States' international competitive position because they have not tackled some of the core issues. In the year after devaluation of the dollar, and eighteen months after the imposition of wage-price guidelines, the trade balance skidded from –$2.1 billion in 1971 to approximately –$6.4 billion in 1972 forcing a second devaluation of the dollar on February 12, 1972. And, although some improvement may be expected, the prognosis for 1973 does not seem much brighter.

One missing component in the program has been improved productivity* and the lack of a national commitment and orchestrated policy toward it. The National Association of Manufacturers is vitally interested in improved U.S productivity in the interest of a healthy, competitive U.S. economy and a strengthened balance of payments. As one of the Association's major objectives, a series of studies on different aspects of national productivity improvement have been undertaken—with the aim of recommending ways to improve the overall United States economic climate.

Consistent with this objective and the search for positive solutions to the United States' international economic dilemma the following study has been developed on the issue of trade adjustment assistance—as a small, but important link between international and domestic economic policy. As such, this report constitutes an effort to analyze the major questions behind the trade adjustment assistance issue, both from an historical and a cost-benefit perspective. It also seeks to recommend workable industry and labor oriented recommendations consistent with the goals of strengthening the national employment base, and improving productivity and international competitiveness on a cost-effective basis.

The report is divided into five major sections: (1) *a summary of the report findings and recommendations*, (2) *a description of the Trade Adjustment Assistance program* including history, present program structure and evaluation, and recently proposed changes, (3) *an issue reference section* comprising descriptions and recommendations on important sub-issue questions, such as: program scope, rationale, administration, benefits (worker, firm and industry), plus several additional issues raised by proposed alternate approaches, (4) *a cost-benefit analysis* of present program and other options, including this report's recommendations, and (5) *appendices*, including a brief description of foreign adjustment programs, the project questionnaires and research method.

*Productivity can perhaps best be concisely defined as real output per hour of work or, more loosely, as the efficiency with which output is produced by the resources utilized. See *The Meaning and Measurement of Productivity*, Bulletin 1714, prepared for the National Commission on Productivity by the Bureau of Labor Statistics, 1971.

SECTION 1

Summary of Findings

General Overview

This report's findings and recommendations extend beyond an evaluation of the present trade adjustment assistance program and offer a positive, alternate course of action, aimed at a restructured and redirected response to trade-related adjustment problems. This approach is characterized by an effective early warning mechanism, programs geared toward facilitating adjustment (as opposed to retroactive compensation) and industrial self-adjustment with a minimum of government participation. In this approach, effective early *adjustment* efforts will replace the current system of compensatory "burial expenses" with a program formula aimed at job retention/job creation for workers within a healthy industrial climate.

Recognizing the necessity of improving overall national productivity, as well as this nation's ability to compete in world markets, this report proposes a series of changes which, if implemented, would revitalize the adjustment mechanism on a cost-effective, economical basis—an important consideration reflecting the need for fiscal responsibility and controlled federal spending. The report's recommendations are founded on cost-benefit analysis and are designed to encourage more leadership and self-adjustment by the private sector, utilizing the strengths of freer market forces.

Guidelines are offered in this report to help channel government participation toward the most beneficial programs, (tightened through cost-cutting and reduced processing time) with the least damaging potential for market interference. This procedure anticipates the time when the government role can be reduced, perhaps through transitional stages, as industrial productivity is stimulated and international competitiveness is placed upon free market principles in a fair trade equation.

Need for Structural Change

A major report emphasis and recommendation embodies structural change for trade adjustment assistance — a shift of emphasis from present injury compensation to pre-injury adjustment. Streamlining the present program can have only limited remedial effects and will prove generally ineffective by itself unless coupled with a reordering and restructuring of program priorities. Toward this objective the report recommends a two-tier system for adjustment supported by an effective early warning system. (See page 19 for a graphic outline of the two-tier approach.) The two-tier system would provide for different benefits on a selective basis at each separate stage. First would be broad industrial programs to improve the competitive climate for an entire qualifying industry. The "assistance" at this stage would encourage industry self-adjustment to increase productivity and competitiveness, allowing job retention for workers in that industry and spurring the dynamics of industrial job creation. The second stage would constitute a reordered version of the present program where individual firms and worker groups suffering severe import injury could petition for specific assistance designed to help them complete the adjustment process they presumably began in the first stage. This approach could achieve the desired objectives of worker reemployment, competitive adjustment, cost-effectiveness and minimal government impact upon the market place. While developed and administered as a separate and distinct program, trade adjustment assistance, if more responsive, could become the cutting edge for related national efforts needed in productivity/investment policy and manpower development. Consequently, the report's recommendations were made to facilitate a consolidation of federal programs in which trade adjustment assistance could be subsumed.

A listing of the major findings and specific recommendations begins below with the early warning system and the proposed benefit structure under the two-tier approach. Following these areas are various issue reference recommendations paralleling the body of the report. Additional findings related to these recommendations are found in report chapters on program history, cost-benefit analysis, and foreign programs (in the appendix). In addition, minor recommendations and ideas for consideration are located throughout the text.

Early-Warning System

A central improvement, necessary for a successful, restructured trade adjustment assistance program, is the development of an effective early warning system. This mechanism, designed to forecast potential import dislocation, could also provide an excellent foundation for the proposed industrial approach to trade adjustment assistance. This report calls for the implementation of an early warning system using the presently available public statistic base with careful recognition given to the necessity of business confidentiality. Specifically, the report recommends that:

1. Presently available data pertaining to international commercial competition, both foreign source and domestic, be integrated more effectively and published in industry sector analyses.

2. Increased responsibilities be given to U.S. commercial attaches overseas in the collection of data and monitoring relevant commercial intelligence. Greater government agency coordination on competitive assessment.

3. Active dissemination of forecast analyses to target industries, subject to confidentiality precautions, in order to facilitate early operation of an industrial adjustment response to increasing competition.

Benefits and Provisions

Findings: Although the issue of program benefits has received much attention, few benefits have actually been provided under trade adjustment assistance. The benefits that have been granted to workers and firms have proven ineffectual for the most part. Instead of facilitating timely adjustment, benefits have become retroactive compensation. Assistance to workers has concentrated on compensation rather than active reemployment programs and there has been no concern with job retention/job creation through effective early industrial adjustment.

Recommendations:

1. Worker benefits could be improved by:

(a) The redefinition of trade readjustment allowances for workers to parallel state unemployment compensation benefit levels, thus reducing duplication and facilitating processing.

(b) Increased program emphasis on job placement techniques, closely coordinated with the computerized *national job bank* system (which could serve general unemployment problems along with trade adjustment cases), thus adding to worker mobility — horizontal and vertical.

(c) Improved relocation assistance for those seeking new jobs in other locales.

(d) Emphasis directed at *on-the-job retraining programs* contracted with willing private firms.

(e) Acceptable standardization of minimum vesting requirements under private pension plans for workers.

2. Industry benefits and overall program effectiveness could be improved with:

(a) The establishment of a modified industrial approach stage of trade adjustment assistance where industry certification would permit the following benefit considerations:

(1) *Research and Development Assistance*—Federal consultation, technical assistance, and possibly a system of additional measures—(i.e. partial matching of private R&D funding and tax credits as a part of a broader national campaign to expand R&D investment and encourage productivity and innovation).

(2) *Antitrust*–A special Justice Department section would be established to provide advice, issue guidelines and review industrial adjustment plans involving mergers and/or joint ventures (i.e. joint R&D efforts) by industries seeking to meet international competition.

(3). *Orderly Marketing Arrangements*–The formation of an inter-agency standing group (Departments of Treasury, Commerce, Labor and State, Tariff Commission, Office of the Special Trade Representative, Council on International Economic Policy) to make recommendations to the President for negotiating bilateral and multilateral orderly marketing arrangements on a conditional and temporary basis for particular industries experiencing severe import dislocations. These arrangements would be installed for a specified time period in conjunction with a definite industrial adjustment plan to provide temporary import relief for an industry in which successful adjustment could not otherwise occur. The orderly marketing arrangement would contain specifications for a graduated, "phase-out" timetable. .

Eligibility Criteria for Trade Adjustment Assistance

The report rejects a number of proposals which would lead to a massive and unwarranted program expansion and instead recommends measured relaxation of present program eligibility criteria as follows:

1. Elimination of the causative link requirement between increasing imports and a past trade concession.

2. Industry petition criteria relaxed to require only that an increase in imports was the *primary* cause (more than any other single factor) of injury rather than the *major* cause (more than all others factors combined) as presently required in order to receive industrial trade adjustment assistance benefits.*

In order to regulate government participation in specific assistance to workers and firms, and to insure adequate proof of injury for any program applicant, we recommend:

3. Retention of all other congressionally established eligibility criteria wherever applicable.**

Submission of Petitions

Findings: Due to the complexity of the petitioning process and a lack of knowledge regarding the program — its existence, standards to measure eligibility and the basic application procedures — the chances for early adjustment to import competition have been negated by the present structure.

Recommendations:

In order to disseminate information, coordinate procedures and simplify the submission process itself, it is recommended that:

1. Industry and firm petitions be submitted directly to the Commerce Department and worker group petitions to the Department of Labor.

2. Commerce and Labor Departments begin petition review immediately upon receipt to insure its proper completion.

3. Further improvements in communication between the Departments of Commerce and Labor to effect immediate inter-agency notification when petitions are received.

*These recommendations do not apply to escape clause action, but only to a trade adjustment assistance program.

**In instances where application is changed to parallel subsequent report recommendations (i.e. trade readjustment allowance) the congressional criteria would be modified accordingly.

4. The Commerce and Labor Departments undertake to immediately notify all worker groups and firms in industries relevant to any petititon submitted, informing them of the trade adjustment assistance program, their application potential and the petitioning procedure.

5. Labor unions and trade associations be urged to inform themselves and their memberships on the trade adjustment assistance program and their potential relationship to it, encouraging early petitions wherever applicable.

Petition Investigation and Eligibility Determination

Findings: Investigation procedure for trade adjustment petitions is characterized by arduous delays, agency overlap and general operational inefficiency which negates the chances for early benefit delivery and adjustment to import competition. Similarly, the determination of eligibility needs streamlining to be effective.

Recommendations:

In order to expedite the investigatory and eligibility determination processes, it is recommended that a legislated timetable be enacted to require:

1. Completed petitions received either in Commerce or Labor Department be transmitted to the Tariff Commission *within one week* of submission date.

2. Tariff Commission initiate an investigation immediately upon receipt of the petition and submit a completed report to the relevant department not more than ninety days after receipt of an industry petition or thirty days for a worker group or firm petition.

3. Commerce and Labor Departments' rulings on eligibility determination will be final and required within seven days of receipt of Tariff Commission Investigation Report —(a fifteen day grace extension period could be authorized by either department's secretary, if necessary, in order to seek further information from the Tariff Commission).

Administration of Benefits

Findings: Even after firms and worker groups have been certified eligible to receive adjustment assistance, inordinate delays occur in the administration of benefits. Although timetables are impossible in this stage of the process, certain needed improvements are possible.

Recommendations:

It is recommended that:

1. Technical assistance in drafting firm adjustment proposals be given to certified firms by the Department of Commerce. This proposal must be submitted within ninety days after the firm's eligibility certification.

2. Labor Department training teams be temporarily utilized to reinforce local employment security offices in handling additional individual worker petitions.

3. The eligibility criteria of individual workers be simplified so that the only additional investigation necessary beyond that required by state unemployment procedure is to determine that the worker's job was adversely affected by his firm suffering import injury.

Community Adjustment Assistance

This report rejects the concept of adding supplemental community assistance programs to the present trade adjustment assistance structure. Such an amalgamation would lead to confusions, administrative delays and results harmful to the interests of workers and firms. Recognizing the importance of encouraging community and regional response to economic dislocations caused by imports and other economic factors, the report recommends:

1. Better utilization and coordination of existing federal programs designed to alleviate economically impacted areas on a regional basis.

2. Additional efforts to coordinate local industrial development groups and recruit voluntary leadership from successful neighborhood industries.

3. Better dissemination of information on the trade adjustment assistance program to voluntary business and civic groups in communities and areas where import dislocation is threatened or actual.

SECTION 2

Trade Adjustment Assistance Program

History

The Trade Adjustment Assistance program is a relatively recent development in the history of United States trade policy. Evolving from legislative proposals in the 1950's, the concept of trade adjustment assistance achieved policy significance in the United States with its inclusion as Title III of the Trade Expansion Act of 1962. Since then, despite the controversy and organizational/operational problems which have characterized its short history, trade adjustment assistance occupies an increasingly important role in United States trade policy. The early origins of this program have already been documented extensively elsewhere; consequently, this chapter will only highlight a few key ideas and program "milestones" characterizing its inception--with emphasis on the implications for current program/policy evaluation.[1]

Even as a comparatively small part of the larger legislative package aiming at trade negotiations, the adjustment assistance provisions received considerable attention. This is not surprising; all sides recognized adjustment assistance provided supportive philosophic underpinnings which recognized that a national economy benefiting from expanding commerce also had the obligation to help buffer those in particular sectors who were injured by the prospect of that policy. Thus, if an economic dislocation in terms of plant shutdowns and unemployment, for example, resulted from the reduction or removal of a tariff, the government was obligated to provide some form of assistance to those firms and workers unable to make satisfactory adjustments on their own to the new conditions.

On the other side, those fearing greater import competition (particularly certain labor groups and small businesses) saw adjustment assistance as an additional trade policy tool in the arsenal to protect jobs and investments. Escape clause provisions which had been heavily relied upon earlier to buffer competition, no longer afforded an adequate safeguard.

The compromise element between these two groups, while important to the beginnings of trade adjustment assistance, diverted attention from the program's substance and such questions as: Can this program stand on its own merits? How will such a program "fit" into U.S. trade policy considerations? Will the program be cost-effective?

The "founding fathers" of adjustment assistance were not entirely unmindful of these questions. They expressed particular concern regarding the determination of eligibility for trade adjustment assistance in recognition of the many factors causing industrial dislocation and the difficulty of separating them. They also worried about the costs of an evolving, untried program. Their response to these concerns was the adoption of program qualification criteria which had the unintended effect of locking the program into an "eligibility straightjacket."

Under the criteria firms and businesses found it impossible to qualify for the program. The Act authorized assistance for those elements of the economy either experiencing, or threatened with, serious injury *caused in major part* by increased imports — *providing* that such increase was also *in major part the result* of a trade concession.

The combination of the causative link to prior trade concessions and the definition of "major part" (more than all other factors combined) to describe the impact of increased imports, resulted in frustration for petitioning workers and firms. However, the general prospects of the mid-60's economic boom with rising employment somewhat muted the cries of the import affected. Meanwhile, disquieting signals, reflected in a shaky erosion of the nation's international payments position and declining trade surplus, also went largely unnoticed.

Despite steadily building pressures on the trade policy front, the program remained dormant throughout the sixties without a single affirmative ruling to test the operational aspects. Even before the end of the Kennedy Round, these pressures were manifesting themselves in a strong surge for toughened, restrictive trade policies. Led by several U.S. industries which had become alarmed at the precipitous increase in competitive imports and the lack of foreign market access for their products, this sentiment now won the backing of organized labor. By 1969, coupled with accelerated unemployment and

[1]Trade Adjustment Assistance originated in the European Coal and Steel Community programs designed to alleviate workers' dislocations in the coal industry. It was first proposed in the United States by David McDonald, then President of the United Steel Workers, to the Randall Commission on Foreign Economic Policy in 1954. For additional historical perspectives see the papers submitted to the Commission on International Trade and Investment Policy (Williams Commission) and the Trade Adjustment Assistance Hearings before the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs, April and May, 1972.

business recession, this formidable drive for trade restriction had pervaded Congress.

The ensuing conflict was highlighted by a pitched legislative battle on the Mills Bill and overshadowed important interpretational changes made by the Tariff Commission in the adjustment assistance criteria. Actually, these changes were probably stimulated as a direct result of this conflict, and the recognition that the adjustment program had not functioned as a needed "safety pressure valve."[2]

In this context it might be interesting to speculate on the role an operating adjustment program might have had in defusing the growing trade tensions of the sixties. However, any working program would probably have gone unnoticed next to the enormous and complex forces which triggered the nation toward trade expansion.

The interpretative innovation formulated by several Tariff Commission members and unveiled in November, 1969, resulted in a relaxation of the "causal link" between increased imports of competitive products and a specific United States trade concession. Rather than require that the trade concession be the major causative factor for the increase in imports, the new ruling advanced a "but for" principle. Essentially, this translated, "but for the trade concession, the increase in imports probably would not have occurred."

Following these new criteria interpretations the Tariff Commission made a flurry of affirmative findings. The first involved a worker group producing steel pipes and and was followed in December, 1969, by an affirmative industry ruling on pianos. The first certified firm petition came from an affirmative Presidential decision on a tie vote of the Tariff Commission in early 1970, while the first affirmative Tariff Commission ruling on a firm petition did not occur until November, 1970. The overall performance record of the Tariff Commission, reflecting in a large part action resulting from the interpretative change, is shown below up to November 30, 1972.

With Tariff Commission affirmative findings based largely on interpretive rather than substantive

Table 1

TARIFF COMMISSION RULINGS*

	Denials	Affirmative	Tie Vote	In Process	Total
Worker Cases	98	25	30	3	156
Firm Cases	18	9	8	0	35
Industry Cases	17	2	5	1	25
Total	133	36	43	4	216

*As of November 30, 1972

[2]See hearings in Joint Economic Committee (Fall of 1969) and House Ways and Means Committee (May 1970) for congressional views on adjustment programs.

Table 2

PRESIDENTIAL ACTION ON INDUSTRY CASES

	Trade Adjustment Assistance	T.A.A. and Escape Clause
Affirmative Votes	0	2
Tie Votes*	2	1

*No action was taken by the President on two of the tie votes.

changes in the law, application of the "but for" principle has been sporadic. Vacillating as Commission members change or are absent from particular votes, the liberalizing interpretation has a cloudy future. Some of these unnecessary ambiguities and uncertainties could probably be alleviated with the adoption of more definitive legislative criteria so that the criteria's legal basis is established by Congress rather than by an administrative body.

Certain difficulties in the criteria area trace back to adjustment assistance's close relationship to the escape clause. As noted earlier, adjustment assistance won support as an additional advantage coupled with possible escape clause action. However, the two concepts had very different emphases and theoretical foundations.

Nonetheless, under the 1962 statute legislators established procedures and criteria for adjustment assistance petitions identical to those already operative for escape clause relief. For example, an affirmative ruling on a tie vote in the Tariff Commission sends the petition to the President, who may then take one of the following actions: (1) deny the petition; (2) grant escape clause relief to the industry by temporarily increasing the tariff or applying quantitative restrictions on competitive imports; (3) certify the industry's firms and worker groups eligible to apply for trade adjustment assistance benefits; or (4) a combination of numbers two and three. Table Two shows the actions which have been taken on affirmative or tie vote rulings up to November 30, 1972.

This report does not purport to analyze the escape clause component of present legislation. While conceding this as a subject worthy of careful study, NAM does not take a position on tariff matters. Differing perspectives on tariffs of NAM's many members and their employees make it impractical for the association to generalize in matters of this nature. On the other hand, we believe trade adjustment assistance, as a separate issue, must be addressed. Present analysis and findings relate only to the trade adjustment assistance program within the context of international economic policy. Thus, no existing positions or policies of the association on international economic matters shall be construed to be a position on tariffs. The recommendations contained in this report relate only to the trade adjustment assistance

component of present legislation and should not be construed as a position on the escape clause mechanism.

Present Program

The discussion and controversy surrounding trade adjustment assistance since its inception have obscured basic facts of the program as it currently exists. A number of important interrelationships underlying the issue and their historical antecedents have also been shrouded. Clearly some misinterpretations could be expected, given the interaction of different historical perspectives, goal perceptions and ideologies about a program whose complex operating procedure was itself often misunderstood. In fact, it is difficult to tell whether the program's operational complexity merely reflects the blurred interrelationships within the larger issue, or whether the operational process is in some way partly responsible for the present confusion about the adjustment concept. The truth probably lies somewhere in between these alternatives. However, a clearer understanding of both the program structure and the underlying conceptual problems related to it are necessary before engaging in any systematic problem-solving analysis.

Similarly, the construction of an accurate historical evaluation — important on any problem-solving exercise — will be enhanced by an appreciation of program structure and operation. Thus, the purpose of this subsection is to clarify the provisions and procedure of the present trade adjustment assistance program. This summary will provide the reader with a reference source on the present program to be used for later comparisons made in this report concerning program evaluation, proposed changes, and overall cost-benefit analysis of alternative options.

Trade adjustment assistance, as created in 1962, aimed at two specific objectives: (1) to alleviate injury stemming from increased import competition, and (2) to expedite the process of domestic adjustment by effecting a better utilization of national manpower and capital resources.

Workers were to be assisted in their transition to new jobs through allowances extending over a limited period of time for retraining and relocation. Import-injured firms were to be aided in modernizing their plants and production methods and in shifting lines of production with the help of technical, financial and tax assistance.

[3]Mainly provisions of the Manpower Development and Training Act of 1962.

[4]A number of these programs were previously operated out of the Economic Development Administration and the Small Business Administration. Beginning in fiscal year 1971, the Office of Trade Adjustment Assistance in the Commerce Department has handled them directly.

Provisions for Workers

Once fully certified as eligible for trade adjustment assistance an individual worker may receive:

a. Trade readjustment allowance
b. Training, testing and counseling services
c. Relocation allowances

Trade Readjustment Allowances (TRA)

The TRA is a weekly cash allowance amounting to either 65 percent of the worker's average weekly wage or 65 percent of the average national manufacturing wage — whichever is less. While it is being received, TRA *replaces* general unemployment compensation for which the worker may have been eligible. TRA allowances are normally payable for a maximum of fifty-two weeks from the determined impact date of dislocation. Older workers, sixty years and up at the time of separation, may receive payments for thirteen additional weeks while a worker participating in approved training may receive up to twenty-six additional weeks of allowance to complete such training.

Training, Testing and Counseling Services

Programs of this nature provided under any federal law are available to certified workers.[3] Transportation and subsistence payments are authorized when the training is not within normal commuting distance of the worker's residence.

Relocation Allowances

These benefits are made available to workers who cannot find suitable employment in their normal place of residence. Eligibility for this allowance is limited to the head of a household who has a *bonafide* job offer in another location which affords reasonable expectation for long-term employment. A relocation allowance includes payment of a lump sum equivalent to two and one-half times the average weekly manufacturing wage, plus reasonable expenses incurred in transporting the worker, his family and household belongings to the new location.

Provisions for Firms

While the main emphasis of trade adjustment assistance is on alleviating worker dislocations, three forms of assistance are available to certified firms:

a. Technical assistance
b. Financial assistance
c. Tax assistance

Technical Assistance

This type of assistance may be given to firms both in preparing an adjustment proposal and as a part of an approved adjustment proposal. It may include managerial consulting, research and development assistance, market research, and other assistance necessary to reestablish the profitable operation of the firm.[4]

Financial Assistance

Financial assistance comprises loans and loan guarantees, either direct or in cooperation with private lending institutions through agreements for government participation on an immediate or deferred basis. Firms may use loans granted for purchase of land, buildings, equipment, or in exceptional cases as determined by the Secretary of Commerce, for working capital. The Commerce Department determines the terms of any loan or loan guarantee with the Treasury Department setting the applicable interest rate.

Tax Assistance

Certified firms may carry back net operating losses five years, two years beyond the normal allowance permitted firms by the Internal Revenue Service.

The Petitioning Process (Procedure)

The Trade Expansion Act of 1962 (Title III) established four principal eligibility criteria which must be met in order to qualify for trade adjustment assistance:

1. Imports of like or directly competitive products must be increasing.
2. The increased imports must have resulted in major part from concessions granted under trade agreements.
3. The industry, firm or worker group must be suffering or threatened with serious injury measured in terms of idling of facilities, inability to operate at a level of reasonable profit and unemployment or underemployment.
4. Increased imports must be the major factor causing injury to an industry, firm or group of workers.

The Act also spelled out two procedures by which workers and firms could qualify for assistance:

1. Workers and firms may apply to the Labor and Commerce Departments, respectively, for trade adjustment assistance following an affirmative Tariff Commission finding of injury and a Presidential approval *with respect to an industry petition.*[5]
2. A group of workers or a firm can petition the Tariff Commission directly for an injury determination of their individual case and upon an affirmative ruling apply to the Secretaries of Labor or Commerce, respectively, for certification.

Tie vote deadlocks in the Tariff Commission are submitted to the President for final determination.

These procedures can involve considerable time periods in going through the various steps. The result has been a postponing of aid to workers and firms until long after the date on which actual layoffs have occurred and on which the process of relocation or retraining should have begun.

After industry petitions are submitted to the Tariff Commission, the normal investigation period extends for six months. Upon an affirmative finding of injury, the President, in addition to other possible actions, may authorize the workers and firms of a particular industry to apply to the Secretaries of Labor and Commerce, respectively, for certification under the program. The President usually acts on industry cases within a sixty-day limit after receiving the Tariff Commission report. However, he may request further information from the Tariff Commission which would then involve a more extended period of time.[6]

Following the President's authorization, the Departments of Labor and Commerce will accept petitions for certification of eligibility to apply for adjustment assistance. There is no established time limit in the original Act for this phase of the process, but Commerce and Labor reportedly require around sixty days to investigate the petition and an additional thirty days to issue their determinations.

Worker petitions and firm petitions can be submitted directly to the Tariff Commission without a previous determination of industry injury. The Tariff Commission is permitted sixty days to complete an investigation and issue its findings. Once an affirmative decision is handed down, the petitioner may apply to the President for adjustment assistance. Under existing Executive orders designed to alleviate burdens on the White House, the workers and firms actually apply directly to the Secretaries of Labor and Commerce, respectively.

A further departmental investigation is then conducted. Agency regulations allow twenty days for this exercise, but there is no statutory time limit concerning either this investigation period or the final decision on the petitioner's eligibility to receive assistance and delays do occur.

Individual Worker Certifications

The individual worker seeking adjustment assistance benefits must overcome an additional hurdle following the Labor Department certification of eligibility for his worker group petition. This stage involves his individual application for benefits which is submitted to his state employment agency. In addition to the eligibility criteria previously outlined for

[5]Industry petitions can be forwarded by a trade association, firm, certified or recognized union, or other representative of the industry with the objective of gaining industry-wide status recognition of import injury and governmental acceptance of that condition. The escape clause presently remains the most important industrial avenue for obtaining relief from imports. No industry adjustment benefits as such are presently available on an industrial level to a qualifying industry. The president may grant the industry escape clause relief or allow its individual firms to apply for adjustment assistance, or a combination of these actions.

[6]On tie votes of the Tariff Commission, there is no time limit on the President's decision. If the time limit for affirmative rulings is not met, the President must make a report to Congress which can then take certain actions as outlined in the Trade Expansion Act of 1962.

worker groups, the individual worker must further meet the following requirements:

1. He must be a member of the certified group.

2. He must have become unemployed or underemployed due to lack of work in the affected establishment.

3. He must have been gainfully employed for at least half of the three years prior to the unemployment or underemployment.

4. He must have been employed in an adversely affected firm for at least half of the fifty-two weeks prior to his layoff.

5. He must have become unemployed or underemployed during the relevant timeframe determined in the Labor Department's investigation to correspond to eligible import dislocation.

Firm Adjustment Proposals

At the end of the bureaucratic labyrinth for the import injured firm seeking assistance lies the formulation of an adjustment proposal. Each firm certified as eligible must describe in detail its plan for regaining a competitive position, including the type of adjustment assistance needed to carry out the proposal. The proposal must be submitted to the Commerce Department within two years after the firm has been issued a certification of eligibility to apply for adjustment assistance. With the exception of minor technical assistance designed to guide the firm in preparing its proposal submission, no other assistance is granted until the Secretary of Commerce has certified that the proposal:

1. is reasonably structured to contribute materially to the economic adjustment of the firm.

2. pays adequate consideration to the interests of the workers of the firm.

3. demonstrates that the firm will make all reasonable efforts to use its own resources for its adjustment. (Any request for financial assistance also requires assurance that such assistance is not otherwise available on reasonable terms from private sources and that there is reasonable assurance of the firm's ability to repay the loan.)

Present Program Evaluation

Objective evaluation of the trade adjustment assistance program is hampered by: (1) the program's historical relationship to U.S. trade policy and (2) the short duration of its functional existence (since 1969). Unfortunately this unique program experience has fostered many rather inaccurate methods of evaluating and recommending changes in the program. Analyses usually divide deficiencies in the program into three general categories (1) program administrative procedures, (2) operational provisions, and (3) structural formulation. Clearly, each problem area has a certain validity and has influenced the program's effectiveness. However, the priority ranking order used in effectively evaluating the program should be precisely the opposite from the contemporary order cited above. In effect, we need to revisit the fundamentals.

The purpose of this subsection is to develop an evaluative "line-up" for the trade adjustment assistance program based on these three problem areas. Analyzed in the context of the earlier historical background and using this problem ranking method, the program's real deficiencies become clearer in both their scope and their relative importance to one another.

Trade Adjustment Assistance (as noted earlier) was legislated as a peripheral inclusion in the Trade Expansion Act of 1962 whose primary purpose aimed at gaining broad tariff-cutting authority for multilateral negotiations in the General Agreement on Tariffs and Trade (GATT). The attention directed at the trade adjustment assistance program during the legislative campaign was mainly generated by the "compromise" nature of its provisions. This attitude diverted study from the program's structural foundation. Subsequently, the program's foundation has become largely legitimized by the passage of time.

The general inactivity of the trade adjustment assistance program probably aided the legitimation process by failing to test the program's underlying concepts. Only after 1969 were implementation problems first recognized, and by this time, the pillars of the program's structure were in cement, having inherited an assumed acceptance. Most analyses and recommendations commissioned to improve the present program have ignored the structural approach and concentrated on the obvious administrative and sometimes less evident operational problems. Since many of these deficiencies are generally recognized, if not completely documented, we will examine them first — while recognizing that they are superimposed upon and therefore strongly influenced by the more important structural direction of the program.

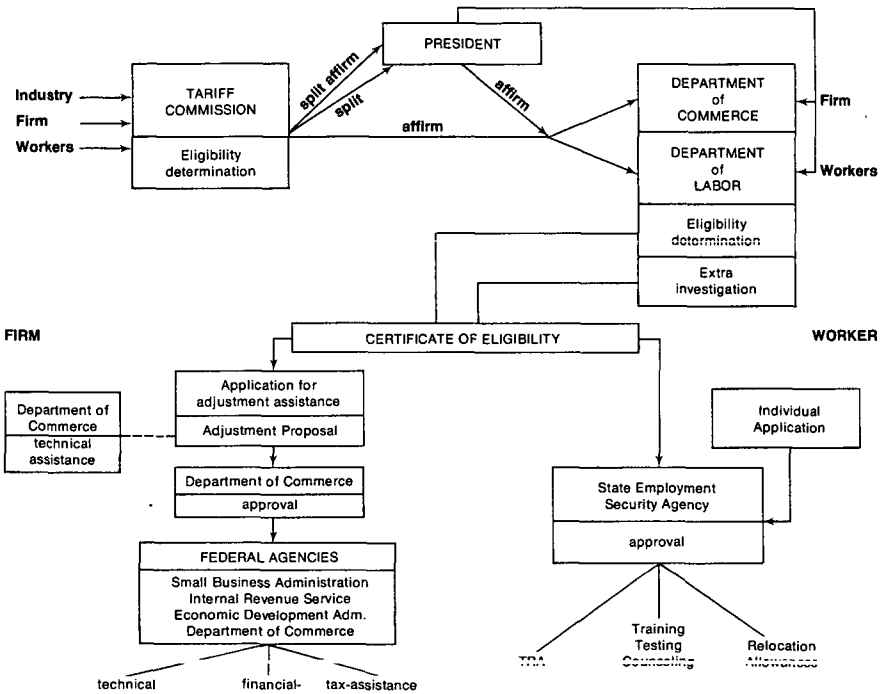
Administration

Administrative problems in the trade adjustment assistance program translate largely into two words: "excessive delay". A glance at the procedural chart on the next page which traces the petitioning procedure, reveals an arduous process — with many potential bottlenecks — that almost assures frustrating delays. For example, after the applicant group has developed its petition and submitted it to the Tariff Commission, an investigation is undertaken which may include a formal hearing. This process can, by law, take up to six months on industry petitions and sixty days on firm or worker petitions. After a ruling by the Tariff Commission there are no more time limits imposed by the original law on the administrative procedure.[7] Under even the best of conditions, it will likely take at least three months for

[7]Except that firms finally certified for assistance must submit an adjustment proposal within two years of their certification in order to receive assistance.

Chart 1

CURRENT TRADE ADJUSTMENT ASSISTANCE PROGRAM OPERATIONAL FLOW CHART



final determinations to be made on direct firm or worker petitions and eight to eleven months if an industry petition is involved. Requests from the departmental agencies for additional information anywhere along the line often delay the process even longer.

As shown previously the determination of eligibility only opens further processing steps to those in pursuit of trade adjustment benefits. After a protracted process individual workers are eventually certified eligible by state unemployment agencies and firms file detailed adjustment proposals for approval by the Commerce Department. Certainly most of these steps are necessary and attempts to short-cut them should be carefully studied lest a critical safeguard phase be sacrificed for expediency. On the other hand, new efforts are clearly needed to help speed up the procedural systems.[8] For example, a more definitive time schedule could help break down some of the obstacles. Other changes should eventually come through new legislation, but recommendations and evaluations in this area of procedure could also take recognition of some administrative improvements which have been made by appropriate agencies since the program's inception.

The Tariff Commission issued new rules in December 1972, designed to simplify the petitioning process for worker groups by requiring only types of information that should be readily available to the workers. The Labor Department is furnishing more

[8]See p. 18 for details of recommendations.

help now to local employment security offices to process applications and to counsel dislocated workers. The Commerce Department has decreased to more realistic levels the amount of time for which an adjustment proposal must attempt to forecast a firm's successful readjustment. However, while recognizing some administrative improvements such as these, present deficiencies cannot be ignored.

The NAM questionnaires on adjustment assistance circulated in September 1972, led to investigation which revealed several striking examples of administrative delay:

1. A southeastern textile firm petition was investigated by the Tariff Commission beginning on September 15, 1970. Over eighteen months later, on April 4, 1972, the firm finally received its initial assistance. By comparison this firm is well off compared with —

2. A piano company which applied for certification in March 1971, after the industry had been found import-injured. This firm has still received no determination on its eligibility and presently faces several capital shortage problems. Even with certification, the piano company would face additional procedural stages including proposal preparation and approval before it could actually receive any benefits. Ironically, the company, with numerous backlogged orders, cannot even secure loans in its present condition which could be used to purchase supplies needed in piano construction.

3. Investigation on a worker group petition initiated by the Tariff Commission in December 1970, was not culminated with an eligibility certification by the Labor Department until June 14, 1971. Following that finding individual workers were still faced with the necessary application procedure at their respective state employment agencies. In this specific case it was determined that the workers had begun suffering injury due to import competition on October 2, 1969, thus waiting over twenty-one months before even their group certification was issued. Still later, a revised certification issued for this group in January 1972, determined that the impact on employment had actually begun on September 28, 1969.

Much of the administrative/procedural time problem reflects a deep-seated difficulty: what agency or department possesses the decision-making power? Clearly, any procedure engaging separate decisions by three or four distinct bureaucratic entities increases the chances for protracted delays. This is particularly true if duplication and artificial procedural distinctions are involved (as they are in the application process). Unfortunately this problem does not lend itself to an easy solution since it implicitly requires governmental reorganization and congressional approval. Furthermore, any change in organizational lines should strive to keep those agencies most knowledgeable on the problem closely involved with the process.[9]

[9]For additional discussion and recommendations on this point see p. 21.

Operation

Operational problems of trade adjustment assistance — involving program implementation and benefit delivery as opposed to administrative processing and procedure — emanate from the objectives which the program benefits were designed to meet. Undeniably, the operational side of the program is affected by any delay in administering the benefits. However, it is a separate question altogether to ask whether or not the benefits themselves will accomplish their mission — even assuming that they reach the recipient in time to be useful.

Marginal improvements have been made in the delivery of benefits since the program's early days, including some corrections of early mistakes resulting from lack of program experience. One incident, involving a small Midwestern piano firm, can serve as an example of early problems. After an initial certification of injury and eligibility for assistance, the company submitted its adjustment proposal, which was approved by the Commerce Department. At that juncture the company's creditors received assurances from the Office of Trade Adjustment Assistance in the Commerce Department that government loans and guarantees would be available to help the firm meet its financial obligations. A change in Commerce personnel, accompanied by a shift in the program's use of loans for adjustment purposes, interceded. Action on two loans for the company was deferred and despite earlier certifications and assurances, the firm was forced to shut down its plant and lay off its 100 workers.

Unfortunately, the cumulative practical experience needed in operating a program such as trade adjustment assistance has been slow in coming. As of November 29, 1972, the Office of Trade Adjustment Assistance had recorded only ten firms which had reached the final proposal approval stage where benefit delivery becomes relevant. One case, involving a small barber chair company in Chicago, provided a costly lesson — not likely to be forgotten soon.

This firm was certified for the program and applied for assistance loans. The Small Business Administration, operating in conjunction with the Office of Trade Adjustment Assistance, provided almost $3.8 million in financial assistance. After an initial series of favorable progress reports, the company went out of business, forcing the government to try to auction off the firm's remaining assets in order to partially recover its commitment.

While lack of experience remains a major obstacle in solving the program's operational problems, greater utilization of technical assistance (particularly management consultants) in the preparation of adjustment proposals and long-range strategies for competitiveness, is revealing encouraging potential. This is doubly important since technical assistance allows firms to adjust themselves. In effect, this type of guidance helps firms use their own diversities and

uniqueness to the fullest advantage, rather than attempting to force their adherence to some inflexible standard.

The relative success or failure of adjustment efforts thus far varies with each case and within the maturation time frame of the overall program. Few general conclusions can be advanced since not enough time has passed to adequately test any hypotheses. In the above cases regarding pianos and barber chairs, the program was an undeniable failure. At least two firms which have been certified, a northeastern shoe firm and a southeastern textile company, are carefully applying their adjustment benefits and seem to be making progressive steps toward achieving competitiveness.

Recognizing that only ten firms have been authorized any assistance beyond that provided for pre-proposal drafting, it is difficult to generalize. However, adjustment efforts seem to hold out more promise if they are carefully and periodically reviewed on an individual basis with the emphasis on uniqueness and improved management techniques. We believe that this type of effort can succeed only within the context of a revised approach involving early, industry-wide adjustment — a subject which will be discussed in detail later.[10]

Operational problems on the worker's side of adjustment assistance have drawn great criticism from nearly all quarters. Since the program's inception until November 30, 1972, some 30,361 workers were estimated to have been certified by the Labor Department. Only about 75 percent of these workers are estimated to be eligible on the basis of local, individual worker requirements and only about 66 percent ever apply to the local employment security office to receive the benefits. Approximately $45 million had been paid out as of the above date to these workers. On the average these payments constitute compensation reaching the worker over a year or more after the date of his unemployment. As such this assistance has been aptly described as "burial expenses". By the time the worker actually receives the benefits, his fifty-two week eligibility for retraining and other assistance has usually expired. The result is a lump sum allowance paid to the worker without any other benefits designed to facilitate reemployment or job relocation.

Unfortunately, as the program is now structured it is virtually impossible for the worker to receive adequate retraining and relocation assistance provided for in the law. Even if he retained some eligibility, few local employment agencies, through which such programs must be channeled, presently seem equipped to handle the extra problems implicit in administering current programs. As of November 1972, the Labor Department was unable to determine exactly how much of the expended benefit money was actually being spent for retraining or relocation. The only figures available come from the states where local unemployment offices seldom break down the expenditures into categories.

However, the dominant expenditure is undoubtedly the simple payment of the trade readjustment allowance. The best unofficial estimates available suggest that less than 10 percent of worker benefit disbursements go for retraining or relocation. In effect, the benefits actually received by workers are limited at present to a compensatory payment for a job loss suffered many months in the past. Priority should be given to reordering this current system to emphasize active job placement, retraining and relocation programs which seem to offer the best prospects for the worker.[11]

Structure

The greatest deficiency of the current trade adjustment assistance program is structural. Clearly, improvements in the program's administrative procedure, its benefits and the delivery system, will be important. However, unless structural approach changes are effected, particularly regarding the objectives of adjustment assistance, these other improvements will be ineffectual.

New approaches to adjustment assistance will require an emphasis on adjustment and enlightened self-help, rather than compensation. The current program's slant toward compensation is historically understandable recognizing the political focus at work during the 1962 trade bill struggle. However, the nation's present stake in international economic competitiveness, improved employment and overall national productivity requires a response that works.

Admittedly this provides a difficult course of action, recognizing that a relief check is more visible and politically saleable than a worker training program or an early warning assistance plan to firms designed to facilitate production shifts. However, when placed in the context of short term versus longer term, it is easier to see which approach has the best chance to save jobs, produce higher skilled workers and more yield on investment. Early forecasting of problem areas — utilizing better assembled, computerized government data — coupled with an industry-wide action approach discussed later,[12] could permit a more effective adjustment process, minimizing the need for individual adjustment cases (and indeed, dislocations themselves) at later stages. Similarly, greater government efforts to encourage industrial research and development on a broad basis could facilitate smoother adjustments and strengthen the international competitiveness of U.S. industry. By focusing action on early industrial adjustment

[10]See p. 32 for discussion of relevant industrial approach.

[11]See p. 22 for details and recommendation.

[12]See p. 32 for discussion on relevant industrial approach.

through productivity stimulation, the pressure for compensation programs will be decreased. Given an opportunity for early adjustment in the international economic marketplace, U.S. industry can become more competitive. This will result in greater job retention for workers (rather than compensation for job loss) and the dismantling of government programs which mix in a private industry's competitive structure.

Previously Suggested Changes

A general overview/evaluation of the trade adjustment assistance program, its historical evaluation and present problems, would be incomplete without some indication of the proposed changes various groups have recommended over the last several years. The trade adjustment assistance issue has moved steadily toward the center stage on U.S. trade policy questions. As mentioned in the historical section of this chapter, the program has become more noticeable since 1969 as a sort of barometer reviewing the increased sensitivity to import penetration. Paradoxically, this has occurred while the original coalition of business and labor, which made adjustment assistance possible in 1962, has disintegrated. Big labor now rejects the freer trade position in favor of new trade restrictions and bitterly derides adjustment assistance. On the other side, U.S. industry has become greatly internationalized in the last decade. This is particularly illustrated with the establishment of manufacturing facilities overseas. While these investments have yielded considerable employment and financial benefits, both to the United States and to the host countries receiving the investment, this trend toward "corporate multinationalism" has shifted some corporate interests. Companies' principles remain the same, but they are relatively less concerned about traditional international trade balances, exports and imports than they used to be.

In this context, the present interest in improving adjustment assistance may seem surprising. However, both labor and management recognize the formidable challenges inherent in the growing economic interrelationships and interdependence among nations which characterize our global marketplace. Although responses to these challenges may be radically divergent and distressing, the opportunity for compromise still remains. Based on a common recognition that international competition will place a premium on those who can adjust rapidly, it is likely that the "middle ground" — if indeed a middle ground exists in the present U.S. controversy on international economic policy — will be solidly based on a more responsive adjustment assistance concept.

Concern over the trade adjustment assistance question has led to a number of proposals in recent years. Unfortunately, most of these recommendations, either in legislative or report analysis form, have leaned toward simplistic expansion of program benefits and relaxed eligibility criteria. This approach probably began with the Roth Report, *Future United States Foreign Trade Policy* (1969), submitted to President Johnson by Ambassador William M. Roth (Special Representative for Trade Negotiations).[13] This report went beyond criteria liberalization and added recommendations such as "community assistance" (import-impacted communities could petition as groups for assistance in a manner resembling firm and worker group procedures). A year later adjustment assistance changes appeared as a part of the Trade Act of 1970 (H.R. 18970) proposed by House Ways and Means Chairman Wilbur D. Mills. The main feature of this legislative package was a provision for broad quota relief for import-impacted industries. However, the Act also contained five provisions pertaining to adjustment assistance that:

1. Abolished the causal link between trade concessions and increased imports.
2. Modified the second causal link between increased imports and import injury from "major cause" (more than all other factors combined) to "contribute substantially" (one of several factors).
3. Increased worker benefits.
4. Speeded up petition processing. The Tariff Commission limited to an investigatory role, submitting a report to the President within sixty days.
5. A restriction would be placed upon Presidential discretion to use adjustment assistance as an alternative to tariff adjustment action.

Interest in adjustment assistance intensified after the Mills Bill died in the closing flurry of the Ninety-first Congress. The Commission on International Trade and Investment, appointed by President Nixon and chaired by Albert L. Williams of IBM, emphasized the subject in its lengthy study.[14] Recommendations contained in the Williams' Commission Report stressed expansion of the program with specific emphasis on workers' benefits (i.e., preservation of pension and welfare rights during job transfers, subsidized early retirement, and a system to guarantee family health care for eligible workers). Unquestionably, the Williams Commission Study, the Mills Bill hearings, and the Roth Report stimulated renewed attention on adjustment assistance. However, all three contributed to an implicit acceptance and legitimation of the basic program as structured in 1962. For example, the concept of community adjustment assistance developed as an offshoot from the original program structure and

[13]See p. 14 for summary of general recommendations of Roth Report.

[14]This Commission was appointed in May 1970, and submitted its report in August 1971. See p. 14 for a general summary of the recommendations.

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became commonly accepted as a given objective.[15] Similarly, the usual question now asked about the trade readjustment allowance (TRA) is "How much should it be increased?" (as a percentage of the worker's previous average wage) — not "Should there be such a separate payment?" Whether or not the authors of the reports and the legislators assumed from the start that there should be a trade adjustment assistance program, their recommendations have greatly influenced most proposals made on the issue since. In effect, the program has too often been cast in cement — its existence an unalterable and justified fact.

A basic premise of this NAM study is that the adjustment assistance program requires a complete reexamination. We believe that practical directions to achieve proper goals cannot be effectively charted until the program's basic presuppositions have been reexamined and either accepted or rejected. This type of analysis becomes particularly important considering the increasing legislative interest in "improving" the original program.

Recent Legislative Interest In Adjustment Assistance

One of the most useful congressional inquiries on trade adjustment assistance in this context of U.S. foreign economic policy took place before the House Foreign Affairs Committee — Subcommittee on Foreign Economic Policy, chaired by Representative John C. Culver (D.-Iowa) in April and May 1972. Seeking to assess the program's potential for achieving its objectives, the subcommittee sought representative testimony from a broad spectrum of the business, labor and academic communities as well as government. The subcommittee had no legislative prerogative in the area (retained by Ways and Means Committee) but the hearings were exploratory in nature and proved useful in an educational sense. For the first time in hearings, adjustment assistance was the primary focus and the issue's linkage features to other international economic and domestic problems gained some recognition.

The Culver hearings have scored some congressional impact, probably traceable to the looming threat of Hartke-Burke legislation and the search by concerned legislators for a viable alternative. Several bills featuring adjustment assistance were subsequently introduced in both houses. Unfortunately, the hearing's positive exposure value may have been offset by new confusions which it unintentionally fostered. Testifying before the subcommittee, representatives of organized labor skirted the issue of adjustment assistance, concentrating their attack on the foreign trade and investment operations of major U.S. multinational corporations and supporting Hartke-Burke proposals. The reaction was almost predictable; adjustment assistance proposals became entwined with international investment as well as trade dislocations and were acclaimed as "an alternative to Hartke-Burke type solutions."

In the broadest sense adjustment assistance represents positive problem-solving — if administered on a cost-effective basis. In this regard the program sharply contrasts to the "solutions" supported by organized labor. Similarly, trade adjustment assistance is the lynchpin of a number of related international economic issues with distinct overlap in areas addressed by the Hartke-Burke proposals. However, adjustment assistance cannot be regarded as a true alternative to Hartke-Burke proposals in the sense that if fully and successfully implemented, the former would face all the issues raised by the latter. Hartke-Burke provisions on foreign direct investment, taxation of foreign source income, technology transfer, border assembly operations and others go well beyond the immediate scope of adjustment assistance. Furthermore, underlying Hartke-Burke measures remains a strong political objective aiming at greater labor leverage on international corporations which effective adjustment assistance would hardly enhance.[16]

Thus, while adjustment assistance clearly sets a different direction compared to Hartke-Burke, it is imprecise to project adjustment improvements as an "alternative." In fact, it is likely that the injection of international investment questions into the issue of adjustment assistance will jeopardize the program's chances for improvement in the area of its primary focus — relieving international trade dislocations.

As forces mobilize for the next major legislative confrontation on international economic issues, there is a pressing need for clarification on trade adjustment assistance. Unfortunately, this has not been accomplished.[17] Having outlined the program's historical evolution, procedure problems and proposed changes, the remainder of this report will attempt to offer a positive approach.

[15] It is important here to differentiate between the laudable goal of bringing greater community and regional efforts together to overcome economic dislocation and effect a successful adjustment, and the imprecise methods prescribed in various approaches toward community adjustment assistance tied to a trade adjustment assistance program. See the relevant issue reference section for a full discussion of the issue.

[16] See issue reference section "Position of Organized Labor," for more detail on unions' opposition to trade adjustment assistance.

[17] The Administration's Council on International Economic Policy tackled the problem in 1971 in a special inter-agency task force chaired by Undersecretary of Labor Laurence H. Silberman. However, this group's internal report became sidetracked by more pressing priorities. On the private side a study by the National Planning Association in 1971 also placed some emphasis on adjustment assistance. However, the report, *U.S. Foreign Economic Policy for the 1970's*, did not have widespread impact.

ROTH REPORT
Future United States Foreign Trade Policy
Summary of General Recommendations*

1. Eliminate the link between increased imports and tariff concessions on worker and firm petitions.
2. Require increased imports to be a substantial rather than a major cause of injury to workers and firms.
3. Create an interagency board to replace the Tariff Commission as the determining body for worker petitions.
4. Allow individual establishments to apply separately for adjustment assistance.
5. Implement early-warning provisions of the Manpower Development Act of 1962 with emphasis on potential import-impact.
6. Reexamine manpower policies with both short-run adjustment and long-run flexibility goals.
7. Examine and coordinate the need for assistance to injured communities.
8. Review the impact of exports and imports on labor with the goal of making U.S. exports more competitive and shifting resources into more efficient industries.

WILLIAMS COMMISSION REPORT
Commission on International Trade and Investment Policy
Summary of General Recommendations*

1. Construction of an industrial and manpower policy to anticipate and assist adjustments to economic change caused by international trade and investment.
2. Eliminate the link between increased imports and trade concessions; reduce the link between increased imports and injury to require a showing of only substantial cause (as opposed to major cause).
3. Creation of an Executive Agency to replace the Tariff Commission as the determining body for eligibility decisions on worker and firm petitions; attention given to establishing time limits for the determination procedure.
4. Increase workers' benefits: speed delivery, provide incentives to train or relocate, extend the TRA to cover training periods, allow all types of educational training, relax eligibility requirements, provide family health coverage, subsidize early retirement, protect pension-health-welfare rights of workers changing jobs.
5. Firm benefits normally restricted to small businesses; centralized operations should provide more attractive financial and tax benefits plus interim financing.
6. Antitrust legislation altered or administered so as to permit mergers of firms experiencing serious problems due to import competition.
7. Creation of a new government agency — The Office of Trade Adjustment Assistance — to administer the program, with additional duties involving an early-warning system, community assistance, and joint proposal submissions.
8. Negotiation of orderly marketing agreements under specified conditions and restrictions.

*Includes only recommendations directly pertaining to the trade adjustment assistance program.

SECTION 3

Issue Reference Section

Introduction

Many of the composite issues woven into the overall concept of trade adjustment merit special attention, either (1) due to their importance to the central concept or (2) due to their interlocking relationship with other current programs. In some ways the presence of this section testifies to the important linkage features of trade adjustment assistance between domestic and international economic issues.

The purpose of this section is to (1) explain and analyze these key issues from an evaluative, cost-effective standpoint, (2) develop the specific summary findings and recommendations of this study, and (3) provide a handy reference guide to key issues likely to surface in proposed legislation on trade adjustment assistance.

Conceptual Rationale for Trade Adjustment Assistance

The logical rationale and basic presuppositions behind the trade adjustment assistance program constitute an important aspect of this study. Much of this program foundation is often taken for granted or lost amid the turmoil of interest surrounding the program and international economic policy in general. Yet, important questions remain to be reconsidered — in the context of new realities — by any serious analysis of the subject. Such questions as the following were considered by the NAM internal working group and a task force of outside experts in the preparation of this report: Is there a need for the trade adjustment assistance program? What is the role of adjustment assistance in the context of overall foreign economic policy? How can government assist workers and firms which suffer economic dislocations due to alleged import competition while denying similar assistance for injuries brought on by other economic vagaries? Does adjustment assistance imply that there is something wrong with the operation of the free market? Can dislocations caused by import competition be distinguished amid other contributing economic factors? The conclusions, which constitute the rationale for NAM's qualified acceptance of the trade adjustment assistance concept, are set out in this section.

*See previous NAM studies on the potential costs of this legislation to the American economy. See also the section on "cost-benefit analysis," in this report.

Recognizing that most adjustment within the American economy is made without need for direct government involvement or assistance, this report initially challenged the idea of trade adjustment assistance on the grounds that:

1. the program was not needed and could not be justified on an economic basis.
2. the program would encourage unwarranted government intervention and could not be applied equitably.

However, this unfavorable reaction was countered by the following realities:

1. The precipitous decline in America's trade position (1972 trade deficit was approximately $6.4 billion) and surging imports required action on a number of policy fronts, including rigorous application of a balanced, fair trade policy, and more effective efforts to stimulate U.S. productivity and competitiveness, where a premium would be placed on adjustment.
2. Recognition that a continuing competitive stance in international trade, even with equitable negotiations to achieve trade expansion, may entail additional market dislocations.
3. Dangers inherent in the "no policy" alternative of noncompetition and its potential costs embodied in trade restrictions and reduced standard of living (as proposed in the Hartke-Burke legislation).*

The study group noted that the incidence of a unique type of governmental influence or participation in the conditions governing international trade might provide an exception to strict reliance on market forces, justifying special governmental measures to facilitate the domestic adjustment process induced by international competition. Clearly, the competitive relationships between foreign and domestic goods are heavily affected, and sometimes severely distorted, by differences or shifts in U.S. or foreign government domestic policies and regulations (e.g., regional development policies, production process standards, fiscal and monetary measures). Similarly, the large degree of government involvement in international trade through export subsidies, tax rebates, exchange rate actions, tariff and non-tariff barriers, creates numerous additional distortions. For an economy such as the United States, characterized by its commitment to balancing the forces of free market adjustment, competition in the international marketplace presents pronounced difficulties. These difficulties have been magnified by the increasing degree of global economic interdependence. In response to these pressures, special adjustment

measures may sometimes be justified to facilitate economic change insofar as government policies alter the international competitive equation. Thus, adjustment assistance does not imply that there is anything wrong with the concept of the free market *per se*. Rather it accepts the reality of international competition which dictates that free market directives, which we support, probably will not operate everywhere.

In this context, a basic tenet of U.S. policy should encourage the development of private enterprise and free market systems around the world. However, components of the market mechanism vary from country to country, and while we believe that free private competition is the best economic system, the United States must respect the right of other peoples to develop standards and principles upon which to base their own system.

The United States Government should negotiate trade agreements which are based on free competitive market determinations to the greatest extent possible. At the same time we must recognize that the differences in national systems may preclude total achievement of this objective and that the resulting agreements could adversely affect sectors in the market systems in the involved nations. When such dislocations occur in the United States due to conscious public policy, the government incurs the responsibility to minimize any resulting market distortions and facilitate the early return of free market operations. Thus, when governments move to enhance economic efficiency by negotiating the lowering of trade barriers, new competitive pressures are unleashed with attendant distortions. In some cases the appropriate response to this new competition involves investing to improve efficiency in the areas where the increased pressures are felt. At other times, a shift of resources to more rewarding employment is required. But Government action would be best applied in assisting the private sector to respond to the necessary changes. This assistance should be directed toward increasing the productivity and competitiveness of U.S. industry.

In conclusion, the logic for trade adjustment assistance rests in the realities of international competition and the obligation of government to ease economic dislocation and facilitate adjustment brought on by public policy in response to these international pressures. Admittedly, this process will have imperfections due to the nature of interrelated economic problems. For example, there may be some distortions caused by the inability to determine precisely the relationship between import penetration and other factors causing economic dislocation. However, it is equally clear that some assessments and correlations can be made with available statistics regarding effects of import competition. Recognizing the severity of import competition in certain sectors, the problem of precise measurement becomes absurd if permitted to stymie needed adjustment programs. Clearly, safeguards are needed to prevent the program from unwarranted expansion. However, this might be accomplished best through a re-ordering of program priorities away from present compensation to *adjustment* through early remedial action which would itself minimize or offset the pressure for compensatory action.

The key to any workable program in this area is a cost-effective approach emphasizing early industrial adjustment with a minimum of government involvement.

Scope of an Adjustment Program

Many of the proposals being advanced for improved adjustment assistance programs recommend expansion into much larger, more general adjustment approaches. For example: (1) a government program of export-loss assistance to aid firms suffering dislocations in the form of reduced export sales, (2) assistance to workers, firms and communities experiencing economic dislocation resulting from any shift in government policy, (3) governmental review and geographical direction of business investment decisions, both foreign and domestic, (4) development of a broad national manpower and industrial policy on the federal level. Consideration of these and other ideas aimed at program expansion raises an issue of primary importance to this study — what should be the scope of a trade adjustment assistance program?

This report finds no justification for a major program expansion on trade adjustment assistance. Indeed, rather than an expansion of the present system, it would seem that a reordered consolidation of the present effort is warranted. The theoretical and political attractiveness of the broad, "macro" approach should not be allowed to blur the (1) impracticalities such a program could bring on in view of national budgetary considerations, and (2) new distortions it would likely create within numerous "micro" economic relationships on the local level.

Recognizing the relatively small role foreign trade plays in total United States' GNP (under 4%), it is important to remember that import dislocations presently account for only a fraction of the overall economic adjustment problems on the national scale. Of course, the severity of import dislocations may vary widely on a local level and rapidly increasing imports may be a relatively greater factor in economic dislocations than in previous years.

However, we believe that wholesale expansion of the current trade adjustment assistance program would amount to a reckless expenditure of funds. Present administrative and operational problems would certainly become more aggravated. Expanded program responsibilities and scope could also open the door to greater federal market intervention without any real economic gains.

We believe that a program targetted to meet the specific objectives of the current trade adjustment assistance program is workable and could provide valuable experience applicable to programs in other areas. In this context trade adjustment assistance might be structured as a supplemental program or a catalyst designed to bolster other federal adjustment programs which themselves might be better tuned to recognize international trade competition. Clearly a longer range objective would be the closer coordination of these related adjustment programs. However, if trade adjustment assistance is prematurely lumped into a broad approach to all adjustment problems — irregardless of their cause — chances for program success in meeting the legitimate needs of those facing import injuries will be substantially reduced. Linking other objectives to the trade adjustment issue can only result in new and unnecessary complications, further delays and an expanded government role where objectives become confused and responsibilities cannot be pinpointed.

Present Program Administration

Much criticism surrounding the present trade adjustment assistance program centers on its administrative and operational aspects. While much of the criticism may be warranted, the solutions being suggested are often grossly disproportionate to the problem and unjustified in a cost-effective approach. Preoccupation with past errors can distort the actual requirement of an effective adjustment system and trigger an overreaction characterized by excessive and even harmful alterations.

This section is designed to clarify the issues surrounding the present program's determination criteria, investigation procedures and the implementation process, as well as the agency structure established to carry it out. Emphasis centers on recommendations needed to formulate an effective operational adjustment mechanism.

Determination Criteria

Determination criteria, as noted earlier in the program evaluation section, will require revision and redirection if trade adjustment assistance is to operate effectively. The present rigidity characterizing the criteria is often blamed for the relatively few certified cases, particularly during the program's dormant period from 1962 to 1969. It has also contributed to time-consuming investigation delays — which postpone assistance and positive steps toward adjustment — often forcing the dislocated applicant to absorb irreparable damage. However, careful consideration of the criteria issue and recommended revisions must include the recognition that certain changes would open "Pandora's Box" on the side of unwarranted relaxation.

The absence of affirmative Tariff Commission rulings on adjustment assistance until 1969 is often cited as proof of the program criteria's excessive restrictiveness and a *prima facie* case for expanding the permissable coverage. However, the intent of the original law and its application during the sixties is subject to varying interpretations. The most prevalent view regards the adjustment assistance provisions of Title III as a mechanism designed to mitigate any import injury arising from the tariff-cutting authority granted to the President in the overall Trade Expansion Act. This authority was exercised in the Kennedy Round of trade negotiations which concluded with signed agreements in 1967. In many cases the agreements called for gradual tariff cuts staged over a five year period. This staging postponed the full impact of tariff concessions on the domestic economy. Consequently, most adjustment assistance applicants during the period prior to the Kennedy Round's conclusion were forced to cite much earlier tariff concessions — in some cases going back all the way to the nineteen thirties — as the cause of their present injury. Setting aside judgments on the validity of these petitions, it is clear that a heavy burden of proof rested on the applicants. Later, after the conclusion of the Kennedy Round, this burden of proof was made considerably lighter as more recent tariff concessions could be cited. As drafted, the law seemed to look toward future negotiations rather than backward to authorize compensation for past injuries.

With this program background, the NAM study focused heavily on the trade adjustment assistance program since the end of the Kennedy Round, and came to the following conclusions:

1. The determination criteria *are* in need of revision--but not in a drastic manner.

2. Revisions of criteria where necessary should be linked to early warning, stressing self-adjustment through private market forces.

3. No basic change is required in the eligibility criteria requiring increasing imports of like or directly competitive products. [indeed, without the "similar products" definition, no criteria would provide workable evidence of import increases which is a fundamental requirement for demonstrating a changed market picture.] *We would recommend that both the actual number of imported units and the ratio of imports to domestic consumption be considered in order to achieve a more complete picture of any reported import penetration.*

4. *We recommend that the requirement that increased imports be linked to a specific trade agreement (i.e. in major part the result of such concessions) be abolished.* Suggestions have been made that the presence of increasing imports could serve as a presumption that the cause was a trade concession — the type of system used in the adjustment program established in the Automotive Products Trade Act of 1965 (designed to help implement the United States-Canada Automobile Agreement). However, this type of program justification could not be applied to a larger area of products. Contemporary government policies are far too diverse and complex to lend themselves to easy categorization in written agree-

ments. The acknowledged existence of numerous non-tariff distortions, including export subsidies and industrial promotion programs, prohibits easy identification and measurement of the extent of government involvement in a changing trade picture. Therefore, the simple elimination of the required linkage would be both justified and much easier than rephrasing a legislated presumption of cause.

5. While present measurements of import injury are adequate, the amount of proof required to substantiate injury is excessive. Consistant with our emphasis on early adjustment, *we recommend that increased recognition be given to threat of injury rather than requiring evidence of the accomplished fact,* (See issue reference section on Early Warning System.)

6. With respect to the link between increased imports and the applicant's injury we recommend the development of a two-tier system designed to increase the overall program effectiveness while avoiding the vagaries of exploding costs and counter-productive government tampering in the marketplace. The first tier would provide a relaxed requirement from the current criteria: that increased imports are the *major* factor (i.e. more than all other factors combined) in causing injury to the applicant, to *primary factor* (more than any other single factor). This relaxation would apply only to industry petitions. The second tier comprised of individual firm applicants and worker group petitions, which deal with the efficiency and competitive position of the individual enterprise, should maintain the presently defined level of criteria restrictiveness.

Basics of a Two-Tier Adjustment Assistance Approach

The fundamental concept behind the two-tier system is that (1) government should do more earlier on an industrial basis to help industries facing projected import competition *help themselves* to become more productive and competitive and (2) in specific cases where government actions result in definite import-injury, government should more selectively help workers and firms shift their skills and resources into more efficient production. As discussed in a later section on foreign programs, this idea has certain similarities to the industrial approach used in nearly every other industrialized nation — with the major difference that they usually do not have a "second tier" to assist specific enterprises separate from the industrial restructuring effort. Drawing upon this type of approach, the United States' "two-tier" system to adjustment would actually embody three major stages as outlined on the following page. The first action would involve an early warning system (perhaps coordinated through the new Bureau of Competitive Assessment in the Department of Commerce). Through this system government would provide pertinent data to private industry with emphasis on pinpointing emerging import challenges. Business would assume responsibility for acting upon this information, utilizing its own resources to improve productivity and competitive standing — and thus effectively meet the foreign challenge. Should the warning system fail or should business lack sufficient time or resources to complete its own adjustment efforts prior to the beginning impact of the import penetration, the second stage unfolds. Here the affected *industries* could petition for governmental assistance to help them complete the adjustment process they presumably began in the initial stage. Such a petition would be considered under the relaxed determination criteria — imports shown as a *primary* factor in causing injury would qualify the petitioning industry for certain types of limited assistance. As explained in later sections, this industry-wide approach might lend itself well to assistance in research and development, antitrust, accelerated depreciation, longer tax loss carrybacks, and other areas.

The third stage, involving selective government assistance to particular firms, becomes the adjustment assistance of "last resort". Under the recommended "two-tier" approach, this program assistance would be available only when present tight criteria were met. Firms would have to prove that increased imports were the *major* cause of injury (more than all other factors combined). In this manner the program would avoid creating new distortions. The potential adverse impact of such individual assistance — possibly aiding or "subsidizing" inefficiency to the disadvantage of efficient domestic competition — is often overlooked in the rush to aid those injured by import penetration. Thus, an analysis focusing only on the needs of applicant firms, with suggested means to assist them, ignores the larger issue: government assistance to any firm in an industry necessarily concerns all firms actively or potentially in competition with the assisted enterprise. Therefore, government assistance to individual enterprises should take place only under limited, carefully controlled conditions where imports have been the major cause of injury.

Investigation Procedure

Closely related to the determination criteria issue is the actual method of investigation. The complicated, often overlapping maze which characterizes the present program method lacks clear directives and definite timetables with the resultant delays and their effects on worker and firm applicants as outlined earlier in the report. The purpose of this section is to recommend specific structural and operational improvements for investigation procedures, including a realistic time schedule.

Perhaps the clearest method of illustrating the *suggested* operational pattern is with the flow chart shown below which traces a petition's course with specific time limits for each stage. Comparison should be made between this suggested procedure and the current maze which is outlined on p. 9.

In the past considerable dissatisfaction has been voiced regarding the unpredictable nature of the Tariff Commission's role and method of making eligibility determinations on petitions. Rulings have

Chart 2
TWO-TIER ADJUSTMENT APPROACH

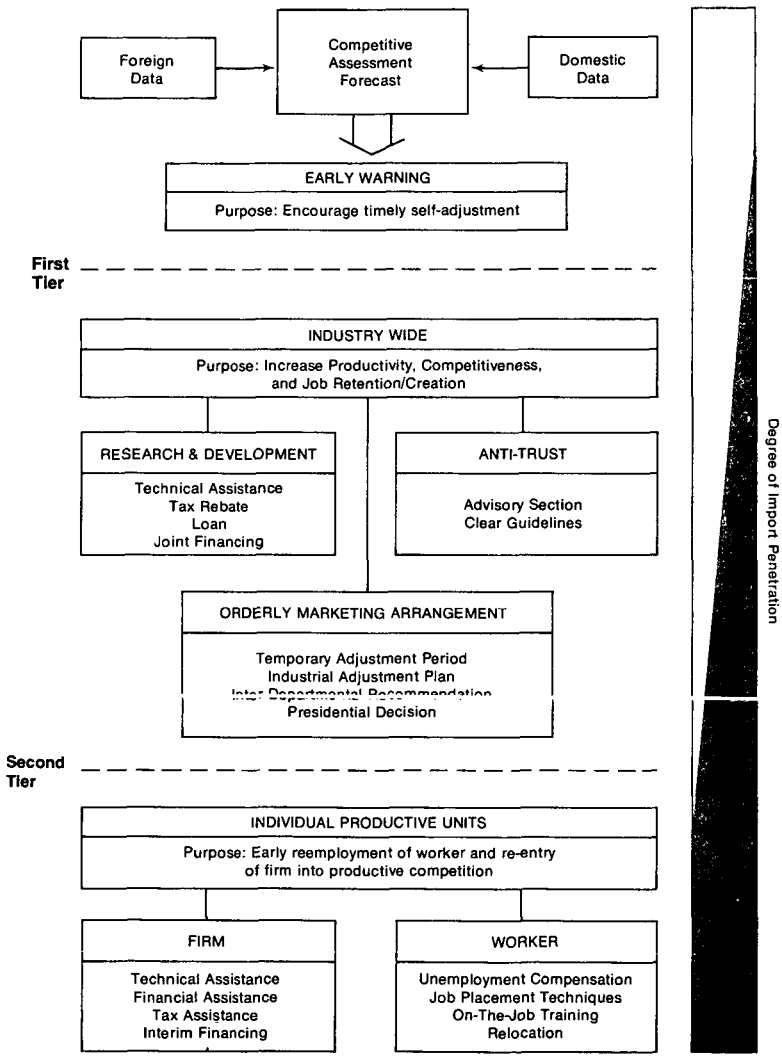
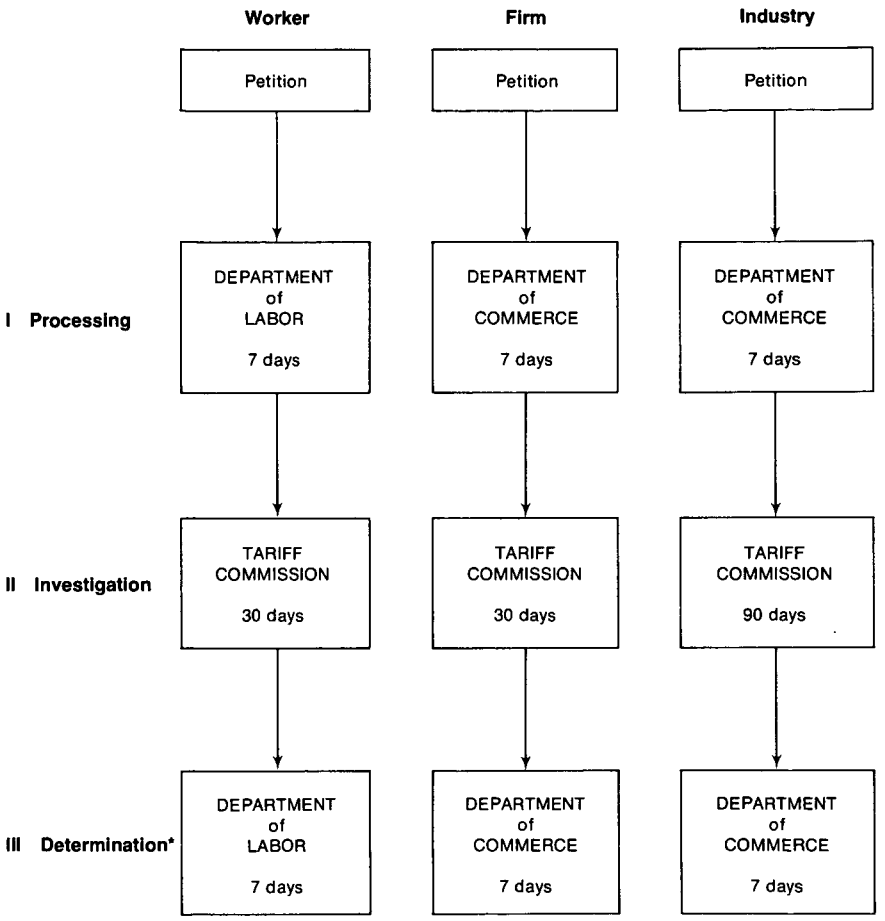


Chart 3
ELIGIBILITY FLOW CHART
REVISED PROGRAM



*An additional 15 days can be authorized if additional information is necessary.

sometimes depended upon the composition of the Commission or the attendees at meetings — rather than on an established procedural review of the case facts. This report's findings support those persons urging that the Commission function only as an investigative body, providing the information needed for a determination by the proper executive agencies.

As more practical experience is gained on investigating adjustment assistance petitions, a shorter timetable for investigation seems attainable. Some informed estimates hold that petition processing, investigation and determination issuance could all be compressed into a thirty-day time fram if handled by an executive agency.[1] Our findings indicate that a thirty-day time period for the investigation phase would be a sufficient improvement, with a ninety--day period allotted for an industry petition investigation. These recommendations are made with full recognition of the need to balance processing speed day period allotted for an industry petition investigation time to determine the facts in each applicant's case.

Determination Process

Stage III in the flow chart comprises the determination step which is limited to seven days for review and decision, with an allowance for a fifteen-day extension to obtain supplementary information if necessary. There is currently no statutory limitation on the determination period for an applicant's eligibility certification for trade adjustment assistance. Determination decisions should be made by the executive agencies most knowledgeable about the petitioner's problems — namely, the Labor Department for worker group applicants and the Commerce Department for firm and industry petitions. All determinations should be made in strict accordance with statutory criteria. The results and reasons for each decision should be published immediately following the action, subject only to the need to maintain business confidentiality where information may affect a firm's competitive position. Such a public record of the decisions and the rationale behind them will provide a better index for allowing potential applicants to measure their own eligibility.

These suggested procedures for the operation of a trade adjustment assistance program would offer a fairer, more effective system of processing petitions. The changes could easily build upon improvements already made in the relevant agencies and as such would add little to present costs. The proposed improvements would require legislated timetables; however, this should result at the very least, in a more directed, speedier program.

Agency Structure

In the context of government reorganization and numerous reports calling for a consolidation of decision-making particularly on the international economic policy front, it has become almost fashionable to recommend centralization for trade adjustment assistance. For example, the Williams Commission proposed the creation of a new government department, perhaps run by an inter-agency board, which would carry a case from the first petitioning stage through the final administration of benefits. Presumably this new office would clarify the lines of operation, speed processing and increase the technical competency of the administrators.

The issue involved: whether a complex, multifaceted set of overlapping programs, requiring many different kinds of expertise and partially administered by several agencies, could be more effectively run by a centralized agency. There is little argument on the need to effect a closer coordination of overall U.S. foreign economic policy,[2] and some argue that adjustment assistance, as a part of overall foreign economic policy, should follow the trend toward closer coordination which now characterizes the high-level decision-making in the field. However, the specific questions which should be asked in the case of trade adjustment assistance are: (1) how much coordination is reasonably necessary, (2) how much centralization is needed to achieve it, and (3) are the real program problems going to be effectively addressed through reorganization or only delayed?

Admittedly, the idea of one administrative chief directing adjustment assistance programs has considerable appeal in the abstract. However, we believe that such a complete bureaucratic overhaul may: (1) not necessarily improve the program's practical application (2) not justify with requisite operating improvements the considerable costs involved in creating a new government agency, (3) breed new and potentially destructive confusion between the agencies which would necessarily continue to play a role in the adjustment process.

Most of the defects of the present system originate not in bureaucratic mismanagement or administrative procedure, but rather from an improperly formulated program which is concentrated on compensation rather than adjustment. There are two specific exceptions to this general conclusion: (1) The difficulty in using the Tariff Commission as a determining body when its role should be limited to investigation — as discussed in the previous section. (2) Start-up problems which occur during the initial phases of a new program due to inexperience. The first of these exceptions can be corrected by a minor change in responsibilities (as previously outlined) and the sec-

[1] See Williams Commission Report, Compendium of Papers, Volume I, p. 353.

[2] It has been estimated that over forty government agencies, bureaus and independent commissions actively engage in aspects of international economic policy.

ond is largely correcting itself through accumulated practical experience. In this context, it appears doubtful that creating a new, separate agency to handle this program would noticeably improve its efficiency.

Worker Benefits

One of the most sensitive issues in the trade adjustment assistance area relates to worker benefits. This is easily understandable. Under all the programs, statistics, and bureaucracy is the individual worker who is facing the trauma of job-loss and the unknowns of unemployment. Program performance on this level at the end of the pipe-line is essential in achieving a primary policy objective: the alleviation of individual and family economic discomfort due to actual or threatened job-loss and speedy reemployment into an equal or higher-skilled vocation.

Clearly this issue area has drawn considerable attention. Many of the Trade Expansion Act's Title III provisions — some designed as compromise features to attract labor support — lined up behind worker benefits. Today, with interest waxing anew in trade adjustment assistance, a similar tendency has surfaced — evidenced by the large number of recent proposals to alter the current program and expand various compensatory benefits for workers.

This issue reference section will concentrate on the worker benefit aspects of trade adjustment assistance, including the Trade Readjustment Allowance (TRA), relocation assistance, and retraining efforts. Other related areas such as job placement, health insurance, seniority rights and pension portability will also be considered, although in less depth. The purpose of the section aims at evaluating the major worker benefits presently available within the proper scope of federal involvement.

Trade Readjustment Allowance

The Trade Readjustment Allowance (TRA), representing over 90% of present trade adjustment assistance expenditures for workers, is the most visible part of the workers' benefits. Since the program's inception, the TRA payment has consistently drawn the greatest attention, whether in terms of original formulation, subsequent administration or recommended improvements. This heavy emphasis on the relative level of TRA payments has led to the neglect of other aspects of adjustment assistance which, if improved upon, might enhance the workers' chances to quickly regain satisfactory employment with good job retention.

Originally conceived as a temporary crutch to sustain an unemployed worker and his family while other programs placed him in a new job the TRA has become a welfare payment unsupported by effective job placement programs. A rearrangement of program priorities is required with emphasis on retraining, relocation, and other job placement techniques.

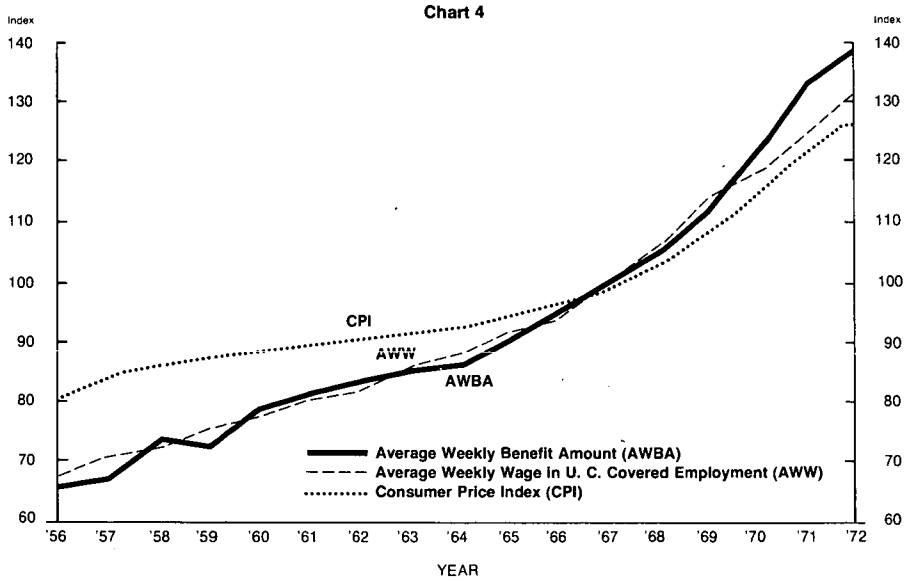
NAM report findings indicate that the most effective way to accomplish these objectives, as well as speeding the processing of maintenance payments, would be to eliminate a separate level of trade readjustment allowance payments and rely upon present mechanisms for state unemployment compensation. Such an approach would have numerous advantages, including substantial savings on time, administrative costs and avoidance of duplicated efforts. The average worker would experience less financial uncertainty and burdensome paper work. He would be eligible for the same maintenance allowance available to any temporarily unemployed person. Retaining the underlying philosophy of trade adjustment assistance — that the nation as a whole should share the burden of pursuing an international trade policy — the federal government would reimburse the state agencies for funds expended in providing the maintenance payments as is done under the present structure. However, there seems to be no valid reason why those persons displaced by imports need higher compensation payments than those dispensed to other unemployed persons suffering dislocations for different economic reasons.

When the trade adjustment assistance program was adopted in 1962, unemployment compensation benefits were felt to be too low and a higher benefit level for the federal program was more politically attractive to potential labor support. However, state unemployment compensation benefits have greatly increased since 1962, to the point where today they offer adequate support levels for any temporarily unemployed person. This trend is illustrated in the chart below showing the relative rise in average weekly benefit amounts under state unemployment compensation programs as compared to the consumer price index.

This trend can also be illustrated by comparing the maximum weekly benefit levels avilable in 1962 with present benefit levels. The average maximum weekly benefit[3] in all fifty states plus the District of Columbia was $42.70 in 1962. A decade later this figure stands at $72.78 — an increase of over 70%. However, the objection is still being raised that the benefit levels are too low (given increases in the cost of living index and general inflation) and that higher TRA allowances are needed.

Over the last decade the TRA has increased since it is computed as a percentage (65% of the worker's previous weekly wage or of the average national manufacturing wage, whichever is less). The maximum possible benefit under the TRA is presently $93.00 a week. Obviously, there is a difference between the current maximum TRA figure and the $72.78

[3]Includes dependent allowances where applicable.



Prepared by Employment Security Research & Education Division
UNEMPLOYMENT BENEFIT ADVISORS, INC.

national average for state unemployment compensation. However, this cursory comparison conceals more than it reveals.

One of the basic advantages of state unemployment compensation is that the levels are set by the state rather than the federal government and thus can better reflect the conditions prevalent in that particular area. Local costs of living, unemployment conditions and employment opportunities, the availability of other benefit programs, and other factors can be better recognized and weighed by state authorities in setting benefit levels than by an overall national figure. State levels in some states may also take into consideration the number of family dependents.

Taking account of these differences in state laws which reflect local conditions, a careful examination reveals little actual difference between TRA and state unemployment compensation levels in areas where eligible dislocation occurs. As of July 7, 1972, some 24,165 workers were included in groups certified eligible for TRA benefits covering twenty-four states. Under these state programs the average maximum available benefit was $76.96. In ten states which had more than a single worker group certified eligible for TRA, the figure jumps to $86.70 and then to $89.71 in the seven states which have more than two certified worker groups — only a shade below the $93.00 available under TRA. In fact, in three of the states with two or more worker groups and a fourth state where only one worker group has been certified, dislocated workers can actually draw *more* under the state programs than under the TRA. Thus, almost half of impacted worker groups are located in states whose laws already provide as high or higher benefit levels than under the TRA.

As the chart on the next page illustrates, there is little measurable difference between support levels available through state unemployment compensation programs and that offered through trade adjustment assistance in the states where increased imports have contributed to unemployment. In effect, the states' programs already reflect the need. Rather than attempt a federal approach to this problem — which can hardly respond to many local and regional differences — this report recommends greater emphasis on those state programs which are already intact.

There are powerful common sense advantages which this approach can provide. The needs of

individual workers and the prevailing economic conditions in that particular region would be properly recognized. Reduced administrative costs, simplified paper work and speeded-up application processing would result in faster assistance delivery. Relaxed eligibility criteria for the individual worker could also be helpful.

Table 3

CURRENT RELEVANT COVERAGE OF UNEMPLOYMENT INSURANCE BENEFITS

State	Number of Certified Groups*	Maximum Weekly Benefit Average (MBA)**	Maximum Duration** (Weeks)
Alabama	1	$60	26
California	2	$75	26
Connecticut	2	$129	26
Florida	1	$64	26
Georgia	2	$55	26
Illinois	7	$97	26
Indiana	4	$65	26
Iowa	1	$68	26
Louisiana	1	$60	28
Maine	1	$63	26
Maryland	1	$78	26
Massachusetts	14	$111	30
Michigan	3	$92	26
New Hampshire	4	$75	26
New Jersey	1	$76	26
New York	4	$75	26
North Carolina	1	$56	26
Ohio	1	$87	26
Oklahoma	1	$60	26
Pennsylvania	5	$93	30
Rhode Island	1	$99	26
Tennessee	1	$57	26
Vermont	1	$77	26
West Virginia	1	$75	26

*As of July 7, 1972
**As of July 2, 1972

Source: U.S. Department of Labor

At present there is a more restrictive eligibility criteria for TRA applicants due to the original higher benefit levels, than for persons applying for regular unemployment compensation. This separate criteria necessitates additional investigation by local unemployment office personnel to determine if the stricter eligibility criteria are satisfied. Such a deviation from established procedures involves a training process for office investigators to acquaint them with the new program, extra research into the applicant's background, and the juggling of figures to handle the TRA payments different from the regular assistance.

It was estimated by the head of one state unemployment office who handles several hundred such applications that it takes 1½ extra man-hours *per individual applicant* to handle the separate programs. There is really little need for such additional burdens on local personnel, or the extra administrative expenditures involved in the process. If the TRA were abolished and state criteria and procedures adopted, only one additional question would have to be asked (to establish that the worker was laid off due to imports[4]) and one separate account kept in the local office (to secure later reimbursement from federal funds). Different payment level computations, determination criteria, and extended investigation would be eliminated.

The duration of eligibility under TRA and state programs also deserves consideration. The base time period under the present trade adjustment assistance program is fifty-two weeks[5] while state programs range from twenty-six to thirty-six weeks. Clearly the federal program offers a longer period of potential eligibility. However, the average TRA recipient is presently only drawing benefits for twenty-four weeks, less than the eligibility period in every state.[6] Furthermore, in areas with acute economic dislocation the federal-state extended benefits program has operated to provide up to an additional thirteen weeks of benefits under the regular unemployment compensation system.

With simplified application and administrative procedures shifting the priority to job placement programs, a shorter eligibility period should be sufficient. The suggested timetables in this report for the group petitioning process involve no more than thirteen weeks to reach the stage where an individual worker has been certified eligible and can enter a supplemented job placement program. Of course, he would be eligible to draw regular unemployment compensation maintenance payments from the time of his unemployment, with certification requiring only that his record be switched to a different section in the state office for purposes of later federal reimbursement. For its part the federal government could require copies of completed records to assure delivery and double check on the program's longer run efficiency. Such material could also be utilized for special studies on import-related unemployment.

[4]Necessary to qualify for federal job placement programs.

[5]An additional 13 weeks is added for older workers and 26 extra weeks are allowed for completion of training programs.

[6]See section on Cost-Benefit Analysis, program expansion proposals, for a corollary explanation of this point.

The operation of the suggested program would emphasize closer coordination with federal job placement programs. Anyone certified eligible could draw benefits while seeking to rejoin the work force until the maximum period allowed by each state. Federal job placement programs would bolster regular efforts to regain employment for at least the last three months of the benefit period. Since state law usually best reflects the local conditions for reemployment and the added assistance of federal programs is available during much of this period, any unemployment extending beyond the allowable state time frame would not be eligible for temporary income maintenance. At this point the trade adjustment assistance approach might defer to some other mechanism better designed to handle problems of long-term unemployment.

Most recent proposals regarding trade adjustment assistance call for substantial increases in the TRA allowance, from 65% up to even 100% of the worker's previous wage. While such an alternative has obvious appeal to the short-sighted, it should be staunchly resisted by management and labor alike. Unemployed workers need jobs and new skills, not handouts. Larger TRA payments would only exacerbate the current program's problem of emphasizing compensation rather than adjustment; the laudable objective of timely readjustment for displaced workers into other jobs would still continue to be sacrificed for the short-term visibility of a relief check.

Retraining

The issue of worker retraining provisions in trade adjustment assistance has been characterized by unfulfilled promises and frustrated expectations. A certified worker is to receive full access to all federal training, testing and counselling programs, including travel expenses, if necessary. However, few benefits have ever been realized from these legislated provisions.

This important facet of trade adjustment assistance had two strikes against it practically from the outset: First, it was untested and costly with no proven track record; and second, it was overshadowed by the comprehensive Manpower Development and Training Act which also became law in 1962. This Act created a number of federal programs designed to eradicate unemployment, which were also to be available to certified import-injured workers. Unfortunately while the goals of this massive program were laudable, it was not carefully or realistically planned and concentrated primarily upon various forms of initial training. Despite millions of dollars spent, the program has yielded few results.

It is not possible to analyze the multitude of problems surrounding the Manpower Development and Training Act, or even its retraining provisions, in the space of this report. However, we believe that a cost-effective, prototype retraining program—drawing strength and lessons from proven programs in the private sector—might be established in connection with adjustment assistance. Even if successful on a modest scale, this program could produce significant guidelines for improvement in broader program areas while facilitating a stronger United States trade policy through the shift of human resources into areas of greater productivity and competitive advantage.

A balanced evaluation of the retraining failure as it relates to trade adjustment assistance does not fault the original program conception, but rather its implementation. Again, this operational failure traces back to the delays which still characterize the program. The time lapse between the impact date of the workers' unemployment and the date of final certification under the program often extends beyond the benefit eligibility timetable (measured from the initial impact date of job loss). The resultant retroactive benefits allowance provides the certified worker with a large, lump-sum TRA payment, but allows him no current eligibility to receive retraining benefits.

An example of this ironic and all-too-common experience is the group of certified workers in Indiana. Nearly one thousand workers were declared eligible to receive trade adjustment assistance and over $3 million was paid out in TRA benefits. However, the impact date of their unemployment was in 1968, while certification was not finalized until 1970. Result: Many workers received the lump-sum TRA payment, but no one was ever offered a retraining opportunity emanating from the program.

Is such a failure to be blamed on the retraining concept? Probably not, for the concept has shown itself to be workable—given favorable circumstances and some retained eligibility by the affected workers. A classic example is a Rhode Island shoe factory which laid off several hundred workers, 287 of which entered into training programs made available by their certification. Latest available figures showed that two hundred and seven workers had completed their training course, with one hundred and seventy-two now reemployed as a direct result of the training (83% of the workers completing the course). Thirty-five workers from the original 287 were still enrolled.

Even in this case the delay factor probably denied some workers their full potential benefit. Indications as early as 1967 showed that the plant was ailing economically and the workers might be threatened with unemployment. An announcement was made by the management on August 18, 1969, that the plant was to be closed the following year, but it was not until February 19, 1970, that the workers' group filed a petition for trade adjustment assistance relief. Action on the petition was not completed until May 13, 1970. Prompt filing of petitions and more rapid investigation and determination procedures would

enable the dislocated workers to more fully realize the potential retraining benefits which should be available to them.

However, certain aspects of present retraining benefits do warrant a closer examination from the standpoint of cost-effectiveness. If retraining programs can offer potential benefits to displaced workers, when should they be undertaken and what types of programs will offer the maximum potential gain at the least governmental cost? The present emphasis in most governmental retraining efforts is directed toward initial training of the disadvantaged or the hard-core unemployed. Most programs center around financing institutional education or establishing job corps centers with some on-the-job training opportunities for former "unemployables". Some seventy-six job corps centers are either planned or in operation and will be able to handle around 25,000 enrollees in their programs. Vocational education efforts account for nearly $2.3 billion of federal, state, and local expenditures, but only about 20% of the participants are adults. The simple extension of these types of efforts as the primary solution for the import-impacted worker would be ineffectual, since it would fail to get at the root of their problems or utilize their full potential.

Most workers unemployed due to import dislocation have already gained valuable work experience and possess good work habits. Armed with a skill and a good work record, a wider range of opportunities can be opened for these workers. Primary emphasis should fall upon job placement efforts aided by (1) labor union and trade association exchanges of information regarding job openings in skilled positions within the worker's industry, (2) improved governmental services such as an effective Job Bank system, and (3) provision of relocation benefits, if necessary.

It has been common to dismiss the skills of displaced workers as "non-negotiable" since import-affected firms are viewed as part of a "dying" industry whose skills will die with it. Fortunately there is considerable slack in this cynical platitude. Even in a "declining" industry there are prospering sectors—lines where competitive advantage holds on. Often this is illustrated in certain specialty areas of an industry (i.e. decorative Christmas candles and incense can-l2000dles). An NAM exploratory trip to import/impacted regions of Massachusetts' shoe industry revealed much activity in certain specialty shoe firms. Going against the general trend, these firms were advertising and pleading with the local unemployment office to direct skilled shoe workers, who had become unemployed due to nearby plant closings, to them. While employment in the industry was on the general decline, these firms were hiring. Another example was provided in Pennsylvania where workers laid off at a glass plant were assisted by their union and active recruitment efforts by local and out-of-state employers aimed at job placement within the same industry. Both these examples underscore the importance of utilizing presently-possessed skills as a top priority in the reemployment process, wherever possible.

Should immediate reemployment prove unavailable through expanded job placement efforts, on-the-job retraining programs in private industry should be the next option chosen. The experience and work habits of the import-dislocated worker are valuable assets and should increase the success ratio of present training efforts. Government-assisted programs along the lines established for the more hard-core unemployed could be set up with willing businesses under which government off-sets the training costs and the worker is paid at the regular wage scale by the business. The average federal obligation per enrollment opportunity in present on-the-job training during the 1963-1968 period was $657.00; the total expense per employed person was $1,450.00 A somewhat smaller training expense could probably be expected in programs with import-dislocated workers due to the individual's previous work background.

A third option, utilizing the institutional approach, would involve considerably greater expense with little potential real gain in benefits. Here the worker would be starting over again, training for a job that may not even exist after he finishes the courses. As pointed out by former Representative Thomas B. Curtis before a Congressional hearing on trade adjustment assistance, even the present Job Dictionary used by the U.S. Government contains numerous obsolete job descriptions. Obviously, there is no benefit for a worker undergoing institutional training for a job which no longer exists or is over-supplied in the marketplace. On-the-job training offers the experienced worker a better prospect of success measured in terms of reemployment and the possession of a negotiable skill.

The cost factor also greatly favors an on-the-job approach to retraining. One study showed that $10,000 spent by on-the-job training programs help reemploy almost six times more workers as when spent for institutional training. The costs of educational hardware and software for training purposes and salaries of trained personnel able to use the equipment are two major prohibitive expenses. In most cases both these elements are already available within industry and could be utilized more inexpensively through on-the-job training. Added benefits would accrue to the individual learning in an actual job environment with the psychological satisfaction of producing while learning. Higher skills could also strengthen the will to work by increasing personal self-esteem and the chances for job satisfaction.[7] The

[7]See Department of Labor Task Force Report on Blue Collar Workers, December, 1972.

economy as a whole would benefit from this additional output of production.

Under a redirected trade adjustment assistance program, retraining opportunities could offer tangible benefits to displaced workers and prospective employers. These "worker renewal" programs could also play a functional role in national manpower policy. However, retraining should act as a program supplement where immediate reemployment through modern job placement techniques is impractical and/or presently possessed skills cannot be used. Where retraining is appropriate, on-the-job programs with business-government cooperation provide the best approach to getting import-dislocated workers back on their feet.

Relocation

Under the Trade Adjustment Assistance Program one of the least recognized benefits to eligible workers is government relocation aid. This issue section will explore the potentials of this relatively unused program in the context of a revamped adjustment effort. It will also focus on the reasons behind the apparent lack of interest in current relocation benefits.

Early proponents of Trade Adjustment Assistance realized the importance of labor mobility to their program's success. They knew that even a dynamic economy — where job creation offsets job displacement — did not guarantee continuous employment in the same geographic environment. Recognizing the realities of human inertia and resistance to moving, particularly evidenced among older workers, a relocation program was developed to facilitate the readjustment process. This program allowed assistance in specific instances for eligible workers unable to find an appropriate job in the local area, but who had secured a *bona fide* employment offer elsewhere with the prospect of long term job retention. Available only to "heads of households", the relocation allowance would pay the moving costs for the worker, his family and their household items, plus a lump sum payment of two and one-half times the national average weekly manufacturing wage as a type of "starting up" help.

Although this adjustment assistance option seemed potentially costly, it did offer prospects for substantive help to workers seeking quick reemployment, particularly in areas of high unemployment. As such, it stands in sharp contrast to the TRA/retraining option with its long time frame.

Unfortunately almost no use has been made of this type of assistance. Out of nearly 30,000 workers certified eligible for trade adjustment assistance benefits as of November 30, 1972, it is estimated that less than a dozen have received relocation assistance. Thus, on the surface doubts regarding this benefit's value seem warranted. However, further examination yields two conclusions: (1) current non-use of relocation assistance is mainly due to operational delays in the present program, and (2) the relocation idea has functioned quite successfully in other feasibility tests.

Various delays characterizing the present trade adjustment assistance program were described earlier in this report. In the case of workers these delays have resulted in lump-sum, retroactive TRA payments. Since eligibility for all benefits is measured from the impact date of the worker's unemployment, lengthy delays in the processing stages can consume eligibility. Relocation assistance cannot be provided unless some eligibility is retained under the program. Consequently, there is usually no chance for the worker to opt for this type of assistance even if he wants to. For this reason, the present program has not really provided an adequate opportunity to judge the applicability or value of the relocation program.

A second parallel finding on relocation, stemming from investigations of similar program, suggests the concept can be workable if properly formulated and implemented. Relocation has some singular successes in foreign countries. For example, in Sweden alone in 1971, over 23,500 individuals received government relocation assistance as part of an overall plan to shift a greater percentage of the work force to provide greater occupational and geographical mobility. The Swedish program has been successfully operating since the 1950's. In the United States a number of experimental labor mobility projects have been conducted by the Department of Labor and indicate that ". . .money spent on relocation projects, especially if it is combined with a good interarea information network, could have very high returns."[8]

The Manpower Development and Training Act of 1962 authorized a series of labor mobility demonstration projects which operated in twenty-eight states from March, 1965 to June, 1969, relocating over 14,000 workers. Measured against the yardstick of cost-benefit analysis, the experience of these programs affords valuable insights into the general issue of relocation.

Program benefits can be evaluated in three basic categories: (1) gains in individual workers' earnings, (2) reduction of unemployment compensation costs, and (3) productivity gains. The first benefit was discussed in a summary of the Labor Department's study covering sixty-one projects which found that "Unemployed workers relocated by the projects were placed in jobs, and the majority appear to have experienced gains in employment, earnings and incomes." This gain involves the interaction of two factors—increases in the amount of time on the job (particularly for formerly underemployed workers) and/or increases in the actual wage rate paid on the new job.

[8]See "Worker Relocation: A Review of U.S. Department of Labor Mobility Projects," by Charles K. Fairchild, for the U.S. Department of Labor, Contract Number 87-34-69-01.

This increase in earnings is felt not only by the worker relative to the amount he was earning before, but also by the economy as a whole which benefits from the income added by a reemployed person. This situation is illustrated in a California relocation project which dealt with the effects of mass lay-offs. The estimated annual wage of its relocatees was over $2.8 million (compared with a "paid out" cost in relocation allowances of less than half this amount). Additional and perhaps equal benefits would, of course, also accrue to the employers.

The second benefit derived from relocation is the reduction in governmental expenditures on unemployment compensation payments. The reemployed person will leave the relief rolls. In addition, this revitalized wage-earner will contribute to government revenue through taxes paid on his earnings. Again using the California study, an estimated $177,195.00 was saved on unemployment insurance benefits, while taxes were payable on the $2.8 million earned as income.

The third benefit is reflected in rising productivity brought about through the effective utilization of unemployed or underemployed persons. The fact that such productivity gains actually do occur in the relocation process can be measured by the earnings gains relocated workers experience. Reemployment allows the potential input of unemployed workers to be realized and the earnings gains reflect their better utilization.

Measured against these three primary benefits of relocation are the basic costs of relocation payments plus program administration. The average relocation assistance payment made during these projects was $294.00 while administrative costs averaged $573.00 per relocated worker. Since not all cases can be termed successful relocations, the total cost of the program per successful relocatee was $1,150. including both assistance payments and administrative costs. (Approximately 75% of the cases were successful as measured by the worker remaining in the new area during the standard two-month follow-up.) Since these cases were administratively designed as study projects, experimenting with different techniques of operation, it could be expected that the relatively high administrative costs would decrease as more established and proven procedures are adopted.

Two other "costs" must be factored in. The first is the psychological cost of moving. Unquestionably, the severance of community ties and leaving close friends and relationships exacts a "psychic fee." Yet this type of cost is not readily quantifiable. Often the dormancy of relocation benefits under trade adjustment assistance is explained away with the argument that "people do not like to move." However, as noted, few are even afforded the option of relocation. Partially offsetting the psychological expense of moving stands another "non-quantifiable"—a renewed sense of self-confidence and identity stemming from the new job, a steady income and being off the relief rolls.

A key psychological handicap in successful readjustment through relocation is lack of familarity with the new surroundings. Tests have shown this paramount problem could be somewhat mitigated through pre-employment visits and interviews. *Consideration might be given to broadening available benefits to include a stipend for such interviews which would allow the worker a trip to his new job location in order to meet his employer, take a first-hand look at the town and–if all looked good–to initiate measures to smooth the physical move itself.* The cost of this type of aid—utilized with considerable success in a number of federal relocation studies—averaged between $30 and $80 per relocated worker. The additional expense seems minor measured against the improved chances of "relocation compatibility."

Although some proposals have recommended much greater financial assistance in the relocation process, including fringe benefits such as federal guarantees on housing equity and the availability of low interest rate loans, this report suggests different emphases. Our findings, supported by summaries from Department of Labor projects, point to the importance of non-financial assistance in facilitating relocation. *Accordingly, we recommend that new efforts be made in areas of job placement services, pre-employment interview trips, orientation meetings and other supportive services.* In the field of job placement particularly, great break-throughs may now be possible with computerization. The development of a viable "job bank" (discussed in a later section) could probably offer considerably more relocation effectiveness dollar-for-dollar than simple increases in financial assistance.

In conclusion, relocation rates highly in comparison with other methods of worker assistance. While these systems should be considered as complementary—working as alternate aids to the displaced worker—greater emphasis could be productively placed on relocation. In many cases relocation will be more efficient than retraining and may have a better cost-effectiveness ratio, where employment is the measure of effectiveness. For example, some estimates on the average cost per employed person completing assisted programs are:

1. $3,300 (Institutional training, vocational education, etc.)
2. $1,450 (In-plant, on-the-job training)
3. $1,150 (Relocation)[9]

Whereas training programs prepare workers for jobs that are assumed will exist, relocation by definition places the worker in an immediate job opening, thereby increasing the chances for successful reem-

[9]See "Worker Relocation," previously cited, page 125.

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ployment. Relocation also minimizes time lost between jobs and reduces the burden of unemployment on the general public. For these reasons, improved relocation assistance must be an important part of a redirected trade adjustment assistance program.

Pension Rights

The issue of pension rights is often forwarded by critics of the trade adjustment assistance program as an example of inadequate coverage for displaced workers. These criticisms usually lead to recommendations for establishing new federal programs designed to protect pension coverage. Clearly, lost jobs mean much more than reduced current income. However, the construction of a new program or set of government guarantees in the area of pensions requires careful consideration—particularly when measured against the potential complications such changes might require in the administrative structure of trade adjustment assistance. This section explores the pension rights issue—and seeks to offer some workable recommendations.

Unfortunately the pension issue has often been clouded by differing notions of "pension portability." This concept, while central to the debate on pension rights, has evoked some confusion by conveying the image of a worker carrying his "pension luggage" with him from job to job. This picture is erroneous and the misunderstandings it perpetuates could be harmful to the worker's interests.

The transfer of an individual's pension funds and benefits from company to company would obviously be an administrative nightmare. Since a portion of those funds must necessarily remain in liquid assets, this requirement would effectively prevent pension fund assets from being most profitably invested. All workers contributing to the fund would be deprived of the full earning potential of the fund's investments.

The concept of "pension portability" is more accurately characterized by the idea of a worker retaining his earned share of pension coverage, even if he changes jobs, but without the damaging effects of having to change the place and method of his pension fund investment. Commonly referred to as "vesting," this idea has considerable potential—if properly formulated—to offer sufficient pension coverage for the unemployed person regardless of the economic cause involved. Rather than adopting some structure which would require considerable administrative burdens and costs (possibly also detrimental to the investment interests of all pension-holders), *we believe that an approach could be fashioned on vesting, similar to several recent legislative proposals,*[10] *which would constitute a highly preferable alternative.*

Under this "vesting" approach workers could be offered several different approaches where pension rights would be assured in accordance with their time on the job. Relative ages of the workers would also be taken into account. For example, one plan might permit an individual to be 100% vested (fully covered by its pension plan's coverage) after ten years of covered service at any age. Another example, the "Rule of Fifty" approach aimed at older employees, would guarantee 50% vested rights in retirement benefits at any point when the worker's age plus years in covered employment totalled fifty.

These standardization schemes for pension rights would provide a type of "portability," but without heavy administrative and investment costs and without involving the federal government deeply in the area of private pension plans. The worker's basic retirement security could be guaranteed after a set time under such a plan, whether he is working at the same job, decides to switch jobs, or becomes unemployed—regardless of the cause. This type of reliance upon the use of private pension plans, built upon acceptable vesting rights, would not involve increased federal spending and would prevent the creation of yet another federal program superimposed over present programs in the private sector.

Fringe Benefits

A variety of miscellaneous worker benefits other than the major issues already discussed are sometimes associated with recommendations to change the trade adjustment assistance program. The common assumption seems to be that an elaborate offering of fringe benefits is necessary to attract labor support for the concept. However, labor's deep disenchantment with the present program will probably not be mollified by expanding the number of hand-outs available to an unemployed worker—nor will the country benefit from such action. The average working man wants to keep his job or, when that is not possible, to move quickly into another—and better—position. This core objective should constitute the central focus for governmental efforts in this area with marginal distractions brushed aside.

The primary motivation behind numerous fringe benefit proposals on adjustment assistance seems aimed at erasing all traces of worker dislocation caused by imports. Even if this were possible—which it is not—the created situation would be an unhealthy one, characterized by extensive new government involvement in the private sector. Proponents of federally backed early retirement subsidies, health insurance coverage, seniority right extensions and even guaranteed housing equity for displaced workers (example proposed additions) could jeopardize the chances of achieving a workable adjustment

[10]For example, the "Retirement Income Security for Employees Act" (S.3598) could be adopted with a few qualified changes as recommended in NAM testimony on July 27, 1972 given by H. C. Lumb before the Subcommittee on Labor, Committee on Labor and Public Welfare, United States Senate.

assistance program by adding complications on at least two fronts: (1) creating additional legislative confusion regarding which committees in Congress should handle the requisite "omnibus" bill, and (2) exploding realistic budgetary constraints that must accompany any new program.

We do not believe that such additional fringe programs are within the proper scope of governmental action; federal efforts should instead be concentrated elsewhere. Except where broad measures (such as acceptable pension vesting rights) can be profitably and justifiably applied on a national scale to complement private programs, the government should avoid involvement in the private sector. Governmental efforts must be directed toward facilitating an early adjustment away from dislocation instead of the creation of special compensation programs after the injury has occurred. Through the action of early preventative steps, most injurious dislocation could be voided. Private plans, coupled with present federal programs such as the Social Security system, are the best and most effective method of handling any cases where dislocation might still occur.

Job Bank

The development of a national job bank system, while outside the scope of trade adjustment assistance, has large potential benefits for the program. Designed for computerized employment placement, the job bank approach seeks to match up skilled unemployed workers with job openings. An example of innovative computer technology utilization, the job bank may solve the frustrating problem of unfilled job vacancies in areas of high employment. This is a problem which is receiving increased attention as labor experts struggle to improve the nation's crude and inefficient system of informing the unemployed of suitable job openings.

From its local beginnings in Baltimore in May, 1968, the job bank experiment yielded rewarding results (increasing jobs for disadvantaged workers) and has since grown to over one hundred banks operating in more than half of the states. Plans call for continued expansion with overall sights aimed at a national job bank network later this decade.

The basic idea behind a computerized job bank is to turn out daily listings of job openings in metropolitan or larger areas for wide distribution, thereby bringing up-to-date information to job-seekers. The system would provide the information quickly enough to enable the applicant to follow-up on the opening. The prospective employee is assisted in selecting the job which best fits his background, aptitudes, and interests, while the prospective employer minimizes time loss by filling his vacancy quickly with appropriately qualified personnel. In short, the system promises a mechanism for the timely exchange of complete and accurate job information.

Present plans call for the linking of regional job banks into a rudimentary nationwide system by early in 1973. Further staged consolidation and development within this network will follow as improved applicant and job assessment aids are constructed and different computer selection and matching techniques are implemented. January, 1976, is the present goal for a completed rational network of the various state matching systems. The Department of Labor has recently been devoting a great deal of effort and resources to the effort of the job banks "as an institutional device to expedite the matching of the supply and the demand side of the labor market. . ." Coupled with a computer hook-up to the department's Employment Service Offices in the field, this effort could produce significant results.

Currently, developmental costs of the job bank system are running at approximately $25 million annually—a figure which will decline as the network is completed and operational efficiency increases. While it is impossible to measure the program's potential effectiveness on a broad national basis, studies have shown a marked employment increase in areas where the job bank system has been most fully developed. For example, data from the job bank effort in Maine, compiled two years after the introduction of the job matching system, shows an increase of over 5% in new job placements over the period before the start of the program.

While the national computerized job bank system should have a beneficial effect on the broad manpower picture, it also has special meaning from the standpoint of a redirected trade adjustment assistance program. Increased emphasis on early warning and adjustment will put a premium on job placement techniques. The addition of an operational job bank system will increase the effectiveness of the other placement methods available to the dislocated worker. For example, information on similar job openings within the local area will be vastly improved. Complemented by relocation assistance when necessary and more detailed updated job descriptions, the job bank could measurably help import-dislocated workers with marketable skills return to work. Effective matching would, in turn, complement the success ratio of relocation assistance, improving the efficiency and usefulness of this aid. Similarly, the need for costly and perhaps unnecessary retraining will be decreased as the worker is allowed to make maximum use of his presently possessed skills. A national job bank system could both increase the effectiveness and decrease the cost of a program of trade adjustment assistance—while at the same time fulfilling its broader manpower objectives.

Firm Benefits

Trade adjustment benefits to firms under the present program and under proposed changes merit careful

consideration. Recognizing the implications surrounding this subject and the central importance of the individual firm as the engine of successful adjustment, this section will concentrate on approaches and issues involved in firm benefits—as well as offering several recommendations.

When compared to the worker side of trade adjustment assistance, firm benefit provisions reflect a few similarities overshadowed by major underlying differences. Both firm and worker benefits presumably intend to facilitate resource shifts toward areas of greater relative competitiveness or higher skills. And both seek to buffer to varying degrees the impact of import dislocation on the injured. However, these similarities are colored somewhat with the recognition of different emphasis: individual workers may be protected, but not so with particular jobs. On the other hand, firms may be accorded assistance to help self-adjustment to new competition, but specific, long-term protection—masking inefficiency at the taxpayer's expense—cannot be tolerated.

These are healthy differences. Few enterprising businessmen or firms would alter this situation, arguing that the "right of a business to fail" is one of the inalienable rights. Consistent with this view, the national bankruptcy rate is sometimes regarded as a barometer of economic stability and prosperity.

In the context of a solid private enterprise—free market framework, trade adjustment benefits to firms can only be supported as a necessary expediency, tied closely in with needed improvement in the strength of the United States manufacturing base and the nation's international economic position—and ultimately, a positive foreign trade policy. Even then firm benefits should (1) emphasize cost-cutting and non-financial assistance, (2) be designed to reduce market disruption due to other government incursions in the marketplace, and (3) aim to engender constructive self-adjustment for firms in the program.

The efficacy of the present firm benefits, like much of the rest of the program, is difficult to gauge given the limited number of eligible firms. However, as a first step, the delays involved in applying for and receiving assistance must be reduced before any type of aid can be truly effective. Suggestions made in this report could help effect such a change, in conjunction with efforts already underway within the Commerce Department.

Limited experience has shown that present firm benefits providing for technical, financial, and tax assistance should be retained. However two alterations in the system could promote their optimal use. First, *interim financing should be made available to an eligible firm,* where deemed appropriate, to cover the time between certification of eligibility and the receipt of benefits under an approved adjustment proposal. No one is benefitted if a certified firm is forced to close while formulating or waiting for the implementation of its adjustment proposal. An example of this situation occurred recently in Massachusetts where a certified firm producing hi-fi equipment had to shut down, laying off over three hundred workers because the details of a trade adjustment assistance loan were not yet worked out. As the President of the company put it in an interview, "We're like the car that was in a bad accident, gets repaired and is all set to roll again . . . and then runs out of gas.

The most important improvements to prevent these types of collapse are speeded-up processing and program delivery. However, the option of interim financing could add additional flexibility for use in unforeseen circumstances. Some assurance of a time limitation would be placed on the interim financing to assure its temporary nature. *Accordingly, we recommend that a 90 day time limit be placed upon the submission of an adjustment proposal (as compared to the present two year period) during which time the Commerce Department could approve/reject plans for firm adjustment and/or develop additional timetables and guideposts.* Drawing upon its growing experience, Commerce would seem in excellent position to make the required adjustments to speed up this process. As stated by James T. Lynn, former Undersecretary of Commerce, in May, 1972, "We are now at the point where each case no longer involves entirely new policy considerations, and I expect the time lapse between receipt of an application for certification of eligibility to apply and the granting of assistance to be even further reduced, as we gain more experience."[11]

Additional assistance might also be developed around new government guidance programs designed to aid firms in preparing their adjustment proposals. Many smaller firms particularly could benefit from improvements on this end of the program, which would involve only minimal government expenditures. Guidance would emphasize methods of achieving new market specializations, exploiting service advantages, and improving market techniques. Major alterations, shifting firms in and out of industries, would probably be best left to an industrial level approach (discussed in the next section). Encouraging efficiencies is the proper objective of efforts to help individual import-injured firms.

Governmental efforts aimed at altering the specific problems of non-competitive firms within a given industry are dangerous. When government injects itself into the marketplace—even if to neutralize another distortion—it risks upsetting the competitive equation within an industry by assisting particular firms to the disadvantage of others. It is for this reason that this report stresses initial reliance on industrial self-adjustment, followed by industry-wide adjustment aid, and finally specific firm assistance in moderate forms as "a last resort." Only if an

[11]See Trade Adjustment Assistance Hearings, House Subcommittee on Foreign Economic Policy, April and May, 1972.

individual firm can meet the present strict eligibility criteria should it qualify for special assistance—and then the aid should be limited to present program benefits with emphasis on improving the specialization and service aspects of the firm's business. By participating in a functional first tier of early industry-wide adjustment, most businesses should be able to avoid the severe dislocation and job loss problems which would necessitate a second tier of individual adjustment benefits. A detailed explanation of this emphasis on early first tier adjustment is given in the following section on industry benefits.

Industry Benefits

The broad industry approach to economic adjustment comprises a unique feature of this report, particularly in relation to the issue of assistance to industries with an emphasis on productivity increase, job retention and job creation. Loosely defined, the concept of an "industry-wide approach" can include nearly any governmental program designed with objectives for an entire industry or group of industries in mind. Programs following from such an approach must necessarily be flexible enough to span great divergencies within industries. Recognizing industry's lack of homogeneity, these programs would also have to be fairly conceived and administered to provide equal opportunity for all to achieve benefits.

Implicit in the industry approach concept and its relationship to trade adjustment assistance is the growing recognition of international competitive challenges. In the past these challenges usually touched only a relatively few companies within the total economy. Today entire industries find themselves under pressure and are seeking coordinated, effective responses. This situation has opened a new *esprit de corps* in certain industries and fashioned an increased awareness of mutually compatible interests even among firms with marked differences regarding specific stakes in international trade and preferred policy responses.

The original industry approach idea relating to economic adjustment springs from the experience of Western Europe. It is also deeply rooted in the traditions of the American free enterprise system. Clearly, the degree of government-industry involvement which occurs abroad is largely incompatible with the United States economic system. On the other hand, extensive government involvement with individual firms—a potential danger in the present U.S. trade adjustment assistance program—is equally unacceptable. Between these two options, a middle ground must be established, maximizing private self-adjustment and the lessons of successful experience contained in business responses to similar problems on a corporate scale. In this framework, government action would be limited, moving to offset non-market distortions for which it was principally responsible, wherever private industry both wants and needs such assistance.

In the context of trade adjustment assistance (TAA), a broad-based industry approach, almost by definition, would focus on improving the particular industry's competitive position in international trade. Since there are presently no provisions for generalized industry benefits under the TAA program, this issue reference section will target in on four main approaches which have considerable potential—particularly if implemented and coordinated together—for achieving the overall objectives of improved American competitiveness. The four approaches are: (1) an effective governmental early warning system, (2) industry research and development assistance, (3) fairly administered anti-trust legislation, and (4) temporary and conditional orderly marketing arrangements. These various responses to import penetration and dislocation form the core of an industry approach to trade adjustment assistance and comprise the sections of this chapter. They also constitute the first stages of action in the two-tier approach, outlined graphically on page 19.

Early Warning System

The development of an effective early warning system for import competition will be a vital component of any reordered trade adjustment assistance program. This issue reference section evaluates the early warning concept and recommends economical steps toward achieving such a program in the context of an industry approach to increased international trade pressures.

The idea of an early warning system is a straightforward one: that government has the obligation to utilize its data collection and analysis capability to forecast several years in advance intense, perhaps injurious, import competition as pertains to particular industrial sectors. Such forecasting, if accurate, could facilitate remedial action before the potential injury occurs and accentuate private self-adjustment. Clearly, the government has a responsibility to inform its public more effectively of changes likely to occur due to its own action. This warning procedure should be improved and expanded to encompass an information system regarding other national economies.

Recognizing the pressing need to reverse America's weak productivity and lagging industrial investment, the government has already undertaken work on improved methods of competitive assessment.[12] These efforts could provide an excellent foundation for an early warning system.

One of the appealing features of an early warning mechanism is its consistency with the idea of private

[12]See Commerce Today, December 25, 1972 article describing functions of Bureau of Competitive Assessment, p. 4-6.

enterprise self-adjustment and the minimization of government participation in this process. Admittedly, with the increased government activity in regulation and intervention in the marketplace—which is extremely visible in international trade policies through tax rebates, subsidized export financing, guarantees, tariffs, quotas and other non-tariff barriers—some government participation in adjustment processes may be unavoidable and necessary. However, early warning could offer opportunities to reduce the instances and extent of government involvement by providing businessmen with information and analysis on forecasted competitive challenges which are beyond the individual businessman's resources or ability to investigate.

The NAM questionnaire to import-impacted firms (both involved in the adjustment assistance program and those which had decided not to apply) revealed some interesting results on the issue of advance warning of and preparation for international trade competition. The question was stated as follows:

1. Have you been able to forecast the severity of import penetration?

(a) If yes, what procedure was used to make this forecast possible? How many months/years in advance can the problem be foreseen before it becomes acute? What actions are being taken to meet this perceived problem?

(b) If "no," what data do you feel might make a more accurate forecast possible?

In some affected industries, notably textiles and pianos, business respondees indicated that they had been able to accurately forecast the increased competition themselves. A lesser number had been able to undertake measures to meet the competition while other firms, facing overwhelming competition and lacking the internal resources to make a rapid shift into alternate lines of production, were forced to close down their operations. Returns from firms reporting an inability to foresee the approaching economic dislocation indicated a strong correlation between company size and forecasting ability. The same finding was underscored in the House Subcommittee on Foreign Economic Policy hearings (May, 1972) by Deputy Special Representative for Trade Negotiations, William R. Pearce who stated regarding trade adjustment assistance: "We are usually dealing with industries with a lot of small firms which lack the resources that government and big industry possess for anticipating economic developments likely to influence their success."

Clearly, government should not attempt to guarantee smaller firms the advantages of scale which accrue to larger companies. However, all businessmen, particularly the smaller entrepreneurs, have a legitimate need to obtain clarified data and analysis on international competitive assessments pertaining to their industry. Faced with rapidly changing world market conditions, which are characterized by increasing government involvement in trade practices, the small businessman can be wiped out quickly. Otherwise competitive entrepreneurs, who are powerless to influence these government interventions and have no resources to investigate shifting market conditions, have few choices. This group is beginning to perceive the early warning potential as a key to their future economic survival.

As stated by Undersecretary Lynn: "My feeling is that if industry and Government cooperate to look down the pike further, and see what is happening by way of competitive advantage and who is going to be producing what three, five, ten years from now, then good management, at the very least, will respond a lot more effectively than perhaps they have responded in the past. They can then adjust their own production and their own businesses to the realities that they are going to face three to five years down the pike."

Most proposals on early warning start with the assumption that a greatly expanded base of statistical data is necessary before any effective system can be developed. Admittedly certain types of additional data may be useful; however, any incremental benefits gained from it should be measured carefully against two costs: (l) financial, (2) business confidentiality. In testimony before the House Subcommittee on Foreign Economic Policy during its hearings on trade adjustment assistance, Undersecretary of Commerce James T. Lynn already drew parallels between some "appreciable increases" in the Department's budget request and the effort to obtain better commercial information. However, even more important than cost benefit analysis on this point is the potential danger of greater government encroachment into the private sector under the name of data collection supposedly necessary for early warning purposes. This report makes the following recommendations in this connection:

1. *We recommend that prior to seeking new information, presently available data and public statistics should be fully tested and exploited. This data could be more effectively aggregated and categorized by specific sectors than is now the case.*

Some initial limited approaches have been made by the Department of Commerce toward this goal. These efforts have found that certain statistical indicators may be useful in determining the relative competitive strengths or weakness of a particular industry. These results, if further developed and analyzed, could be interfaced with statistical indicators of possible foreign competition in that industry, yielding a more integrated and accurate forecast of the emerging competitive forces.

(2) This recognition leads to a second recommendation regarding the development of an early warning system: *The United States Government should continue*

to improve its information gathering services abroad related to foreign business conditions and practices which may adversely affect an American industry in the near future (i.e. export subsidization schemes, major rationalization of foreign industries, or government sponsored R&D aimed at capturing specific markets). More effective utilization of the foreign commercial service in United States Embassies around the world should be an important feature of this undertaking. What seems needed is a coordinated system which would centralize and analyze estimates on potential foreign export increases matched with U.S. domestic figures for industries exhibiting "competitive lag." The resulting analyses could be utilized on an industry "macro" scale or in a sectoral approach to early adjustment. In essence, this could constitute an initial phase of industry adjustment since the data would be available to all elements within the industry equally. With added responsibilities given to the commercial attaches, and greater coordination between the Department of State and the Department of Commerce, and other government agencies, this improvement could probably be achieved without much additional expense.

Since it is virtually impossible to delineate the influence of foreign governmental policy on these national economies — especially under conditions of close business-government cooperation, international monopolies and cartels[13] — *research efforts are needed beyond direct government participatory programs. Foreign economies should be examined regarding the potential impact of indirect factors – such as rising standards of living and changing consumer tastes* - on the United States. This might be initiated on an experimental basis, using a few "target countries" (i.e. Japan, Germany, Italy, etc.) since this is where the United States faces the major competitive challenge. Tradé associations and other business groups might also channel in active support by establishing a network of industry and regional advisory groups which would have the responsibility of monitoring and reporting on competitive changes as perceived by the business community. The trade associations could play an important role in disseminating relevant information on foreign competitive challenges to the domestic manufacturers. Such action would serve to encourage the industry, particularly the small businessman to whom such data might not otherwise be available, to take early self-adjustment steps to meet the changing market forces.

In conclusion, the development of an effective early warning system could be an important "industry benefit" integral to any redirected trade adjustment assistance program. As such, it would also benefit the entire United States economy by strengthening our competitive position and improving industrial productivity. Consistent with the recognized responsibility of government to make known any actions which could injure specific sectors of the national economy, the early warning system could help pinpoint useful information reflecting changing competitive detriments.

Early warning could also be economical. Emphasis on using presently available data, with certain aspects of the program on an experimental basis, could effect considerable savings — not to mention the potential savings for the United States economy implicit in accurate forecasting and successful "preventative" adjustment.

Recognizing the financial and psychological implications of an effective early warning system, a key to its success would be the presence of backup support programs designed to assist the industries designated with competitive problems.[14] In fact, the early warning system is only feasible within the context of an overall program designed to meet competition. Flanked by other broad-gauged approaches to industrial adjustment described in the following sections on research and development, anti-trust and orderly marketing, the early warning system comes alive as the harbinger of needed industrial approaches to adjustment.

Research and Development

The rapid technological change which characterizes our times places a premium on innovative adjustment, productivity and growth. Simultaneously, these elements of "future shock" have accelerated the international exchange of technology among nations and reduced dramatically the advantages a product enjoys as first on the market. Keeping the "lead" with better made, more advanced products or efficient processes has become a crucial aspect of international competition—and it has become increasingly difficult. This section focuses on one important aspect of this technological foot race — research and development as part of an industrial approach to adjustment.

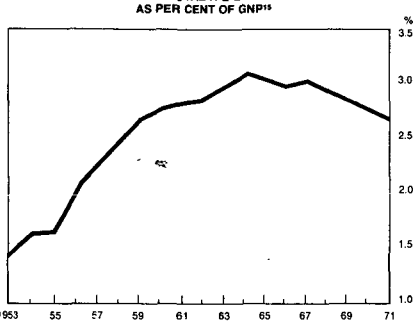
Clearly, research and development (R&D) expenditures through greater capital investments, can be a key component to improved industrial productivity. Cross-sectional studies have demonstrated that there is a significant relationship between industrial expenditures on R&D, high rates of productivity growth and international competitiveness. This relationship has led economics Professor John Kendrick

[13]For example, the National Association of Manufacturers and nearly thirty major trade associations are actively working with government on a project researching indirect or non-tariff distortions in international trade, including export subsidies. This project is aimed at providing industry data for upcoming trade negotiations.

[14]For example, if early warning had no support programs behind it, announcement forecasts of industry problems could become stock market shockers leading to rapid collapse of firms who would find themselves unable to raise capital.

of the George Washington University to describe R&D as "the fountainhead of technological growth." Significantly, R&D expenditures in the United States have recently declined as a percentage ratio of gross national product (GNP) as shown in the following chart.

Chart 5
TOTAL R & D
AS PER CENT OF GNP[15]



Source Conference Board

This phenomenon parallels the lower productivity growth rate experienced by the U. S. economy and a declining trade surplus in high technology-intensive manufactured goods (exports over imports), which went from a registered +$9.1 billion in 1965 down to a +$5.9 billion (est.) last year.

While R&D relationships are obviously important to the domestic economy as a whole, their relation to major industrial sectors facing severe import competition is particularly significant.[16] Often these industries are already struggling with the problems of low productivity growth. Growing import penetration compounds their problems by constricting the resources available to undertake measures stimulating productivity.

Consistent with the proposed industrial approach to early adjustment, one of the most valuable benefits could be the encouragement of additional R&D. Accompanied by some form of readily available, broad-based government support, R&D encouragement for import-impacted industries could become an important policy tool. It could both bolster the desire of an affected industry to compete (offsetting the notion that trade negotiation concessions "had sold it down the river") and/or facilitate private resource shifts into more competitive lines of production for successful adjustment.

This conclusion was largely supported by the NAM questionnaire of firms certified for the current trade adjustment assistance program. Most respondees indicated a desire to participate in an industry-wide, government aided R&D program. Many firms cited increased R&D as a factor which could significantly help them meet the import challenge. They also pointed out that problems of under-capitalization, relatively high debt/equity ratios and profit downturns (in part resultant from import penetration) had effectively prevented such efforts. This opinion was also echoed by a number of firms in certified industries which for various reasons had not applied for the present program.

Programs to stimulate R&D should be focused on a joint, industry-wide approach with the sponsored projects open to all firms within the certified import-injured industry. Benefits arising from the program would be equally available to all participating members. Government and industry cooperation should direct the efforts toward the goals of (1) increasing productivity and competitiveness within the industry, and/or (2) shifting productive resources into alternative product lines. The relative priority of these goals should be established on a cooperative basis, perhaps through the formation of an industry productivity council (comprised of leadership elements from all aspects of the industry) with liaison to the National Commission on Productivity. This group would need to exercise proper care, avoiding unfair movement into product·lines which might adversely affect an already existing industry. *Special consideration could also be directed at resource shifts toward product lines with unfulfilled export potential.*

A primary tenet of the joint R&D effort would be maximum use of private sector resources. The proper form of government participation in such a program could be determined on a case-by-case basis with emphasis on non-financial federal assistance. Government should provide technical advice and cooperation in both initial industry studies designed to determine what is needed and in the following implementational stages. Where appropriate and necessary, a tax rebate in addition to existing write-offs of R&D expenses might be considered along with possible low-interest R&D project loans. Joint industry-government financing efforts along the lines of the Interior Department's mineral exploration program could round out the lower end of the program priority scale.

In addition, consideration should be given to new federal incentives for capital investment in modern high technology plant and equipment through some type of "productivity" incentive plan (i.e. increased

[15]Since the mid sixties government's share of participation in industrial R&D (as measured by source of funding) has declined steadily from 55% to less than 40%. Failure to provide additional incentive to private industry (which must provide an increasing percentage of R&D funds) has resulted in a general decline in overall R&D as noted above.

[16]R&D efforts in the textile/apparel and shoe industries — with laser beam and shoe molding processes, respectively — offer significant examples of new innovative techniques potentially important in the competition with imports.

output would yield relatively greater depreciation providing prices remained steady for some predefined period).[17]

Most foreign programs, backed by a heritage of close business-government cooperation, offer broad-scoped, industry wide adjustment schemes which usually include R&D project assistance. However, we believe such an approach could be appropriately formulated to fit within the U.S. economic framework. There would actually be fewer problems raised by the aspect of government assistance than by the cooperation among firms in a joint R&D project. Such an approach could raise anti-trust conflicts under some circumstances, but would be very unlikely to do so in the type of proposal suggested above. This consideration is analyzed in more detail in the following section on anti-trust policies as they relate to trade adjustment assistance.

In conclusion, the proposal for industry wide R&D assistance becomes an important part of the early industrial approach. Benefits from such a model policy could be made available equitably on a broad basis with a good potential for encouraging "preventive" adjustment to import competition. As noted by Professor Kendrick: "Differences among nations, in levels and rates of change in productivity, are fundamental measures of comparative economic performance, and play a crucial role in the competition among nations and groups of nations."[18] Competing in the high technology, sophisticated international markets of the 1970's (against the expanding EEC — its industrial rationalization policy with concentrated pooling of R&D efforts, and Japan — with its strong incentives for generating capital investment efforts and its plethora of export promotion programs), the United States would do well to target more attention on R&D. An initial R&D effort with emphasis on trade adjustment assistance could be a needed step in this direction.

Anti-Trust Legislation

A confusing and often inhibiting factor to private domestic adjustment efforts is the potential conflict with United States anti-trust legislation. An analysis of foreign approaches to the concept of adjustment assistance reveals systems usually based upon a much different conception of government-business relations. Many of the foreign industrial rationalization processes (discussed fully in Appendix "A") would conflict with present anti-trust laws if applied in this country. In many nations, mergers can produce a dominant market position which is legal as long as such market power is not abused. Such a structural advantage can easily be translated into a competitive advantage on the international scene, especially if the definition of what constitutes abuse varies depending upon whether the product is being exported or whether it is sold domestically.

However, since we recognize the right of every nation to determine the standards and principles of its own economic structure, the question which must concern us most is whether it is necessary for the U.S. to alter its structure in order to remain competitive. Specifically, the Williams Commission on International Trade and Investment Policy has recommended that changes be considered in U.S. anti-trust laws (or their administration) in order to permit mergers where import competition results in "serious difficulty."

Present antitrust laws constitute one of the most complex and pervasive bodies of American commercial statutes. While there may be some inequities in these regulations, any attempt to alter them should be approached with the utmost caution and based upon solid reasoning. Two categories in the anti-trust area need to be considered: (1) mergers and acquisitions, and (2) joint or cooperative efforts. The first is the most relevant to the foreign programs and is not entirely precluded under U.S. law. The test under the Clayton Act is whether a merger or acquisition would cause a substantial reduction of competition to occur within the given market. Under the circumstances of increasing imports, such a reduction could occur if the merger did *not* take place, since without it the firms may simply be forced out of business, thus cutting down the competition in the most permanent manner. The competitive effect of imports is, therefore, a proper matter for consideration in any anti-trust determination under Section 7 of the Clayton Act since if the imports were large enough to seriously injure a domestic industry, they should be considered as claiming an important share of the market.

The second category of joint or cooperative efforts involves the recommendation of this report dealing with the concept of an industry-wide program of research and development. Such an effort should not violate present statutes. As noted by Donald Baker, Director of Policy Planning, Anti-trust Division, Department of Justice, on April 18, 1972, "...private activities such as joint research, cooperative research efforts, and scientific information . . . exchanges have never been held to constitute *per se* violations of the anti-trust laws." He goes on to say that the action must have "resulted in an *unreasonable* restraint of trade. In large part, whether joint activities will constitute unreasonable restraints to trade will turn upon the purpose for and the manner in which the parties

[17]See "Capital Investment, Growth, Productivity — Basic Issues" K. Robert Hahn. Executive Vice President, Lear-Siegler, Before the Third Annual Symposium on Automation and Society, March 20-31, 1971.

[18]See John W. Kendrick, "Solving Problems of Productivity in a Free Society" (Madison, The Center for Productivity Motivation, 1962).

engage in such activities."[19] The joint research efforts covered in this report's findings will only take place *after* an industry has been certified as being injured or threatened with serious injury from increased imports. Thus, joint or cooperative research efforts should actually serve to increase competition by encouraging the domestic industry to compete with the imports. Without such aid many of the firms would likely be forced to shut down operations, thereby reducing the ability of domestic producers to compete with imports as well as eliminating jobs.

One of the major problems remains the uncertainty businessmen face when seeking to establish joint or cooperative ventures. *The Business Review Procedure of the Department of Justice should be expanded by the establishment of a special section to issue administrative guidelines for joint or cooperative research efforts under trade adjustment assistance programs, and to review each individual proposal with the concerned industry and the Commerce Department as it is being formulated.* This administrative change is the only one in the anti-trust area which seems warranted in the context of trade adjustment assistance. If successfully implemented these steps could lead to a greater flexibility in U.S. anti-trust as it applies to international competition — particularly those beleaguered firms under extreme import pressures at home.

Orderly Marketing Arrangements

The relationship between trade adjustment assistance and orderly marketing arrangements involves an important part of the proposed industrial approach. Based on early adjustment, this industrial approach would aim either at strengthening industries to meet foreign competition or facilitating their shift into other productive lines with a minimum of government intervention. Despite these early remedial efforts, there will undoubtedly be cases where injurious import penetration occurs on an industry scale and threatens to fatally injure the industry before the adjustment process can successfully function. In such instances additional time will be required for adjustment. Meanwhile, excessive import pressures should not be permitted to unduly disrupt the adjustment process. Otherwise, the promise of assistance, early warning programs, R&D, and additional measures could be wiped out. In effect, orderly marketing arrangements would complement ongoing adjustment, constituting a benefit of "last resort" in the industry approach (beyond which specific assistance would require individual firm petitions roughly as presently organized).

Clearly, additional import restrictions should not be undertaken lightly, recognizing the inherent dangers of government participation in the marketplace and possible retaliation by foreign governments. Willis C. Armstrong, Assistant Secretary of State for Economic Affairs, underscored this point in testimony on the adjustment assistance-trade restriction relationship before a House subcommittee (May, 1972) noting:

"In general, restrictions on competition, foreign or domestic, are apt to have a weakening effect on the American economy. If it is decided to limit the importation of an item during an adjustment process, the most important feature of such restraint should be its role in facilitating adjustment. It should not serve to delay adjustment. Such trade restrictions should be limited: To instances where they are absolutely essential to a successful program of adjustment; to the minimum restraint necessary to allow the adjustment process to proceed; to as short a time period as possible; and to cases where there is a definite plan for adjustment."[20]

The most appropriate way to insure that these safeguard criteria are met is to tie the orderly marketing mechanism and its operational timeframe directly to the adjustment procedures available to an impacted industry. Following the approval of a certified industry petition for trade adjustment assistance, the Commerce Department could authorize a study by an interagency standing group in order to: (1) investigate the industry's adjustment plans and (2) determine whether imports require temporary restraints to facilitate smooth operation of the adjustment process. Recognizing the importance of such restrictions and the complications which can arise from curbs imposed on international trade, the interagency group should include participation by the Departments of Treasury, Commerce, State and Labor, as well as CIEP (Council on International Economic Policy) and the Office of Special Trade Representative (STR).

This group could recommend orderly marketing action to the President and arrange a temporary relief plan for the industry. The President's decision would be final. Presidential concurrence in an affirmative recommendation would initiate efforts to negotiate temporary orderly marketing arrangements for the relevant product with the exporting country/ies.

This type of an industrial approach to adjustment and orderly marketing was also outlined before the Culver hearings by Laurence H. Silberman, then Under-Secretary of Labor.

"There are problems which develop with respect to certain industries (regarding import competition) and in our judgment (these problems) may require a type of response which goes beyond adjustment assistance and includes the development of an orderly marketing mechanism. The marketing mechanism and the adjustment assistance process have to be integrated in some fashion . . . with the coordinating mechanism designed so that, for a certain

[19] See the statement by Donald Baker before the House Committee on Science and Astronautics, Subcommittee on Science, Research and Development, April 18, 1972.

[20] See Subcommittee on Foreign Economic Policy, House Foreign Affairs Committee hearings (May, 1972) p. 293.

limited time, both the orderly marketing arrangement and the adjustment assistance are operating concurrently. Both systems are linked together and would end once their joint contribution has eliminated the problem."[21]

Similar qualified endorsement of voluntary import limitations during a temporary adjustment period are also evidenced in recent publications from the National Planning Association and the Committee for Economic Development.[22]

The two major objections frequently voiced on temporary import restrictive devices are that: (1) they could tend to become permanent, and (2) they may provoke retaliation. Both objections could be largely met by tying the device's use to a definite adjustment process with an agreed-upon time limit, after which the restriction would expire. The best estimates presently available suggest that a five year adjustment period should be sufficient. Thus, a schedule could be written into each arrangement with exact expiration dates determined on a case-by-case basis. The use of such negotiated orderly marketing arrangements might even improve cooperation from other countries as compared with their potential reaction to unilaterally imposed quantitative restrictions.[23] The approach would also seem in step with greater multilateral recognition of the adjustment problem and an understanding that restrictions will be removed following the adjustment period. This dismantling of such restrictions might be effected best through a graduated "phase-out" with specific scheduled guideposts.

In conclusion, the modified industrial approach to trade adjustment assistance proposed in this report hinges on the existence of an adequate safeguard system. An industry should be given an adequate chance to respond to an import challenge, either by restoring its competitive position or shifting economic resources into alternate lines of production. This opportunity should be protected, yet not permitted to become a subsidized economic inefficiency. Available as a moderate cushion to restrain import penetration for the adjusting industry, orderly marketing could provide an integral component to the industrial approach without favoring particular firms within the industry. In the longer run perspective, the interests of the nation's consumers and other competitive industries must also be balanced in this equation (i.e. deviations from an agreed-upon adjustment schedule would end the government's obligation to continue the program) with the legitimate needs of adversely impacted industries.

Community Assistance

One recommendation which has emerged in recent literature and proposals surrounding trade adjustment assistance is the community approach concept. The idea basically entails extending adjustment assistance coverage beyond injured workers and firms to communities. Communities would be authorized to file petitions for assistance on their own, in conjunction with a firm or worker petition or as an all-inclusive community-firm-worker application package. Proponents for the approach argue that it would facilitate planning and implementation of assistance, enabling the program to deal more effectively with overriding core problems of adjustment. Clearly this is an important concept. It is appealing, both politically and theoretically—on the drawing boards. Consequently this report section will aim at evaluating the community approach in the context of a restructured trade adjustment assistance program.

The community approach theme has its origins in the mill town tradition of the northeastern United States, and probably traces its conceptual roots back to the village council idea of frontier democracy. Underlying this was a firm belief in group decision-making and cooperation embodied in the village council, which had ultimate responsibility for running the community's affairs. The community's economic development and livelihood often revolved around one central industry—in the earliest days the mill, which later became the spinning looms followed by a textile factory or some other single industry production. This was true to a certain extent before the centralization brought on by the factory. Later, with the emergence of local factories, the community reliance on single industries probably increased. With the community's economic base—measured in numbers of jobs, tax revenues, industrial and secondary purchases or most other standards—tied into one dominant industry, a failure of that industry could spell disaster for the small town. Thus, any threats to the economic viability of the industry usually precipitated strong counter-measures by the concerned village councils. It is the strength of this tradition and the united community response to problem-solving which provides the rationale for the community approach in the context of trade adjustment assistance.

As a first step in examining the community approach idea, this report analyzes several basic assumptions behind the concept:

1. *The Mill-town tradition* — Does the mill-town, single industry community exist in the present day? And is this image relevant to trade adjustment assistance?

[21]See Subcommittee on Foreign Economic Policy, House Foreign Affairs Committee hearings, (May, 1972) p. 266.

[22]See *U.S. Foreign Economic Policy for the 1970's: A New Approach to New Realities,* (November, 1971), National Planning Association, and *U.S. Foreign Economic Policy and the Domestic Economy,* (July, 1972) Committee for Economic Development.

[23]See statement of Deputy Special Representative for Trade Negotiations, William R. Pearce, before the Subcommittee on Foreign Economic Policy, House Foreign Affairs Committee (May, 1972).

2. *Similarity of import-related injuries* - Are the types of import-injury suffered by workers, firms and communities and the problems arising from this injury similar enough to enable effective joint administration?

3. *Community trade adjustment program – as a supplement to existing regional economic adjustment programs.* Would the community approach on trade problems facilitate action to meet overall economic problems of communities and regions — or merely add new and confusing "program layering" with little projected benefit?

The Mill-Town, Single Industry Tradition

The traditional and intellectual attractiveness of this concept in the context of trade adjustment assistance, (1) blurs the present day reality of the American economy and (2) obscures problems which would undoubtedly hamper the functioning of a community adjustment assistance program.

Although little mill towns characteristic of the eighteenth and nineteenth centuries continue to exist, their numbers are exaggerated. Instead of the single industry community we now find, even in small towns, marked economic diversification and commuter mobility which is increasing. However, in order to more carefully analyze the small town single industry concept in relation to trade adjustment assistance application, a study was made of all the communities with known involvement in the current program through worker or firms petitions—since presumably these communities would be logical targets for the proposed community assistance approach. The chart below lists all of the towns in which there were worker groups certified eligible for trade adjustment assistance benefits from the beginning of the program until July 7, 1972. This listing offers about the most representative group of certified import-impacted areas readily available.

For an accurate measurement of the "mill-town" image and adjustment assistance, cities like Los Angeles, Miami, Brooklyn and others would obviously be excluded. These metropolitan areas would distort the average community size figure and thus should not be used in evaluating the overall group. The median town size of 42,500 is a more accurate figure.

One method of relating the "mill's" problem and its importance to the median town was achieved through a comparison of workers injured by import dislocation to the total population of the community

Table 4

POTENTIAL COMMUNITY APPLICANTS

Case Petition Number	Community	State	Size of Worker Group	Total Community Population*
TEA-W-116	Birmingham	Alabama	350	300,559
TEA-W-10	Los Angeles	California	170	2,815,998
TEA-W-12	Pinole Point	California	150	15,840
TEA-W-29	Meriden	Connecticut	510	55,959
TEA-W-30	Wallingford	Connecticut	1,200	35,715
TEA-W-32	Miami	Florida	350	335,062
TEA-W-103	Atlanta	Georgia	540	496,973
TEA-W-112	Macon	Georgia	1,300	122,423
TEA-I-14.7	DeKalb	Illinois	120	32,885
TEA-W-132	Joilet	Illinois	200	78,527
TEA-W-40	Mattoon	Illinois	300	19,446
TEA-I-14.8	Oregon	Illinois	80	3,539
TEA-W-22	Rockford	Illinois	200	147,248
TEA-W-26	Rock Island	Illinois	430	50,298
TEA-W-65	Vandalia	Illinois	270	5,160
TEA-I-14.2	Bluffton	Indiana	70	8,216
TEA-W-31	Columbus	Indiana	240	27,325
TEA-W-133	Elkhart	Indiana	500	43,564
TEA-W-23(24)	Mishawaka	Indiana	900	35,515
TEA-W-80	Washington	Iowa	440	6,181
TEA-I-15.5	Shreveport	Louisiana	410	182,179
TEA-W-38	Brunswick	Maine	280	16,195
TEA-W-90	Hagerstown	Maryland	100	35,862

*1970 census figures

Case Petition Number	Community	State	Size of Worker Group	Total Community Population*
TEA-W-16	Brockton	Massachusetts	260	89,040
TEA-W-21	Chicopee	Massachusetts	600	66,676
TEA-W-19	Everett	Massachusetts	230	42,500
TEA-W-17	Haverhill	Massachusetts	200	46,144
TEA-W-18	Haverhill	Massachusetts	280	46,144
TEA-W-41	Haverhill	Massachusetts	200	46,144
TEA-W-71	Haverhill	Massachusetts	246	46,144
TEA-W-75	Haverhill	Massachusetts	73	46,144
TEA-W-49	Haverhill	Massachusetts	220	46,144
TEA-W-15	Lynn	Massachusetts	70	90,294
TEA-W-44	Medford	Massachusetts	260	64,389
TEA-W-72	North Brookfield	Massachusetts	460	3,967
TEA-W-139	Salem	Massachusetts	450	40,543
TEA-W-25	Watertown	Massachusetts	2,650	39,295
TEA-I-14.1	Grand Haven	Michigan	310	11,965
TEA-I-14.6	South Haven	Michigan	400	6,471
TEA-W-27	Wyoming	Michigan	150	56,550
TEA-W-37	Derry	New Hampshire	220	11,712
TEA-W-39	Manchester	New Hampshire	406	87,754
TEA-W-54	Manchester	New Hampshire	380	87,754
TEA-W-47	Raymond	New Hampshire	250	2,830
TEA-W-77	Jersey City	New Jersey	800	260,549
TEA-W-59	Brooklyn	New York	80	7,894,798
TEA-W-33	Buffalo	New York	150	462,781
TEA-I-14.3	East Rochester	New York	300	8,205
TEA-W-120	Utica	New York	100	91,611
TEA-W-57	Winston-Salem	North Carolina	300	132,815
TEA-I-14.5	Cincinnati	Ohio	100	452,376
TEA-I-15.3	Henryetta	Oklahoma	300	6,290
TEA-W-8	Armbridge	Pennsylvania	500	11,335
TEA-I-15.1	Arnold	Pennsylvania	410	8,074
TEA-I-15.2	Jeanette	Pennsylvania	200	15,209
TEA-W-9	Pittsburgh	Pennsylvania	90	520,146
TEA-W-141	Shamokin	Pennsylvania	400	11,719
TEA-W-14(15)	Woonsocket	Rhode Island	840	46,820
TEA-W-70	Memphis	Tennessee	2,700	623,753
TEA-I-20.1	Proctor	Vermont	300	2,095
TEA-I-15.4	Clarksburg	West Virginia	380	24,704

or to its total work force. Taking all cases, the average displaced worker group number is 416 while the median group size is 300. Using either figure the injured group would comprise only 1-3 percent of the median community's work force and, of course, even less of the total community population. These findings tend to relegate the importance of the mill town's existence in the context of trade adjustment assistance to a romantic vestige of America's economic past.

Despite these cumulative figures, there are individual cases on the chart which reflect situations of serious community injury (i.e. large injured worker groups in comparison to town population such as North Brookfield, Massachusetts or Proctor, Vermont). Thus, while the assumed high proportion of serious community injury may be exaggerated, there are cases which might support the need for a workable community approach to import dislocation.

*1970 census figures

Similarity of Import-Related Injuries

This conclusion channels into the second assumption which is often accepted at face value by proponents of community assistance: that the types of injury suffered by firms, workers, and communities,

and the problems emerging from these injuries are similar enough to be administered effectively together in a common solution. This is a central tenet in the community approach to trade adjustment assistance.

The basic question embodied in this assumption is: Will an overall joint petition and adjustment proposal from communities, firms and workers result in more effective program planning and implementation? Clearly, an integrated petition will almost necessarily require more time to assemble and investigate than single firm, worker, or industry petitions. Also the potential for delays would probably be increased. This development would be in sharp conflict with generally accepted goals of reducing the investigation and determination time absorbed by the present program. Admittedly, from the viewpoint of the investigating body the total time involved in a composite investigation might be shorter than that required for separate petitions. However, for the firm or individual worker who must wait for completion of a community investigation before certification of eligibility, the separate petitioning process would certainly seem preferable.

There is some logic to a joint petition between firm and worker group. The worker's certification depends upon the reasons for his separation from the firm and the firm can show injury by the underemployment or unemployment of its workers. However, the type of investigation into community economic dislocations needed to determine eligibility for a community might go well beyond the data required for worker or firm determinations.

Delay considerations involving the petitioning process are vastly compounded when the procedure then moves on to the formulation of an adjustment proposal. Complications raised by local community politics, added to the usual labor-management differences in the drafting of a joint adjustment proposal, could further confuse the situation. The formulation and implementation of an assistance proposal agreeable to all sides, including the federal government's administering body, would inevitably complicate and delay the receipt of assistance by any individual group.

The delay potential is compounded by a further problem inherent in the community adjustment approach—recognition that the needs of the various groups involved may not readily coincide. For example, the kinds of assistance aimed at development and diversification of a community industrial base may do little to help a particular firm increase its ability to meet foreign competition. If both are legitimate needs they should be handled separately by appropriate agencies and programs geared to meet that problem, not lumped into a common proposal which will likely involve additional delays and confusion emanating from different objectives.

Community-Trade Adjustment: A Case Study

In preparing this report several exploratory trips were made to obtain an accurate picture of import-impacted communities. One of the visited areas was northeastern Massachusetts—a region where segments of the shoe industry have historically been concentrated. The well known sensitivity of this industry to import competition is dramatically illustrated in Table 4 by the town of Haverhill. During the period 1969-1971, nine Haverhill shoe factories employing 1,559 persons closed their doors. The total number of the town's workers certified eligible for trade adjustment assistance benefits as of November 1972 was 1,219—well above the 300 worker mean figure or the 416 average figure for worker groups. Haverhill's population in the 1970 census places it near the center of the reference group and, with the higher number of displaced workers, it can be used as an example where combined closings could seriously damage the community's economic base. While Haverhill cannot be classified as a mill town in the traditional sense (other industries such as electronics are important employers) the shoe industry has provided the town's main economic support. Consequently Haverhill's shoe industry problems and related import competition can provide an example of how a community approach might operate.

An additional aspect of the Haverhill case makes it an especially interesting area to examine. Due to some defense cutbacks in nearby plants, the Haverhill area is currently included in the program of the Inter-Agency Economic Adjustment Committee (IAEAC). This group was created in March, 1970, and works closely with the Office of Economic Adjustment (OEA) in the Department of Defense to help alleviate regional economic difficulties caused by cutbacks or shifts in defense contracts or installations. The efforts of the Defense Department are often cited as a model for the community approach to trade adjustment assistance. In fact, in its adjustment assessment the OEA focuses on the overall economic adjustment needs of the community and thus considers problems beyond defense-related causes.

Several significant findings came from discussions with OEA personnel and from the NAM exploratory trip to the Haverhill area. A series of meetings were held with community and business leaders concerned with both the overall economic adjustment of the community and, more specifically, the adjustment needs of the local shoe industry. (See Appendix "B" for list of meetings).

Among the first findings of the Haverhill study was that a community approach to adjustment would likely include much of the surrounding area since local employment conditions are heavily influenced by the availability or lack of jobs in the cities and towns in the immediate vicinity within easy commuting distance. The geographical boundaries of this

Haverhill region, as defined by the OEA, also includes the towns of Lawrence, Andover, Georgetown, Groveland, Merrimac, Methuen, North Andover and West Newbury.[24]

Clearly, one of the central problems of the community approach is the definition of "community". If the community's adjustment solution is based on a regional economic unit as described above, this would add new complications to the program manifested by extra investigation, delays in proposal formulation and conflicting local politics. Indeed, the OEA report cites several larger economic areas, even crossing state boundaries, upon which general adjustment measures could profitably be based. Unfortunately, within the smaller groups of communities there is often more conflict than harmony of interests due to differences in the individual communities' economic pictures and simple, old fashioned inter-regional rivalry.[25]

In addition, there seems little correlation between the adjustment measures needed by the community and those needed by the injured firms. Haverhill's principal industrial development needs involve supplying three promising industrial sites with adequate water and sewage utilities. Provision of assistance to satisfy this need would do nothing to solve the shoe firms' import problems. Vacant shoe plants now stand idle with shutdowns so new facilities at an industrial site are meaningless to the shoe people. Had a joint community proposal been submitted in a trade adjustment program, the shoe firms would probably have had to wait for the community investigation and the drafting of a common adjustment strategy before receiving any aid.

Analysis of the Haverhill case provides a concrete example of how a concept of community trade adjustment assistance could cover-up underlying operational difficulties. Although a community-firm petition might make sense in some selective cases, the combination with a firms' adjustment problems would seem unwarranted and often harmful to the firms' interests. Even a community-worker approach may be questionable. For example, many workers in Haverhill shoe plants come from the surrounding economic areas,[26] a fact supporting the OEA reports' assessment that the adjustment process should be based upon a regional approach. While the end results may benefit the individual worker, it is doubtful that all assistance benefits to him should be held up until an overall community or regional approach can be drafted.

Existing Economic Adjustment Programs

It is important to differentiate in this study between the generally laudable goal of encouraging community and regional economic adjustment efforts and the specific proposals to tie this type of effort into a trade adjustment assistance program. Beyond the recognition that the effect of import dislocation on a community's total economic picture is usually exaggerated, lies the fact that the vast majority of import-affected communities are already involved in various economic adjustment programs. There are nearly 1,300 domestic action programs and thousands of additional services on the federal level alone which can be mobilized to assist community development under varying conditions. The map below takes the same potential community applicants listed in Table # 4 and distinguishes those already covered in some manner by an economic adjustment program of only three of the federal agencies: Economic Development Administation (EDA), Department of Housing and Urban Development (HUD) and the Inter-Agency Economic Adjustment Committee (IAEAC).

There are certainly ample federal programs now to handle most community economic adjustment needs and do so on a wider regional basis if necessary. Community adjustment should be handled in an integrated fashion, not concentrating on only one specific segment such as import dislocation needs. Clearly another duplicative and overlapping federal program is not needed in this area. The likely result of a community application procedure would be an unnecessary burdening of a trade adjustment assistance program with resultant complications and delays harmful to the interests of the program's individual worker and firm participants.

In conclusion, the need for community assistance based upon import dislocation is exaggerated. Beyond this consideration the lack of coincidence between the adjustment needs of workers, firms and communities does not augur well for proposed joint approaches. If regions and communities experience serious economic dislocation, programs already available should be emphasized (and even now are often operative in the affected areas) rather than adding on supplemental programs for trade adjustment assistance at the risk of confusion and great delays. Important community adjustments to general economic dislocation should continue to be handled through agencies such as the Department of Defense (OEA), EDA, and/or the Department of Housing and Urban Development. These channels afford the best

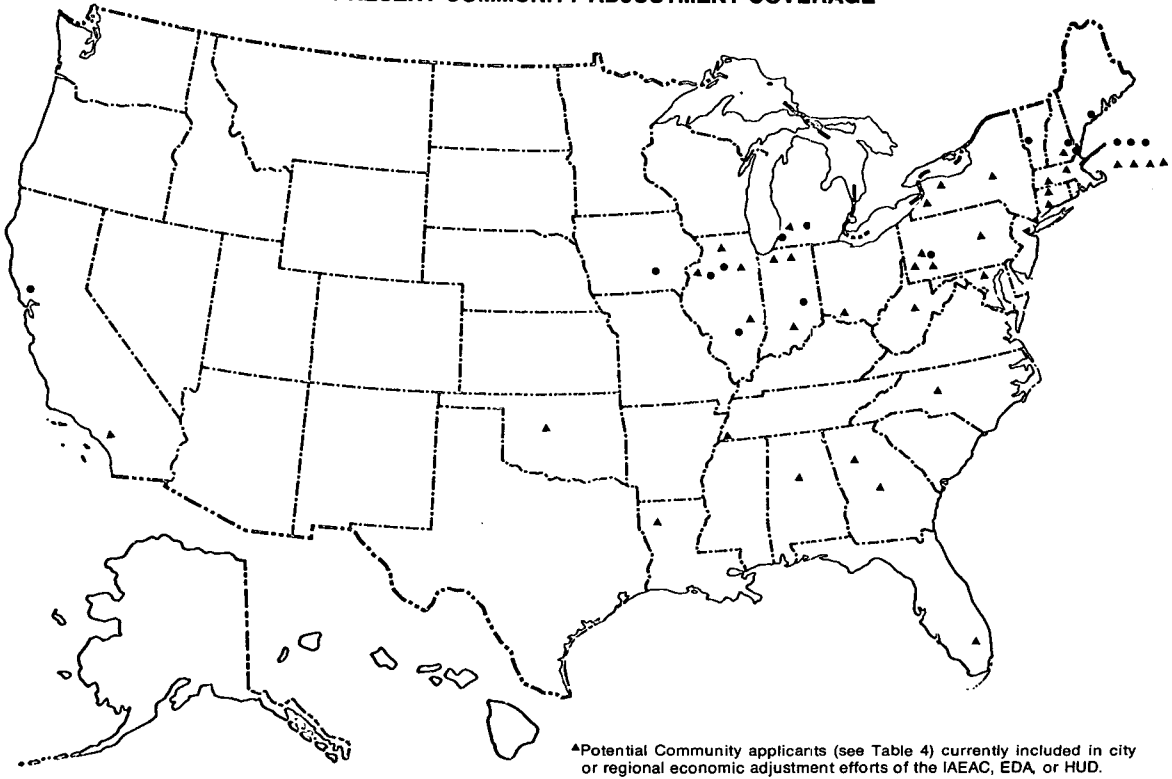
[24]See OEA report on Haverhill-Lawrence area resulting from IAEAC Task Force fact-finding trips.

[25]This rivalry can reach debilitating proportions between towns, best illustrated by competing industrial development groups and chambers of commerce which fail to coordinate efforts and pool limited resources to promote industrial growth on a regional, mutually beneficial basis.

[26]Worker-commuter mobility has been greatly increased with new freeway systems rendering a strong argument for single community adjustment obsolete. Modern workers are less dependent on jobs in their immediate towns. Thus reemployment requires relocation — and the attendant severance of community ties — much less often.

Chart 6

PRESENT COMMUNITY ADJUSTMENT COVERAGE



▲Potential Community applicants (see Table 4) currently included in city or regional economic adjustment efforts of the IAEAC, EDA, or HUD.

●Potential Community applicants not currently participating in IAEAC, EDA or HUD programs.

avenues for voluntary business leadership and input on local levels of problem-solving.

For its part the National Association of Manufacturers will increase its efforts to encourage (1) more involvement and leadership in community problem-solving by healthy industries and (2) greater coordination at local, state and regional levels to meet the problems of generalized economic dislocation through its affiliated National Industrial Council.

Multinational Corporations

A number of recently proposed changes in the trade adjustment assistance program attempt to construct a special category for United States' based multinational corporations (MNC's). Much discussion and some proposed legislation has aimed at tying MNC's and the impact of direct foreign investment directly into the trade adjustment assistance issue. This reasoning attempts to "mix apples and oranges", ignoring the basic concept of adjustment assistance which responds to governmental action (i.e. tariff concessions or other prevalent forms of governmental action in the international marketplace) which is beyond the control of both workers and management alike.

The impetus for these moves arises not from hard-headed economic reasoning, but can be traced back to political motivations behind the Burke-Hartke legislation introduced onto the international trade scene in late 1971. The MNC's are unjustly castigated for causing the import problems, supposedly through alleged importation of products produced by their subsidiaries overseas. This theoretical "job loss" argument assumes that every stage of a product's manufacture can be conducted competitively within the United States. However, for some lines of production, partial assembly outside the U.S. may be the only way a company can continue to produce competitively. Denied this alternative, corporations would probably be forced to shutdown operations *of not only the uncompetitive line,* but also related lines which may depend on the overseas component to complete an efficient production process. This action would mean cumulative *real* job loss at home for not only the originally affected workers, but many others who would discover too late their dependence on the firm's overseas operations.

The questionable nature of the Burke-Hartke reasoning might be illustrated with a proposal for rewarding companies, which through efficient management and growth, have created jobs domestically by means of foreign investment. If the present debate over MNC's were based upon a factual, economic concern with job creation, such a proposal would provide a "balanced" approach to the issue. However, the underlying motivation for investment and trade restrictions seems directed more at establishing a type of political and economic control over management decision-making through the use of government intervention. For instance, some of the "adjustment-related" proposals would penalize MNC's financially for investing overseas by forcing them to absorb government retraining costs for any workers displaced by management decisions to shift production. Such logic ignores the fact that the overwhelming majority of overseas investments by MNC's actually *create* jobs within the U.S., and an attempt to inhibit such moves will mean a job loss at home plus a reduced international competitive position.[27] This type of proposal also illustrates the kind of government controls which could be increasingly utilized to influence management decisions to shift various aspects of production. Such a system of controls would be entirely inimicable to the free enterprise system.

There is a danger that opponents of the Burke-Hartke legislation will be tempted to overcompensate and offer counterproductive compromises which are unwarranted and potentially harmful. Some compromises, already reflected in legislative proposals involving MNC's and trade adjustment assistance, would make displaced workers eligible for present program benefits, requiring only that firms advise potentially-impacted workers through early notification procedures of business investment decisions. This type of provision does not constitute a justified inclusion in a trade adjustment assistance program. Besides expanding the coverage far beyond the program's legitimate purpose, it ignores the fact that management has recognized the responsibility to forewarn workers as soon as possible of decisions resulting in job cutbacks. In fact, many companies even offer on-the-job retraining to such employees in order to assure them of higher-skilled jobs within the company after the old jobs are phased out.[28]

The proper measure of eligibility for a trade adjustment assistance program should not be based upon the type of firm involved. During recent Congressional hearings, the question of an MNC's responsibility and role in assisting adjustment was put to Professor Stanley D. Metzger of the Georgetown University Law Center and former member of the Tariff Commission. His reply summarizes the objective facts: "If plant A of corporation B is shut down because of alleged import competition, it does not make any difference whether corporation B is a so-called multinational corporation or owned by a family going back 150 years in a particular locale. The fact that it is a plant, and that it gives employment is the common denominator, all other factors being irrelevant."[29] *In conclusion, this report finds no grounds*

[27]See previous NAM studies on MNC's and foreign investment.

[28]The most widely recognized instance of such action was the retraining of local telephone operators for other positions. Many other examples occur throughout industry.

[29]See hearings of the Subcommittee on Foreign Economic Policy, House Foreign Affairs Committee, (May 1972) p. 29.

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for mixing the private investment decisions of a U.S. corporation into the debate over formulating a needed mechanism for facilitating domestic adjustment to the problem of import competition.

Organized Labor

This report calls for a new commitment from all elements of national leadership to work for a revitalized and redirected trade adjustment assistance program based on resource adjustment, job retention/creation and productivity growth, rather than on late compensation. Obviously, organized labor has a major role to play in this effort.

Over the last decade organized labor has moved steadily away from its earlier tradition of freer trade and investment, toward a more inward looking posture favoring the adoption of massive trade restrictions and restriction of United States companies with overseas investments. The reasons behind this shift are deep-seated and complex. Union arguments often appear simple and uncontestable individually; however, in the interrelationships that make up international economics, they become blurred and in cases somewhat inconsistent. This turnabout is well illustrated by the position of organized labor on trade adjustment assistance.

Clearly, there is some justification for organized labor's disenchantment with the present program of trade adjustment assistance. Indeed, neither the government administrators nor the program's recipients are salutory in their evaluation of its performance and results. However, this dissatisfaction should not cause the complete rejection of the concept's potential, if properly formulated. The program as originally established emphasized compensation rather than adjustment and tied the whole process into a maze of delays. A redirected effort concentrating on the needs of the average working man—early adjustment measures to enable him to retain his present job or early job placement enabling either lateral or upward mobility into more productive lines of work —could go a long way toward correcting the concept's original deficiencies.

It is sometimes suggested that organized labor must necessarily oppose the adjustment concept because it might involve job changes. Indeed the change might involve either (1) a worker moving into a higher-level, better-paying job which might be less unionized, or (2) friction between the different unions involved if workers shift from one union to another, or one location to another. There may be some truth in these cynical arguments, recognizing the source of local and national union strength rests in organization and member dues. However, this notion, if carried to its extreme, would place organized labor in a position *opposing* the development of a more mobile, higher-skilled labor force with an attendant higher real income and standard of living.

An effective early warning and industrial adjustment mechanism, as proposed in this report, would render the union's organizational problems illusory by strengthening job retention ratios in import-sensitive industries. However, even if some membership loss occurs in the ranks of organized labor through vocational shifts, this would be more than offset by the real gain to the average working man, who would be provided with early job placement adjustment should his employer be forced out of business by factors beyond his control.

There is considerable strength in the argument that American workers and management should unite behind a tough, fair trade policy, which would demand more equitable access to foreign markets commensurate with the access their goods are granted here. At the same time, management and labor should look beyond the problem symptoms to the root causes of our declining national competitiveness. Recognition of these causes will give greater emphasis and support to proposals aimed at (1) improving productivity, through new investment in human resources and capital equipment (2) strengthening the manufacturing base of the nation and encouraging export expansion (3) facilitating economic adjustment (4) promoting research and development.

Organized labor, management and government are beginning to recognize the imperative of closer cooperation—particularly regarding national problems in productivity and international competitiveness. Efforts aimed at "productivity bargaining" and strengthening the domestic manufacturing base are badly needed. Similarly, new joint initiatives are necessary in the areas of economic adjustment, manpower development through continuing education and the exercise of full employment policies. In this broad sweep of issues where major differences abound, trade adjustment assistance may be the "dark horse" of compromise potential. Alarmed by the challenge of foreign competition, unions are recognizing the need for job creation and job retention as opposed to higher compensation for lost jobs. This report's proposal for a restructured trade adjustment assistance program is certainly preferable to the "booby prize" compensation emphasis written into the present program back in 1962 in order to woo labor support. Such a new program emphasizing early adjustment could yield a much more positive approach to the problems of import competition which, in the longer run, will be of greater benefit to both the individual worker-consumer and to the country as a whole, than the costly and restrictive trade measures presently being offered in its place.

SECTION 4

Integrated Cost-Benefit Analysis

The cost and the effectiveness of any program of trade adjustment assistance will be greatly influenced by the health of the general national economy. A redirected and effective program could have beneficial effects upon the economy in terms of increasing productivity and facilitating the quick reemployment of both workers and capital. However, the flow also goes in the other direction; in a strong, healthy economy the adjustment process will be easier and will cost less — in conditions of rising unemployment, program cost may mushroom with little noticeable improvement. This relationship of trade adjustment assistance to overall economic conditions was described by Mrs. Norman Hinerfeld of the League of Women Voters of the United States in Congressional testimony in April, 1972. "This is the dilemma of trade adjustment assistance. We know that it both contributes to and benefits from the strength of our national economy. But we know, too, that by itself it cannot transform a stagnant economy into a vigorous one. Any trade adjustment assistance program, no matter how ingeniously devised or generously endowed, ultimately will depend for its success on prevailing economic conditions."[1]

An adjustment mechanism can cushion the severity of economic import dislocation and mitigate its attendant effects. However, it cannot substitute for measures to promote the general health and growth of the U.S. economy. The government must maintain sound monetary and fiscal policy and promote the operation of the American free enterprise system. While programs should produce gains commensurate with expenditures, such specific effectiveness should be measured in light of the prevailing economic environment in which that program operates. A trade adjustment assistance program involves both the national and international economic policy. As such, it will influence and be influenced by elements in each sector, making an accurate evaluation on its own merits more difficult.

Recognizing there are no precise measuring standards for adjustment assistance cost-effectiveness, we turn to the program's general objective: offsetting non-market influences introduced by government into the private economy (through governments' pursuit of international economic policy) and facilitating the speedy adjustment of resources. (While the costs of achieving this goal should diminish as the United States economy increases its strength, the basic objective remains the same.)

Recognizing these broader overriding considerations, this report section spells out an integrated cost-benefit construct for trade adjustment assistance. Elements of past operation, present alterations and suggested changes are drawn together in an effort to outline the most cost-effective approach to adjustment assistance and import dislocation. Wherever possible, specific cost estimates are indicated; where a cost comparison is speculative or rests on a theoretical application base, the underlying justifications for its adoption are examined. Both general approaches and specific program elements are discussed and evaluated with conclusions drawn whenever possible. Many considerations and program variables are not subject to statistical measurement. However, this effort seeks to integrate the major relevant features into an overall concept evaluation.

The purpose of this section is to present an integrated cost benefit analysis of the trade adjustment assistance issue. Stress is placed on achieving optimal cost-effective procedures for dealing with the import-dislocation problem, comparing where possible the specific cost estimates of general approaches and program options and their anticipated benefits (or lack thereof).

This analysis will cover four option areas relating to trade adjustment assistance: (1) the current program, (2) no program, (3) an expanded program, and (4) the recommended alternative of this study. It is most logical to begin with the first of these areas—the current program—which has its basis in present reality and can therefore provide some statistical groundwork from which comparative estimates can be drawn.

Current Program

Although the current program was authorized in 1962, cost-estimates are only applicable for the relatively short operative period from the first approved petition in late 1969 to the present. Contrary to many initial expectations, the rash of increased program usage after the first petition approval already seems to be leveling off, as shown in the chart below.

The following cost estimates will therefore be based upon anticipated program use at approximately present levels.

[1]See hearings before the Subcommittee on Foreign Economic Policy, House Committee on Foreign Affairs, (May, 1972), p. 4.

CERTIFIED CASE LOADS
YEAR OF ORIGINAL CASE CERTIFICATION

	1969	1970	1971	1972*
Firms	0	7	9	5
Worker Groups	3	28	30	16

*indicates only the period up through November, 1972

Up until November 30, 1972, around $45 million had been paid out in benefits to certified workers. It is estimated that one-third of the potentially eligible workers (estimated by the Labor Department at 30,361 through November, 1972) will never apply for benefits. Using a rounded figure of 30,000 workers, this calculation decreases the number of actual benefit recipients to 20,000. With total worker benefit expenditures of $45 million, the average payment per worker would then be approximately $2,250.

In order to estimate the number of potential benefit recipients each year, the high number of cases thus far (30) is taken and multiplied with the 450 average number of workers per case (30,361 total workers divided by the 67 total cases). The result is an estimated 13,500 potentially eligible workers annually. Making the adjustment listed above for those who do not apply, an estimated 9,000 workers will actually draw benefits each year. At an estimated $2,250 per workers, the average annual benefit expenditure would be $20,250,000.

Two further considerations should be noted which are likely to act as built-in escalators of workers costs under the current program. First, the trade readjustment allowance (TRA) is figured as a wage percentage and will therefore probably increase the weekly payment amount over time as wages increase. Second, present benefit expenditures have consisted almost entirely (around 90%) of TRA payments and present plans call for trying to increase the expenditures for retraining and perhaps relocation. These two probable additions to the cost of worker benefits are at present incalculable, but should be taken into consideration in a program evaluation.

The firm side of the current trade adjustment assistance program has yielded the following approximate amounts of assistance given to ten firms (some receiving more than one form of aid) up through November, 1972:

$14,269,394. (7 firms) financial assistance
3,754,856. (4 firms) tax assistance
547,250. (6 firms) technical assistance

This assistance averages out to $1,857,150 per firm. In addition to this aid given as part of a final adjustment plan, a form of pre-proposal technical assistance, usually amounting to $2,500., is often provided to assist firms in drafting their adjustment plans. Adding in this extra expense, a normal firm case might be expected to involve roughly $1.86 million in expenditures.

This cost figure is somewhat deceptive, since not all forms of firm assistance constitute an actual outflow of government expenditures. Loans and loan guarantees (contained in the largest category of financial assistance) could not ordinarily be classified as a complete loss of government money — unless, of course, the firm collapsed and not all the money could be recovered. Loan guarantees, for example, would mean no net outflow of funds under ordinary circumstances. However, it is not possible from available statistics to accurately judge this consideration and the $1.86 million figure will be relied upon.

It should also be noted in regard to the relative number of firm cases that a figure of ten new cases per year seems sufficient to estimate costs. This case load would mean a total annual expenditure of $18.6 million for firm benefits under the current trade adjustment assistance program.

The administrative costs of the present program are nearly impossible to determine accurately. With the present maze of overlapping action and responsibilities, a myriad of separate agencies play a role in administering the program. For example, the Tariff Commission conducts lengthy and involved investigations of most petitions, in part for purposes of adjustment assistance and also in relation to escape clause action. Local employment security offices must make a separate investigation of each individual worker application and invest many man-hours of labor in administering the benefits — all of which is difficult to accurately separate-out from the office's other operations. Solely for purposes of an initial attempt at a manageable cost estimation, a figure of $1.5 million for total program administrative costs has been arrived at through a cumulative process of unofficial cost estimations.

These three areas of worker and firm benefits and administrative costs constitute the major measureable expenditures for the current trade adjustment assistance program. These figures yield the following annual program cost estimate:

$20,250,000 worker benefits
$18,600,000 firm benefits
$ 1,500,000 administrative costs
$40,350,000 total annual cost (estimated)

One further intangible cost must be mentioned, although it cannot be charged off wholly to the trade adjustment assistance program. This additional factor is the non-quantifiable frustration and dissatisfaction which the present program has caused, adding to the recent pressure for the adoption of trade restrictive legislation. Originally conceived to help facilitate adjustments to import dislocation, the program has largely failed in this objective. Channelled into a confluence of other factors, this has led to the bitterness and resentment now directed at the total

U.S. trade policy. The reflection of this sentiment is clearly portrayed by organized labor's switch from supporting liberal trade policies to advancing extreme trade restrictive measures — such as the Burke-Hartke proposals. Thus, the declining constituency for freer trade policies, added to the increased support for measures as Burke-Hartke, must be measured as a large cost-failure of the present program.

The benefit side of the current program reflects the causes for the widespread dissatisfaction with the present effort. Only about 20,000 dislocated workers have received any direct assistance from the program and these benefits have come almost exclusively in the form of a late retroactive compensation payment of the trade readjustment allowance. Little retraining benefits have been experienced, few additional job placement services are offered and virtually no relocation assistance has been given. The displaced worker is in largely the same position as he would be without the program.

Firm applicants have not fared much better. Out of ten assistance recipients, one has gone bankrupt and two others were forced to shut down operations due to aid delays. Two aid recipients appear to be on the road to recovery; the other five are still in the early stages of adjustment actions, most of their adjustment proposals having been approved only recently, during 1972. Clearly, the success of present firm benefits is doubtful, although a conclusive judgment on the issue cannot yet be given.

Recognizing the general failure of these two areas of direct benefits, few instances of favorable side-effects can be cited. For example, little measurable productivity gain has accrued from firm assistance, nor are workers being taken quickly off the relief rolls and placed in productive jobs. No active encouragement is given to early industrial self-adjustment which might help workers retain their present jobs. The economy as a whole does not seem to receive any particular benefits from the current program which has not yet acted to facilitate successful adjustment of productive resources into more competitive lines.

Overall, current program costs — although not excessive in themselves — are clearly disproportionately high relative to the void of benefits produced. The program has not made a positive contribution to active adjusment, but rather passively compensates productive factors for injury which has been suffered. Whether or not the program provides proper funeral expenses, it has failed to meet its positive objective of facilitating the proper adjustment of resources in the national economy.

No Program Option

The most obvious and usually least considered alternative to the present program of trade adjustment assistance is the simple elimination of the program. Once established, most government programs tend to automatically acquire a legitimacy which often inhibits evaluative efforts from addressing the idea of elimination. However, a balanced cost-benefit analysis must also consider this a very real, if sometimes overlooked, option for action.

The costs of abandoning trade adjustment assistance are largely intangible estimations based upon projected future action. In order to analyze this subject, it is necessary to first separate two different options which could be subsumed under the general idea: (1) elimination of the present program (2) abandonment of the entire trade adjustment assistance approach. The first of these options would probably not involve large costs recognizing the widespread dissatisfaction with the program's achievements. As was evident in the preceding analysis section, the actual benefits realized from the current program have been largely non-existent. Therefore, the program's elimination would not constitute a major "cost" in terms of lost results.

However, the complete abandonment of the trade adjustment assistance concept, eliminating the current program and not replacing it with any alternative variations or modifications, is another issue. It is under this option that a number of cost factors must be taken into consideration. Were such actions taken, two possible occurrences might develop, either alternatively or in some combination: (1) a forward-looking international economic policy could be pursued, letting the chips fall where they may and leaving the injured to care for themselves (2) import-injured sectors could force the abandonment of a progressive international trade policy and substitute costly protective measures in its place--as epitomized in the Burke-Hartke proposals.

The first potential occurrence involves the abandonment of a previously accepted principle: that particular economic sectors, firms and individual workers should not be made to bear the full burden of pursuing the country's international economic policy. Since such a policy is pursued in the interests and for the benefit of the nation as a whole, the principle has held that any resultant injury should also be shared across the board by the national economy.

Foresaking this burden-spreading principle involves two primary costs: (1) Under or improper utilization of economic resources. For example, if an industry is injured due to the impact of government intervention in the marketplace — where it might have remained competitive had not the intervention taken place — the real loss of domestic production (capital output, profits, paychecks and tax revenues) will result in a misallocation of resources compared to a freely competitive marketplace. (2) Some individual businesses and workers (and through them related businesses and other workers) may experience loss of revenue, jobs, security and overall

prosperity--all sacrificed for the national well-being of which they will not be a part.

While inefficiency cannot be subsidized, neither should the nation turn its back on those injured due to a broad consciously-adopted public policy of which the injured are only a small part. Workers and firms, harmed by the non-market distortions characterizing the international arena, should be given the opportunity to regain their economic feet and rejoin the national prosperity. To do any less would be to abandon basic tenets of both a freely competitive market system and traditional American concern for the individual.

The second possible occurrence under a no-program option involves numerous potential costs —all of which must be judged in relation to the potential for steadily increasing pressure for trade restrictive legislation. The most obvious and current example of how economic sectors may act when they feel injured and abandoned by national policy is the Burke-Hartke solution. Without even considering the dangerous and costly tax and investment issues in these measures, the trade proposals alone would exact an enormous cost from the American worker-consumer-taxpayer. Some estimates singling out the trade costs of Burke-Hartke head upwards of $20-30 billion annually.[2] An NAM study on the taxation provisions projected a loss to the U.S. economy of over $10 billion if Burke-Hartke provisions on taxing foreign source income were implemented.

Sweeping proposals for quantitative restrictions could trigger political and economic effects which would likely be catastrophic, particularly in the context of upcoming multilateral trade and monetary negotiations. The pursuit of a profitable international allocation of resources and division of labor would be discarded, as indeed would proper domestic resource allocation. Inefficient U.S. industries would be lumped in with those seeking legitimate import moderation due to unfair foreign practices—and efficient export sectors would languish against retaliatory foreign trade walls.

The American consumer would undoubtedly pay a high cost for the Burke-Hartke trade package. Furthermore, the American worker would suffer on the whole since job retention in the protected sector would probably be more than offset by job-loss in the export sector with its recognized multipliers. The U.S. taxpayer would also have to pay the large administrative bill for operating such an all-inclusive and bureaucratically burdensome system of trade restrictions—without any offsetting tariff revenues.

A workable system to trade adjustment assistance will not by itself be a full counter to the current build-up of trade restriction sentiment. However, a new operative system could relieve some of the immediate pressure for restrictive trade legislation and, with proper development, take a progressively larger role in meeting legitimate needs of the import-injured. A choice of the no-program option would clearly forfeit these sectors to the trade restriction side in the coming debate and will neglect the real injury which they have suffered. The apocalyptic result of such a policy can only be estimated—in the billions of dollars, the thousands of jobs lost, and the cancerous growth of international discord and retaliation.

The benefit side of the no-program option is short and succinct—a savings of government expenditures now running at around $40 million a year. While this benefit might outweigh the cost of eliminating the present unsuccessful program, it would not off-set the dangers inherent in abandoning the entire trade adjustment concept. There is one argument which sees an additional benefit to program elimination — that of government reorganization wherein an overlapping program is set aside. However, if the need of the import-injured were in fact being taken care of by other programs — or indeed by the current TAA program — this group would not now be clamoring for harmful quota restrictions. Clearly some form of workable program is needed - which moves us to the next section on program modifications.

Program Expansion

The program modification usually offered is an expanded version of the present approach. This tendency is unfortunately all-too-common in government programs—if it doesn't work, pour in more money until it does. Several of the common expansion ideas were discussed in the previous report section on proposed changes. This analysis will attempt to put a price tag on a number of those additions and detail just what benefits they may offer.

The most common proposed change is to increase the percentage payment of the trade readjustment allowance (TRA). The current rate is 65% of the workers previous weekly wage or of the national average manufacturing weekly wage, whichever is less — presently constituting a maximum payment of $93 a week. Although some legislation introduced in 1972 proposed a 100% rate under certain circumstances, the most common suggestion is for an increase in TRA to 80%. This change would increase the weekly payment to approximately $114 a week per worker. Using the estimated 9,000 workers who would draw such payments each year, this increase would mean an additional expenditure of $189,000 per week if all workers drew benefits at the same time. The average worker presently receives $2,250 per year in total benefits, about 90% of which is in the form of TRA payments—meaning that he draws his $93 TRA payment for about twenty-four weeks. Using this same

[2]See C. Fred Bergsten, Brookings Institution, Testimony before Subcommittee on Foreign Economic Policy, House Foreign Affairs Committee, May 1972.

average length of twenty-four weeks of payments, the total cost of the TRA increase per year would be $4,536,000.

Measured against this cost increase, what benefits might be achieved? The import-injured worker would receive more money—but it might still come a year or more after his unemployment, unless a further substantial overhaul were effected in the program's petitioning, determination and delivery process. This payment is for maintenance alone and as such perpetuates the compensation emphasis of the present program, rather than facilitating speedier adjustment back into the active labor force.

The import-injured worker would be receiving a larger amount of financial compensation than workers unemployed for other causes. However, this objective is not necessarily desirable or justified. The issue is discussed at length in the issue reference section on TRA benefits which comes to the conclusion that a separate payment system is burdensome and should not have been superimposed upon existing state unemployment compensation programs. In short, an increase in TRA payments constitutes a blind attempt to buy labor support which neither contributes to individual worker adjustment nor provides a fair income maintenance system for unemployed workers.

Recognizing the growing emphasis workers are placing on job retention and upward mobility opportunities—it seems doubtful that they will be persuaded to accept the old compensatory adjustment assistance program—even if it is sugarcoated with higher TRA payments and benefits. Workers do not want to lose their jobs—due to imports or any other reason. Trade adjustment assistance stressing compensation implies an acceptance of job-loss and does not really address itself to ways of preventing this from happening.

A second proposed change in the present system is the loosening of eligibility criteria so that more workers may receive benefits. Beyond the evident need to eliminate the link between increasing imports and prior trade concessions, further modifications are suggested. Many proposals suggest liberalizing the present requirement of showing imports to be a major cause of injury (more than all other factors combined) to the criteria of demonstrating a primary (more than any other single factor) of substantial (one among many) cause of injury. While there would be no way of estimating in advance the number of extra cases these modifications would allow, they would likely be substantial, especially where the injury requirement is decreased. Such a modification could double or triple the number of eligible workers (and firms), sending benefit expenditures and administrative burdens spiraling. Nor would these liberalizations necessarily result in legitimate benefits, for while the first modification might be warranted, the second has not been proven necessary and could result in windfall benefits to workers and firms injured for reasons other than import dislocation.

Another example of a costly expansive idea was advanced in legislative form during 1972 and would vastly broaden program coverage. Under its provisions all injury incurred due to any shift in government procurement or support policy (for example, defense and space contracting) or to the relocation of U.S. firms outside the country, would be eligible to receive adjustment assistance. Such a concept clearly moves the program out of the trade realm and introduces government assistance throughout the economic spectrum.

The financial cost of this type of program expansion is not subject to any remotely accurate estimation. However, other intangible cost factors would probably prove equally detrimental. In addition to the obvious governmental expansion into private business areas, the approach would hopelessly complicate and burden a program which has not yet proven that it can effectively administer a small benefit area. The expansion would likely lead to frustration when the situation proved unworkable, thereby eliciting pressure for even greater government control over private investment decisions in the domestic as well as the international area.

The major benefit of such an approach would be the integration of most adjustment schemes into one gigantic program. The corollary in this benefit is, of course, that past experience has not yet shown what proper and workable master scheme could be adopted. Conversely, the benefit of smaller programs is that they can, if properly oriented, still complement each other at this stage, serving as pilot projects whose lessons can be adapted elsewhere. Furthermore, smaller "micro" efforts can zero-in on the problem, directing their resources at specifics, rather than trying to cover a broad area with a cure-all approach.

Numerous smaller changes have also been proposed which are somewhat more susceptible to quantification, but only on a very loose estimate basis. Most of these other proposals point toward expanding the fringe area of workers' benefits—still emphasizing its compensatory features.

For example, some system of pre-retirement benefits for older workers has been proposed which would provide maintenance payments until the Social Security retirement age was reached. Assuming one-half pay as a benefit, which today would average around a maximum of $71 a week, this cost would run at $3,692 per worker per year. Figuring about 10% of eligible workers might draw such a benefit each year, perhaps for an average of 5 years before regular retirement age is reached, this addition would cost over $3.3 million per year for one group ($3,692 x 900 (10% of workers)). Since successive groups would be added each year, five groups would be drawing benefits simultaneously after five years, thus

yielding an annual cost five times this amount, or $16.5 million per year.

To this financial expenditure must be added several other cost factors: (1) the cost to the economy of the loss of the workers' potential output—by no means inconsequential simply because he is older, (2) the cost to a worker if he must live on 1/2 salary rather than a full working income, (3) the extra administrative cost of a mini-Social Security payment with consequent investigations to determine employment status, outside income, etc.

The benefits of such an early retirement program are based upon dubious assmmptions: (1) that the older worker is no longer capable of working in a productive capacity, (2) that he cannot find a job, or (3) that he does not want to work. The first of these assumptions denies the benefits of age and experience, seeking to discard a person who is not yet even sixty. This view should be regarded as costing the nation a productive and experienced worker and also as a cost of the self-esteem and worthiness of the individual.

The second assumption is often passed along as a self-truth, but has been qualified in an NAM field trip to Massachusetts, and plant shut-down cases in Rhode Island and Pennsylvania. While the older worker may experience longer periods of unemployment after a job loss, in most cases reemployment remains a viable option. As reported in the Rhode Island experience, "Many of the myths about the difficulty of placing older workers proved unfounded . . . Employers reported they could count on the reliability and responsibility of older workers who had a long history on the job when hiring them for new jobs, even in another new field."[3]

The third assumption again presumes to speak for the older worker in terms which the workers themselves do not seem to echo. Few workers with a good job history are willing to put themselves out to pasture before at least the minimum Social Security age—due largely to self-esteem and pride in their abilities. It would be to their disadvantage and to the nation's loss to try and lure them into early retirement as an easy way out of a potential unemployment problem.

Clearly, it is not the worker nor the society who would benefit from a rather costly early retirement addition to trade adjustment assistance. And yet this expansion proposal is typical of most suggested changes which concentrate on expanding compensation offers rather than tackling the root problem of early adjustment. It is an emphasis upon the early adjustment aspect to import-dislocation which characterizes the recommendations for changes contained in this study. However, these changes too should be subject to some form of an overall cost-benefit analysis.

[3]See *Industrial Gerontology*, Spring, 1972, p. 46.

Report Recommendations

The various component parts of this report's recommendations are outlined in the summary of findings and detailed in the relevant issue reference sections. This present discussion will seek only to draw these separate parts together into an overall analysis of such a redirected program's costs and benefits.

Dealing first with the issue of worker benefits, the separate level for TRA payments would be eliminated and the various state unemployment compensation levels would be used. As explained on page 23 of this report, the average compensation allowance in the states where the largest number of import dislocations do occur is nearly $90 a week, about $3 less than present maximum TRA levels. The benefit duration period under all state programs is at least twenty-six weeks, slightly more than the twenty-four week average that is presently used by TRA beneficiaries. Therefore, approximately the same maintenance benefits would be expended as at present, but with a savings in eliminating the duplication and added burdens of operating two overlapping systems.

Some increases in other worker benefit categories could be expected, particularly in relocation (at about $1,150 per successful relocatee) and on-the-job training (at about $1,450 per successful case). However, even figuring that all of the 9,000 workers estimated to draw maintenance benefits annually were to use these opportunities (one-half on each), the cost would be around $11 million. Part of this increase could be off-set by the administrative savings listed above and by the productivity gain involved in worker-improvement programs. Clearly, not a great amount of expenditure increase would be needed to provide relocation and retraining opportunities to all who would seek them. Furthermore, these options would be made realistic alternatives by the petition speed-up procedures recommended by this report, leaving the worker with eligibility time to use such positive adjustment benefits.

Further active adjustment would take place through the change in program emphasis to allow optimal use of the new national job bank system which will speed and enhance job placement techniques. This program is already nearing its initial completion stage and no direct cost would be placed upon the trade adjustment assistance program. The only step which needs to be taken is a directional realignment of objectives to allow the program to draw upon the job banks' potential for fostering early worker reemployment.

The benefits for both the worker and the country of a real adjustment program are enormous. The worker moves quickly back into the work force, often at a better position, and regains his stable income and self-esteem. The country can remove the unemployed worker from the relief rolls and add him to

the producing side of the ledger, thus gaining in both decreased compensatory payments and in increased production and tax revenues.

One further consideration should be mentioned which applies to both the worker and firm analysis in this section. The assumption is being made that the number of certified worker and firm applicants will remain quite constant with present levels—approximately 9,000 workers and 10 firms actually drawing benefits each year. This report does not recommend a loosening of the eligibility criteria for workers and firms; however, the one criterion requiring a demonstrated link between increased imports and a trade concession would be removed. While this action could increase the number of certified petitions, an off-setting decrease should also occur due to the added early adjustment action at the industrial level. This feature of the report's recommendation should decrease the number of workers and firms needing individual assistance at later stages by fostering early adjustment throughout the industry to the changing economic picture.

The firm benefits side of the redirected program should yield costs essentially equivalent to present expenditures, but with increased results—due in part to the natural gain in administrative experience and in part to the redirected emphasis on promoting the advantages of individual enterprises. It should be noted that the addition of interim financing would have prevented the closing of two of the three "failures" experienced thus far—giving the firms a chance to implement their adjustment proposals.

The area of additional benefits under this study's recommendation is the industry approach to adjustment. However, the extra cost involved in these benefits would not be great. The largest expenditures would probably go for the early-warning system—which will likely be developed anyway on a scale going beyond import forecasts. If the system is constructed in its relation to imports along the lines suggested in this report, then costs should be minimal, as explained in the issue reference section.[4] The use of presently available statistics seems to hold the promise of sufficient data, especially if interfaced with foreign data gathered by the commercial attaches overseas. Expenditures would be essentially the personnel to interpret the data, probably totaling far more in the early, formative stages than in ensuing years.

The benefits to be gained from successful early-warning would be enormous, especially for the small firms who cannot afford their own forecasts, but who are usually the hardest hit by import dislocations when they come. Knowledge is gold to the businessman, and advance knowledge of future competitive challenges can provide the time necessary to either meet the competition or shift into alternate lines of production. Under either option, the businessman, his employees and the country as a whole, would experience more stable and efficient production as a result of early adjustment measures.

The research and development part of the industry approach would not involve any government expenditures unless the participating firms were unable to completely finance the venture on their own. These types of cases should be extremely limited, with a yearly average of perhaps $5-10 million of government participation.

One of the major reasons that there are not more such joint R&D ventures now is the uncertainty of anti-trust conflicts. However, with the special Justice Department section reviewing and guiding industry adjustment plans, this uncertainty can be dispelled and an increased effort could be expected.

The benefit of joint R&D ventures, instituted early with the aid of proper forecasts, could prove invaluable. The NAM survey questionnaire established that firms in many of the industries presently affected by imports could have been substantially aided in their competitive struggle by more R&D measures.

The last industry benefit is that of temporary import relief, under an orderly marketing arrangement, during a set adjustment period. This industry benefit would have some costs for the country in terms of trade restriction, but these costs would be temporary and for the purpose of increasing, not decreasing competition. Therefore, the long-run advantages of a revitalized, adjusted industry should off-set the temporary increased cost to the American consumer during the adjustment period. Workers in the adjusted industry would naturally be benefitted by the retention of their jobs and the temporary nature of the restrictions should not provoke retaliation abroad which would harm American workers in other product sectors.

Overall, the industry approach would not involve great cost increases and could provide the groundwork for an early, effective adjustment mechanism. Given the proper information, time and encouragement, industry can largely adjust itself without direct government aid. This form of adjustment is the least costly—and the most beneficial—for everyone involved.

The further element of administrative costs should also be considered. These costs should remain quite constant with present expenditures, minor shifts occurring among various items. For instance, increased costs will result from the formation of a new Justice Department advisory section and perhaps a Commerce R&D team. However, savings will be realized from eliminating the additional investigation and administration requirements of a separate level TRA payment and from the Tariff Commission handling all petition investigation, eliminating some partially duplicative efforts in the Commerce and Labor Departments.

[4]For a full explanation, see "Early Warning System," p. 32.

Overall, expenditures under this redirected trade adjustment assistance program should increase perhaps $20 million a year over present levels (slightly more than the establishment of an early-retirement system). Benefit levels will increase from near zero levels, to show productive gains in many categories. Fewer workers will be displaced, and those who are will move much more quickly and easily from the relief rolls to productive, well-paying jobs. Businesses will be given a fair opportunity for self-adjustment, both early at an industrial level and later—if warranted—at an individual firm level. Productivity gains will be experienced through the better employment of workers and the more efficient, competitive allocation of industrial resources.

In the larger sense, the nation will finally meet the needs of those sectors whose effectiveness is reduced by America's generally beneficial international economic policy. And in doing so, the nation will help itself to avoid the damaging reversion to an inward-looking, trade restrictive policy which would ultimately bring harm to all segments of the national economy. A trade adjustment assistance policy can work—at minimal additional expense—and yield many disproportionate gains in productivity and efficiency for the general national welfare.

SECTION 5

Appendix

APPENDIX A
Foreign Programs of Adjustment Assistance

Adjustment assistance programs in other industrialized countries reflect marked differences from the approach used in the United States. Most foreign countries do not have specific programs aimed at cushioning economic dislocations caused by import penetration. With international trade comprising a much larger proportion of their domestic economy than is true in the United States (sometimes ranging up to forty percent of the GNP), these countries focus upon broad national industrial and manpower policy approaches without any attempt to differentiate between causes of economic disruption. The dislocation problem is considered a structural one, best handled in a overall approach to the industry's general difficulties rather than to the problems of a single firm.

In contrast to adjustment assistance programs in the United States, those abroad are also characterized by a much higher degree of government-industry cooperation. Japan in particular has developed this relationship to an extremely sophisticated level. An industry-drafted adjustment plan can be closely coordinated with government in order to implement it quickly and effectively. The group administering the program is usually a specially-created, *ad hoc* group of industrial experts, interested parties and government officials, who possess the technological and administrative competence needed for the difficult task.

Most foreign programs are also distinguished by objectives such as raising production efficiency or re-employing workers into higher skilled industries. Industrial re-structuring (or rationalization, as it is called in Europe), is the method usually chosen to implement these goals. Lagging industries are regrouped into more efficient and productive entities and substantial government aid is sometimes extended when the industry reorganizes itself for greater economies of scale. This trend in industrialized countries—to combine uneconomically small firms into viable, larger-sized units—has been visibly accelerating in recent years. In Switzerland, for example, between 1955 and 1965, the number of productive units employing between 100 and 499 persons increased by fifty percent and enterprises employing 500 or more persons increased by forty-seven percent, while the number of small industries employing less than 100 persons declined.

Another prominent feature of foreign adjustment policies is the concentration on expanding rather than declining industries. Government assistance is provided to healthy firms in areas of high unemployment or incentives are offered to induce growth industries to locate plants in such areas. In the Federal Republic of Germany, for example, prior to the 1967 recession, dislocation assistance was typically aimed at the declining industries. Now, however, policy is shifting toward industries which promise rapid future growth, but cannot achieve their potential without government assistance (for example in aerospace, nuclear energy and electronic computers).

A wide range of means are used to implement these various programs, both on national and on the European Community level. Most programs are structured around some form of governmental financial assistance, which spreads the cost of adjustment programs across a broad segment of the economy. The aid can be broken down into three different groups: financial, fiscal, and technical.

Financial aid measures range from direct governmental grants and low cost credit, to guarantees on loans and rebates on interest payments. Fiscal measures include many types of tax schemes: incentives and rebates, special allowances for newly-merged companies regarding capital gains and land taxes; tax holidays for new industrial lines; and accelerated depreciation allowances. Technical assistance ranges widely from management and marketing consultants to government-funded research and development programs.

The general economic background of most foreign countries places different imperatives upon their approach to adjustment, recognizing the large foreign trade component of their economy. Furthermore, the internal conditions and value system adopted in one nation may either limit, permit or encourage relative degrees of government—labor—business cooperation which may or may not be considered desirable in another country. The combination of these two factors largely accounts for the different approaches used by other nations when compared to the United States' system of trade adjustment assistance. As will be evident in the following short synopses of certain major foreign programs,* many

*Most information in these synopses is drawn from past studies on trade adjustment assistance conducted by GATT and UNCTAD and from interviews with selected embassies. As a result some of these programs may now have evolved into different forms.

nations lean toward a broad, cooperative approach to adjustment rather than particular trade programs designed to alleviate import dislocation. Despite these differences—and the recognized danger in trying to tailor such program's after another nation's model—some particular lessons may be gained from reviewing the experiences of other countries.

CANADA

Canada operates a range of general programs designed to speed industrial development and a series of specific, trade-related measures which come the closest of any foreign programs to approximating the United States' approach on the general side. The Canadian Industrial Development Bank (IDB) provides medium and long-term financing to encourage modernization of smaller firms. Under a program for the Advancement of Industry Technology, grants are made to cover up to fifty percent of approved research and development costs. Regional development programs also offer tax and financial incentives to attract industry into less-developed areas. In addition, Canada has three programs related to trade adjustment assistance: The Automotive Manufacturing Assistance Regulations (in response to the Canadian-United States Automotive Production Trade Agreement of 1965); the General Adjustment Assistance Program (geared to the Kennedy Round tariff concessions); and the Textile and Clothing Board Act of 1971.

In order to receive assistance under the Automotive Manufacturing Assistance Regulations (AMAR), a firm must demonstrate that additional investment is necessary, either to achieve a viable level of output or to prevent a substantial reduction in overall production. Company adjustment proposals showing a reasonable potential for profitable operations are then approved by the administering Board. Governmental regulations exclude larger companies and foreign-owned subsidiares from participation in the program. Assistance consists mainly of long-term loans with a maturity period of up to twenty years. The program seems to have had some measure of success, particularly for smaller companies, enabling them to alter operations and compete more effectively in rapidly changing markets.

Initiated in 1968, the General Adjustment Assistance Program (GAAP) bears the greatest resemblance to the United States' approach. The GAAP is designed to assist firms and workers adversely affected by increased imports resulting from Kennedy Round trade concessions. One of two criteria must be met by firms applying for assistance under this program: Firms must either demonstrate that (1) they have suffered serious injury due to increased imports or (2) have gained significant export opportunities due to other nations' tariff concessions granted during the Kennedy Round. Available assistance includes governmental guarantees of up to ninety percent of loans from private sources, direct governmental loans, and government financial support for technical assistance. As a condition for receiving guarantees or government loans, manufacturers are required to post three months notice of prospective lay-offs to both the affected workers and the administering board. This period is to be used to implement retraining and relocation benefits for the affected workers. Like its U.S. counterpart, the GAAP has thus far not been used as extensively as originally anticipated. Reportedly this is due to strict eligibility requirements. However, modifications of the GAAP in 1971 had the effect of eliminating the requirement for establishing a connection between import injury and a Canadian tariff concession for the textile and clothing industry. This modification thus simplified the eligibility requirements for these groups. Overall, more use has been made to date of the export opportunity than of the import-injury type of assistance.

The Textile and Clothing Act provides for an administrative board to evaluate petitions from manufacturers for temporary protection and from worker groups for adjustment benefits. If import injury is certified, all companies in the affected sector can submit plans to upgrade production and shift into more competitive lines. Provisional import restrictions are recommended rarely and *only* when the Board feels that protection is needed to allow time for the implementation of firms' adjustment plans. This special protection terminates if the industry fails to follow a specified adjustment time schedule, or whenever the adjustment plan has been fully carried out.

Sweden

Swedish adjustment assistance occurs principally within the context of the country's general labor policy. However, there are additional measures relating specifically to structural adjustment in the manufacturing sector and regional development objectives. At present time there are no adjustment assistance programs linked directly to dislocation caused by import competition.

The Swedish government places a high premium on achieving full employment. Consequently, the principal objective of adjustment is to ensure the reemployment of workers adversely affected by structural change. Comprehensive programs are designed to reduce unemployment and include an advanced warning system of company lay-offs. Employers are required to notify the state employment service of planned job cut-backs or plant closings. Local employment offices in areas suffering severe dislocations are often temporarily reinforced with additional personnel to dispense the various worker benefit programs more effectively. Twelve-month projections of manpower needs are also published regularly

from information collected by the local offices of the national employment service.

Other methods designed to reach the full employment target include: vocational training, public works programs, temporary government procurement orders to affected firms, nation-wide placement offices, workshops for aged workers, job interview travel allowances, relocation allowances, family maintenance allowances and programs for purchasing the houses of relocated workers. The implementation of this Swedish manpower renewal and adjustment policy involves an expenditure of about $400 million (to cover a nation of approximately 8 million people).*

Swedish adjustment assistance is available only marginally for firms, although at times the government has provided limited measures of relief to general industrial sectors. The Swedish Investment Bank directs loans through the commercial banking system to stimulate industry modernization and merger actions. The textile industry, in particular has benefited from such financing. It has also been subjected to strong foreign competition. While Sweden's textile import policy is generally considered quite liberal, the government has from time to time been forced to impose temporary restrictions on imports, primarily to off-set the acute employment problems which developed.

During periods of recession, firms are allowed to set aside a certain portion of their profits, tax-free, for investment purposes. In addition, government-sponsored credit institutions have been developed to foster the structural adaptation of enterprises and to promote development in small and medium-sized firms.

Regional development objectives, pursued by Sweden's Industrial Location Policy, are furthered through capital grants covering up to thirty-five percent of construction costs for firms locating in designated areas.

Japan

The Japanese economy, characterized by massive capital investment in new plant and equipment since the end of World War II, has experienced little need for a trade adjustment program. However, the Japanese government has traditionally played a major role in industrial policy matters and has used several special forms of trade adjustment assistance.

The Japanese Small Business Finance Corporation and the Small Business Promoting Public Corporation both offer loans to small enterprises to promote modernization measures and encourage joint undertakings. A network of public research institutes assist this process by sponsoring various experimental projects in research and development and provide technical guidance in their implementation.

*If this scale program were contemplated in the United States the equivalent cost would equal $10,500 million for 210 million people.

The Japanese government regularly announces target goals to serve as guideposts for small enterprises with the long range objective of promoting sector by sector modernization. Loans and tax deferments are often provided to firms in designated sectors under the Small Enterprise Modernization Promoting Law of Japan.

The Japanese government also facilitates small enterprise self-conversion by furnishing various forms of non-financial technical information, service and guidance. The government also provides facilities and special training through the Public Employment Agency to encourage the retraining and re-employment of workers.

Currently, a "Structural Improvement Policy" is being implemented in the spinning, weaving and knitting industries to encourage plant and equipment modernization and the scrapping of redundant equipment. The Textile Industry Reorganization Agency (TIRA) was established to purchase and then scrap obsolete equipment and to assist in financing new equipment. Mergers are also actively promoted in part through financial incentives.

For example, one interesting arrangement in the spinning sector is the so-called "Rationalization Group". Member firms retain corporate independence while pooling marketing efforts and coordinating production in order to achieve economies of scale. Firms joining such a group have their taxes waived or reduced for a specified time period and are also afforded priority access to low-interest, long-term credits from the Japan Development Bank. Thus far, the Rationalization Group has demonstrated impressive improvements in efficiency—which has been one factor in the industry's continued resiliency.

United Kingdom

British adjustment assistance policy centers on the long-term "structural" approach with strong reliance on market forces and regional economic development. For example, the "Industrial Expansion Act of 1968" authorizes the government to provide project assistance designed to increase efficiency, profitability, productive capacity or technological advance in industry.

Capital grants or loans are given solely to "growth" industries and then only when adequate funds are unavailable from other sources. For example, these grants have been used in manufacturing, ship repairing and construction and mining industries. Such grants usually amount to twenty percent of the investment in new plant and equipment (40% in "development area" projects). Total budgetary cost of these grants in 1970 approximated £ 500 million.

In addition to this type of industry-oriented development assistance, the United Kingdom also provides manpower training programs. The Industrial Training Act of 1964 established twenty-seven regional "training boards" to administer programs

covering fifteen million workers. Retraining is undertaken both at government training centers and by private industry through partially subsidized programs. Additionally, firms providing new jobs in the "development areas" may receive extra financial assistance to help cover the costs of retraining. Government loans and capital grants are also available to enterprises which locate in these designated areas.

Major British industries which have recently received special adjustment attention include textiles and shipbuilding. The British textile industry has experienced long-term decline since the early 1900's and throughout this period the government has sought ways to assist the industry in adjusting to its changing environment. In 1966 an independent Industrial Reorganization Corporation (IRC) was established by the government to foster a rationalization and modernization of the country's industries. During its existence in the 1960's, it made nearly $60 million in loans available to smaller and medium-sized cotton textile firms for modernization, new equipment and mergers or joint activities.

In 1967, a Shipbuilding Industrial Board was established in order to encourage the rationalization of shipbuilding firms into groups and to provide financial assistance for new equipment. The program resulted in substantial reorganization of the industry; six large shipbuilding companies and the combined operations of eight others were absorbed into four firms. (This Board recently ceased operations at the end of 1971.)

France

Little or nothing readily identifiable as trade adjustment assistance has been provided thus far in France. Instead, the government emphasizes structural assistance and administers several programs to assist firms and workers injured by structural economic change.

The "Economic and Social Development Fund" administered through government, plays the central role in these efforts, extending some $400-450 million a year to industry for adjustment projects and serving as the coordinator for adjustment programs. Fifteen to twenty year maturity loans with subsidized interest rates are available to firms through government owned financial institutions. These loans are designed to further goals of "conversion, decentralization, adjustment, specialization and concentration". The Fund also administers an "industrial adjustment premium", which is used to induce job creation in regions facing general decline in their traditional industries. In 1967, the Fund disbursed $5.6 million to forty-three companies for this purpose.

The Regional Development Corporation was created by the French Government in 1965 to assist smaller firms through managerial advice, substantial tax assistance, and loans at commercial interest rates. Companies which build, expand or convert plants in development areas are allowed extraordinary depreciation allowances of around twenty-five percent on the new construction. They can also receive a reduction in real estate transfer taxes and may be exempted from licence fees for a five year period.

A special four and one-half year plan for restructuring the French Steel Industry was devised in the mid-1960's. Efforts were made to coordinate production plans and schedules within the production groups as inefficient units closed and some new facilities were established on a joint-venture basis. The cost of this program was estimated at $3 billion. Largely as a result of this assistance, the industry's output rose fifteen percent during 1956-1969, unemployment fell fifteen percent and output per man-hour rose thirty-five percent.

Beginning in 1960 a seven year effort was also made to assist the French shipbuilding industry. Long-term loans were provided for the purpose of reducing the number of shipyards (from fourteen to four), completely modernizing facilities and decreasing the number of workers from forty to twenty-seven thousand. Although numerous difficulties were experienced throughout the implementation period, France was able to rise from sixth to fourth position among shipbuilding countries.

The French textile industry also faced economic difficulties and some financial aid has been provided to allow scrapping old machinery, buying new equipment and assisting workers to find new employment. However, these efforts remain quite modest in comparison to those of similar programs in other countries.

Germany

Prevailing conditions of vigorous economic growth and nearly full employment in Germany have reduced the need for special adjustment assistance programs. Particular reliance is placed on the action of free market forces. But in cases where excessive economic and social costs may result, the government provides temporary assistance to ease suffering and facilitate the transfer of resources. Since a recession in 1966-1967, emphasis has been placed on industries promising rapid future growth and requiring only initial government help to achieve their "take-off". Small and medium-sized firms with less access to information, managerial skills, and capital resources are also assisted by the government in order to spur research and development and to encourage industrial rationalization.

The German income tax law offers special write-offs of up to fifty percent on plant and equipment which is used for research and development purposes; an additional subsidy supplement of ten percent is available for *new* investment for R&D pur-

poses. Direct subsidization is also provided for research groups formed by smaller companies which cannot afford their own research laboratories or staffs. Some forms of technical assistance are available to firms from the government Rationalization Commission. Information and advice about plant rationalization, modernization, merger, joint research, technical and managerial aspects pertinent to restructuring are included in this area.

The only German measures which resemble a trade adjustment program *per se* provide subsidized loans to firms and industries undergoing substantial changes which are the direct result of foreign competition. Loans are granted solely for the purpose of replacing essential parts of a company's existing plant and equipment. These companies must demonstrate that they have an economically-feasible plan which involves substantial change in the products produced. A limitation of $270 thousand is placed on these loans and the interest rate is around five percent. Again textiles and shipbuilding are the two major industries which have thus far made use of this assistance.

Low cost loans, grants and tax subsidies are also available through some regional promotion programs which are intended to spur economic growth in underdeveloped sections. About 10,000 new jobs annually are estimated to have been created in Germany through these programs. A number of individual Länder or states also have development programs to assist relocation. The most common method chosen seems to be loans available at reduced interest rates to small and medium-sixed firms.

Italy

Italy has few efforts which focus upon trade adjustment assistance. Instead, the government has operated general development programs covering nearly all industries. Particular attention has been focused on developing Italy's southern areas (below Naples) known as the Mezzogiorno.

The principal overall adjustment assistance tools used thus far are subsidized credits and tax incentives. A significant industry adjustment assistance program is planned for the textile industry, which will include rationalization through mergers. A proper evaluation of this undertaking and its techniques, however, must wait until a later date.

One interesting factor in the Italian economy deserving special attention is the Institutio per la Ricostruzione Industriala, which is formed by state and private enterprises. The IRI consists of more than 140 joint stock companies, controlled by the government but run as private enterprises. Formed in 1933 to end the continual banking crises and to be a "hospital for sick companies", it seeks to increase efficiency and productivity; all companies have to compete with each other and if costs and prices are too high, the companies may be eliminated. IRI is best described as a pyramid with the institute at the top, controlling holding companies which cover a large number of sectors.

The European Community

During the formation of both the European Coal and Steel Community (ECSC) and the European Economic Community (EEC), adjustment assistance programs were established to ease problems of structural adjustment in the member countries caused by the changing patterns of trade which accompanies economic integration.

The ECSC made loans directly to coal and steel companies for modernization and rationalization projects which could be considered a forerunner of today's community-wide scheme of industry policy, known as the Colonna Plan. Displaced workers were given maintenance allowances, occupational retraining courses and reimbursed for expenses incurred while moving to a new job. The main beneficiaries of these programs were in the coal mining industry in Belgium, France, and the Federal Republic of Germany. During the period 1954-1970, more than 370,000 workers received assistance.

The EEC adjustment assistance programs focus action upon three factors. The first and most important involves forecasting probable dislocation in order to enable affected industries to anticipate problems and adjust to them. The second element is providing assistance to industries confronted with change to help them reconvert and restructure themselves. Accepted goals are to keep the industries viable, to keep the workers employed and to keep individual regions economically healthy. The final program component involves offering direct forms of assistance to industries experiencing development and modernization burdens which they are unable to bear alone.

A European Social Fund was established to ensure employment and guarantee the income of wage-earners against the risks of integration. General measures are also directed at promoting the types of employment which tend to prevent structural unemployment. Public institutions may be reimbursed from this Community Fund for up to fifty percent of worker retraining and resettlement expenses. Principal recipients of this assistance, thus far, have been workers in Italy, France and the Federal Republic of Germany.

The European Investment Bank, established in 1958, is primarily concerned with industrial development in high unemployment regions within the Community. Community loans and guarantees are provided for infrastructure projects and company investment schemes which are considered likely to increase employment. As of 1970 the Bank had sponsored some 312 loans and contract guarantees in coordina-

tion with numerous regional and national development programs.

Recognizing the new emphasis on industrial harmonization and rationalization in European aerospace, computer and business equipment fields, it is likely that more central leadership in the establishment of supra-European adjustment policies may be exerted by Brussels in the future.

APPENDIX B

Research Method
NAM

Beginning in the Summer of 1972, the NAM developed a coordinated research plan for a project on the concept of trade adjustment assistance. (See the research method flow chart on the last page). Operating upon the basis of this research plan, numerous interviews, questionnaire surveys and field trips were combined with the area competence of an internal working group to formulate an initial draft document. A reading group of corporate and academic experts added valuable insights into a revision effort. The final document was released to the public by NAM President E. Douglas Kenna at a press conference on February 20, 1973.

One aspect of the report's preparation involved an NAM questionnaire survey during the Fall of 1972 of firms who had direct experience with import-generated problems. This survey covered four categories of enterprises: (1) firms already certified to apply for assistance; (2) firms which had petitioned, but were denied certification; (3) firms which had not petitioned, but were in the Tariff Commission's industrial classification of certified import-injured industries; and (4) firms which had not applied, but whose former workers had been certified for assistance. Samples of the questionnaires sent to these firms are included in this section, numbered as above, with questionnaire #3 being sent to both categories 3 and 4.

No effort was made to arrive at a scientific or statistically accurate sample base for many reasons. Duplications are evident in several of the above categories; for instance, with a firm in a certified industry whose laid-off workers had been certified for assistance, but the firm had not itself petitioned for the program. A number of firms, particularly those whose petitions were denied, have since closed down their operations, and therefore could not be contacted. In addition, the small number of firms in some sample groups (for example, seven marble and twelve earthenware producers were potentially eligible) precluded any finding of conclusive "evidence" through this survey method.

The questionnaire survey was designed to complement other research methods and often served as an indicator in conjunction with later telephone and personal interview follow-ups to interesting responses. (An example of an exploratory visit is also included in this section, describing the meetings and objectives of a trip to Haverhill, Massachusetts.) Twenty-seven firms were successfully contacted of a total fifty-eight enterprises selected as having likely experienced import-dislocation related to the present program.

This survey was conducted on a confidential basis; therefore, no individual responses are cited within the report. Cumulative conclusions are listed whenever applicable, where response indicated general agreement on a major question (for example, on page 33 relating to an early-warning system).

We would like to here express appreciation to all the firms participating in this survey, either through a questionnaire response or a telephone or personal interview. Without such cooperative assistance the problem would remain entirely theoretical and unsusceptible to "on-the-spot" evaluation.

TRADE ADJUSTMENT ASSISTANCE

PROGRAM QUESTIONNAIRES

Questionnaire 1

1. In your opinion, where are there unnecessary delays in the application process or the implementation of government assistance?

2. Would a different type of assistance have been more useful in your firm's readjustment process. If so, what type and why?

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3. What cooperative programs and activities were undertaken with labor unions and/or the community to ease unemployment difficulties and retrain or relocate displaced workers? How effective were these arrangements and how could they be improved?

4. Was it possible to forecast the import dislocation suffered by your firm? If so, how far in advance and by what procedure? If not, what data do you feel might have made this possible?

5. How have increased imports affected your position vis a vis other domestic firms within the industry? How will the receipt of government assistance affect your position?

6. Could an expanded program of research and development have significantly improved your firm's competitive position vis a vis imports or were factors other than technology more important? (Such as undercapitalization, labor relations, marketing techniques, etc.) What would you estimate to be sufficient lead-time for an effective R&D program?

7. Would your firm have been willing to participate in an industry-wide, government-aided program of research and development, if it were initiated sufficiently in advance of the import penetration and assuming proper anti-trust clearance had been obtained.

Questionnaire 2

1. Does your firm show economic dislocation in terms of:

   - ☐ idling of facilities
   - ☐ inability to operate at a level of reasonable profit
   - ☐ unemployment or underemployment of workers
   - ☐ change in competitive position in relation to firms in the industry
   - ☐ Other (explain) _____

   If such dislocation is only prevalent in a particular subdivision or product-line, please specify the extent of injury in relation to total firm outlook _____

2. To what extent could import penetration be demonstrated to be the cause of your economic dislocation?

   - ☐ more than all other factors combined (major cause)
   - ☐ more than any other single factor (primary cause)
   - ☐ one of several important factors (substantial cause)
   - ☐ lesser importance among several factors
   - ☐ marginal cause
   - ☐ Other (explain) _____

3. What factors could prove most helpful in your efforts to meet the problem of import competition? (Rank in order of importance from 1-9.)

   - ☐ more research and development
   - ☐ increased availability of financial loan
   - ☐ increased operating capital
   - ☐ longer period for tax carry-back (or carry-forward) of net operating loss
   - ☐ lower labor costs

- ☐ better marketing techniques
- ☐ technical assistance (consulting services, feasibility studies, employee training, etc.)
- ☐ tariff/quota safeguard relief
- ☐ Other (explain) _____

4. After your petition to the Tariff Commission was denied, what actions were you able to take on your own and what have been the results?

5. What was the approximate cost to your firm of the petitioning process?

6. Was it possible to forecast the severity of import penetration and resulting economic dislocation suffered by your firm? ☐ Yes ☐ No

(a) If yes, what procedure was used which made this forecast possible? How many months/years in advance was the problem foreseen before it became acute? What actions were taken to meet this perceived problem?

(b) If no, what data do you feel might have made a more accurate forecast possible?

7. What specific changes would you suggest in the present trade adjustment assistance program. (Investigation procedures, criteria, types of assistance, etc.)

Questionnaire 3

1. Are you familiar with basic provisions of the trade adjustment assistance program? ☐ Yes ☐ No

   If yes, how was the information obtained? _____

2. What considerations were involved in your decision not to petition for trade adjustment assistance under the present program?

   - ☐ lack of familiarity and specific information about the program
   - ☐ insufficient injury under present statute
   - ☐ cost of application process
   - ☐ program's assistance judged inapplicable to needs
   - ☐ program's assistance judged inadequate
   - ☐ adjustment possible without government assistance
   - ☐ Other (explain) _____

3. (a) Does your firm show economic dislocation in terms of:

- ☐ idling of facilities
- ☐ inability to operate at a level of reasonable profit
- ☐ unemployment or underemployment of workers
- ☐ change in competitive position in relation to firms in the industry
- ☐ Other (explain) _____

If such dislocation is only prevalent in a particular subdivision or product-line, please specify the extent of injury in relation to total firm outlook _____

(b) To what extent could import penetration be demonstrated to be the cause of your economic dislocation?

- ☐ more than all other factors combined (major cause)
- ☐ more than any other single factor (primary cause)
- ☐ one of several important factors (substantial cause)
- ☐ lesser importance among several factors
- ☐ marginal cause

4. Could an increase in imports directly competitive with your product be demonstrably linked to a tariff concession made by the U.S. government which resulted in a lowering of the tariff rate?

☐ Yes ☐ No

If yes, when was this concession made? _____

5. What factors could prove most helpful in your efforts to meet any problem with import competition? (Rank in order of importance from 1-9.)

- ☐ more research and development
- ☐ increased availability of financial loan
- ☐ increased operating capital
- ☐ longer period for tax carry-back (or carry-forward) of net operating loss
- ☐ lower labor costs
- ☐ better marketing techniques
- ☐ technical assistance (consulting services, feasibility studies, employee training, etc.)
- ☐ tariff/quota safeguard relief
- ☐ Other (explain) _____

6. Have you been able to forecast the severity of import penetration?

☐ Yes ☐ No

(a) If yes, what procedure is used to make this forecast possible? How many months/years in advance can the problem be foreseen before it becomes acute? What actions are being taken to meet this perceived problem?

(b) If no, what data do you feel might make a more accurate forecast possible?

7. Are you aware of any firms within your industry which have received trade adjustment assistance benefits: If yes, has this had any effect upon your business? (Sales, worker availability, etc.) Explain.

Field Trip Report
Trade Adjustment Assistance Project

An exploratory field trip was undertaken by Messrs. Hollis and Kline of NAM's International Economic Affairs Department September 5-6 to the economically depressed region of Haverhill-Lawrence, Massachusetts.

The purpose of the two-day trip, as the first of several planned visits, was to obtain first hand information and case studies on import-related economic dislocation in the context of the NAM trade adjustment assistance project. Haverhill-Lawrence has been the historic center of the American shoe industry which has been suffering increasing import competition. Coupled with other economic factors, import dislocations in the shoe industry have led to high unemployment and plant shutdowns in the region. Designated as a target area for study by the President's Inter-Agency Economic Adjustment Committee (IAEAC), Haverhill also offered a chance to evaluate regional factors in economic dislocation from the total community perspective (as opposed to simply firm or worker approaches to adjustment).

Numerous interviews and several meetings were conducted during the visit. Considerable assistance was rendered in this connection by Mayor George Katsoros, Mrs. Adele Ash (of Congressman Michael Harrington's office) and Mr. Paul Stralitz of the Lawrence Industrial and Development Commission. Results of this first trip were gratifying and are enumerated below along with a brief description of the two-day schedule. It is anticipated that case studies and other information gained from the visit will be invaluable in developing the final report.

Results

1. First hand case studies and information gained on community and business perpectives of import dislocation and adjustment assistance. Interesting comparisions of viewpoints drawn from businessmen who had been unsuccessful in obtaining adjustment assistance, (but were still trying), businessmen who had received adjustment assistance—views on the current program, businessmen who had gone out of business, and also businessmen who had not applied and did not want to apply for assistance although they were under import competition—all within the shoe industry. We also obtained angles from businessmen outside the shoe industry, civic leaders, educational leaders and state government workers— unemployment compensation office.

2. Initial distribution of NAM questionnaires on Trade Adjustment Assistance. Staff members Hollis and Kline distributed two model surveys, one for firms already in the adjustment program and the other for firms not yet in, or refused. Comments and insights from businessmen will be helpful in reworking questionnaires and also in obtaining more detailed responses than might otherwise have been expected.

3. Greater momentum and direction for NAM's internal task force effort on adjustment assistance.

4. Greater local recognition of NAM interest in the problems of smaller member firms and economic dislocation.

5. Considerable local press coverage and interest. (see attached)

Schedule of Meetings and Interviews September 5-6

Tuesday Morning September 5

9:30 a.m. Mrs. Adele Ash (Congressman Michael Harrington staff office in Haverhill)

10:45 a.m. Mayor George Katsoras, City Hill--Meeting attended by Mr. Paul Stralitz, Executive Director, Lawrence Development and Industrial Commission, Mr. Thomas P. Lynn, Jr. Director of Haverhill Chamber of Commerce, Mr. Richard Young, Merrimac Valley Planning Commission, Mr. George F. Fitzpartick, President of a local bank and Mrs. Adele Ash.

12:30 p.m. Meeting continued into lunch at a nearby restaurant where the group was joined by Mr. Frederick Malcolm, President, Haverhill Chamber of Commerce, Mr. George MacGregor, President of the Greater Haverhill Foundation , Mr. Les Berndice, Owner Bernie Shoe Company and Mr. George Bendice, treasurer and owner of the company's affiliated tanning works.

2:45 p.m. Mr. George Flynn, Deputy Director, State Employment Office (who discussed administration of

worker adjustment assistance benefit retraining efforts and coordination with local vocational education programs).

4:00 p.m. Mr. Lloyd Karelis, President, Allen Shoe Company (discussion ranged on Allen shoe's economic position within the industry, import pressure and possible future adjustment assistance application).

5:00 p.m. Mrs. Betsy A. Contee, former office manager for Seymour Shoe Company which went out of business after Tariff Commission refused petition for adjustment assistance in July 1971.

Wednesday September 6

9:30 a.m. Hollis meeting with Mr. Donald MacDonald, Superintendent-Director of the Whitter regional vocational technical high school district, and Mrs. Cole in Haverhill to discuss shoe dislocated workers and retraining facilities, possible approaches to dealing with retraining and area employment prospects for dislocated, unskilled workers.

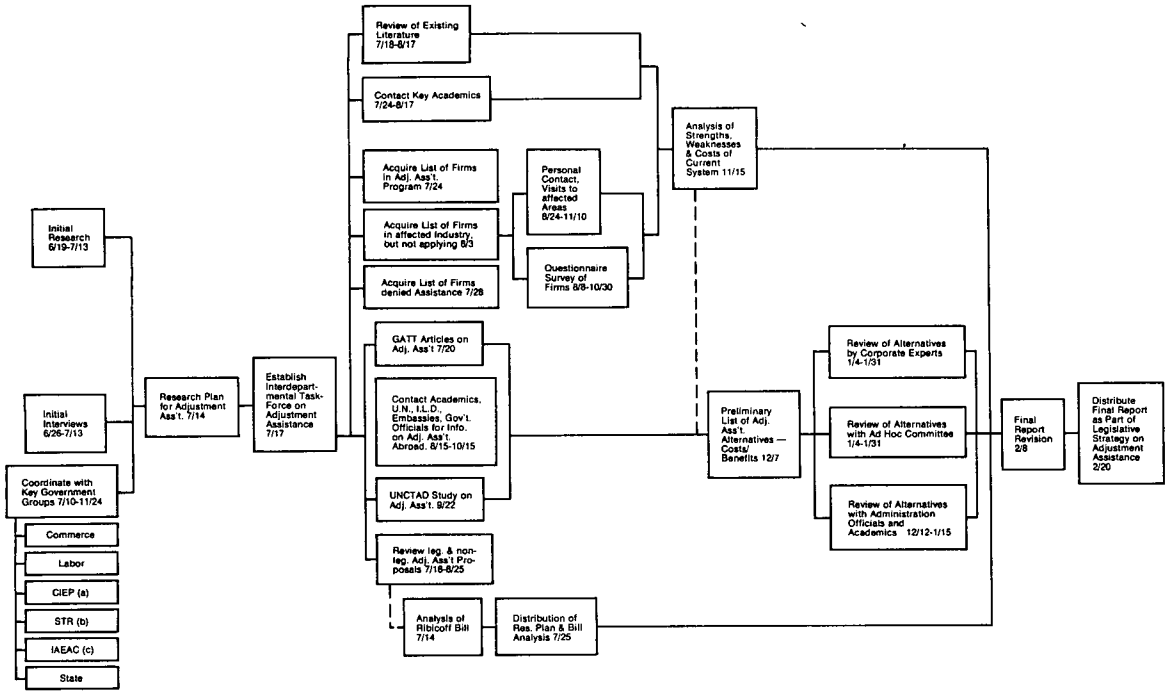
9:30 a.m. Kline meeting with Mr. Paul Stralitz in Lawrence, Mass. with Mr. Alvin Wolff, Sales Manager of Blue Star Shoes, Inc., Mr. Oswald Jolie, Plant Manager, Hiatt Shoe Company (divisions of Striderlight) and Mr. Martin Weiser, owner of Luddington Footwear.

2:30 p.m. Meeting with Mr. Philip Kaplan, owner of Benson Shoe Company. This was one of the first firms certified as eligible to receive assistance and thus has a long period of experience to draw on regarding the program and its benefits effectiveness.

September 11, 1972

Nicholas E. Hollis
Director, International Economic Affairs

MEMBERS OF the National Association of Manufacturers started a two-day case study of Haverhill's industrial and labor problems Tuesday. Meeting at City Hall were, from left, George F. FitzPatrick, vice president of Greater Haverhill Chamber of Commerce; Mayor George K. Katsaros, Nicholas E. Hollis and John M. Kline of the association, and Mrs. Adele Ash, representing Cong. Michael J. Harrington. (Chase Photo)



(a) Council for International Economic Policy

(b) Office of the Special Trade Representative

(c) Inter-Agency Economic Adjustment Committee

Chart 7
NAM RESEARCH PLAN ON ADJUSTMENT ASSISTANCE

Senator TALMADGE. The next witnesses are a panel consisting of Mr. Robert L. McNeill, executive vice chairman, Emergency Committee for American Trade, and Mr. Robert M. Norris, president, National Foreign Trade Council, Inc., accompanied by Melville H. Walker, executive vice president.

Gentlemen, we are delighted to have you with us. You may place your entire statements in the record and summarize as you see fit.

STATEMENTS OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE, AND ROBERT M. NORRIS, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC., ACCOMPANIED BY MELVILLE H. WALKER, EXECUTIVE VICE PRESIDENT

STATEMENT OF ROBERT L. McNEILL

Mr. McNEILL. Thank you, Mr. Chairman.

My name is Robert L. McNeill. I am here today on behalf of the Emergency Committee for American Trade. ECAT is an organization comprised of the leaders of 63 large American companies, and was formed to articulate support for liberal trade and investment policies.

Because of the lateness of the time, Mr. Chairman, I shall make my oral summary brief.

ECAT, as with former witnesses, supports the Trade Reform Act, as passed by the House. Its early adoption by the Senate has been urged by earlier witnesses, who were quite concerned that the energy crisis itself is an urgent reason to pass this particular legislation.

Senator Ribicoff was concerned, for example, that in order to pay for imports, some countries might resort to export subsidy devices. We are concerned equally in our organization that countries might equally utilize import protection measures and violate the rules of the GATT and the international trading system.

We see harmful international economic changes on the horizon. We think these can be avoided to the extent that international cooperation in the economic and political spheres is restored.

For that reason we think the Trade Reform Act should be passed as soon as possible, so that trade negotiations can begin. While we are discussing economic relations in the international area with our trading partners, we perhaps could avoid some of these other problems now pressing on us.

Our particular views on the bill can be summarized very quickly. They are not unlike those expressed by the chamber of commerce and the other representatives this morning.

We support the tariff-cutting authority in title I that would be granted the President. We think this gives him necessary flexibility to enter into trade negotiations.

We do, however, have a rather major problem with the negotiating part of title I. That has to do with section 102(c), which appears to establish a congressional policy that the negotiations shall be based upon the principle of sectoral equivalence. That is, the negotiating objective shall be for each sector to have equivalent access conditions internationally.

If this were the policy of the U.S. Government in negotiations, we believe it would be a prescription for a minor negotiation because

if you cannot negotiate across sectors—if you cannot negotiate, say, between agriculture and industry—then the authority of U.S. negotiators would be very severely narrowed and would make a successful negotiation less likely.

We would hope that this committee and the full Senate could amend section 102(c) to establish a policy that maximum tariff negotiating flexibility is what is intended.

Title II of the Trade Reform Act is something we also support. It provides for import relief and for adjustment assistance for seriously injured firms or workers. We believe this desirable.

We think, however, that the House of Representatives went somewhat too far in liberalizing the escape clause. The administration had initially proposed that imports be deemed to be the primary cause of serious injury, primary meaning the single most important cause.

The House of Representatives modified that to provide that imports be shown to be a substantial cause, that is, a cause no less than any other single cause. We would prefer to see the Senate reinsert the use of the word "primary." That would still represent an enormous liberalization of the escape clause.

We would also suggest in title II that there be a similar test for the threat of serious injury as for actual serious injury. The House version provides an easier statutory test for threat. We think the test should be the same for threat as for actual injury.

Title III is the trade reform title of the legislation, and we support it. However, we do have some problems with section 331. Quite briefly, the Secretary of the Treasury in the House version of section 331 would be granted for a period of 4 years the authority not to impose countervailing duties when subsidies have been found on products imported into the United States if in his judgment such a countervailing duty would seriously jeopardize the international negotiations provided for by the Trade Reform Act.

However, the Secretary would be given a waiver authority of only 1 year if the subsidized product were imported from a State-owned or controlled facility. We think this should be deleted in favor of the waiver period.

In respect of title IV, we support authority for the President to negotiate most-favored-nation tariff rates with the countries of Eastern Europe.

We also support the Export-Import Bank having authority to extend credit to the Soviet Union. We are opposed to the Jackson amendment to that title and would hope that a compromise could be worked out whereby the desired objective concerning emigration from the Soviet Union could be attained and whereby the President would be authorized to extend most-favored-nation tariff rates. This should certainly be within the realm of statesmanship.

Title V has to do with tariff preferences, and we support them. It is something that President Kennedy supported in the early 1960's. Presidents Nixon and Johnson also have committed the United States to extend tariff preferences to products from the less developed countries.

Title VI has a troublesome provision. Section 606 gives the President an unlimited authority to do whatever he chooses in respect of our foreign trade and our foreign investment to retaliate against countries

whom he deems not to be cooperating sufficiently with the United States in the control of drug traffic.

The House of Representatives, in each of the titles preceding title VI very carefully circumscribed the President's authority to act in the international trade field.

However, section 606 provides a wide-open avenue to the President to put on quotas to whatever degree he wants; to raise tariffs to whatever level; to embargo trade with whomever he would like; or to do whatever the President might want to do in the trade field on the simple basis of his determination that countries abroad are not cooperating with us in the control of international drug traffic.

We strongly urge deletion of this particular section from the act itself.

As to the Mondale-Ribicoff amendment dealing with commodities in shortness, we have no basic problem with it.

We do think, however, that in the real world it may not achieve all that the amendment itself purports to do.

Mr. Chairman, that is an oral summary of what is in our basic statement.

Senator FANNIN [presiding]. Thank you.

You may proceed, Mr. Norris.

STATEMENT OF ROBERT M. NORRIS

Mr. NORRIS. My name is Robert M. Norris, I am president of the National Foreign Trade Council, Inc., and I am accompanied by Mr. Melville H. Walker, executive vice president.

The membership of the council comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment.

We certainly appreciate the opportunity to appear before the committee today at these very important hearings. I might say my oral comments stem principally from my prepared statement, which I would like to submit for the record.

Senator FANNIN. It will be fully incorporated in the record.

Mr. NORRIS. We strongly endorse the early enactment of the proposed Trade Reform Act of 1973, H.R. 10710, with modification or amendment in two significant respects. One has to do with the need to incorporate provisions for strengthening international agreements to assure nondiscriminatory access to supplies of primary raw materials.

The second has to do with modification of section 402 of title IV dealing with the according of nondiscriminatory tariff treatment, the extension of U.S. Government credits or guarantees and the conclusion of bilateral commercial agreements with "nonmarket economy" countries.

If we are to continue to exercise a leadership in the field of negotiations with other nations to achieve a more open and nondiscriminatory and fair world trading system, we believe enactment of this legislation is immediately essential.

Basically, the bill provides for many things which we have long advocated in the council. Specifically it provides necessary safeguards against import injury to industries. It provides more adequate and timely adjustment assistance to groups of workers and firms adversely affected by imports.

It strengthens U.S. measures against unfair trade practices and assures more equitable trading rules or conditions for U.S. producers and traders.

It supports U.S. efforts in international monetary negotiations by providing specific authority to invoke trade measures to deal with serious balance-of-payments deficits or surpluses.

And it would also provide authority, with necessary safeguards to implement a system of traiff preferences for less developed countries.

With respect to access to supplies, I think it is very clear that the recent oil embargo points out the distortions that can happen in international trading patterns, and it also pinpoints the longer-range problems associated with supplies of energy and materials.

Thus we think there is an urgent need to reserve and strengthen multinational institutions to meet these problems. I think these reasons make it very clear that all nations are tied together by the complexity of trading, a financial and monetary relationship, that cannot be disrupted without detriment to all.

We fully endorse the incorporation in the legislation of the insurance of nondiscriminatory access to supplies of primary raw materials. We think that this authorization should be included under section 102, particularly to negotiate agreements with other nations to achieve this objective.

I think this should be a clear directive for strengthening the provisions of international agreements to provide such rules to assure access of these primary raw materials and, also, to provide sanctions under international agreements against countries who violate such agreements.

We do not, however, endorse empowering the President to retaliate against countries that impose discriminatory export controls injurious to the United States by unilateral action to restrict or embargo U.S. exports to those countries, to deny economic assistance and participation in U.S. credit and investment guarantee programs or to restrain investment by U.S. companies in the offending countries.

The basis for our not endorsing this provision is twofold. One, we think it would be impractical and prove ineffective. Second, it would be contrary to what we stand on as a foreign policy which calls for expansion, continued expansion, of an international trade basis on a basis fair and not discriminatory.

If you had a shift of the goods from the United States, it could only result from goods being obtained elsewhere by countries who have imposed controls against us. Similarly, if we had a unilateral action which would provide investment by the other countries, we are convinced others would be lining up to make such investments.

With respect to section 402 of title IV, we certainly support steps which have been taken in recent years to normalize trade relations. We think they should be carried forward on the basis of recognizing the interdependence of political, economic, and national security aspects of our overall foreign policy.

They should provide for appropriate safeguards for our national interest. We believe that progress in normalization of such trade relations will support attainment of the purposes of the present trade legislation, which has stimulated the economic growth of the United States and to maintain and enlarge foreign markets for the products of U.S. agriculture, industry, mining, and commerce.

Second, to strengthen economic relations with foreign countries through the development of fair and equitable market opportunities and through open and nondiscriminatory world trade.

In our view, the present language of section 402 of title IV would be inimical to attainment of these objectives since this section would effectively preclude the extension of nondiscriminatory tariff treatment or U.S. Government credits or guarantees to the Soviet Union.

Thus, in our view, both the October 1972 U.S.–U.S.S.R. Trade Agreement and the full settlement of lend-lease obligations would thereby be prevented from taking effect.

In turn, I think it would effectively prevent our reaching trade agreements with certain other Communist countries because of their practices relating to emigration.

Without condoning the internal policies of Communist or other countries, it is our view that such policies have no place in trade legislation per se. We strongly feel that the desires of the American people on the subject of emigration would and should be more readily received and more influentially brought to bear if communicated through other channels.

We would certainly hope that in consultation between the executive branch and Members of the Congress we could find a modification which would effectively express the continued dedication of the United States to fundamental human rights and, at the same time, not prevent continued progress toward more normal economic relations with the nonmarket economy countries.

In the hearings before this committee matters for further amendment are proposed, particularly as they would relate to taxation of foreign sources of income, orderly marketing quotas, or controls on transfer of capital and technology. We would respectfully ask the committee for the right to submit the documentation and our comments with respect to any such added amendments to the bill.

We certainly applaud the liaison provision in H.R. 10710. We think it will materially improve liaison between the Government, labor, and consumers.

In conclusion, I would say we are very mindful of the very intensive and effective work which has taken place over many months and commend both the executive branch and the committees of Congress in developing trade legislation which is responsive to the changing situation in world trade and the needs of the U.S. economy.

Thus, we think H.R. 10710 is responsive in these respects, and we would urge its early enactment with amendments in the two major areas we have indicated.

Thank you very much.

Senator FANNIN. Thank you, Mr. Norris. It is a pleasure having both of you gentlemen here.

Senator Hansen has not had a chance to have any questions this morning. Senator Hansen?

Senator HANSEN. Mr. Norris, do you believe that as a quid pro quo for receiving tariff preferences in our market, raw material suppliers should be required to enter into long-term contracts to supply us with raw materials, and if they break those contracts should they lose tariff preference?

Mr. NORRIS. I believe there should be a clear international agreement that assures access to such primary raw materials. I think it should be done on a multinational or multilateral agreement.

I believe such agreements should provide that if one of the signatories does violate the agreement, the right to impose sanctions would be provided.

The thing we do object to, as I did indicate earlier, is we think it would be wrong, for practical reasons and as a matter of policy, to empower the President to act unilaterally with respect to a country that might injuriously impose export controls against the United States.

I think actually there is room within title III of the bill to do things which I think would tend to mitigate against the imposition of such export controls.

Senator HANSEN. Could you give us precisely what your recommendations are with respect to assuring access to supplies of primary raw materials?

Mr. NORRIS. I think this has got to do, as I indicated, with the subject of international agreements. Now certainly one avenue in which to do this might be through the GATT. There are some who would believe, however, if these negotiations were undertaken within the GATT, that this might have a tendency to slow down the negotiations, which foreseeably would continue under the GATT for removal or reduction of nontariff barriers.

In other words, it might be interpreted to take a higher precedence over the basic fundamental removal of nontariff barriers.

I think, however, that is one avenue of approach and certainly I think that this matter can be the subject of international agreement arrived to on a basis which I indicated, on a nondiscriminatory basis, and would authorize the imposition of sanctions.

Mr. MCNEILL. If I could talk to that also, I fully agree that in the GATT one could negotiate an amendment laying down general principles respecting access to primary products.

The countries, however, that probably have the kind of primary products that your question is addressed to are likely to be the less developed countries; that is, the countries of the Southern Hemisphere.

The rules of the GATT basically are applicable or enforceable in respect of trade among industrial countries. The less developed countries, for good historical reasons, haven't had much to do with the GATT or its rules. The formulation of GATT rules concerning access to materials in short supply, therefore, while highly desirable might not really solve the problem addressed in your question.

I think that if you want to get access to these kinds of supplies, it would be necessary to talk about commodity agreements. We have had some experience with such agreement concerning coffee and other products.

The less developed countries for many decades have been at the doorstep of the industrial world pleading—usually unsuccessfuly—for commodity agreements for the purpose of stabilizing the export prices of their materials, so that they, in terms of national planning, would have some surety of what their foreign exchange income might be.

Now they have the ball in their court, if you would. They have the materials we want. I think they will be terribly hard bargainers.

I believe, in short, that the kind of thing contemplated in your question is something that will probbaly come about on a commodity-by-commodity or agreement-by-agreement basis. I am not sure that it will have an awful lot of meaning.

I would like to repeat that the kind of access rules that might be negotiated in the GATT would be applicable, primarily, to industrial countries. Among the industrial countries, Canada and the United States are basically the ones rich in the kind of resources contemplated in your question and in the Mondale-Ribicoff amendment.

If we were to negotiate supply access rules in the GATT or elsewhere, and if those rules were to be adhered to by the industrial world, I think we should bear in mind that we would probably be negotiating something that might give others a call on our resources rather than vice versa.

I am not saying we shouldn't do this, but I think you should be very aware of this in legislating.

Senator HANSEN. Isn't it a fact that under this bill these countries would be given a preference to come in?

Mr. MCNEILL. Not necessarily. This bill provides that the President can determine which products would be eligible for tariff preference.

Senator HANSEN. Is that what you are referring to, tariff preferences?

Mr. MCNEILL. Yes, partly. I think that perhaps there should be some rules established having to do with the viability or continuity of those preferences in relation to the problem of supply access.

Senator HANSEN. Mr. McNeill, do you think the United States ought to provide tariff preference, to which I have just referred?

Mr. MCNEILL. I think the Mondale-Ribicoff amendment contemplates the President having authority to remove economic assistance, including tariff preferences, from such countries.

I am sure we would support in many instances just what you are implying. But I think that section 301 of the bill gives the President such retaliatory authority independent of the Mondale-Ribicoff amendment.

Senator HANSEN. Thank you, gentlemen.

Senator PACKWOOD. Mr. Norris, I think the bulk of the Congress feels genuinely concerned about the emigration of Soviet Jews. I am trying to find some legislation that has a bite to it in order to help encourage that, not just a congressional resolution of disapproval.

In your statement, and I am quoting, you say:

> Without condoning the internal policies of Communist or other countries regarding the emigration of their citizens, it is our view that such policies have no place in trade legislation per se.

In what kind of legislation would it have a place?

Mr. NORRIS. I tried to indicate by that, Senator, that I am afraid in a situation where there is such tremendous emotionalism and frustration with a very serious problem, there is a tendency sometimes to politicize trade legislation. I think matters should be dealt with separately. This is why I suggest in my following sentence that I believe our concerns about this would be better received and would have a greater impact if we did not attempt to communicate our concerns in the trade bill.

I think there are other mechanisms for doing this. I think it essentially lies in the area of political negotiation.

Senator PACKWOOD. What is the quid pro quo in the political negotiations?

Mr. NORRIS. I think the quid pro quo could take place perhaps as this: I note that the executive branch and the Congress could identify modification which would do two things, which would preserve fundamental human rights and, at the same time, would not prevent continued progress in expanding our economic relations.

Now the difficulty, as I see it, with title IV, first of all, is under 402 the President would have to make a determination in three respects, as I recall.

One is he would have to make a determination that (a) there was no freedom, really, of emigration, (b) that the imposition of high fees was unconscionable and could not be met and, really, that a person would not have freedom of choice to emigrate to a country of his choice.

To make such a determination would require, I think, almost that we live in a perfect world. I don't think we do live in a perfect world. This is one of the problems. It does involve political consideration.

I think that perhaps the executive branch and the Congress might be well advised to take a look at what has happened for the purpose of developing language within title IV which would encourage the Soviet Union or other countries which impose restrictions on emigration to move forward from the position they have been in. I think they have already made progress in this respect.

I believe Secretary Kissinger in his testimony before your committee indicated that in 1973 alone there were some 33,500 Soviet Jews who had emigrated to Israel. This is progress. It is progress over what the situation was.

I should think that we might consider modifying language which would really have the effect of encouraging further movement in dealing with the emigration problem.

Senator PACKWOOD. What language? How do we do it?

Mr. NORRIS. I might suggest the following: Instead of providing that there has to be a determination that we will say the Soviet Union has complied fully with the three provisions in 402, and if the President would then issue a proclamation making the Soviet Union eligible for most-favored-nation treatment.

Why not consider granting that treatment on a basis it will continue in effect as long as there is further movement and progress made in relief to emigration of its citizens to other countries?

The reverse is needing to define a determination of eligibility, which would really require a set of circumstances which would add up to a perfect world situation. Reverse it, perhaps. Say:

> We think you have made progress. You are trying to deal with this. We want to normalize our commercial relations with you. We find this a difficult thing to do in the light of your policies, internal policies, regarding emigration. Nevertheless, we think you are making progress. We will grant you most-favored-nation treatment and we hope the rules will encourage you to move further in this direction.

I would put a time limit on it, subject to review.

Senator PACKWOOD. I have a question for Mr. McNeill, also.

On page 9 of your statement, Mr. McNeill, you refer to one of the things about which you are concerned—"major objective of trade

negotiations be the negotiation of an international code on subsidies affecting international trade."

Most of the European countries have a value-added tax. Do you regard that as an export subsidy?

Mr. McNeill. Senator, I don't have an expert answer to that. My lay opinion, however, is that the value-added tax systems in Europe do not constitute an export subsidy since on exports from Europe the value-added tax is simply waived.

Senator Packwood. What do you mean by a subsidy?

Mr. McNeill. I have in mind such direct price subsidies as on certain wheat exports.

Senator Packwood. We are saying under the GATT agreements the corporate taxes could not be rebated. That would be a subsidy, when you return to rebate.

Mr. McNeill. I would suggest that if there is a question on the GATT rules concerning the right to rebate only on certain kinds of taxes, but not on corporate taxes, a sensible solution would be to revise that part of the GATT so as to put both direct and indirect taxes on the same footing. They would both then be rebatable, depending on the policies of government.

Senator Packwood. Both being rebate or not?

Mr. McNeill. Yes. To rebate taxes equally. The GATT rule is based on the theory that one kind of tax is passed on to the consumer and the other isn't. I think that income taxes have a price effect. What the degree of that effect is is a question of judgment. I don't see, therefore, why the GATT rule couldn't provide equal treatment for both direct and indirect taxes.

Mr. Norris. I should add, Senator, with the most-favored-nation treatment, if I may, that I think one of the most serious matters of concern is the question of extension of credits, credit guarantees, because I think it is clearly recognized that our opportunity for further normalizing our trade relationships with nonmarket economies depends vitally on the extension of credit and whether or not nondiscriminatory tariff treatment were extended.

I certainly think we ought to reserve the right to extend credits.

Senator Fannin. We have a problem, I think, in GATT. That we agreed to discriminatory actions or stipulations in GATT to get underway. Do you agree with that?

Years ago GATT was started and the United States was willing to make concessions that now we look at as being discriminatory.

Mr. Norris. I think the tax rebate situation is a case in point.

Senator Fannin. Yes, that is right.

I notice, Mr. Norris, in your statement it says:

> The bill is providing needed authority for undertaking trade negotiations, and for accomplishing necesary reforms in the General Agreement on Tariffs and Trade (GATT), has been developed with improved and necessary procedures for Congressional review and participation, which the Council has long advocated.

I agree with that but what do we do about the voting of GATT. How do we get a fair and equitable treatment on voting of GATT?

Mr. Norris. I think your control lies in your opportunity to veto an action which has been developed in negotiations within a 90-day period.

Senator FANNIN. Let's look at the 3½ percent tariff for car imports today or electronics, or whatever might be involved, and then look at the way that other countries are treated under GATT and what we are up against. Do you consider that this is fair treatment?

Mr. NORRIS. I am not quite sure I follow you.

Senator FANNIN. Here are the Japanese and other countries, and especially the Japanese ship all of the cars out of the country with 3½ percent tariff. We ship into those countries, we have a nontariff barrier. We have the 7½-percent tariff.

Nonbarriers have increased up to 60 or 70 percent. Now they say we have dropped them down to 10. But we still have these nontariff barriers.

Under this legislation do we in any way correct that problem?

Mr. MCNEILL. I think that the President certainly has increased authority in this bill to handle that kind of situation as compared to the present. I think the bill recommends that type of program.

Senator FANNIN. Mr. McNeill, I can remember a group sitting around the table with Japanese representatives and we were asking them if they would be willing to assist us in writing more fair and equitable treatment. The answer was they liked it the way it was. Naturally, because it is all in their favor.

I hope we can do this in this trade bill, and if you have suggestions how we might effectuate that to a greater extent, we would appreciate your thoughts.

Mr. NORRIS. I certainly share your concern. If we can develop further suggestions, we will be glad to supply them.

Basically, so much thought and careful consideration has been given to this H.R. 10710 that I think there has been developed a very basic overall principal involvement in the past of going ahead with those negotiations. I think this has been very carefully thought out.

I really commend the Executive Branch and the Congressional committees for doing this. I think it has a lot of flexibility. I think you have the right degree of authority, the right degree of controls over it, and a proper basis for setting the framework for the negotiations that I think is a highly desirable and long-needed bit of legislation.

Senator FANNIN. The European Economic Community has had many privileges. For example, in my State of Arizona, we have special problems exporting citrus to the EEC.

They give special privileges to some of their former commonwealths or counties they were associated with and they have a right to do so under GATT. There is no connection anymore whatsoever with that former association, but still the agreements persist. That is why I say this.

Mr. NORRIS. I agree with that. As a matter of fact, in connection with trying to reach international agreements on general preferences which has been undertaken over the past few years both in the Nixon and Johnson administration, we have very strongly talked about doing away with the preference.

I think this should be a very essential part of any multinational negotiation on general rate preference. I think GATT has to be the mechanism whereby they are phased out.

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Senator FANNIN. Mr. McNeill, I have long been opposed to the manner in which the Treasury Department handles the countervailing duty law. In fact, the Senate passed an amendment which would provide for judicial review.

Chairman Mills did not go to conference on this particular bill. It was not enacted. Shortly thereafter I received a copy of a letter that your organization sent to the chairman opposing the measure. Could you explain your position? Why should importers have a right to appeal while industries attempting to show injury have no opportunity?

Mr. MCNEILL. Senator, I am not familiar with the detail of that letter you referred to.

In the Trade Reform Act there is inserted judicial review of negative determination by the Secretary of the Treasury.

In other words, if the Secretary of the Treasury makes a negative determination, according to this bill before your committee, if he turns it down, then the aggrieved persons—who would be the domestic producers—would have the right to go into court and have it reviewed.

This is something we are supporting. We think that both importers and manufacturers should have an equal right.

Senator FANNIN. Here we have a foreign importer involved. He has a right that we do not give to our own corporations, our own companies, that are operating under the same competitive position.

Your organization did oppose this. I was just wondering why they would take that position.

Mr. MCNEILL. Again, Senator, I cannot recall that particular letter. I don't know why we would do that. It may have been a particular circumstance.

Senator FANNIN. I recall the State Department saying:

> Well, we are negotiating with others so this isn't a time for us to get involved in something they might consider is a change in our policy.

If we take that attitude we will never make any changes. I was just wondering why you would do that. But since you are not familiar with it, I will not go into it.

Mr. MCNEILL. We do support the judicial review aspect of the Trade Reform Act.

Senator FANNIN. There have been discussions relating to the opinion of the business community to future trade negotiation. Are you satisfied with the proposals currently being discussed, in other words, as to the rights that the industries have to future trade negotiation?

Mr. NORRIS. I commend them highly. It is something again we have long been calling for.

I was privileged to sit on a group with Secretary Dent and Mr. Eberle when we started to talk about this last year, and I think this is real progress.

Senator FANNIN. We do have a vote. We thank you gentlemen for being with us this morning. If there is anything further you would like to add, we would appreciate hearing from you.

We will recess until 10 tomorrow morning.

[The prepared statements of Messrs Norris and McNeill follow:]

PREPARED STATEMENT OF ROBERT M. NORRIS, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC., ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL

SUMMARY

The Trade Reform Act of 1973 (H.R. 10710)

The National Foreign Trade Council strongly endorses the early enactment of the proposed Trade Reform Act of 1973 (HR 10710) as essential to provide the necessary authorization and the legislative mandate for the United States to exercise the leadership which is now required in negotiations with other nations to achieve and maintain a more open non-discriminatory and fair world trading system.

The Council, however, urges modification or amendment of HR 10710 in two significant respects: namely, (1) to incorporate provisions for strengthening international agreements to assure non-discriminatory access to supplies of primary raw materials; and (2) to provide for the according of non-discriminatory tariff treatment, the extension of U.S. Government credits or guarantees and the conclusion of bilateral commercial agreements with non-market economy countries in such a way as to effectively express the "continued dedication of the United States to fundamental human rights" and yet not prevent continued progress toward more normal economic relations with those countries.

STATEMENT

My name is Robert M. Norris. I am president of the National Foreign Trade Council, Inc., and am accompanied by Mr. M. H. Walker, Executive Vice President of the Council. The membership of the National Foreign Trade Council, which was founded in 1914, comprises a broad cross section of United States companies engaged in all major fields of international trade and investment, including manufacturers, exporters, importers, bankers, insurance underwriters, and companies engaged in sea and air transportation.

We appreciate the opportunity to present views on behalf of the National Foreign Trade Council at these very important Hearings. The Council has long supported policies and efforts for the continued expansion of U.S. trade and investment abroad. Such expansion of American participation in international commerce strengthens our domestic economy, positively contributes to our balance of payments, and increases U.S. employment.

We thus strongly endorse the early enactment of the proposed Trade Reform Act of 1973 (HR 10710), with modification or amendment in two significant respects: namely, (1) the incorporation of provisions for strengthening international agreements to assure non-discriminatory access to suplies of primary raw materials; and (2) the modification of Section 402 of Title IV "Freedom of Emigration in East-West Trade" dealing with the according of non-discriminatory tariff treatment, the extension of U.S. Government credits or guarantees and the conclusion of bilateral commercial agreements with "non-market economy" countries.

Enactment of this legislation is essential to provide the necessary authority and the legislative mandate for the United States to exercise the leadership which is now required in negotiations with other nations to achieve and maintain a more open, non-discriminatory and fair world trading system.

The Bill in providing needed authority for undertaking trade negotiations, and for accomplishing necessary reforms in the General Agreement on Tariffs and Trade (GATT), has been developed with improved and necessary procedures for Congressional review and participation, which the Council has long advocated.

The Bill also accords with other major recommendations that the Council has made. Specifically it would: Provide necessary safeguards against import injury to industries; provide more adequate and timely adjustment assistance to groups of workers and firms adversely affected by imports; strengthen U.S. measures against unfair trade practices and assure more equitable trading rules or conditions for U.S. producers and traders; support U.S. efforts in international monetary negotiations by providing specific authority to invoke trade

measures to deal with serious balance of payments deficits or surpluses; and would provide authority, with necessary safeguards to implement a system of tariff preferences for less developed countries.

Access to Supplies

The distortions in international trading patterns which have resulted from the oil embargo, and the longer run problems associated with supplies of energy and materials, make clearly urgent the need for preserving and strengthening multinational institutions and agreements for meeting these problems. Recent events demonstrate unmistakably that nations are tied together by a complexity of trading, financial and monetary relationships that cannot be disrupted without detriment to all. They further demonstrate the need, which the Council fully endorses, to incorporate as an objective of this legislation the assurance of non-discriminatory access to supplies of primary raw materials. Authorization should be included under Section 102 of the Bill to negotiate agreements with other nations to achieve this objective. We agree that HR 10710 should provide a clear directive for strengthening the provisions of international agreements to provide rules governing such access to these supplies and to provide for sanctions against countries which violate such multinational agreements.

The Council does not, however, endorse empowering the President to retaliate against countries that impose discriminatory export controls injurious to the United States by unilateral action to restrict or embargo U.S. exports to those countries, to deny economic assistance and participation in U.S. credit and investment guarantee programs or to restrain investment by U.S. companies in the offending countries. Unilateral action in such cases would prove ineffective and would be contrary to our established foreign economic policy which calls for continued expansion of international trade and investment on a basis that is fair and non-discriminatory. Specifically, a unilateral embargo on shipment of goods from the U.S. would only result in the goods being obtained elsewhere. Similarly, a unilateral U.S. prohibition against investment by U.S. firms in these countries would find others willing to make such investments.

Title IV Section 402 "Freedom of Emigration in East-West Trade"

The Council supports the steps which the U.S. has taken in recent years toward normalization of trade relations with Communist countries. Carried forward with continued recognition of the interdependence of the political, economic and national security aspects of our overall foreign policy, and with appropriate safeguards for our national interest, progress in normalization of such trade relations, in our view, will support attainment of the purposes of the present trade legislation, which are stated in Section 2 as follows: (1) to stimulate the economic growth of the United States and to maintain and enlarge foreign markets for the products of United States agriculture, industry, mining and commerce; and (2) to strengthen economic relations with foreign countries through the development of fair and equitable market opportunities and through open and nondiscriminatory world trade.

In our view the present language of Section 402 of Title IV would be inimical to attainment of these objectives since this Section would effectively preclude the extension of non-discriminatory tariff treatment or U.S. government credits or guarantees to the Soviet Union. Both the October 1972 U.S.-U.S.S.R. Trade Agreement and the full settlement of lend-lease obligations would thereby be prevented from taking effect. In turn it would effectively prevent our reaching trade agreements with certain other Communist countries because of their practices relating to emigration.

Without condoning the internal policies of Communist or other countries regarding the emigration of their citizens, it is our view that such policies have no place in trade legislation per se. Rather the feelings and desires of the American people on this subject would be more readily received and more influentially brought to bear if communicated through other channels. The Council would hope that consultation between representatives of the Executive Branch and the members of the Congress would result in the modification of Section 402 in such a way as to effectively express the "continued dedication of the U.S. to fundamental human rights" and yet not prevent continued progress toward more normal economic relations with the non-market economy countries.

Request for Permission to Submit Further Written Statement

If during the course of these Hearings further amendments to HR 10710 are proposed, particularly if they would relate to the taxation of foreign business income, "orderly marketing" quotas, or controls on transfer of capital and technology, we respectfully request permission to submit further written documents of our views thereon for incorporation in the record.

Liaison Provision

We have long advocated and regard as most constructive the provisions in HR 10710 which would materially improve liaison between the U.S. Government and all affected sectors of industry, labor, agriculture, and consumers both in preparing for and during the conduct of international trade negotiations.

We are also mindful of the intensive and effective work which has taken place over many months and commend both the Executive Branch and the Committees of Congress in developing trade legislation which is responsive to the changing situation in world trade and the needs of the U.S. economy. In our view HR 10710 is responsive in these respects, and we urge its early enactment with amendments in the two major areas we have indicated.

Prepared Statement of Robert L. McNeill, Executive Vice Chairman, Emergency Committee for American Trade

Summary

GENERAL

With the important exception of provisions in Title IV, ECAT strongly supports the Trade Reform Act of 1973, and urges its early passage by the Senate so that international trade negotiations can succeed. It is believed that these negotiations will help restore needed international economic and political cooperation to deal with the energy and other international crises facing the U.S. and its trading partners.

TITLE I

ECAT supports proposed tariff and non-tariff negotiating authorities, and recommends requirement that balance of payments authority be used in accord with U.S. international obligations. Also recommends that product sector equivalence provisions of Section 102 be improved to provide necessary flexibility to trade negotiators.

TITLE II

ECAT supports "escape-clause" and trade adjustment assistance revisions of H.R. 10710 with but two exceptions. It is recommended that imports be required to be the "primary" rather than "substantial" cause of serious injury as the condition for import relief. It is also recommended that a common definition be used for *threats* of serious injury as for *actual* serious injury.

TITLE III

ECAT generally agrees with proposals to react against unfair foreign trade practices, and recommends a policy statement in the bill that the U.S. seek negotiation of an international code on subsidies affecting international trade. Further recommends deletion of the one-year waiver authority in the countervailing duty provisions.

TITLE IV

ECAT strongly supports authority to extend MFN tariff rates to "non-market" economies and to continue authority to extend credits. Urges compromise between Administration and Congress to rescue the worthy objectives of all parties to the disagreement on Title IV.

TITLE V

ECAT supports tariff preferences provided for, and suggests procedural amendment whereby public hearings would be required if any tariff preference is to be withdrawn.

TITLE VI

ECAT recommends deletion of Section 606 dealing with international drug traffic.

OTHER

ECAT agrees with purposes of short supply amendment to bill introduced by Senators Mondale and Ribicoff but notes some of the difficulties that may be involved.

STATEMENT ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Chairman Long and members of the Committee on Finance, I am Robert L. McNeill, Executive Vice Chairman of the Emergency Committee for American Trade. ECAT is made up of the heads of some of the nation's largest companies who have joined together in support of national policies that would expand America's international trade and investment.

Our members met last month for a review of ECAT's policy positions on the Trade Reform Act of 1973. They strongly support this Act and hope that your Committee and the full Senate will favorably and expeditiously act on it.

The bill before your Committee is quite different than the version submitted to the Congress by the President over a year ago. A major difference has to with Presidential authorities. The draft bill submitted by the Administration, for example, requested limitless authority for the President to raise or lower tariffs through tariff negotiations. The House of Representatives wisely placed very careful limits on these authorities and, additionally, wrote into the bill many other limitations on the President in his conduct of United States trade policy.

Also added by the House are improved pre-negotiation procedural safeguards for the benefit of domestic producers and workers. One such example is a requirement that the President consider the views of the public concerning the economic impact of non-tariff barrier negotiations as a condition to entering into such negotiations.

We believe it important to recognize this very careful work of the House of Representatives since much of the rhetoric surrounding the Trade Reform Act of 1973 appears to be based on the Administration's draft proposals and not on the bill as it presently is before you. With the important exception of provisions in Title IV, we generally applaud the many improvements made by the House.

Before commenting on individual provisions of the bill, I would like to note that we, along with other American citizens, are distressed with what appears to be very considerable disarray in United States relations with many of our traditional trading partners and allies. Present economic and political uncertainties threaten to undo much of the vast progress achieved during the past three decades in fashioning a successful system of international trade and monetary cooperation, primarily through the rules of the GATT and the IMF. While there is justifiable restiveness concerning some of these rules they, nevertheless, have fostered ever-increasing levels of international trade. The wise course would seem to be to accommodate these rules to present realities through such revisions as may be necessary rather than to reject them or seek their wholesale revision.

Such a course, however, requires international cooperation, and that seems to be in short supply. Economic and political divisiveness among countries of the Free World is increasingly evident. The energy crisis is considerably worsening this situation. A most disturbing aspect of the energy crunch is the possibility that countries more and more will turn to protectionist measures as defense against the higher costs of imported energy, i.e., countries will use higher tariffs or import quotas to cut back on general imports in order to gain foreign exchange to pay for energy imports. They may also resort to unfair export promotion devices for the same purpose. Nations independently following such courses of action could destroy the internal trading system that has so benefitted the United States and the rest of the Free World. The consequent lower levels of trade would harm all.

We believe that this must be avoided, and that the negotiations the Trade Reform Act would authorize will be vital to the preservation and improvement of the international trading order. When countries are engaged in active international trade negotiations they are far less likely to impose restrictive barriers against each other than when they are under no such inhibitions. If this judgment is correct, then the energy crisis and the present deterioration in relations

with our allies gives added urgency to favorable congressional action on the Trade Reform Act.

Our specific comments on the Act follow:

TITLE I

Title I of the bill would grant the President flexible authority to negotiate reductions in tariffs and non-tariff impediments to trade, although not nearly as flexible as that requested by the Administration. We find the negotiating authority necessary and properly circumscribed. Its wise use could significantly improve the competitive position of United States exports in foreign markets. This could be particularly true in several non-tariff barrier areas. One is in the field of government procurement where negotiation of common international rules governing rights to bid for government procurement contracts would be most valuable. Another is in the field of subsidies, which we cover more fully later in this statement.

There are two innovative authorities granted the President in Title I that we welcome. These are authorities to suspend import barriers to restrain inflation and to raise or reduce import barriers for balance of payments purposes.

We recommend that the Senate include a requirement that import restrictive measures taken under the balance of payments authority be in accord with international obligations of the United States. This is to avoid the danger of the United States being in violation of international law at a time when adherence to international rules of the game is so important. It is also to avoid giving a pretext to our trading partners to retaliate against what could be illegal U.S. actions.

We feel it important that there be close and continuing involvement of Congress in the formulation and conduct of United States trade policy. Therefore, we particularly support those provisions of Title I that require reports to Congress on certain Presidential actions and also that five members of the Committee on Ways and Means and five members of the Committee on Finance be accredited as official advisers to the U.S. delegation to trade negotiations. Close liaison with the Congress and Congressional advisers on international trade delegations should be enormously beneficial to the Executive Branch.

One cautionary note concerns Section 102(c) (1) and (2) of Title I, which seems to establish a policy that trade negotiations be based on achievement of product sector equivalence. Although there is a caveat that product sector equivalence be negotiated "to the extent feasible," the sectoral objective could be mischievous. While not entirely clear from the language, it could be interpreted to rule out United States concessions in the industrial area in return for benefits in the agricultural area, or vice versa. This could work to the overall disadvantage of the United States in trade negotiations through reducing what could be very necessary flexibility for U.S. negotiators. To illustrate, the United States is a very substantial net exporter in the machinery sector. It is possible that in a negotiation we could improve our overseas competitive abilities within that sector through negotiating foreign tariff reductions on U.S. exports of such products only in return for granting other countries reductions in U.S. tariffs of interest to them in areas totally outside of the machinery sector. It would seem unwise to prevent our negotiators from so negotiating commercial advantage. We, therefore, suggest that the Committee on Finance modify subsection 102(c) so that it will not unnecessarily tie the hands of our negotiators. Dropping of sub-paragraph (2), for example, would help considerably toward this end.

TITLE II

Title II of the Trade Reform Act contains the traditional "escape-clause" allowing the President to raise tariffs or to impose import quotas in order to provide domestic producers and workers relief from competitive imports that have been found to be injurious. The tests for import relief in present law—the Trade Expansion Act of 1962—have proven too tough. Accordingly, domestic workers and producers who have felt themselves injured by competitive imports have sought relief from the Congress through legislated tariff increases or import quotas. In recent years the pressures on Congress for import relief have been, as members of the Committee on Finance know, widespread and intense.

These pressures would be considerably diminished through passage of the Trade Reform Act since its revisions of the "escape-clause" will make import relief attainable on a more realistic basis than is the case at present. The test in the Trade Expansion Act of 1962 that a past tariff concession must be demonstrated "in major part" to be the cause of an increase in imports is done away with completely, leaving only the test that imports be shown to be a "substantial" cause of serious injury in order to obtain import relief.

This represents a very considerable liberalization of the test for import relief. We understand that in many of the cases where import relief was denied in the years since 1962 it was because the first test requiring a demonstration of causality between tariff concessions and increases in imports could not be met. As just mentioned, this test has now been dropped. To have left the remaining test of the Trade Expansion Act that imports in "major part" must be shown to be the cause of serious injury would in itself have represented a substantial liberalization. But, as just noted, even the "major part" test of present law is dropped in favor of a new test that imports need only be a "substantial" cause of serious injury.

In its trade proposals to the Congress, the Administration had proposed dropping of the tariff concession test but had recommended that imports should be the "primary" cause of serious injury in order for import relief to be granted. While to the layman the distinctions between "primary", "substantial", or even "major" may seem dubious and not worthy of great argument, in trade law the words have very distinct meanings, particularly to the Tariff Commission which conducts the "escape-clause" investigations.

We favor the "primary" test. It provides a somewhat tougher test than "substantial", although a lesser test than the present one of "major". Raising tariffs is not without serious implications for the domestic economy and for our international economic and political relations. Thus, tariff increases should not be taken lightly, and the use of the "primary" test would be recognition of this.

We also recommend that the Senate amend the House version to require the same definition for threats of serious injury as for actual serious injury. As passed by the House, it would be easier to get import relief where injury is *threatened* than where injury is actually being experienced. This does not appear to be good public policy. If there were to be a dual standard, it should be the reverse of the one here.

We believe strongly in the concept of adjustment assistance and support the adjustment assistance provisions of Title II. Benefit levels for unemployed workers are improved over those in present law and firms also would continue to be eligible for assistance.

As to eligibility for adjustment assistance, the test in the bill is very simple. A group of workers or a firm need only show that imports "contributed importantly" to unemployment or the threat of unemployment in the case of workers, or to economic distress in the case of the firm. This is a very important liberalization. We strongly approve of an easier test for eligibility for adjustment assistance than for tariff or quota relief. This appears to establish a policy that adjustment assistance is the preferred measure of relief—a policy with which we agree. It is a significant improvement over the current law which provides the same unrealistic eligibility tests for both import relief and adjustment assistance.

TITLE III

Title III provides important authority for dealing with unfair trade practices, an issue that greatly concerns the members of ECAT in their efforts to increase the already large contributions they make to the American trade balance.

Section 301 is a vital part of the Trade Reform Act. It arms the President with authorities to defend U.S. commercial interests against unfair foreign import restrictions. Hopefully, the existence of this authority and its judicious use can gain a better break for United States exporters.

Title III touches on a very sensitive and troublesome matter in both Section 301 and Section 331, (Countervailing Duties). That matter is subsidies in international trade. We are concerned that as tariffs and other non-tariff barriers to trade are relaxed, governments increasingly might turn to subsidies to gain competitive advantages for their producers. Section 301 authorizes the President to retaliate against such subsidies on products exported to the United States or to other foreign markets in competition with American exports. Section 331

amends the countervailing duty statute, which authorizes the Secretary of the Treasury to neutralize foreign government subsidies on exports to the United States through applying a special duty on such products to the extent of the subsidy concerned.

We have no quarrel whatsoever with those purposes of Title III. We believe, however, that there is a propensity for subsidies to lead to countersubsidies and for retaliation by one country against another's subsidies to lead to counter-retaliation in return. Such conflicts should be avoided.

We strongly recommend, therefore, that the Trade Reform Act should either through explicit language or through legislative history express the desire that a major objective of trade negotiations be the negotiation of an international code on subsidies affecting international trade. Such a code should have among its purposes the definitions of the kinds of subsidies that are acceptable, as well as agreed limits on their amount and applicability. To make the code meaningful there would have to be provisions for sanctions in cases where the code might be violated as well as procedures for operation of the code itself.

One amendment to the countervailing duty statute in Title III does trouble us. While the bill provides that the Secretary can waive application of countervailing duties during a four-year period following passage of the Trade Reform Act in cases where he finds such application would seriously jeopardize completion of the trade negotiations authorized by the bill, it provides such waiver authority for only one year in instances where the products concerned are produced in government-owned or controlled facilities. We recommend that the one-year provision be dropped in favor of the longer period of four years based on our sharing the judgment in the bill that discretion be allowed in order to avoid jeopardizing the larger objective of a successful trade negotiation.

TITLE IV

Title IV could prove to be the Achilles heel of this legislation, which ECAT considers vital to the interests and the welfare of our nation. Should this prove the case, it would be a compound tragedy. All of the work of the Administration, the Congress, private groups like ours, the negotiators who formulated the Tokyo Declaration last autumn and who have engaged in many meetings since—all this would be wasted. Doubts about the capacity of the American government to act decisively would seize the imagination of the mass media and would sweep through the capitals of the world.

The members of ECAT have too much faith in the Congress and the Administration to believe this will happen. Our recommendations have not changed. We support the President's original proposal for authority to grant most-favored-nation treatment to non-market countries pursuant to trade agreements. We are also in favor of continuing existing authority to extend export credits to such countries.

I would not use your time to plea for this position. Rather, I would have you know that our members look to this Committee and to the Congress as a whole and to the Administration to exercise the talent for compromise and innovation that has served our nation so often before to rescue the worthy objectives of all parties to the disagreement on Title IV.

TITLE V

We support this title which would authorize the President to extend duty-free treatment to eligible imports from less-developed countries. Such action would permit implementation of commitments to provide tariff preferences made by Presidents Kennedy, Johnson and Nixon to representatives of developing countries. It would also enable us to join with the other industrial countries of the Free World in implementing tariff preferences for the developing countries.

We recommend that the Committee on Finance improve this title by inserting a provision requiring the President to hold public hearings in order to ascertain the economic effects that would follow the retraction of any tariff preferences once they were extended. As the statute now reads there appear to be no such procedural safeguards. We believe they are necessary. Public hearings would afford the President economic information he otherwise might not have when deciding whether to eliminate any particular tariff preference. It would also safeguard the interests of domestic producers and consumers whose well-being might depend on duty-free treatment.

TITLE VI

This title deals mainly with definitions of terms used throughout the Act, and with amendments to related statutes. There is, however, a very major matter treated in Section 606 having to do with international drug control.

As mentioned at the outset of our statement, the House committee on Ways and Means painstakingly wrote into the Trade Reform Act a series of commendable limitations on Presidential authorities. Section 606, however, grants the President unlimited authority to "embargo trade and investment, public and private, with any nation . . ." whenever he determines that any country is not taking "adequate steps" to control international drug traffic. This appears a wide-open avenue for Presidential actions of almost any sort in the trade as well as investment fields. It also appears to provide the potential to undo the earlier limitations on Presidential power.

We certainly agree that international drug control is of high national priority, but suggest that it not be dealt with in a bill dealing with normal commercial trade.

SHORT SUPPLY AMENDMENTS

Senators Mondale and Ribicoff have introduced a most important amendment to the trade bill that would direct the President to seek international rules designed to guarantee access to scarce supplies. When access to such supplies would be denied the United States, the amendment would authorize the President to retaliate against the offending country or countries through restricting imports from them, through cutting off economic or military aid to them, and through prohibiting U.S. private direct investment in their economies.

This amendment is most timely as supply scarcity becomes more and more an economic and political problem. As suggested, international rules promoting fair access to supplies should be improved and consultative mechanisms established through which problems of supply shortages hopefully could be accommodated. We support such action.

The guaranteeing of access to scarce supplies, however, is a much more difficult matter. Other than through commodity by commodity agreements with supplying countries it is hard to see how the scarce supply problem could be handled. The countries with scarce supplies in many cases will be the less-developed countries. For many years they have sought commodity agreements with the major consuming countries in order to ensure stability of prices for their primary product exports, and often without success. Scarcity gives great strength to their current negotiating positions. Such negotiations will be difficult.

Future short supply situations also could be like the present one whereby petroleum has been denied the United States by exporting nations primarily for *political* reasons. In such situations, economic retaliation might not be enough to guarantee resumption of supply, or might even prolong any embargoes. This is not to argue against economic retaliation but only to note its possible limitations.

When considering the question of scarcity of supply, it is important to recognize that among the industrialized countries the United States is extremely rich in resources. In negotiating international rules concerning access to scarce resources we should be mindful that commitments obligating the United States to share its resources could outweigh prospective economic benefits. Nonetheless, the United States for humanitarian, political or other reasons might still want to assure access to its trading partners to scarce U.S. resources.

In concluding our comments on the short supply amendment we would note that several parts of the bill could be interpreted—or could easily be amended—to deal with the issue of retaliation when the U.S. is shut off from access to supplies. Section 301, for example, would seem to provide such authority. Similarly, Section 101 tariff authorities and Section 102 non-tariff authorities might be interpreted or amended to deal with commodity agreement negotiations.

I appreciate the opportunity you have given us to present our views.

[Thereupon, at 12:35 p.m., the committee recessed, to reconvene at 10 a.m. on Friday, March 22, 1974.]

TRADE REFORM ACT OF 1973

FRIDAY, MARCH 22, 1974

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

The committee met at 10:15 a.m., pursuant to recess, in room 2221, Dirksen Office Building, Hon. Vance Hartke, presiding.

Present: Senators Hartke, Talmadge, Nelson, Bentsen, Fannin, Hansen, and Packwood.

Senator HARTKE. The committee will please come to order.

This morning we resume our hearing on H.R. 10710, the Trade Reform Act.

All witnesses have been instructed to confine their remarks to a 10-minute summary of the principal points in their written briefs. Our egg timer will be operative throughout these hearings.

For the consolation of the witnesses, the 10-minute rule will apply also to the Senator's interrogation of the witnesses. Senators who wish to interrogate a witness for a prolonged period of time will have a stenographer available and may utilize the executive room after the witness has been interrogated by all other members of the committee.

Our first witness this morning is Leonard Woodcock, president of the United Auto Workers Union. Good morning, Mr. Woodcock. We welcome you to these proceedings. We are delighted to have you here with us this morning and I am very interested in your testimony.

STATEMENT OF LEONARD WOODCOCK, PRESIDENT, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW), ACCOMPANIED BY HERMAN REBHAN, DIRECTOR, INTERNATIONAL AFFAIRS DEPARTMENT

Mr. WOODCOCK. I have Mr. Herman Rebhan with me, who is director of United Auto Workers International Affairs Department. With your permission, I would like to file the statement.

Senator HARTKE. Yes, the entire statement will appear in the record and you can do whatever you want to.

Mr. WOODCOCK. I would like to address myself to two points: First, with regard to H.R. 10710 and our opposition to the bill and its totality because of what we consider willfully inadequate provisions for adjustment.

Assistance for workers and also for the communities in which those workers are stranded. The point is made that the more liberalized trade system is for the national interest, and we don't quarrel with that con-

cept, but if individual citizens then become the victims of what is done in the national interest, they are certainly entitled to protection, full economic protection until they can reestablish themselves in terms of equivalent employment.

Of course what came out of the House was somewhat better than that proposed by the administration but still, in our opinion, extremely inadequate and, of course, pays no attention whatsoever to the fringe benefits which the American worker is so much more dependent upon than any worker in any other industrialized society.

Of course, when you take a look at the fringe benefits, that adds an additional 17 percent of total nonstatutory compensation in 1972.

The fact is, and I am sure you agree, Mr. Chairman, that the inadequacies of our social insurance system, as compared to the average wage while working, are such that many things that we have to bargain for collectively, in other industrialized societies are the result of governmental protection, the governmental system which continues whether the individual is working or not working.

That is not true in our society and the lack of that in H.R. 10710 is a grave deficiency, indeed.

With regard to job search, relocation and training allowances, the bill is even further from the mark and what we are proposing, as I proposed to the House Ways and Means Committee some months ago are similar provisions to those promulgated by the present administration, then Secretary of Labor, when the Amtrak situation was before the Congress:

That the workers should be concerned that the full wages and fringe benefits applicable to his former job, plus any subsequent increases in those wage rates or improvement in those fringe benefits for the period of time equal his previous railroad employment.

There it was up to a maximum of 6 years. We say it should be on a time-for-time basis. If he is there 2 years, 2 years protection; 10 years, 10 years protection.

What I find to be a matter of curiosity, when I discussed this with private industrialists or those involved in the multinational concept, that if indeed a worker is injured by virtue of a national policy established in the national interest, he should be fully protected.

They say that privately, although not publicly, the Committee on United States Commerce did come forward with a much stronger adjustment provision than appears in the House passed bill.

The other matter to which I would like to address myself is a problem which we are now faced with in the domestic automobile industry as a result of, in large part, the energy crisis.

The city of Flint, Mich., has an unemployment rate currently between 20 and 25 percent in that general community.

Senator HARTKE. Is what you are saying in the Michigan area, in the automobile industry or generally?

Mr. WOODCOCK. It is impacted in certain areas.

Senator HARTKE. In other words, if you take the total area of Michigan, you don't get the same results, but you have between 20 and 25 percent unemployment?

Mr. WOODCOCK. In the city of Flint——

Senator HARTKE. What about the city of Detroit?

Mr. WOODCOCK. The general unemployment where the national average is 5.2 pecrent, the unemployment rate in the State of Michigan is 10 percent, but impacted in cities like Flint, Lansing, and Pontiac, where they were building the big cars and the intermediates that had fallen off in sales by 45 and 50 percent, that unemployment is up as high as 15 and 25 percent.

People say that is the fault of the domestic industry. I am not going to quarrel with that. We have been arguing with them for years. We are talking about more economical cars. Small is not necessarily economical. The public notion that small equals economic is not true. Some small cars are equally as uneconomical as cars much bigger.

Senator HARTKE. And much more unsafe. I went through that yesterday with my auto safety hearings. That was in a different committee. There is no question that the small car is not as safe. The small compact with seat belts is as safe as a large car weighing 5,000 pounds without a seat belt. We are trading off killing people for the energy crisis in small cars.

Mr. WOODCOCK. I would prefer to leave that to another day.

Senator HARTKE. All right, fine.

Mr. WOODCOCK. We have asked that the statement be filed that there be temporary quotas to expire September and October 1975 which is the beginning of the 1976 model year. That does give the domestic industry full chance to accommodate itself to the new car market condition. They are making efforts to do that, and they have got to make greater efforts than they have made to date.

We do not want to shield them from the effect of competition, but we do want to shield the workers in the industry, particularly those in the impacted areas from the full brunt of what was not their mistake, but what was the mistake of others.

Now what we are told, what we ask for is that the quota limitations in the market this year and the market next year equal the penetration of the last 3 years which is about 15 percent which, of course, would be 15 percent of a currently smaller market. There are those who allege that that would in fact violate the General Agreements on Tariff and Trade.

I would like to suggest an alternative not in our statement because, currently, the problem is not that great. In fact, the imports, with a few exceptions in the minor numbers, have also fallen considerably in this market as against a year ago—the total for all of the imports in January was down 22.5 percent and in February it was down 25.8 percent. So they have increased their share of the smaller market to about 17 to 18 percent. The numbers are down and their penetration is up a bit.

Obviously, that does not represent any great danger point, but if we wait until in fact the danger point is reached, when it can go as high as 25 to 30 percent, because some claim they have supply problems, hence sales are down; if we wait until the danger point is reached and then try to get legislative protection, it will have been too late. It isn't just a temporary loss of sales: We have an ongoing loss of sales that carries forward years into the future.

What we are concerned about is the potential injury rather than the actual injury that we are currently facing; I would like to suggest, Mr.

Chairman, the possibility of quota legislation that would give the President the power to impose quantitative quotas at the point where, if he were not to act, grave and serious injury at that time and stretching for an unpredictable time into the future would occur (because when one buys a car, there is a tendency to trade that car in on the same kind of car at some future time plus, of course, the loss of the parts market).

The other thing is again in the alternative because we have said Canada should be exempt because of the Canadian Auto-United States Trade Pact on which I know you have strong opinions.

Another way of accomplishing the same goal would be a temporary increase in the tariff rates. The United States, in fact, has the lowest automobile tariffs of any producing country: 3 percent. The original six countries of the Common Market have a tariff rate of 11 percent.

The United Kingdom has a tariff rate of 11 percent; Japan has a tariff rate of 6.4 percent; but Japan also has many other restrictions on keeping them down to a very low level. I suggest that there is no other car-producing industrial country that would face this possible severe crisis in its domestic industry without taking some temporary, at least, protective measure to guard against it.

So as a second alternative, we would suggest the wisdom of an increase in the tariff of 3 percent, also to terminate with the oncoming of the 1976 models in the fall of 1975.

Senator HARTKE. Thank you, Mr. Woodcock. I am not in charge of the rules. If we had more time, I would give you more time.

Let me point out something that concerns me about the whole trade bill concept. All these trading principles are based upon the old theory of free trade with comparative advantage. These are nice economic doctrines. You are in the labor movement. When you talk about the questions of comparative advantage so far as the price of labor, in foreign countries; how do they compare with the wage scale of the automobile workers here in America? Take for example Japan or Germany.

Mr. WOODCOCK. They change constantly as the currency relationships change. For example, last August when I visited the Volvo works in Goteborg, Sweden, their average was $4.80 an hour, whereas ours was $5.03 an hour. The differences come when we have to bargain for supplemental pensions, supplemental unemployment benefit protection, for health protection, which costs us almost 50 cents an hour, which are all a product of governmental system in all of these other countries. The gap in the last 5 years as between wages in Japan as compared to ours has narrowed substantially. They have been moving up in heavy percentages.

I understand when they are moving up on a percentage from a lower base, it may not necessarily close the gap, the gap not only in percentage terms but in actual gross terms is also substantially narrow. The same thing is true of West Germany.

Senator HARTKE. That is true there. In the penetration of these other markets, the largest assembly plant is in Brazil, is that not true? São Paulo. They have now the largest assembly plant in the world. That wage scale is not anywhere close to the wage scale here, right?

Mr. WOODCOCK. That is true plus there are all manner of subsidies given by the Government.

Senator HARTKE. That is right; in addition to the subsidies, there is the question of the local content requirement as far as that automobile is concerned. All types of arrangements are made. If we came into this trade agreement at this moment, would other countries retaliate against you? We are the ones in the position to retaliate, not those other countries. If there is any country that could live in a self-sufficient manner, maybe at a reduced standard, the United States is that country. Why do we have to come to our knees and beg for forgiveness because we have been more generous?

Winston Churchill said of all the countries, the United States has been the most generous without need of ransom from friend or foe. That is nice, but you can't live on accolades.

In Japan you have no unemployment. The Japanese have a guaranteed annual wage. They know that they are not going to be thrown out of work.

Germany has overemployment. I would hope that the whole labor movement would keep its eyes upon the ultimate. What you really want is not a matter of an adjustment system but honorable employment.

Mr. WOODCOCK. Of course, but if you will forgive me, we are still not standing along with the rest of the labor movement in support of your bill.

Senator HARTKE. I understand. As long as you come out for the principles for which I stand, you can support anybody you want to. You are for quotas and I am for quotas. I, too, support increased adjustment assistance. The Amtrak provision is one that I put through the Congress, and there is nothing wrong with that. It is high time some of the rest of the people in Congress understand that the working people are paying the majority of the tax bills. The UAW are educating their children and paying the bulk of the taxes, not the Republicans. I will hold off and give my colleagues a chance.

Mr. WOODCOCK. May I answer the question?

Senator HARTKE. Yes; you are on friendly ground.

Mr. WOODCOCK. We can compete with the imports at the present rate. When you change over engine lines and other components, transmissions and so on, that is a problem that takes several months. That is why we have this crisis. We can compete now.

When I was meeting with the top management of Volvo which is going to come here and build a plant in Virginia, the president of that company said to me we do not make our decisions where to locate based upon the wages paid in the country. That is a minor factor. What is important is availability of materials and supplies, and closeness to the market.

Senator HARTKE. And the Government action?

Mr. WOODCOCK. Yes.

Senator HARTKE. Did you ever see a Toyota built and made in the United States?

Mr. WOODCOCK. I hope to.

Senator HARTKE. Could you conceive of seeing the sign "Toyota: Made in the United States for the Japanese"?

We see a big box on the Japanese television which says: "Dart. Made in Japan for Americans." You can't get in their market. There

are just too few American products in Japan. It is not because we aren't competitive. Their restrictions keep us out. Being fair is a two-way street.

I would like to see the United States being fairer with itself for a while.

Mr. Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Woodcock, it is good to have you here this morning. In many ways I disagree with our chairman. On the Burke-Hartke bill I disagree. I don't know where you stand on that legislation, but I was very pleased to see some of your positions relating to the automotive industry. I support you entirely. We have a very serious problem. What has been illustrated about the Japanese is most indicative of the seriousness of the problem.

Do you feel that, given a fair break as far as tariffs are concerned, do you feel if we could have an equalization of the tariff and have a fair break in the world markets that we could soon be exporting plenty of cars from the United States?

Mr. WOODCOCK. We could, but I don't think we would because long ago the American companies made a corporate decision to export capital rather than cars, to in fact move bodily into these other countries and economies, so that they have no incentive to export except in a minor way.

Senator FANNIN. Wouldn't they have an incentive to export to Japan?

Mr. WOODCOCK. They have taken the alternative route.

Senator FANNIN. I know what you are talking about and the different deals that were contemplated. Some of them have gone through and some of them are projected.

Mr. WOODCOCK. The Ford deal went through and GM went through with one of the minor producers.

Senator FANNIN. It is still a market that, if open to us, might give us an opportunity. Of course the way things are going with the weight charge, the nontariff barriers, the horsepower and the weight and the whole base and all those things make it just impractical, and I know I have talked to many of the automotice companies when they were trying to get cars in Japan and I have also been over there, but don't you feel that we have a very serious problem not only in the automotive industry, but in other industries—as long as we are buying gas and other countries are not, we are not going to be able to correct many of these problems, is that your feeling?

Mr. WOODCOCK. If the essential elements of free trade are to be observed, it has to be on the basis of fairness and equality of the rules.

Senator FANNIN. Do you think under GATT, with the composure of the organization, that we can get a fair break?

Mr. WOODCOCK. I would believe so over the long run.

Senator FANNIN. That is why I asked you that question. I am just posing this question not intending to give any weight to it because I know you feel as I do, but a 3½-percent tariff is very unfair when they are charging the higher tariff, 1 percent on the average in the European countries. Why have we not been able to get a fairer break? You have fought for it. You are probably very familiar with the voting structure that has made it impractical for us to get that break. Do you feel in the future we will have any better chance?

Mr. WOODCOCK. We have to recognize, Senator, until 1969–70 we were a very dominant factor in the international market and certainly the Japanese economy, as it came out of World War II, needed some protection to get on its feet, but after it got on its feet in the big rush, I don't think enough adjustments were made. Some were made, but I don't think enough.

Senator FANNIN. You are talking about quotas. The American people are adverse to quotas. Don't you think we would be in a better position to curtail, at least to make it more applicable if we had a higher tariff on the Japanese cars or on the cars coming into this country? Why should we permit them to come in at 3½ percent when they are charging us 17? Would you be in favor of a higher tariff?

Mr. WOODCOCK. In our statement we asked for quotas. I said in the alternative orally today that the power should go to the President to impose quantitative quotas on a temporary basis at the point we reach substantial injury on an ongoing basis or, in the alternative, a temporary increase in the tariff until the domestic industry can make the adjustment because I have every confidence they can compete apart from the technological problems we have.

Senator FANNIN. That temporary increase would be based upon what happens as far as the other countries are concerned. You are talking about being able to compete with those cars coming in.

Mr. WOODCOCK. Yes.

Senator FANNIN. And not competing with exports?

Mr. WOODCOCK. I am mostly concerned with the domestic markets at the moment.

Senator FANNIN. I share your concern. I wish we could do something about it. I was hoping to get something done to increase the tariffs. We started in some years ago. The first time we started on it, at that time they had a 17½-percent tariff. In those tariffs we had a better chance.

Mr. Woodcock, the Canadian auto agreement legislation, in effect, created a special liberalized program of adjustment assistance for autoworkers. One of the triggering criteria in that law is decreased exports. Would you favor making trade adjustment assistance available for workers who become unemployed by reason of decreased exports generally or because of export controls, or import restraints, or even plants closing down and going abroad? Isn't the principle the same in each case?

Mr. WOODCOCK. Yes; it is, in 1964, when the auto pact was under consideration, we so advocated and we did at the point of its renewal. Currently, the terms of trade this past year have swung substantially against Canada, having been on the other side for a couple of years.

Senator FANNIN. Yes. In your statement I did want to call your attention to a few errors and perhaps you have corrected this, I am sorry I wasn't here to hear your complete testimony, but this might affect or change your attitude toward this legislation:

You state that the bill would give a worker "benefits equal to 70 percent of (his) weekly wages limited by a maximum of 70 percent of the average weekly manufacturing wage." Actually, the maximum limit is not 70 percent but 100 percent of the average weekly manufacturing wage, throughout the 52 weeks of eligibility.

Mr. WOODCOCK. If we made an error there, we would certainly be happy to correct it.

Senator FANNIN. I just wanted to call it to your attention.

You also stated that relocation allowances would be confined to heads of families, thus excluding single workers. Actually, under the bill passed by the House, relocation allowances would be available to any adversely affected worker, married or not.

Those are just a couple of items that I did want to call to your attention.

Mr. WOODCOCK. We will certainly check those.

Senator FANNIN. Let us assume that a corporation has facilities in Europe and pays a tax of 50 percent to the European country, and then the U.S. taxes that corporation approximately 50 percent. This policy would amount to 100-percent confiscation. You are not in favor of the tax program of that nature, are you?

Mr. WOODCOCK. No, we have become aware that we have to take a look at this problem. It is not quite consistent with the comparison we made of taxation in the States.

Senator FANNIN. If we follow your recommendation and allow a deduction for foreign taxes paid at approximately the 50-percent rate, this amounts to a net effective tax rate of 5 percent.

Mr. WOODCOCK. It could in fact be to the advantage of other country based multinationals.

Senator FANNIN. That isn't your desire?

Mr. WOODCOCK. No, that is not our intent.

Senator FANNIN. Thank you, Mr. Woodcock.

Senator HARTKE. Senator Talmadge?

Senator TALMADGE. I regret I had another very important engagement and didn't get here to hear your testimony. I will read it at my earliest opportunity.

I have long been concerned with imports that have affected a lot of our vital industries and jobs. Automobiles is merely one of them. I think this committee, and this Congress, must pay serious attention to that because we have many countries flooding us with imports, Japan, particularly. You see a great number of automobiles made in Japan on the streets, but you don't see any American automobiles in Japan. I will work with the committee on this. This is a unique situation. It is testing the patience of all of us.

Generally, do you object to American business investment overseas or overseas investment in the United States.

Mr. WOODCOCK. No, with regard to investments from overseas in this country, we are in favor of it. I have been in contact with Toyota and the same thing at Volkswagen.

Senator PACKWOOD. You are going ahead with the Volvo plant in Virginia?

Mr. WOODCOCK. Yes.

Senator PACKWOOD. Explain how the foreign tax credit is an unfair tax credit for overseas American investors.

Mr. WOODCOCK. This was brought to my attention only this morning, but maybe our basic arithmetic is not quite correct, and I would like to have that gone through and file a supplementary statement.

Senator PACKWOOD. But to the extent that it is not unfair taxation, to the extent they pay the same taxes overseas as they would if they were here, you have no objection as long as there is no particular advantage to go overseas?

Mr. WOODCOCK. As long as it doesn't operate as an incentive to go overseas.

Senator PACKWOOD. What kind of a situation do we get ourselves into if we have import unemployment insurance that is different from other unemployment insurance and you have workers in different industries receiving different benefits because they are unemployed for different reasons?

Mr. WOODCOCK. We had that with the United States-Canadian Import Act. We had some practical insurances. It didn't indicate any problems that I am aware of. The Amtrak situation is another case in point.

Senator PACKWOOD. I see us moving down the road of too much unemployment compensation because of the energy crisis. The auto agreement compensation was a special kind of insurance. Now we have Amtrak, and then we will have import unemployment compensation and I am wondering if we won't have so many kinds of unemployment compensation that the system will not make sense?

Mr. WOODCOCK. One solution would be to make the universal system good enough that it could meet all these tests.

Senator PACKWOOD. I have no other questions.

Senator HARTKE. Senator Nelson?

Senator NELSON. I was over on the floor handling an amendment and I have to go back in 3 minutes because it is coming up again, and I haven't had a chance to read Mr. Woodcock's statement, so I will pass.

Senator HARTKE. I quite agree with much of your statement. I commend you on your tax analysis. I don't know who has told you, you made a mistake. I have read this briefly while I was here, and I hope you don't let somebody mislead you with the foreign statistics that come in and affect the scene.

Mr. WOODCOCK. When a trusted member of the staff says I think we are little bit off on this, I am going to take a look, at least.

Senator HARTKE. Tell him to talk to me.

Mr. WOODCOCK. It is Herman.

Senator HARTKE. I will be glad to talk to him, there may be some implications where you want to see complete elimination of the foreign tax credit. I never advocated that myself. You don't advocate that. You just introduce it laterally.

I quite agree with your publication in which you say that the trade bill betrays labor. Compared to what we are probably going to get, I could probably take what you offer and be very happy with it. I think the American people would be a whole lot better off with it as well. You want a decent adjustment allowance, not only for the workers, but to help the communities which are thrown into havoc.

As far as the tax loopholes for international corporations is concerned, it is here that one finds the biggest abusing parties, and that is not the automobile industry. The biggest abuse is by the oil companies which have contributed to the oil crisis. Their effective tax rates are meager: Exxon, 6 percent, Texaco, less than 2 percent: all the seven sisters are paying less than 5 percent Federal tax rate. Your quota provision, you know as well as I do, goes farther; it is a matter of degree, and not of substance.

I like and appreciate your proposals, Mr. Woodcock.

Thank you for being with us.

Mr. WOODCOCK. Thank you very much.

[The prepared statement of Mr. Woodcock and a letter to the chairman follows:]

PREPARED STATEMENT OF LEONARD WOODCOCK, PRESIDENT, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

In May of 1973 I had the opportunity of making a statement to the Ways and Means Committee of the House of Representatives on proposed legislation on international trade sponsored by the administration. At that time I contended that the administration's proposed legislation contained grave defects and dangers and I therefore asked the Committee to reject the administration's bill and draw up completely new legislation which would meet the real needs of our own and the world's economies. Although the House did introduce some changes in the proposal, the changes are altogether too timid, falling particularly short in such areas as the regulation of foreign trade, adjustment assistance to workers displaced by imports, and the taxation of U.S.-based multinational corporations.

In view of the fact that the bill before the Senate has, in our opinion, substantially the same defects as the one introduced to the House over a year ago, my testimony will briefly restate the main reasons we find this trade package unacceptable, and the proposal with which we would like to see it replaced.

In addition, I am proposing a specific type of import relief designed to cushion the effects of the very serious events which have disrupted our economy and that of most Western nations since my statement last year. For UAW members in particular, the energy shortage has brought about a situation more disastrous than anything since the Great Depression. Consumer demand has shifted suddenly and radically from the traditional standard automobile to a smaller, more economical car of the type produced in huge quantities in Europe and Asia. The industry has only a limited short-run ability to change over to small car production and will find itself unable to meet the demand for some time to come. Meanwhile, foreign manufacturers are under great pressure to step up exports to the U.S. due to their increased need for foreign exchange growing out of the oil situation. With the tariff too low to restrict the inflow from abroad, the rising demand for small cars will largely be met by imports, which could well seize 30 percent of the market. It is to mitigate this all-too-likely economic disaster that we are requesting this Committee to institute temporary quantitative restrictions on imports of cars until September 1975.

The UAW's concern is now, as it always has been, with the practical human purposes and effects of international trade. I cannot stress too strongly the relationship between our support for sound trade policies and our insistence that they be accompanied by measures that will protect workers against hardship and exploitation, contribute to improvements in their employment opportunities and living standards and maximize benefits for consumers.

I. SUMMARY OF MAJOR DEFECTS IN H.R. 10710

H.R. 10710 would legislate on a wide-ranging number of subjects related to international trade. Among the major reasons we find this piece of legislation inadequate are the following provisions on adjustment assistance to desplaced workers:

1. Benefit Levels

We were encouraged to learn that the trade bill as passed by the House preserves the principle of special consideration for workers injured by international trade (these workers would have been covered by regular unemployment insurance in the bill as first introduced by the administration) and that it is a more generous version of the administration's meager adjustment assistance proposals.

However, the benefit formula as passed by the House is still woefully deficient. During the first 26 weeks of adjustment assistance it would provide benefits equal to 70 percent of the individual worker's wage limited by a maximum of 70 percent of the average weekly manufacturing wage. During any subsequent week up to a total of 26 additional weeks, the benefits would decline to 65 percent of the individual worker's wage limited by a maximum of 65 percent of the average weekly manufacturing wage. This formula, which yields initially

a current maximum of $116, would provide the average auto worker today with only 47 percent of his weekly wages (including overtime) and a much lower percentage of his total compensation, i.e., wages plus the value of his fringe benefits.

2. Fringe Benefits

No provision is made to assure continuance of valuable fringe benefits essential to the welfare of the families of the trade-displaced workers—for example, hospital-surgical-medical-drug insurance and hitherto accumulated pension credits. The importance to workers and their families of fringe benefits derived from and dependent upon their employment cannot be overemphasized.

In the case of UAW members employed by the major automotive corporations, negotiated "social insurance" benefits (e.g., pensions, medical insurance, etc. won by the union as distinct from legally required employer contribution) amounted to approximately 17 percent of total non-statutory compensation in 1972. They would cost vastly more if an unemployed worker, assuming he had the funds, tried to buy the same protection individually.

In a society like ours, with the worst and most inadequate social insurance system in the industrial world—a system characterized mainly by gaps, anomalies, deficiencies and injustices—these fringe benefits are absolutely vital to the security of the worker and his family. When he loses his job he loses the protection its fringe benefits provide and faces, financially naked, the deadly hazards against which they are designed to safeguard him and his family.

3. Job Search, Relocation and Training Allowances

The pertinent provisions of H.R. 10710 are thoroughly in harmony with the pattern of inadequacy that characterizes the remainder of its adjustment assistance program.

The job search allowance is largely illusory because it would be available only if the unemployed worker were to pay 20 percent of the total expense involved. This would mean that he would have to dip into the miserly benefits offered by the bill or into whatever savings he might have left after the duration of those benefits had been exhausted.

The relocation allowance proposals also would require cost-sharing by the worker and, in addition, would confine eligibility to heads of families (thus excluding single workers) who apply before they exhaust their unemployment benefits on the basis of a job or job offer obtained within that limited period. After they exhaust their benefit rights and therefore become even worse off financially, no relocation assistance would be provided.

For a trade-displaced worker who is engaged in authorized training which "is provided in facilities which are not within commuting distance of [his] regular place of residence" H.R. 10710 offers "subsistence expenses for separate maintenance" not to exceed the munificient sum of $5 per day. That figure was ludicrously low when it was written into the Trade Expansion Act (TEA) 12 years ago. The Consumer Price has risen by 54 percent since then.

4. Absence of Assistance to Communities

Although the House added an assistance program for firms harmed by import competition to the original administration bill, an assistance program to communities is still conspicuously lacking in H.R. 10710. Certain industries are heavily concentrated geographically. Foreign competition with the products of such industries can deal devastating blows to the economies of whole communities, facing them with the prospect of becoming ghost towns. Experience has shown, however, that the federal government, through timely and coordinated action by its appropriate agencies, can revitalize communities threatened by economic disaster. Actions taken in certain communities when military installations were withdrawn from them provide outstanding examples of what can be accomplished where there is a will to do so and means are made available.

II. UAW PROPOSAL

In the United States the principle that workers should not bear a disproportionate share of the cost of actions taken in the public interest was substantially recognized when Amtrak was created to take over railroad passenger operations. Under provisions promulgated by the present administration's then Secretary of Labor, a railroad worker laid off or downgraded as a result of the creation of Amtrak is *assured of the full wages and fringe benefits applicable to his former job, plus any subsequent increases in those wage rates or improvement in those fringe benefits for a period of time equal to the length of his previous railroad em-*

ployment up to a maximum of six years. In addition, lump sum severance pay is available to those workers who prefer it to income maintenance payments, provision is made for retraining and generous allowances are payable to workers who relocate to take other jobs.

There is absolutely no reason in logic or equity why similar provision should not be made for workers displaced as a result of the nation's international trade policies.

Additionally, certain deficiencies in the Amtrak protection should be corrected in providing adjustment assistance to trade-displaced workers as follows:

Maintenance of wages and fringe benefits should continue on a time-for-time basis, that is without the six-year limitation provided by Amtrak.

The worker's Social Security and unemployment compensation rights for the period during which he is entitled to maintenance of his wages and fringe benefits should be protected.

Workers engaged in retraining under the adjustment assistance program should have their wages and fringe benefits maintained until they complete the retraining program even if the maintenance period otherwise would end earlier.

A relocation bonus should be paid to those workers who move from one community to another in order to obtain new employment.

In lieu of H.R. 10710 "job search" proposal, job and community "prospecting" costs should be reimbursed in full.

Special provision must be made for older workers whose age makes it unlikely that they will be able to obtain suitable new employment.

III. TAX LOOPHOLES FOR INTERNATIONAL CORPORATIONS

The tax elements of this trade package are nothing more than a sop thrown to the growing numbers of Americans who are deeply concerned with the damaging effects of U.S.-based international corporations on our country's employment, its trade and payment balances and its political relations with other countries. Our present tax laws provide huge financial incentives which have the effect, in many cases, of making corporate investment abroad preferable to investment at home. There is no attempt in this bill to deal with any of these incentives which include deferral of taxes on unrepatriated profits of foreign subsidiaries, a credit for foreign taxes on profits and various tax preferences for Western Hemisphere trade corporations, less developed country corporations and investment in U.S. possessions.

To improve the present situation whereby tax legislation encourages investment decisions which are often neither socially desirable from the point of view of U.S. workers and consumers nor efficient from the point of view of the world economy requires a far more fundamental realignment of the system of tax incentives than is provided by the trade bill under consideration. On balance, I am inclined to recommend repeal of all of the tax preferences for foreign investment, plus the repeal of the DISC legislation, with the reservation that further study should be given to the alternatives of complete elimination or sharp reduction of the present 100 percent credit for foreign profits taxes. At the very least deduction, rather than credit, treatment should be applied to that part of foreign profits taxes which is equivalent to the tax which the corporation would have paid had it operated—rather than overseas—in that state of the United States in which it would have been required to pay the highest state profit taxes. This would mean that no foreign country would have a tax advantage over any state of the United States.

IV. NEED FOR TEMPORARY QUOTAS

Under ideal circumstances international trade contributes to expanding and consolidating markets, rationalizing the international division of labor and restraining prices through competition. If government policies regarding the distribution of wealth, power and income permit, all of these ideal efforts of world trade may, in turn, contribute to improving the well-being of working people and their families. Thus, expanding and liberalizing world trade can, under certain conditions, make a major contribution to basic trade union—and human—objectives.

However, the international trade and monitoring system has recently received shocks of a magnitude unprecedented in peacetime since the 1930s. The shock waves from these, if left to sweep uncontrolled throughout the world economy, could do untold damage. When he sees a tidal wave approaching, no sailor will be content to reflect philosophically on the fact that the forces of

gravity will ultimately restore calm to the surface of the ocean. What good is ultimate calm if by the time it arrives the ship has already been sunk?

And it is no exaggeration to say that a tidal wave reminiscent of and in some respects even worse than the disastrous year of 1958 is breaking over the automobile industry. The 1958 slump, although especially severe, was basically one of the industry's cyclical downturns, even if it did have some of the characteristics of today's auto market problems. The stock of cars in use had a higher than usual proportion of late models, as is the case now. But unlike today, the drop in production between the 1957 and 1958 model years represented an acceleration of a downward trend rather than a fall from a peak year, such as we face at the moment. A look at the figures reveals that the picture is more distressing in 1974 than it was in 1958. At the end of January dealer's inventories of unsold cars stood at 81 days supply—a totally unprecedented level. In the 1958 slump they never exceeded 66 days. These figures are not entirely comparable because the larger number of models now on the market necessitates larger inventories in general (stocks peaked at 75 days supply in the 1970 recession, which, though severe was less bad than 1958). Also, stocks have declined somewhat in February as a result of massive cutbacks in production. Nevertheless there is no escaping the ominous threat to the auto market revealed by current unsold stocks.

	U.S. car production			
	1956–57	1957–58	1972–73	1973–74
September to February total:				
Number (thousand)	2,880	2,606.5	4,976.5	4,268
Percent change		−9.5		−14

Unemployment related to the auto industry has also increased much more sharply in 1974. From September 1957 to February 1958 the unemployment rate in Michigan—a key auto industry state—increased 3.3 percentage points. From September 1973 to February 1974, the rate jumped 4.7 percentage points, and now stands at 10.6 percent.

Nothing like the current situation has been experienced in the auto industry since before the UAW was born. Giant plants have been virtually mothballed. More than 100,000 auto workers are indefinitely unemployed with tens of thousands more on intermittent layoffs. Unemployment like a tornado sweeps through and lays waste to whole communities, reducing the hopes and destinies of hundreds of thousands of families to ashes.

And the outlook for the immediate future is even more threatening: the industrialized countries of the West are all facing a major economic crisis. The catastrophic increase in petroleum prices and resulting balance of payments deficits could recreate conditions in international trade similar to those of the 1930s—raising the spectre of cutthroat competition as nations scramble to increase exports in order to finance oil imports. As the country with the strongest position in energy supply and the largest potential market the United States would undoubtedly be a prime target of such policies. Indeed the fact that the dollar has recently appreciated on international exchanges (it is approximately half way back to the position it held in 1969 prior to all the devaluations, downward floats, etc. of the last three years) reflects these trends. Simultaneously, by making U.S. exports more expensive and foreign imports cheaper, a rising dollar exacerbates the situation.

In particular the U.S. auto market is almost certain to be a major focus of foreign export drives. Its size and vulnerability are obvious. The gasoline shortage has created a panic among the American public which no longer wants uneconomical cars. Even when (or if) the gasoline situation stabilizes prices will remain high, reinforcing the basic shift in demand. In this situation created by international crisis and short-sighted policies of the past, there is a serious threat of a sudden sharp upsurge in the share of foreign imports in the domestic automobile market. In spite of rapidly rising prices for imports (due especially to devaluation) the trend in the market share going to imports has been slowly upward. Imports averaged 15.5 percent of sales in 1973 (the highest percentage in history). However, in December 1973 their share had risen above 17 percent. In January 1974 it was 18.7 percent. In February it fell to 16.8 percent but this was probably due primarily to special supply problems (e.g., the difficulty in getting oil for transport, short-term production bottlenecks, etc.). As these are worked out we can expect to see imports' share rebounding. The strengthening of the dol-

lar should reinforce this by enabling importers to reduce prices if necessary to attract buyers.

In short we are faced with a very serious situation indeed—for the world economy, for the USA and for the auto industry. It is essential that the U.S. take initiatives to prevent severe international economic disruptions during this crisis and to protect its own workers. Agreements must be reached with the other industrialized countries not only with respect to the equitable sharing of available energy supplies but also on trade and monetary policies to deal with the enormous strains placed on the economies of every nation. In the absence of such agreements "free trade" could become a meaningless slogan—a token platitude behind which existing agreements would crumble into chaos as nation after nation is forced by desperation into competitive, export-dumping, currency devaluations, restrictions against imports, etc.

However, until such agreements can be negotiated on both a multilateral and a bilateral basis interim steps must be taken to protect our most vulnerable industry from the threat of massive and unprecedented imports. The UAW, while generally in favor of liberalized trade has always recognized the possibility of sudden, disastrous dislocations and the need for special measures to deal with these when they occur. The 1972 UAW convention resolution on international corporations and foreign trade took the position that: ". . . serious problems can be created by international trade when it involves exploitation of workers, where rational trade patterns are disrupted by abuses perpetrated by international corporations, where the importing country fails to maintain full employment and where sudden influxes of imports threaten disruption of markets, large scale dislocation of workers and damage to whole communities."

The General Agreement on Tariffs & Trade takes the same position. Article XIX, "Emergency Action on Imports of Particular Products" states:

"1. (a) If, *as a result of unforseen developments* and of the obligations incurred by a contracting party under this Agreement, including tariff concessions, *any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers* in that territory of like or directly competitive products, the contracting party shall be free, in respect of such products, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession . . .". (emphasis added)

The conditions outlined both in the UAW resolution and GATT Article XIX clearly apply to the situation facing the U.S. auto industry. To mitigate the all-too-likely economic disaster our industry is facing we are requesting Congress to institute temporary quantitative restrictions limiting imports to the average percent share of the market over the last three years. We calculate that by September 30, 1975 the American industry will have sufficient lead time to satisfy the new demand and therefore the restrictions should be scheduled to end on that date. (Canadian imports would, of course, be exempted from these restrictions.)

Let me underline that we have taken this step most reluctantly, for we have no permanent interest in sheltering the American automobile industry from the competition of more efficient foreign producers. We are not GM's spear carriers. Indeed, the severity of the crisis now facing the industry is in large part the direct fault of the long-term policies of the major U.S. auto producers.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW,
Washington, D.C., April 9, 1974.

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

DEAR MR. CHAIRMAN: I should like to make some additional comments to the testimony of Leonard Woodcock delivered on March 22 before the Senate Finance Committee. I trust you will be able to make the following part of the official record:

The written statement characterized the tax element of H.R. 10710 as "nothing more than a sop." That was incorrect. The House version of the Trade Reform Act makes no reference at all to tax reforms. It was the Administration version which was referred to.

I wish to emphasize again the need to join overseas trade reform with overseas tax reform; the two are obviously linked. As I wrote in my prepared statement, I am inclined to recommend repeal of all of the tax *preference* for foreign investment, and that further study should be given to the alternatives of complete elimination or sharp reduction of the present 100 percent credit for foreign profit taxes. If the complete repeal is, as was suggested by Senator Packwood, unjust, then something less should be enacted. I suggested, as one approach, that perhaps the cost of doing business at home should be equalized with the cost of doing it abroad. Domestically, a corporation can only deduct its state taxes as a business expense. Let an overseas subsidiary deduct an equivalent amount of its profit tax to the highest state tax in the U.S. from its overseas business expense; then let the balance be credited a is done at present. That would merely equalize taxes. One could go just a little further towards discouraging the constant flow of investments abroad by abolishing the deferral aspects of taxation of overseas income. One should go still further and restore licensing of all foreign investments *including reinvestments and loans made abroad.*

I wish to make another correction to our written statement:

In the section dealing with adjustment assistance, the testimony referred to the Administration version of the Trade Reform Bill, not the House version.

Sincerely,

JACK BEIDLER,
Legislative Director.

Senator HARTKE. We have a panel consisting of Roger D. Hansen, senior fellow, Overseas Development Council; Guy F. Erb, senior fellow, Overseas Development Council; and Charles R. Frank, Jr., senior fellow, the Brookings Institution.

STATEMENT OF ROGER D. HANSEN, SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL, ACCOMPANIED BY GUY F. ERB, SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL, AND CHARLES R. FRANK, JR., SENIOR FELLOW, THE BROOKINGS INSTITUTION

STATEMENT OF GUY F. ERB

Mr. ERB. I am Guy F. Erb; I am a senior fellow with the Overseas Development Council, Washington, D.C.

With me today is R. D. Hansen, senior fellow, Overseas Development Council; and Charles R. Frank, Jr., senior fellow, the Brookings Institution.

I have submitted a written statement.

Senator HARTKE. Yes; all the written statements will be included in the record as they have been presented, and you may summarize your statements.

Mr. ERB. I would like to mention a few of the main issues I posed in that testimony, Mr. Chairman, and also place our discussion this morning in a context which I think reflects the situation that the United States is now facing.

Our trade policy is being determined in a time of great transition and uncertainty. We all are aware of the energy crisis, the raw material crisis, and many factors causing us to take a look at our position in the world to come.

In addition to these, I would like to mention the growing trading strength of Asia, Africa, and Latin America. We must not overlook the importance to them and to our economy of the trade that they have succeeded in generating in manufactured goods.

Members of the committee, I am sure, are aware of the importance to those countries of their diversifying exports and to the changes,

and I might say challenges, that these imports have brought to the U.S. economy. We in the rich countries—United States, Europe, Japan, and other developed countries—have a choice, Mr. Chairman. We can welcome the entries of these economies of Africa, Asia, and Latin America into the world of competitive economics, or we can attempt to restrain their exports and have a serious impact on their hopes to participate in economic and social development.

The Trade Reform Act then is an essential part in our response to a global, economic interest which incorporates U.S. economic interests. We must reconcile our national security interests with considerations of international and national equity and international and national efficiency.

The main aspects of U.S. trade policy include the negotiating authority of the trade bill, the tariff preference scheme, relief to U.S. interests from injury due to imports, and the importance which is now attached by the United States to negotiations on export controls and access to resources.

The U.S. tariff preference scheme has been described in detail in material before the committee. It is also analyzed in my written statement. In my view this proposal is important as an indication that the United States is prepared to implement a measure considered to be of great significance by developing countries. The proposal will be modestly useful to them, but more importantly it will enable the United States to begin discussions on other trade matters in the knowledge that it has fulfilled the pledge made in 1970 to establish tariff preferences.

One particular aspect deserves comment this morning and that is the possible use of this measure as a bargaining counter to engage in negotiations with developing countries.

As originally conceived, preferences were to be nonreciprocal. They were designed to offset trading disadvantages of developing countries.

I might mention one of these disadvantages in the Kennedy round, Mr. Chairman. Tariff reductions on goods traded among developed countries amounted to, on average, 39 percent.

Senator HARTKE. Thirty-nine point what?

Mr. ERB. Thirty-nine percent average reduction on goods which were traded.

Senator HARTKE. On goods or rates?

Mr. ERB. On rates applied to goods traded.

Senator HARTKE. It makes a big difference whether it is 39 percent on rates or goods.

Mr. ERB. Of course.

Senator HARTKE. What is the effect on goods actually traded. The reduction in most cases under the Kennedy round were not on goods themselves, but were on nontraded items.

Mr. ERB. Yes.

Senator HARTKE. In other words they reduced a tariff on wagons for example.

Mr. ERB. I am sure that was taken into account in these figures. These are trade-weighted figures based on a sample of trades in developed countries. I can supply the figures.

Senator HARTKE. Do you have the figures on what items were in which the 39 percent reduction on rates actually affected goods traded in those items?

Mr. ERB. I have the trade-weighted details in the office. I can supply that to the committee.

Senator HARTKE. Would you do that please?*

Mr. ERB. The average figure was in reference to trade or items of interest to developed countries. The similar impact on trade from the South to the North was only 21 percent. Even allowing for the point the chairman has made, I think the difference in approach to trade emanating from developing countries is illustrated. Preferences are designed to overcome that kind of advantage. They are a limited responsibility. Attempting to use them as a bargaining chip would only be a viable procedure if trading conditions were significantly improved and product coverage greatly expanded.

Mr. Woodcock this morning mentioned the problem of the automobile industry and his proposed responses to that. I would say that the importance of having a multilateral framework for that sort of action is of critical significance to developing countries. Their own trade will depend on the access they would have to our markets if they had the assurance that the objective of safeguards would be to provide for long-term increases in capacity of the importing country to accept foreign goods. Thus the long-term interests of the developing countries would be safeguarded.

Finally, with regard to trade reform, the bill contains many suggestions to reform or revise the GATT. The work of GATT has reflected more and more developing country concerns about the way in which the world trading system operates. That is as it should be. Europe, North America, and Japan can no longer settle world trade affairs by themselves, but GATT is in a somewhat paradoxical situation. Its membership is broad enough that violations of possible GATT export rules are often politically expedient, yet it is not broad enough in the sense that many countries whose positions as suppliers and traders give them an interest in "rules of the game" are not presently members of GATT. Thus large or newly powerful countries pursuing narrow national interests in their trade policies in a situation of medium- or long-term resource scarcity could create serious inequities in the world trading system.

It is possible to envisage unilateral or bilateral action, but such steps would probably not result in an equitable international allocation of resources. Thus a multilateral framework for the establishment of unilaterally made policies and guidelines for export control and other matters is of great significance to the developing world.

Their growing trading power is a good foundation for their active participation in the negotiations and our approach should take that into account and we should base our trade policies on the fullest international participation possible in these matters.

STATEMENT OF CHARLES FRANK

Mr. FRANK. My name is Charles Frank, I am senior fellow at Brookings Institution.

I start from the premise that there is a great deal of interdependence between the United States and the less developed countries. They pro-

*See table 4, p. 891.

vide a growing market for our exports of agricultural commodities and skill- and technology-incentive manufactured products. The less developed countries are the source of many of our important imports.

Furthermore the bulk of the potential for expanded sources of supply of food, minerals and natural fibers lies in the less developed areas. Yields per acre there are far less than they are in the advanced nations. The application of modern technology in the form of new seed varieties and use of fertilizers can substantially raise production.

I also argue that potential for mineral discoveries are much greater in the less developed areas than they are in the advanced nations.

Recognizing this interdependence, it is imperative upon us to involve ourselves in serious negotiations with less developed countries, asking them to guarantee no disruptions in supply and encouraging them to expand their production of basic commodities which are important in maintaining living standards in the United States and elsewhere in the world.

If we are to negotiate seriously with the less developed countries, we must offer them something of value in return. The most valuable thing we can offer them is not increased foreign aid and not tariff preferences, as important as those things are, but guaranteed access to our markets, continued access to markets for their manufactured exports and for their primary commodities.

The greatest opposition to keeping U.S. markets open to expanding imports from less developed countries and from other countries comes from those who fear the loss of jobs or assets in import-competing industries. There is some validity in this claim, but to assess realistically the impact of trade, we attempted to analze in some detail the major import-competing industries in the United States at the five-digit level of classification which is a fairly narrow level of classification.

In these import-competing industries, it is true that there was only modest growth in employment between 1963 and 1971. Employment in these industries increased at a rate of less than 1 percent per year. But the fact that employment increased rather slowly has relatively little to do with trade.

We ascertained this by analyzing the impact of trade and other factors on the growth of employment. Particularly we looked at four different components: (1) Those increases in employment potential due to expansion of domestic demand; (2) those increases in employment potential due to export expansion; (3) the decline in employment potential due to increased imports; and (4) the decline in employment potential due to increased labor productivity. We separated the growth and employment into these four different factors.

The contributions are given in table 3 of the prepared statement.[1]

The numbers in this table indicate that by far the most important factors affecting employment growth are changes in domestic demand and in labor productivity. Increases in labor productivity have had roughly 5 times the negative impact as has had the growth of imports, and 10 times the negative impact as the growth of net imports—imports less exports.

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[1] See p. 906.

In numbers of jobs, the loss of job potential due to net foreign trade has averaged about 40,000 jobs per year or about two-tenths of 1 percent of all jobs in manufacturing and less than one-tenth of 1 percent of the total U.S. labor force. As far as the loss of job potential is concerned, the impact of foreign trade is really a drop in the bucket. Although the impact of trade on employment is small in relative terms, the political impact of loss in jobs will be great if people believe the loss could have been prevented by Government action. Thus if we are to be receptive to the trade of less developed countries we must provide for better means of adjusting our structure of production away from their exports.

Now, when the adjustment assistance program was being considered both in the executive branch and by the House Ways and Means Committee, one of the crucial factors was the cost. Much of my research has been focused on estimating the cost of a meaningful adjustment assistance program. One of the factors that came out in this research was that the cost of the program depended crucially on the eligibility criteria for adjustment assistance, and how they were interpreted. The current version separates eligibility criteria for adjustment assistance and for escape clause relief and makes both more liberal. Since there has been no administrative experience with these criteria, it is difficult to estimate just how many workers of firms would qualify for trade adjustment assistance under the proposed legislation. Unfortunately, the bill before this committee is ambiguous. Depending on how these criteria are interpreted, there could be a very large difference in the number of eligible workers and hence the cost of the program.

One condition for the eligibility of a group of workers to apply for adjustment assistance is that the Secretary of Labor must determine whether a significant number or proportion of the workers in such worker's firm have become totally or partially separated or are threatened to become totally or partially separated. There are several ambiguities here. A significant number or proportion is not defined in the legislation and considerable discretion could be used by the Secretary of Labor in defining that phrase.

The term separation has no precise meaning. I would assume that the intent of Congress is to provide assistance to those workers who lose their jobs, wholly or partially, on a permanent basis and therefore are required to search for a new job or retire from the labor force. Seasonal layoffs, for example, would not be covered by the legislation. Nor would workers be covered if they were laid off from their jobs temporarily due to a downturn in business but were called back quickly from their layoff even if the temporary layoff were caused by a surge in imports. But what about the worker who is temporarily laid off but is not called back? When is he separated from his job? When should he be eligible to receive adjustment assistance? These questions may seem of minor consequence but, in fact, the administrative interpertation of the meaning of separation could make an enormous difference in the number of workers eligible for trade adjustment assistance benefits and hence the cost of the program; for it is a characteristic of our industrial relations that workers are frequently laid off for temporary periods.

Despite the uncertainties in the administrative interpretations of the meaning of the legislation, we did make an attempt to estimate the number of workers who might be eligible each year for trade adjustment assistance. We did this only for the year 1971 by using the data we had compiled on five-digit import competing industries.

Specifically, we selected those import-competing industires in which output and employment declined and imports increased. We then estimated both the layoff rate and the recall rate is those industries based on data from the Bureau of Labor Statistics. The difference between the layoff rate and the recall rate we called the separation rate. We applied this rate to the selected industries.

The result was an estimate that some 44,300 workers would have been separated in trade-impacted industries and would be eligible for trade adjustment assistance. This estimate is subject to a number of problems. First, it is based on data for five-digit industries while the legislative criteria are based on data for the firm. The estimate also involves some special interpretations of the meaning of separation. A worker is separated if he is not recalled, but waiting for a recall may take a substantial period of time and in the meantime a worker may be declared eligible for trade adjustment assistance benefits even though he is eventually recalled.

This estimate of separated workers in trade-impacted industries can be translated into a cost estimate of the trade adjustment assistance program as outlined in the bill before the committee. The average number of weeks of trade adjustment allowances under the present program is about 30.

Under the proposed bill the first 26 weeks would be covered at 70 percent of the worker's wage and additional weeks at 65 percent of his wage. Thus if we assume that the average worker would have a wage of about $170, the gross cost of the trade readjustment allowance should average about $3,536. The worker would likely have claimed anyway under unemployment insurance compensation. Currently the average trade-impacted worker collects about 17 weeks of unemployment insurance—although this may be expected to rise to perhaps 20 weeks on the average—as more States allow for longer periods of eligibility. If we assume that the average unemployment benefit would be $60, the net cost per worker should be $2,336.

We argued above that some 44,300 workers should be eligible for trade readjustment allowances annually. To be especially conservative, we might assume that very liberal interpretation of the criteria result in 60,000 workers being declared eligible. The experience of the Department of Labor, however, is that only about three-quarters of those eligible to apply for benefits actually receive benefits. Thus we could expect at most some 45,000 workers to receive benefits at a total cost of $105 million.

Perhaps an additional $45 million could be allocated to workers training, counseling, placement, relocation, or health benefits, and $35 million to adjustment assistance to firms. The total cost would be $185 million a year at most with $150 million a year a more likely estimate. This assumes, however, that actual appropriations of funds will be allocated to worker training, counseling and placement, appropriations which I believe are not now anticipated.

The costs of the adjustment assistance program are very much more dependent on how the eligibility are interpreted rather than on the level of benefits specified in the legislation. Thus, it is important that some legislative guidance be given to the Departments of Labor and Commerce.

For example, the committee might specify a rule of thumb concerning the proportion of workers separated which would be regarded as significant. You might indicate that a worker should not receive benefits if there is a reasonable expectation that he will be called back to his job in less than 13 weeks and that his loss of work cannot be regarded as seasonal. These kinds of caveats will help insure that the costs of the adjustment assistance program will not run out of control.

Even with a quite liberal interpretation of the eligibility criteria and with special appropriations for all aspects of the program, the costs will be minor compared to the billions of dollars lost to the consumer through trade restrictions or the billions more which would be lost if more protectionist measures were to be enacted because of loss of jobs without compensation.

Now Mr. Woodcock has testified that the current bill——

Senator HARTKE. I don't know how much longer you have, but we do have the limit. I can't be fair to other people unless I impose the rules of the committee on you.

Mr. FRANK. All right. Other improvements in the program which are detailed in the statement would estimate no more than $150 million, so that the total cost would be approximately $350 million, if significant improvements were made.

Thank you.

Senator HARTKE. All right.

STATEMENT OF ROGER D. HANSEN

Mr. HANSEN. Mr. Chairman, my name is Roger Hansen and I am currently working at the Overseas Development Council. Let me be as brief as possible.

The Trade Reform Act of 1973, developed within the administration in 1972 and considerably rewritten by the House Ways and Means Committee in the summer of 1973, does not in its present form reflect the concerns which have risen within the past 6 months regarding the issues of natural resource scarcities and the use of export controls as instruments of trade policy.

Despite the consequent omissions from H.R. 10710, the energy crisis and the 400-percent increase in the cost of crude oil has made a major trade negotiation more rather than less necessary at the present time. A major negotiation may indeed present the only opportunity to avoid an increasing use of protectionist devices and bilateral arrangements throughout the world which might otherwise follow from a $50-billion increase in developed countries' 1974 oil import bills.

The amendments to H.R. 10710 presented by Senators Mondale and Ribicoff contain a comprehensive and well-reasoned approach to negotiations on the question of access to markets for food and raw materials, and I only have one minor question regarding their amendments.

As written, they would, in the extreme, allow the President to retaliate against a foreign export restraint which was simply deemed to be unreasonable, not illegal, by the President. I would hope at the very least the President would not be given this important power until attempts had been made in GATT to develop some new rules on export controls. If all such attempts fail, we may eventually have to resort to such broad congressional delegations of authority to the executive branch.

As an observer of power within the U.S. Government moving away from the Congress and toward the Presidency during the past half-century or longer, I personally have a bias against such sweeping delegations of authority, even when the reasoning behind them may be admirable.

In that same regard, I find myself in disagreement with at least an implication in the committe's report on page 30 where it is pointed out that there is no reason for the staffs of the Ways and Means Committee or the Finance Committee to be involved in the upcoming negotiation. This is an oversight. Knowing how busy Senators and Congressmen are, with the best intent they will not be able to follow the negotiations as closely as a few senior staff members. I think it is vitally important that some change be made so there is more congressional oversight of the entire negotiation.

My final point: If and when such negotiations do begin, they will be among the most complex ever attempted, and I think that those negotiations that concern the question of access to raw materials and food will be among the most difficult. They will be particularly difficult because they will tend to raise the central issue of equity in north-south relations which is seen so completely differently from both sides that it is bound to entail years of misunderstanding.

If and when the bill passes and negotiations begin, these problems will begin to be exposed. Some will prove nonnegotiable. Some may take years to negotiate. If the resource pessimists are right, those that argue that we have crossed the threshold into an age of long-term scarcities, many of these problems will prove harder to negotiate than otherwise. If the resource optimists are right in arguing that we are simply in the period of short-term scarcities and we will soon find major new sources of raw materials, and we can increase food production rapidly, then the international conflicts presently surrounding the access issue should prove easier to manage. The reasons I think this is going to be a very difficult issue to negotiate between north and south is covered in the paper.

If we have entered into an era of long-term scarcities, then negotiating on the question of access to raw materials and the terms of access to raw materials comes very close to negotiating on the essential question of all political activity—that is who gets what, when, and how. Such questions are, as you gentlemen know far better than I do, hard enough to manage domestically.

What makes them manageable in most nation-states is that the ground rules of the day-to-day conflict over politics are accepted by most of the players in the game. They are accepted because of shared values and because of norms of behavior which together dilute the element of conflict in political life and create a sense of legitimacy.

It is because there is no international agreement on ground rules and because the values, norms, and behavior are so different that I suspect that when the necessarily broad range of countries sit down to negotiate a comprehensive set of agreements concerning access to food and raw materials, we will be in for a very long and hard struggle.

I suppose the only message I have on this problem is that the United States must enter this negotiation if we are in a long-term scarcity situation in a different frame of mind than it has exhibited in dealing with the third world so far. To the extent that the access question means access to raw materials of the third world, it also means rules of access will only be negotiated insofar as the question of equity of north-south relations is negotiated simultaneously. Senator Mondale recognized that rules must be formulated in a manner which produce a fair return to developing countries and which insures their economic development.

He went on to say: "I believe we can devise a system which is equitable to producing countries and to the industrialized world."

If Senator Mondale's optimism is going to prove justified, it will require a high degree of statecraft in north-south relations. It is precisely in the area of U.S. relations with the less developed countries that U.S. policy has been at its least imaginative, least persuasive, and most shortsighted. Despite the growing role of the Third World—real and potential—in international economic affairs, Fred Bergsten has persuasively argued that "present U.S. policy neglects the Third World almost entirely, with the exception of our few remaining military clients."

Unless this policy framework is rather radically restructured, I foresee a limited effort to discuss and negotiate seriously with Third World countries on the question of access to raw materials, and I hope that the Congress can play a leading role in changing present administration attitudes.

Thank you.

Senator HARTKE. All right. The committee will recess. We have a vote on the floor of the Senate.

[Brief recess.]

Senator HARTKE. The committee will come to order.

I hear talk that stresses the importance of authority of what to provide in the trade bill as to the Third World. Could you provide for the record detailed data on developing countries, not just as a group, but the individual group rate, national reserves, export requirements, controller national resources, and detailed situations.

One group of developing countries is the oil producing countries. They will go to $95 billion in oil exchange in 1974 alone. All the bankers are scrambling all over themselves and running all over the Middle East trying to get a piece of the action.

Saudi Arabia is willing to make all kinds of deals for trading in oil, and they are really concerned about other developing countries, are they really concerned about other developing countries or are they just looking out for themselves?

One of the statements here says there is a loss of 40,000 jobs.

Mr. FRANK. Loss of job potential, due to foreign trade, per year.

Senator HARTKE. What is the source of this?

Mr. FRANK. It involved a careful analysis of import competing industries.

Senator HARTKE. How many jobs are contained in the manufacture of every million tons of steel in the United States?

Mr. FRANK. I couldn't tell you.

Senator HARTKE. It was 7,000. The production went up to 17 million in 1969 and to 18 million last year. If you multiply that by 7, you get 119,000 jobs right there alone.

How many automobiles on the manufacturing line is this? Have you any idea what is involved? How about the electronic industry? How many jobs have we lost? The textile industry? How did you come up with the poultry figure of 40,000 jobs loss?

The shoe industry? You talk about loss of jobs! How do you figure a loss of a job? When the president of the United States Shoe Co. announces that he would like to build factories in the United States, but that the foreign tax credit his competitors have, would destroy him, unless he too took advantage of it. He therefore doesn't build in the United States?

Mr. FRANK. The 40,000 jobs that I refer to are annually, not over a 5-year period.

Senator HARTKE. On what basis.

Mr. FRANK. Each year.

Senator HARTKE. I know. What kind of basis did you use?

Mr. FRANK. I can provide more detail.

Senator HARTKE. Yes, if you have some statistics on this, I would like to have them. I listen to people converse with me all the time about that, and I think I can give them more detailed information than some of the experts.*

Mr. Hansen, what was your position right before you took this job?

Mr. HANSEN. I worked for the Government.

Senator HARTKE. Don't feel ashamed. In what position?

Mr. HANSEN. I worked in the office of the Special Trade Representative.

Senator HARTKE. That is Mr. Eberle's group?

Mr. HANSEN. Yes.

Senator HARTKE. He wants all the authority to negotiate without restriction and you have left him and you have come back and said maybe we shouldn't give him so much authority?

Mr. HANSEN. I suppose if I tried to find both a politic and an honest answer to that——

Senator HARTKE. Take your time. Don't hurry.

Mr. HANSEN. I would have——

Senator BENTSEN. Is there a difference?

Mr. HANSEN. I would like to think not, usually; I must say having listened to the arguments around each one of the authorities requested for about 2 years, I think there is a valid reason for almost all of them.

However, I would feel much more comfortable with them if I knew that for the entire duration of the negotiation, Congress was going to be intimately involved with the way the authorities granted are used.

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*The material referred to was received too late for inclusion in the printed hearing at this point. It will be included in the final volume of these printed hearings. Refer to contents of the final volume.

I think there is, at least for 90 percent of the authorities, if not all of them, a valid reason, but that doesn't guarantee——

Senator HARTKE. And the history has not been very good, has it?

Mr. HANSEN. It has been spotty and I suppose will continue to be so. I think in this instance, Congress is being asked for a number of blank checks, and that there is a way to avoid endorsing that check while giving the country's negotiator the power he needs. That is, as the Ways and Means Committee did, to write into the bill many instances in which things have to be brought back for approval, or at least some kind of veto process.

If Congress could play a more vital role via actual membership and staff participation, the administration would see that those authorities were used in the way Congress meant them to be used.

Senator HARTKE. All right, I hear you.

All right, we are faced with a 10-minute vote, I don't mean on this.

Senator HANSEN. You mentioned guaranteed access to our market for developing countries. In return for such a policy, should not the United States insist on a long term supply guarantee for the raw materials we need. If countries cut us off by embargoes, they should not be given guaranteed access to our markets. Would you agree with that statement?

Mr. FRANK. I agree with both of them.

Senator HANSEN. All right, on that I rest my case.

Senator HARTKE. Senator Bentsen.

Senator BENTSEN. I have no questions.

Senator HARTKE. Who is in favor of exploiting cheap labor, who said they could use their most valuable asset—labor? How could the United States have two policies for humankind.

You say you have to have a minimum wage in the United States so you don't exploit the poor, but you have to have an exploitation of this massive cheap foreign labor.

I don't hear anyone raising their voices against exploiting those poor people—2 cents and 4 cents an hour in Indonesia, for example. Where is that great compassion for humankind to bring their standard of living up?

I don't think you are going to do it by continuing to exploit their labor. They want us to live better with cheap imports, this is pure exploitation. This policy would never be condoned in the United States because the American people would vote against it. These foreign poor can't vote against us. Exploitation in any form is no answer.

The committee is in recess.

[The prepared statements of Messers, Erb, Hansen, and Frank and material requested of Mr. Erb by Senator Hartke follow. Hearing continues on p. 909.]

PREPARED STATEMENT OF GUY F. ERB SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL

SUMMARY

1. The developing countries of Africa, Asia, and Latin America are linked to the U.S. economy by important trade and investment flows, and these countries share with the United States a common interest in a prosperous global economy. Economic growth in the developing world has brought many changes affecting relations between the rich and poor countries. Thus, manufactured exports from

developing nations have increased rapidly in the last decade, bringing low-cost products to American consumers, but at the same time highlighting the need for adequate programs of adjustment assistance for U.S. workers and firms.

2. In 1974, the non-oil exporting developing countries face an additional import bill of about $15 billion due to rises in oil, food, and fertilizer prices. Thus their needs are greater than ever for a liberalized world trading system which would enable them to increase their export earnings and maintain their imports from developed countries. In 1973, developing countries purchased 30 percent of U.S. exports.

3. The Trade Reform Act's provisions on trade negotiations, tariff preferences, import relief, and unfair trade practices are all of great importance to the developing countries. Negotiations on tariff and non-tariff barriers to trade would offer poor countries an opportunity to obtain firm concessions on items that they export. The establishment of tariff preferences by the United States would honor a commitment dating from 1970, and would indicate U.S. willingness to join other developed nations in this attempt to offset some of the trade disadvantages confronting many developing nations. The use of import safeguards and countervailing duties could harm the long-run trading prospects of the poor countries unless a multilateral framework takes their interests fully into account; the U.S. should avoid imposition of restrictions that would pose unreasonable barriers to emerging exporters.

4. Reform of the General Agreement on Tariffs and Trade (GATT) is required to improve the capacity of that organization to respond to the changes in the world trading system. However, reform negotiations should not give rise to situations that would lead to confrontations between the rich and poor nations. The satisfactory management of the world economy requires the active participation of both developed and developing countries. Trade reform cannot be undertaken by rich countries alone, or within systems that do not adequately reflect the new trading strength of the developing countries and their potential impact on world trade in manufacturers and primary products.

STATEMENT

Introduction

The trade policy of the United States for the next decade is now being determined in a setting of transition and uncertainty. The world economy is beset by high prices of energy, food, and other primary commodities, and trade patterns are evolving rapidly, as are exchange rate relationships. These factors, and countries' reactions to them, highlight the need to reconcile national security interests, international equity, and efficiency. Failure to achieve a successful balance of these considerations could harm, perhaps beyond repair, the interrelated world trade, monetary and financial systems.

Among the factors in transition that must be taken into account in the formulation of U.S. trade policies I would like to point to the rapidly growing trading strength of many developing countries, the present situation of scarcity for many products in global trade, and the impact on the U.S. economy of changing flows of trade and investment. My colleagues, Dr. Frank and Dr. Hansen, and I will concentrate in these factors in our statement today. All three of these issues, and the U.S. policy responses to them, are directly relevant to the Trade Reform Act and to the trade and development prospects of poor countries.

Trade of Developing Countries

Although the rise in many commodity prices in recent years has been a dramatic event, the rapid growth of the exports of manufactured goods from developing countries cannot be overlooked. Since 1953–1955 exports of manufactured goods (excluding non-ferrous metals) have increased nearly nine-fold, accounting for over one-fifth of the total exports of the developing world in 1972. Imports of developed countries of manufactured items from Africa, Asia and Latin America grew at about 20 percent per year during the decade 1962–1972. Developing country manufactured exports to the United States grew at 23.5 percent annually during the same period; comparable figures for some other developed countries were: Netherlands, 21.5 per cent; Canada, 21.9 per cent; Federal Republic of Germany, 22.2 per cent; Italy, 25.1 per cent; and Japan, 29.4 per cent.

For some developing countries, the growth and diversification of exports has brought them to a position of considerable trading strength. Thus, Brazil's exports increased by 58 per cent from 1972 to 1973, reaching $6.1 billion. Korea's

exports reached $3.35 billion in 1973, an increase of over 85% over 1972, while Mexico's expanded to $2.15 billion, a one-year growth of approximately 20%.

The long-term economic development of many developing nations is linked to their continued ability to export their traditional products—coffee, minerals, and other primary commodities—and, as we have seen, manufactured and semi-manufactured goods as well. In turn their growing economies have provided a large market for U.S. exports of both agricultural commodities and skill—and technology-intensive products. Last year the developing countries of Africa, Asia, and Latin America took nearly 30 per cent of U.S. exports—a larger proportion than taken of either European Community or Canadian exports.

However, these trade figures do not take into account the impact of recent price increases of the essential imports of the developing world. Petroleum, food, and fertilizer price rises may add as much as $15 billion to the import bill of non-oil exporting developing countries in 1974, compared to 1972. Confronted with resource scarcities and high prices for essential goods, many poor countries need more than ever the contribution that trade liberalization can make to export earnings.

For the developing countries, therefore, the Tokyo Round offers a critical opportunity to gain better access to the large markets of the developed areas. For the world as a whole, the Tokyo Round of multilateral trade negotiations could be a key element in bringing the world economy back on an even keel. By maintaining the movement toward a more open trading system, these negotiations can provide a necessary counterweight to the widespread tendencies to restrict trade that are detrimental to the global economy, but particularly harmful to the development prospects of many poor countries.

The Trade Reform Act of 1973 is, of course, required to authorize definitive participation in the multilateral negotiations by the United States. For the developing countries, the main aspects of U.S. trade policy are the negotiating authority contained in the trade bill; the tariff preference scheme; relief to U.S. interests from injury due to imports; and the importance not attached by the United States to negotiations on export controls and access to resources.[1] Due to the interrelation of these factors, tariff preference, the U.S. negotiating authority, and domestic relief from injury due to imports must be considered together. Thus greater access by developing countries to the U.S. market should be supported by a good program of adjustment assistance to enable workers and firms to adjust to increased imports.[2] Moreover tariff preferences and negotiated reductions in trade barriers will be meaningless if escape clauses or other measures, such as countervailing duties, are repeatedly invoked.

We in the developed countries face a choice. Rich nations can accept, and indeed welcome, the economic growth in developing areas that has resulted in their increasing exports, or we can restrain the exports of poor countries and attempt to avoid the internal changes that a dynamic world economy has made necessary for the United States, Europe and Japan.

U.S Tariff Preferences

The U.S. scheme to provide duty-free entry for some products of the developing countries honors a commitment which originated in 1967, when President Johnson agreed to consider preferences, and which was formally made within the U.N. Conference on Trade and Development in 1970 by the United States and other developed nations. As with other rich countries' preferences systems, the U.S. proposal is limited by a series of provisions that would dilute its possible benefits. For example, products eligible for preferences are for the most part going to be manufactured goods. Most primary products and semi-processed agricultural items, and in addition, certain import-sensitive products in the manufacturing sector will, it seems, be denied preferential treatment. Another restriction would deny preferential treatment to a developing country which supplies either 50 per cent (by value) of total U.S. imports of an eligible article, or more than $25 million on an annual basis. Moreover, the President is authorized to withdraw, suspend, or limit preferences at any time.

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[1] See Hansen, Roger, "The Politics of Resource Scarcity," in *The United States and the Developing World: Agenda for Action, 1974*, James Howe, Ed., to be published by Praeger Publishers, Inc., in April, 1974; and the Statement by Dr. Hansen to the Senate Finance Committee, 22 March 1974.

[2] See Statement by Charles R. Frank, Jr., to the Senate Finance Committee, 22 March 1974.

This last element of the proposal is not qualified by any Congressional or Executive review procedure, and could therefore result in changes in import tariffs that could adversely affect U.S. trading interests as well as those of foreign suppliers.

In order to estimate the possible results of the U.S. preference scheme I have analyzed 1971 U.S. imports from the developing countries. In 1971, total imports from the developing countries of Africa, Asia, and Latin America were about $11.5 billion, of which $7.1 billion were dutiable and therefore potentially eligible for trade preferences. But total dutiable imports of the United States contain many restricted items and "import-sensitive" goods that in fact would probably not be eligible for preferences, nor included in U.S. tariff concessions within multilateral negotiations. Petroleum and related products are assumed to be into this category.

Estimates of total U.S. imports from poor countries in 1971 that might have been eligible for preferences *before* the application of the $25 million-50 per cent limitation are about $2.8 billion, or about 40 per cent of the dutiable imports from developing countries. *After* the application of that rule, however, the U.S. preferences would have been granted to import items valued at about $1.1 billion, or about 10 per cent of all U.S. imports from poor nations in 1971. If, in addition, some developing countries were to refuse to give up "reverse" preferences—that is tariff preferences now extended to the European Community by African and Caribbean countries—or were declared ineligible for other reasons, the total imports affected would be further reduced. In the short-run the trade effects of preferences due to increased demand stemming from lower prices could only be a relatively small proportion of estimated product coverage.

I would like to comment on two aspects of the preference provisions that will influence the benefits received from the scheme by eligible countries: (1) the regulations concerning the rules of origin, or the "value added" by beneficiary countries and (2) the $25 million/50 per cent limitation, or "competitive need" formula.

The intent of tariff preferences is to encourage new production for export in developing countries. But the uncertainties in the proposed U.S. and other preference schemes make it unlikely that genuine incentives to produce can be provided by tariff preferences. Nevertheless, to the extent that emerging exporters do try to take advantage of preferences, the rule of origin requirements may well determine their participation in new trade. A range of 35 per cent to 50 per cent for local value added has been established by H.R. 10710 (Section 503). The choice of a figure within this range could be critical for developing countries; the lower the percentage chosen, the more likely it is that the new and small exporters will be able to benefit from U.S. tariff preferences.

The "competitive need" formula is designed to allow new or small exporters to participate in whatever new trade is generated by the U.S. preferences. The formula does, however, represent a possible restrictive device, one which could significantly limit the short-run benefits obtained from the scheme. If it is deemed necessary to maintain such a limitation, some of its possible adverse effects could be ameliorated if the "50 per cent" limitation were only applied to items where the total U.S. imports were at least $5 million.

A final word on tariff preferences concerns their possible us as a bargaining counter to ensure access to resources in developing countries, in negotiations on investment policies of developing countries, or other matters. As originally conceived, tariff preferences were to be a non-reciprocal measure introduced to offset the disadvantages of developing countries trying to enter world markets. These disadvantages drive from their lower levels of industrial development and from the trade practices of developed countries. To illustrate the latter problem I should point out that the last GATT tariff negotiations, the Kennedy Round, resulted in reduction of average tariff rates by 21 per cent for products of interest to developing countries, but by 30 per cent for products of most interest to rich nations.

Indeed, because of the non-reciprocal charter of preferences, countries which grant preferences have states that they have no obligation to maintain preferential margins, or to compensate beneficiary countries in the event of withdrawal or suspension of preferences. Furthermore, the limited impact of the proposed preferences makes them an inappropriate instrument with which to attempt to obtain concessions from developing countries. Only if the rules governing preferential treatment were substantially liberalized, and the product coverage

of preferences were significantly expanded—many more manufactured products and processed and semi-processed primary products could be covered—would there be any prospect for seeking policy commitments or trade concessions from beneficiary countries in return for preferences. Such an approach would still, of course, be at odds with the original non-reciprocal character of the preference system.

The Developing Countries in the Tokyo Round

Participation in the negotiations is an option open to all poor countries, and many have a considerable stake in joining the Geneva trade talks. To illustrate, in 1971, seventy-five developing countries were the principal (i.e., first, second, or third) supplier of $2.4 billion of U.S. imports on which U.S. tariff concessions could be made. Thus, in negotiations with the United States, concessions (in dollar terms) could be obtained by developing countries on almost twice the trade that would probably be eligible for preferences. Furthermore, because preferential treatment may be withdrawn, or a country's eligibility denied due to failure to meet certain criteria, developing countries would be well advised to seek concessions in the multilateral negotiations on *all* items, *even* those eligible for preferences. Taking this approach would reduce the possibility that a developing-country exporter would face a high duty in the event that a tariff preference were withdrawn. It would also permit an attack on a serious obstacle to developing-country trade: the escalation of tariff rates according to the degree of processing of a product. Since the Trade Reform Act provides for 5-year to 15-year periods over which tariff concessions can be staged, there are means of ensuring a long and only gradually diminishing margin of preference for products on which multilateral concessions are extended in the Tokyo Round. This possibility might alleviate some of the concern now felt by developing countries over the possible erosion of preferential margins.

Non-tariff barriers.—Quantitative restrictions pose significant obstacles to developing country trade, and their liberalization will be an essential element in the gains which all nations hope to realize from the multilateral negotiations. The Trade Reform Act would provide authority (subject to Congressional review or veto) to lower or eliminate non-tariff barriers. In the preparatory stages of the Tokyo Round, many developing countries have emphasized the liberalization that is necessary of the barriers to trade that result from regulations on standards, health controls, government procurement practices, and other measures which adversely affect their trade. Furthermore, negotiations with other developed countries, in particular the European Community, could result in the liberalization of trade in tropical products and other primary commodities.

Import safeguards.—In the negotiations it is likely that developed countries will attempt to negotiate new multilateral agreements on the use of restrictions (safeguards) to alleviate injury caused by rapidly growing imports. New multilateral safeguards governing permissible growth of imports could well become unduly restrictive of developing country exports, unless determined efforts are made by developing countries participating in the negotiations to ensure that their interests are incorporated in agreements on safeguards.

The Trade Reform Act now provides for easier access to escape clause action than has been the case in the past. Allocating the scarce investment capital of poor countries to export industries becomes a hazardous undertaking if they face frequent protective reactions in developed countries once the investments result in expanded trade. Thus poor nations have two direct interests in import safeguards: (1) recourse to escape clause action in the United States should not be so easy that it imposes major new restrictions on the trade and development prospects of poor countries. A middle ground has to be found between the security of market access that has been the objective of the GATT since its inception, and the mitigation of the costs of adjustment that may confront U.S. workers and firms due to rapidly rising imports. In its present form, the Trade Reform Act poses the distinct danger to developing-country exporters that their access to the U.S. market could be severely limited by escape clause actions; (2) negotiations on revision of multilateral safeguard provisions (Art. XIX of the GATT) should ensure that safeguards become mechanisms for long-run adjustment to trade in the sectors affected by imports. The objective should not be to restrict imports indefinitely, but to provide for long-term increases in the capacity of the importing country to access foreign goods.

"Unfair" trade practices.—Developing countries interested in promoting industrial development often face difficulties whose solutions require economic policies

that may conflict with the trade practices of developed countries. Use of subsidies, or regional development incentives with effects similar to subsidies, are cases in point. Thus new U.S. legislation on unfair trade practices (Title III) may result in obstacles to the development of new exports by poor nations. Appropriate use of discretionary authority by the Executive Branch with regard to countervailing duties, and the active participation of developing countries in any international consideration of multilateral guidelines for the use of countervailing and anti-dumping duties, are both desirable steps.

Trade Reform

The Trade Reform Act now included among the negotiating objectives of the United States the revision of the GATT to allow it "to more nearly reflect the balance of economic interest" (Section 121). The Committee on Ways and Means in its Report on the Act notes that between 1947 and 1973 GATT participants increased from an initial 19 countries with comparable economic interests to 85 countries with widely varied economic interests. The Committee has requested the U.S. Government to explore the possibility of "mediation panels" and a weighted voting system as an alternative to the present one country-one vote procedures followed in GATT.[3] I think it is safe to assume that the weighted voting system which is intended would give a preponderent voice to rich countries.

In recent years the work and deliberations of the GATT have reflected developing country concerns about the way in which the world trading system operates. This is as it should be. Europe, North America, and Japan can no longer settle world trading affairs by themselves. Moreover, in many cases, the interests of some developed countries in trade negotiations will coincide rather than conflict with those of some developing countries. For example, barriers to trade imposed by the United States or by the European Community are of concern to all other trading nations. Shifting alliances of countries within the negotiations might be the best means of liberalizing such trade. Such flexible approaches would be more fruitful than those which could lead to further divisions and confrontations between the rich and poor nations.

A weighted voting system within the GATT would only lead to bloc action by developing countries. Indeed, as these countries have demonstrated within the International Monetary Fund, when they are faced with a system that requires joint action for significant impact, joint action results. Examples of coordinated action by developing countries are found in the Algiers meeting of non-aligned nations, the continuing action of the Group of 77 developing countries within the United Nations, the joint positions of African and Caribbean states negotiating with the European Community, and most recently, actions by oil exporters and other resource producers. In my view, a bloc arrangement could be formalized relatively easily by developing nations within the GATT.

The growing trading power of many poor countries is a good foundation for their active participation in the trade negotiations. The U.S. response to the changing patterns of world trade must include an adequate negotiating posture toward both rich and poor trading competitors. Moreover, the overall U.S. approach to GATT and other agencies should not attempt to diminish the weight of developing countries in the institutions of the world system since the satisfactory management of the world economy will depend on the fullest international participation possible.

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[3] Committee on Ways and Means, House of Representatives, *Trade Reform Act of 1973*, House Report No. 93–571, October 10, 1973, p. 26.

TABLE 1.—U.S. IMPORTS OF SELECTED MINERALS FROM PRINCIPAL SUPPLIERS, 1972

Mineral	Imports as percent of U.S. consumption	Major developed country suppliers, with imports supplied by each	Total, major developed country suppliers (percent)	Major developing country suppliers, with imports supplied by each	Total, major developing country suppliers (percent)
Aluminium [1]	96				
Bauxite		Australia, 2 percent	2.0	Jamaica, 53.5 percent; Surinam, 27.4 percent; Guyana, 7.3 percent.	88.2
Alumina		Australia, 40.9 percent; Canada, 0.6 percent.	41.5	Jamaica, 26 percent; Surinam, 19.8 percent; Guyana, 0.6 percent.	46.4
Metal		Canada, 63.1 percent; Norway, 7.6 percent.	70.7		
Chromium [2]	106	South Africa, 32 percent; U.S.S.R., 27.8 percent; Turkey, 25.6 percent.	85.4		
Cobalt [2]	98	Belgium-Luxembourg, 28.8 percent; Finland, 10 percent; Norway, 7.3 percent.	46.1	Zaire, 34.5 percent; Zambia, 8.5 percent.	43.0
Copper [1]	18	Canada, 34.1 percent	34.1	Peru, 23.2 percent; Chile, 14.7 percent.	37.9
Iron/steel [1] (iron ore)	28	Canada, 50.8 percent	50.8	Venezuela, 30.6 percent	30.6
Lead [1]	26	Canada, 33.1 percent; Australia, 17.4 percent.	50.5	Peru, 22 percent; Mexico, 9.7 percent.	31.7
Manganese [1]	95	South Africa, 14.6 percent	14.6	Gabon, 26.3 percent; Brazil, 18.8 percent: Zaire, 10.4 percent; Mexico, 18.7 percent.	55.5
Mercury [1]	58	Canada, 52.7 percent	52.7	Mexico, 18.7 percent	18.7
Nickel	74	Canada, 75 percent; Norway, 10.6 percent.	85.6		
Sulfur [1]	13	Canada, 75.4 percent	75.4	Mexico, 24.6 percent	24.6
Tin [1]	77			Malaysia, 64.3 percent; Thailand, 23.2 percent; Bolivia, 8.9 percent.	96.5
Titanium [1]	72	Australia, 99.6 percent	99.6		
Tungsten	44	Canada, 30 percent; Australia, 11 percent.	41.0	Bolivia, 18 percent; Peru, 12 percent; Thailand, 9 percent.	39.0
Uranium [1]	12	Canada, 100 percent	100.0		
Vanadium [1]	32	South Africa, 56.5 percent	56.5		
Zinc [1]	52	Canada, 50.9 percent; Australia, 5.6 percent; Belgium-Luxembourg, 5 percent; West Germany, 4.1 percent; Japan, 3.8 percent.	69.4	Mexico, 8.3 percent; Peru, 5.8 percent.	14.1

[1] Figures are preliminary.
[2] Chronate ore imports only.
[3] Estimate.

Source: "The United States and the Developing World: Agenda for Action, 1974" (N.Y.; Praeger Publishers; 1974); pp. 184–185.

TABLE 2.—WORLD MINERAL TRADE [1]

[In percent]

Mineral	Developing countries' share [2]	Principal exporters and their share of world exports of mineral
Columbium and tantalum	93.0	Brazil (58); Nigeria (30).
Nickel	92.4	New Caledonia (92); Canada (5).
Cobalt	83.9	Morocco (56); Zaire (23); Belgium-Luxembourg (7).
Tin	76.3	Malaysia (47); Bolivia (15); United Kingdom (8).
Bauxite	75.5	Jamaica (31); Surinam (16); Guyana (10).
Bismuth	60.4	Peru (24); Bolivia (19); United Kingdom (11).
Phosphate rock	[3] 60.1	Morocco (30); Gilbert and Ellice Islands (11) [4]
Rare earth	57.3	Australia (26); India (19); Malaysia (18).
Copper [5]	55.4	Zambia (21); Chile (19); Zaire (10).
Manganese	54.2	South Africa (22); Gabon (17); U.S.S.R. (16).
Salt	47.5	Mexico (29); Netherlands (14); Germany (11).
Iron ore [5]	43.2	Candada (14); U.S.S.R. (13); Sweden (12).
Antimony	41.4	South Africa (43); Bolivia (19).
Barium	36.0	Ireland (13); Germany (12); Canada (12).
Mica [5]	32.1	South Africa (26); United States (24); India (23).
Lead	30.2	Canada (15); Australia (10); Ireland (9).
Zinc	28.7	Canada (28); Peru (9); Australia (8).
Silver [5]	26.0	United States (29); Canada (13); Mexico (11).
Chrome ore [5]	21.2	U.S.S.R. (32); South Africa (24); Philippines (14).
Gypsum	19.0	Canada (51); France (11).
Cadmium	17.4	Belgium-Luxembourg (15); Canada (14); Japan (12).
Mercury	14.6	Spain (38); Italy (26); Yugoslavia (12).
Vanadium	10.3	South Africa (41); Finland (29).
Titanium	7.9	Canada (45); Australia (24); Norway (13).
Selenium	6.3	Canada (67); Sweden (13); Japan (9).
Gold [5]	2.8	United Kingdom (40); South Africa (31).
Pumice	2.0	Germany (53); Italy (28).
Asbestos	1.5	Canada (46); U.S.S.R. (23); South Africa (19).
Platinum	.04	United Kingdom (31); U.S.S.R. (29); Canada (14).

[1] Data presented represents in each case the average for the 3-year period 1967–69.
[2] In volume of world exports of mineral.
[3] Developing countries' percentage share of value of world exports of phosphate rock.
[4] Principal developing country exporters only.
[5] Data not available for Rhodesia.
Source: Overseas Development Council based on Great Britain's Institute of Geological Studies "Statistical Survey of the World Mining Industry, 1970."

TABLE 3.—DEVELOPING COUNTRIES' EXPORTS OF MAJOR NONMINERAL PRIMARY COMMODITIES

Commodity	Developing countries' share (percent) [1]	Principal developing country exporters (percentage of world commodity exports 1967–69)
Cocoa beans	100.0	Ghana (26); Nigeria (23); Ivory Coast (12).
Copra	99.1	Philippines (45); Sri Lanka (13).
Sisal	96.2	Tanzania (32); Brazil (22); Mexico (12).
Bananas	95.4	Ecuador (20); Honduras (16); Panama (10).
Coffee	94.4	Brazil (31); Colombia (14); Ivory Coast (5).
Jute	93.8	Bangladesh (89); India (3).
Timber	88.0	Philippines (25); Malaysia (24); Ivory Coast (13).
Tea	83.0	India (33); Sri Lanka (31).
Palm oil	82.8	Malaysia (38); Zaire (19); Indonesia (17).
Groundnuts	81.9	Nigeria (39); Senegal (10); Niger (6).
Coconut oil	79.6	Philippines (45); Sri Lanka (13).
Groundnut oil	76.1	Senegal (37); Nigeria (20); Argentina (10).
Sugar	75.3	Cuba (27); Philippines (7).
Rubber	72.3	Malaysia (38); Indonesia (14); Thailand (7).
Linseed oil	65.8	Argentina (60); Uruguay (5).
Fishmeal	60.0	Peru (51); Colombia (5).
Cotton, raw	57.1	Egypt (13); Brazil (6); Sudan (6).
Rice	43.1	Thailand (16); Egypt (8); Burma (6).

[1] Developing countries' share of value of world exports, 1967–69.

Source: Overseas Development Council based on International Bank for Reconstruction and Development, "Commodity Trade and Price Trends" (1973 edition), August 1973, table III(b).

TABLE 4.—THE KENNEDY ROUND AND THE DEVELOPING COUNTRIES

[Percentage reduction of tariffs in the Kennedy round by the 4 major participants][1]

Major participants	SITC sec. 5 to 8		SITC secs. 7 and 1 to 8	
	Tariffs facing developing countries	Tariffs facing developed countries	Tariffs facing developing countries	Tariffs facing developed countries
EEC	(26) 28	(36) 37	(25) 37	(36) 36
United States (c.i.f.)	28	39	18	37
United Kingdom (MF)	30	38	31	38
Japan	33	41	13	31
Composite	(28) 29	(38) 38	(20) 26	(36) 36

[1] The figures in parentheses are the reductions in "applied" rates.

Source: "The Kennedy Round: Preliminary Evaluation of Results with Special Reference to Developing Countries'; a study submitted by the Secretary-General of UNCTAD." TD/6/Sypp. 2; Sept. 4, 1967; p. 27.

Note: As it is indicated in the above-mentioned document, the average tariff rates and concessions on products of interest to developing countries have been weighted by the value of 1965 OECD imports from all developing countries. The figures in parentheses were calculated on the basis of disregarding those changes made by the EEC in legal rates which merely consolidated suspensions already in effect.

TABLE 5.—DEVELOPING COUNTRY RESERVES 1963–73

[In millions of U.S. dollars]

Country	End 1963	End 1973	Percent change 1963–73
POOREST DEVELOPING COUNTRIES			
Afghanistan	45.5	61.0	34
Bangladesh	NA	NA	NA
Bhutan	NA	NA	NA
Botswana	NA	NA	NA
Burma	11.1	100.3	—46
Burundi	[1] 11.1	21.8	96
Central African Republic	1.8	[2] 1.8	0
Chad	11.3	[2] 3.8	—66
Dahomey	9.9	[2] 11.9	222
Ethiopia	50.2	176.8	252
Gambia	[1] 5.5	[2] 21.3	287
Guinea	NA	NA	NA
Haiti	3.3	17.1	418
India	607.0	[2] 1,320.0	117
Kenya	[3] 52.4	233.2	345
Khmer Republic	NA	NA	NA
Laos	NA	NA	NA
Lesotho	NA	NA	NA
Malagasy Republic	42.8	[2] 72.0	70
Malawi	[4] 25.2	67.3	187
Maldives	NA	NA	NA
Mali	3.5	[5] 4.2	20
Mauritania	9.4	[6] 13.5	44
Nepal	37.8	[7] 122.7	225
Niger	8.6	[2] 47.6	453
Pakistan	298.0	[2] 420.0	41
Rwanda	[1] 4.2	15.6	271
Sikkim	NA	NA	NA
Somalia	18.8	[2] 33.0	76
Sri Lanka	[3] 75.0	87.0	16
Sudan	101.2	44.9	—56
Swaziland	NA	NA	NA
Tanzania	61.3	144.6	136
Toto	9.0	[2] 38.6	329
Uganda	40.9	56.7	39
Upper Volta	14.6	60.8	316
Western Somoa	NA	NA	NA
Yemen, Arab Republic	NA	NA	NA
Yemen, People's Democratic Republic	52.1	[5] 77.6	49
Zaire	32.1	234.6	631
OTHER DEVELOPING COUNTRIES			
Angola	NA	NA	NA
Argentina	270.0	[2] 1,202.0	345
Bahamas	NA	NA	NA
Bahrain	NA	NA	NA
Barbados	NA	NA	NA
Bolivia	10.4	72.2	594
Brazil	219.0	[2] 6,505.0	2,870
Cameroon	34.9	[2] 50.1	444
Chile	77.0	[8] 221.2	187
Colombia	87.0	534.0	514
Congo, People's Republic	1.7	[2] 5.7	235
Costa Rica	15.6	42.4	172
Cuba	NA	NA	NA
Dominican Republic	42.0	87.9	109
Egypt	216.0	[2] 536.0	148
El Salvador	44.4	61.8	39
Equatorial Guinea	NA	NA	NA
Ghana	153.3	189.0	23
Guatemala	56.7	212.1	274
Guyana	16.9	14.0	—17
Honduras	12.4	41.8	237
Ivory Coast	40.8	[2] 81.1	99
Jamaica	89.9	127.5	42
Jordan	62.7	312.4	398
South Korea	131.5	1 094.4	732
Lebanon	206.1	825.7	305
Liberia	NA	NA	NA
Malaysia	394.0	1,367.0	247
Martinique	NA	NA	NA
Mauritius	19.4	66.8	244
Mexico	548.0	[7] 1,014.0	85
Mongolia	NA	NA	NA
Morocco	110.0	[2] 315.0	186
Mozambique	NA	NA	NA
Nicaragua	31.8	[7] 109.6	245
Oman	NA	NA	NA
Panama	45.6	[6] 942.4	1,966
Paraguay	3.2	57.1	1,684
Peru	135.2	[2] 556.5	312
Philippines	109.0	1,038.0	852

TABLE 5.—DEVELOPING COUNTRY RESERVES 1963–73—Continued

[In millions of U.S. dollars]

Country	End 1963	End 1973	Percent change 1963–73
Portuguese Guinea	NA	NA	NA
Reunion	NA	NA	NA
Rhodesia	NA	NA	NA
Senegal	48.1	16.7	−65
Sierra Leone	16.2	50.4	211
Singapore	172.8	[2] 1,187.6	587
Syria	22.0	[9] 264.0	1,100
Taiwan	227.0	1,123.0	395
Thailand	576.0	1,284.0	123
Trinidad and Tobago	24.5	48.6	98
Tunisia	61.7	307.3	398
Turkey	178.0	2,120.0	1,091
Uruguay	186.0	[2] 219.0	18
Vietnam, South	175.0	193.0	10
Zambia	[4] 199.6	185.6	−7
OPEC MEMBERS			
Abu Dhabi	NA	NA	NA
Algeria	237.0	1,126.0	375
Ecuador	51.6	241.1	367
Gabon	7.7	[3] 38.3	397
Indonesia	58.0	807.0	1,291
Iran	242.0	1,227.0	407
Iraq	295.1	1,483.2	402
Kuwait	109.7	501.0	357
Libya	122.0	2,127.0	1,643
Nigeria	232.0	[2] 390.0	68
Qatar	NA	NA	NA
Saudi Arabia	514.0	3,876.0	654
Venezuela	745.0	2,418.0	225
TOTALS			
Poorest developing countries	1,817.2	3,475.	
Other developing countries	5,137.2	24,779.	3
OPEC members	2,164.1	14,233.0	4

[1] End, 1964.
[2] November 1973.
[3] End, 1966.
[4] End, 1965.
[5] August 1973.
[6] End, 1972.
[7] October 1973.
[8] End, 1971.
[9] September 1973.
[10] End, 1970.

Source: "International Financial Statistics," IMF.

TABLE 6.—ANNUAL AVERAGE GROWTH RATES OF REAL GDP AND EXPORTS

[In percent]

	1950–60	1960–70	1967–7
Aggregate GDP of developed countries	4.1	4.9	4.5
Aggregate GDP of developing countries	4.7	5.2	6.2
Per head GDP of developed countries	2.8	3.7	3.3
Per head GDP of developing countries	2.4	2.5	3.4
World exports, value	6.3	9.2	14.0
World[1] exports, volume	6.0	8.1	9.5
Exports by developed countries, value	7.0	10.0	14.7
Exports by developed countries, volume	7.0	8.4	9.8
Exports by developing countries, value	2.9	7.2	13.0
Exports by developing countries, volume	3.6	6.5	8.0
World exports of primary products, value[2]	3.7	7.5	9.1
Exports of manufactures by developed countries, value[2]	8.2	12.7	14.1
Exports of manufactures by developing countries, value[2]	6.5	17.3	19.5

[1] Excluding centrally planned economies.
[2] 1955–62, 1962–71, 1965–72.

Sources: U.N., Handbook of International Trade and Development Statistics, 1972; GATT, International Trade 1972; UNCTAD, TD/B429/Add. 2, "Review and appraisal of the implementation of the international strategy"; U.N., Monthly Bulletin of Statistics, various issues.

TABLE 7.—POPULATION, INDUSTRIAL EMPLOYMENT, PRODUCTION AND PRODUCTIVITY IN DEVELOPED AND DEVELOPING COUNTRIES IN 1955 AND 1970[1]

[Million; indexes and annual average percentage rates of increase]

	Developed countries			Developing countries				
	Millions		Annual average percent rate of increases, 1955–70	Millions		Indexes of developing countrie (developed countries equal 100)		Annual average percent rate of increase, 1955–70
	1955	1970		1955	1970	1955	1970	
Population, total	597.0	743.0	1.5	1,242.0	1,736.0	208	234	2.3
Population, urban	335.0	504.0	2.4	253.0	453.0	71	90	4.0
Total industrial equipment[2]	64.9	82.1	1.6	41.3	68.7	64	84	3.5
Value added in industry[2]	250.0	536.0	5.2	23.2	68.7	9	13	7.5
Value added per person in industry[3]	3,852.0	6,529.0	3.6	562.0	1,000.0	15	15	3.9

[1] Excluding Asian and European centrally planned economies.
[2] Thousands of million U.S. dollars.
[3] U.S. dollars.

Sources: U.N. Statistical Yearbook, various issues; U.N. Monthly Bulletin of Statistics, April and November 1971; U.N. "The Growth of World Industry, 1969," vol. 1.

TABLE 8.—SELECTED SOCIAL AND ECONOMIC INDICATORS OF DEVELOPMENT, BY GROUPS OF COUNTRIES

Country	Population, mid-1971 (millions)	Per capita GNP 1971	Per capita GNP growth rate, 1965–71 (percent)	Life expectancy (years)	Birth rate per 1,000	Death rate per 1,000	Infant mortality per 1,000 live births	Literacy (percent)	Per capita energy consumption, 1971 (kilograms)	Total imports (c.i.f.), 1972 (millions)	Net grain trade, 1972 (millions)	Total exports (f.o.b.), 1972 (millions)
POOREST DEVELOPING COUNTRIES												
Afghanistan	18.3	$80	1.6	38	51	27	[1]184	8	27	$75	[2] −10.0	90
Bangledesh	83.4	70	−.1	46	43	[1] 16	125	22	NA	NA	[2] −160.0	NA
Bhutan	.9	80	.4	NA	[1] 47	[1] 24	NA	NA	NA	NA	NA	NA
Botswana	.7	160	4.9	41	44	23	175	20	NA	NA	−4.9	NA
Burma	29.6	80	.1	48	46	17	139	60	68	133	−36.0	111
Burundi	3.9	60	.5	41	48	25	150	10	11	31	−1.0	89
Central African Republic	1.6	150	1.6	[1] 40	46	25	190	5–10	60	[3] 35	[2] −1.3	[3] 34
Chad	4.0	80	2.2	40	48	25	160	5–10	27	61	−2.3	11
Dahomey	2.9	100	1.8	39	51	26	149	20	38	NA	−2.3	NA
Ethiopia	26.8	80	1.2	39	46	25	[1] 162	5	32	189	−5.6	168
Gambia	.4	140	2.1	41	42	23	125	10	68	98	[2] −1.6	74
Guinea	4.2	90	.3	40	47	25	216	5–10	108	NA	[2] −9.8	NA
Haiti	5.6	120	−.8	44	44	20	[1] 130	10	29	64	−4.7	45
India	600.4	110	2.4	51	42	17	139	34	186	2,263	−137.0	2,401
Kenya	11.7	160	4.3	48	48	18	[1] 115	20–25	171	[4] 560	−1.8	[4] 307
Khmer Republic	.7	130	−2.2	[1] 52	45	16	127	41	24	NA	[2] −2.2	NA
LAOS	3.2	120	3.5	50	42	17	[1] 123	15	91	[2] 83	[2] −7.7	[4] 6
Lesotho	1.1	100	.5	45	39	21	181	NA	NA	NA	−16.1	NA
Malagasy	7.2	140	2.5	38	46	25	102	39	NA	202	NA	164
Malawi	4.8	90	2.3	40	49	25	120	22	49	130	−.2	18
Maldives	.1	90	.7	NA	46	23	NA	NA	NA	NA	NA	NA
Mali	5.5	70	1.0	[1] 39	50	27	190	5	25	70	[2] −1.9	17
Mauritania	1.2	170	2.1	41	44	23	187	1–5	13	3NA	−3.0	NA
Nepal	12.0	90	.6	42	45	23	[1] 162	9	9	NA	−9.3	NA
Niger	4.2	100	−4.4	43	52	23	200	5	22	NA	+3.5	NA
Pakistan	68.3	130	3.0	50	51	18	142	16	96	705	−8.2	737
Rwanda	3.9	60	2.2	43	52	23	133	10	10	35	[2] −.5	190
Sikkim	.2	80	.3	NA	48	29	[1] 208	NA	NA	NA	NA	NA
Somalia	3.0	70	.8	40	46	24	190	5	31	73	[2] −10.9	43
Sri Lanka	12.9	100	1.8	62	30	8	48	75	163	333	−62.6	313
Sudan	17.4	120	−.9	50	49	18	121	10–15	119	320	−11.0	573
Swaziland	.4	190	.9	41	52	24	168	36	NA	NA	NA	NA
Tanzania	14.3	110	3.3	44	47	22	162	15–20	49	406	−1.3	320
Togo	2.0	150	2.5	[1] 40	51	26	163	95–10	73	NA	−1.3	79
Uganda	9.3	130	1.6	49	43	18	160	20	72	[4] 250	−3.4	283

Upper Volta	5.5	70	1.7	[1] 37	49	20	182	5–10	13	[4] NA	[2] −3.2	NA
Western Samoa	.2	140	.3	[1] 63	[1] 41	[1] 8	[1] 56	86	112	NA	[2] −.8	NA
Yemen, Arab Republic	6.0	90	2.4	42	50	23	[1] 152	10	14	NA	[2] −8.9	NA
Yemen, People's Republic	1.5	120	−7.2	42	50	21	152	10	639	170	−7.0	NA
Zaire	19.3	90	3.6	[1] 43	43	23	115	15–20	77	643	—	
OTHER DEVELOPING COUNTRIES												
Angola	5.6	370	5.4	34	50	30	192	10–15	157	392	−7.0	479
Argentina	23.6	1,230	2.6	68	22	9	58	91	1,773	1,905	+335.9	1,940
Bahamas	.2	2,400	2.2	NA	28	6	37	91	5,600	NA	[2] −2.9	NA
Bahrain	.2	640	7.1	[1] 46	50	19	[1] 138	29	7,186	NA	−4.1	NA
Barbados	.2	670	5.6	71	22	9	42	98	1,238	142	−3.9	44
Bolivia	5.1	190	2.2	45	44	19	[1] 108	40	224	185	[2] −15.5	[4] 234
Brazil	95.4	460	5.1	61	38	10	[1] 94	67	500	4,783	−132.8	3,991
Cameroon	5.8	200	3.7	41	43	23	137	10–15	97	299	−5.2	218
Chile	10.0	760	2.4	61	26	9	88	84	1,516	[4] 980	−99.4	[4] 962
China, People's Republic	787.2	160	2.6	50	30	13	[6] 50	25	561	[6] 2,775	−350.4	[6] 3,055
Colombia	22.3	370	2.3	59	45	11	76	73	638	836	−27.2	743
Congo, People's Republic	1.1	270	1.0	41	44	23	180	20	250	NA	[2] −2.4	15
Costa Rica	1.8	590	4.5	66	34	7	67	84	446	374	−11.9	281
Cuba	8.6	510	−1.6	67	27	8	36	94	1,152	[6] 1,300	−120.8	[6] 800
Cyprus	.6	1,100	6.5	[1] 71	23	8	26	76	1,451	315	−11.0	134
Dominican Republic	4.1	430	4.7	53	49	15	64	65	264	370	−12.7	347
Egypt	34.1	220	.2	53	37	16	118	26	282	877	−68.4	825
El Salvador	3.7	320	.5	55	42	10	53	49	223	276	+2.7	273
Equatorial Guinea	.3	210	−1.8	41	35	22	[1] 140	20	183	NA	NA	NA
Ghana	8.9	250	−2.1	46	47	18	156	25	192	290	−13.2	389
Guadaloupe	.3	840	4.9	69	30	8	45	88	452	152	[2] −5.9	40
Guatemala	5.4	390	2.1	51	43	17	88	38	250	324	[2] −5.8	[4] 290
Guyana	.7	420	3.3	65	36	8	40	80	996	146	+8	142
Honduras	2.6	300	1.4	49	49	17	[1] 115	45	234	193	−5.2	206
Ivory Coast	5.2	330	4.4	41	46	23	159	20	265	454	−15.5	553
Jamaica	1.9	720	3.5	69	35	7	39	82	1,338	621	[2] −33.0	379
Jordan	2.4	260	−3.5	53	48	16	115	32	318	274	−15.8	48
Korea, North	14.3	310	4.5	58	39	11	NA	NA	2,294	NA	−5.7	NA
Korea, South	31.8	290	10.0	62	31	11	[1] 60	71	860	2,522	[2] −288.6	1,624
Lebanon	2.8	660	.8	[1] 67	NA	NA	[1] 59	86	841	[4] 674	−41.5	[4] 242
Liberia	1.6	210	3.8	[1] 43	50	23	137	9	368	179	−6.0	244

TABLE 8.—SELECTED SOCIAL AND ECONOMIC INDICATORS OF DEVELOPMENT, BY GROUPS OF COUNTRIES—Continued

Country	Population, mid-1971 (millions)	Per capita GNP 1971	Per capita GNP growth rate, 1965–71 (percent)	Life expectancy (years)	Birth rate per 1,000	Death rate per 1,000	Infant mortality per 1,000 live births	Literacy (percent)	Per capita energy consumption, 1971 (kilograms)	Total imports (c.i.f.), 1972 (millions)	Net grain trade, 1972 (millions)	Total exports (f.o.b.) 1972 (millions)
Malaysia	11.2	400	3.3	66	38	11	[1] 75	43	421	1,638	NA	1,716
Martinique	.3	970	4.8	69	27	8	35	85	660	173	[2] —6.2	45
Mauritius	.8	280	—.7	61	25	8	65	61	183	120	[2] —13.8	106
Mexico	52.5	700	2.9	63	43	10	69	76	1,270	2,932	—58.3	1,845
Mongolia	1.3	380	1.4	58	42	11	NA	95	945	NA	—1.3	NA
Morocco	15.4	260	2.5	51	50	16	149	14	205	766	—24.9	633
Mozambique	7.8	280	—2.1	41	43	23	[1] 140	7	178	[4] 335	—7.9	180
Nicaragua	2.1	450	1.3	50	46	17	[1] 121	58	389	218	—3.5	237
Oman	.6	450	25.1	[1] 46	50	19	[1] 138	NA	62	NA	NA	NA
Panama	1.5	820	4.5	64	37	9	41	79	2,121	441	[2] —7.7	127
Paraguay	2.5	280	4.5	59	45	11	NA	74	142	83	—5.5	86
Peru	14.0	480	.5	59	42	11	[1] 106	61	621	791	—66.0	943
Philippines	37.9	240	2.7	[1] 59	45	12	67	72	298	1,366	[2] —94.4	1,105
Portuguese Guinea	.6	250	3.0	34	41	30	NA	3–5	103	NA	—2.6	NA
Reunion	.5	950	5.1	[1] 62	30	8	58	63	334	198	[2] —13.1	50
Rhodesia	5.5	320	2.6	51	48	14	122	25–30	618	[4] 429	—3.3	402
Senegal	4.0	250	—1.2	41	46	22	[1] 158	5–10	129	279	—36.2	215
Sierra Leone	2.7	200	4.7	41	45	22	136	10	109	121	[2] —4.0	118
Singapore	2.1	1,200	10.6	68	23	5	21	75	851	3,883	—44.9	2,181
Surinam	.4	760	5.2	65	41	7	39	80	2,229	[4] 126	—1.9	[4] 152
Syria	6.5	290	3.1	53	48	15	[1] 55	31	465	477	—12.9	254
Taiwan	14.9	430	7.3	68	27	5	18	85	[3] 925	2,520	NA	2,916
Thailand	37.3	210	4.7	[1] 61	43	10	[1] 68	68	296	1,484	+327.4	NA
Trinidad and Tobago	1.0	940	2.5	67	24	7	40	89	3,962	742	—15.8	557
Tunisia	5.2	320	3.6	52	38	16	120	30	255	460	—22.3	311
Turkey	36.2	340	4.0	54	40	15	119	46	516	1,558	—6.4	882
Uruguay	2.9	750	.7	69	23	9	43	91	958	187	—1.6	197
Vietnam, North	21.6	100	2.7	50	33	21	NA	NA	NA	NA	—39.4	NA
Vietnam, South	18.8	230	—.7	50	NA	NA	NA	65	NA	691	—96.7	16
Zambia	4.3	380	1.0	44	50	21	159	15–20	458	718	—19.2	753

OPEC COUNTRIES												
Abu Dhabi	.2	3,150	17.8	.46	50	19	[1] 138	20	802	NA	NA	NA
Algeria	14.4	360	4.8	51	50	17	86	20	492	1,760	[2] −75.2	1,470
Ecuador	6.3	310	2.6	58	45	11	91	68	315	327	[2] −1.2	311
Gabon [7]	.5	700	7.7	[1] 40	33	25	229	12	1,028	NA	−1.2	NA
Indonesia	119.2	80	3.4	48	47	19	125	43	123	1,458	−269.3	1,549
Iran	29.8	450	7.7	50	45	17	[1] 139	23	895	2,410	−33.9	2,937
Iraq	9.7	370	1.4	52	49	15	104	14	650	713	+5.6	1,101
Kuwait	.8	3,860	−2.1	64	43	7	39	53	7,888	797	−18.8	2,983
Libya	2.0	1,450	8.1	52	46	16	NA	27	571	1,104	[2] −27.2	NA
Nigeria	56.5	140	3.0	37	50	25	[1] 157	25	59	1,502	[2] −33.3	2,146
Qatar	.1	2,370	5.8	[1] 46	50	19	[1] 138	10–15	2,025	NA	NA	NA
Saudi Arabia	7.5	540	7.4	42	50	23	[1] 152	15	988	806	[2] −65.6	[4] 3,844
Venezuela	10.6	1,060	1.4	64	41	8	49	76	2,518	2,433	[2] −78.1	3,029

[1] Based on Office of Population, U.S. Agency for International Development, Population Program Assistance, December 1972.
[2] Figure equals total gross imports of grain.
[3] 1970.
[4] 1971.
[5] Total reserves as of end-December 1972.
[6] According to State Department estimates. Imports for China and Cuba are c.i.f.; for the Soviet Union, f.o.b.
[7] Gabon is an associate member of OPEC.
NA—Not available.

Source: James W. Howe and the Staff of the Overseas Development Council. "The United States and the Developing World, 1974," pp. 144–151, based on the following: Population, GNP per capita, and growth rate figures are based on "World Bank Atlas, 1974" (Washington, D.C.: World Bank Group, 1974); life expectancy, birth rate, death rate, and infant mortality data are from Population Reference Bureau, "World Population Data Sheet," 1973, with exceptions noted; literacy rates are from U.S. Agency for International Development, "Population Program Assistance," December 1972; energy consumption figures from United Nations, "Statistical Yearbook, 1972," Publication Sales No. E/F 73 XVIII; total import, export, and reserve figures are based on International Monetary Fund, "International Financial Statistics," December 1973; grain import figures are based on Food and Agriculture Organization Trade Yearbook, October 1973.

Prepared Statement of Roger D. Hansen, Senior Fellow, Overseas Development Council

SUMMARY

1. The Trade Reform Act of 1973, developed within the Administration in 1972 and considerably rewritten by the House Ways and Means Committee in the summer of 1973, does not in its present form reflect the concerns which have arisen within the past six months regarding the issues of natural resource scarcities and the use of export controls as instruments of trade policy.

2. Despite the consequent omissions from H.R. 10710, the energy crisis and the 400% increase in the cost of crude oil has made a major trade negotiation *more* rather than *less* necessary. A major negotiation presents an opportunity to avoid an increasing use of protectionist devices and bilateral arrangements which might otherwise follow from a $50 billion increase in developed countries' 1974 oil import bills.

3. The amendments to H.R. 10710 presented by Senators Mondale and Ribicoff contain a comprehensive and well-reasoned approach to negotiations on the question of access to markets for food and raw materials.

4. If and when such negotiations do begin they will be among the most complex attempted under the provisions of H.R. 10710. They raise the central issue of *equity* in North-South relations.

5. If negotiations in this area are to be successful they will require far more comprehensive thought and planning than has generally been given by the United States to relations with the Third Word.

STATEMENT

I. Introduction

It is a pleasure to have the opportunity to testify before the Senate Finance Committee on the Trade Reform Act of 1973. In accordance with the desires of the Committee I shall direct my brief statement to a single aspect of your considerations regarding the legislation: the issue of scarcities and access to the world's supplies of food and other raw materials.

Within the past several months it has become a commonplace that events may have overtaken the Trade Reform Act. The Finance Committee's analysis of the Act captured this view in the following paragraph of its February 26, 1974 report on the bill:

"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 fibre, 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 conception of the Trade Reform Act."

The Committee report goes on to link the "access" question to the problem of United States relations with the world's less developed countries (LDC's).

"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. Father, it grants LDC's "general tariff concessions" to improve their competitive position in manufactured goods."

It seems to me that the major questions before this Committee regarding access to the world's natural resources—food and other raw materials—are three. First, is the so-called "new era" so different that the Trade Reform Act is no longer relevant to present realities? Second, if the Act still merits Committee approval, how can it best be amended to incorporate constructive responses to the new problems of "scarcity"? And third, how can the Committee and the Congress in general influence the development of new international norms of behavior with regard to the access question?

II. The Question of Scarcity

During the latter half of 1973 the concerns of those responsible for international trade issues shifted rather rapidly from access to markets where food and other raw materials could be *sold* to access to markets where food and other raw materials could be *purchased.* At the same time differences of opinion began to develop concerning the nature of the past year's scarcity problems. How much of the problem is secular, reflecting a new era in which resource scarcities are a persistent and increasing constraint on further economic growth?

How much is *cyclical,* reflecting scarcities caused by rapid growth rates in almost all industrialized countries, a bad crop year in many parts of the world in 1972, and a highly unstable international monetary situation that led to a flight from volatile currencies into commodity hedging? And finally, how much of the problem is political, reflecting present and potential artificial scarcities such as that caused by the Arab countries in particular and the practices of the OPEC countries in general?

There is as yet little general agreement on the nature and extent of the scarcity problem. Short supply problems dominated the headlines of 1973. Many who examined these problems and the factors contributing to them are convinced that long term global scarcities are with us to stay. Their concern encompasses both the rapidity with which population and economic growth consume global resources each year and present institutional limitations on the speed with which man can alter demographic trends and develop energy-saving and substitution technologies.

Other supply specialists, however, remain unconvinced that we face global scarcities—at the present or in the foreseeable future—that are qualitatively different from those of previous decades. Looking ahead for as much as fifty years, they envision a chain of events in which emerging scarcity situations raise prices, diminish demand for scarce commodities, and lead to product substitution and new technologies that make more efficient use of raw materials. In their view, closing the gap between demand and supply that will arise as certain individual products do become scarce at present price levels does not yet appear to imply anything like a decline in present living standards. One recent study which focuses almost exclusively on the United States comes to this conclusion even *without* assuming any dramatic technological or institutional changes. However, it is instructive to note the cautiousness with which the study concludes that the United States is not likely to experience truly serious shortages of raw materials during the next thirty to fifty years:

"The United States economy undoubtedly will become somewhat more dependent on mineral, fuel, and certain other raw material imports; *these will not be readily available unless the world investing and trading system can be sustained at least as well as it has been during recent years.* And, of course, technological progress will also have to be sustained, as will improvements in management and labor productivity. Failure at any of these points will alter the principal findings significantly. Finally, failure to protect the environment and its major ecosystems against severe and perhaps irreversible damage would over time undermine the whole economic system as well as the ecological systems" [1]

Fortunately, the debate over the longer term prospects for resource scarcities—broadly defined to include environmental issues such as pollution levels, waste-carrying capacity, soil erosion, damage to marine life, as well as the supply of traditional commodity natural resources—now is joined on a global basis. As further private and official analysis of these problems is completed in both national and international institutions, new evidence will help to define the nature of the long term scarcity issue more reliably.

The nature of the short term scarcity problem is less controversial. Its major ingredients have included, among others: the increasingly inflationary bias built into the economic institutions and governmental policies of the developed countries of the world; a conjunction of business cycles which added greatly to recent surges of demand-induced inflation; and the food shortages of 1972–73 which quickly translated themselves into skyrocketing prices and a growing network of export controls. Predictably, the scarcity syndrome spread rapidly from raw materials to semi-manufactured and finished products. By late 1973, shortages—

[1] Joseph L. Fisher and Ronald G. Ridker, "Population Growth, Resource Availability and Environmental Equality," *American Economic Review,* Vol. 63, No. 2 (May 1973), p. 82. Emphasis added.

measured in terms of delays in delivery—were noticeable in U.S. markets for such diverse products as copper, zinc, cement, paper, timber, structural steel, man-made fibers, cotton goods, oil drilling equipment, and variety of chemical products. In addition, oil shortages tied in good part to Arab production cutbacks were bound to create further production bottlenecks in such industries as glass, cement, plastics, synthetic rubber, steel, and chemical fertilizers; short supplies of fertilizers portended further global food shortages and continued upward pressures on food prices.

All of the short term problems of scarcity noted above have been further complicated, and in many instances exacerbated, by the collapse of the Bretton Woods monetary system and a tendency within the international community to disregard the rules of the GATT whenever self-interest so dictates. Monetary uncertainties have led not only to flights from currency to currency, but also in some instances to flights from currency to commodities, pressing prices ever upward. The very vagueness of present GATT rules on the use of export controls has undoubtedly contributed to the broadening array of export restraints, whether in the form of export licensing or of "voluntary" agreements on the part of some countries to limit their purhcases of scarce products from foreign markets.

To summarize the evidence on the global scarcity situation we can say that the short term problems are already widespread nad likely to increase somewhat even as global growth rates diminish; long term resource scarcity problems are, quite naturally, far more speculative and uncertain. Nevertheless, the very *potential* for a world of food and raw material scarcities can lead countries and companies to act as though potential were reality. In this sense the appearance of future OPEC's is more likely to be a function of a world psychology than of particular market conditions, and the success or failure of such cartel arrangements may well be less conditioned by market forces and the needs of individual cartel members than by the behavior of a host of preemptive buyers bidding for control over essential raw materials.

This is, of course, the gloomiest possible projection, one which will eventuate only if the world's common sense fails it once again. But it is the very possibility of such an eventuality which leads one to the conclusion that the Trade Reform Act should be passed—with some appropriate amendments—so that a negotiation to produce a more constructive resolution of the world's present trade problems can begin in earnest in Geneva. The logic may be perverse, but it is also simple. The energy crisis, the 400% increase in cost of crude oil, a doubling or tripling in the price of some major agricultural products and other less dramatic increases threaten most of the world's major trading nations with huge deficits in their balance of trade in 1974 and beyond. If these nations do not soon begin to discuss the ramifications of this "new era" for present international trade policies in a genuinely multilateral setting, the potential for a reversion to protectionism and bilateralism will most probably prove too great to withstand. Thus it is as much to begin to deal with the problem of a new era as to continue improving the machinery of the "old era" which is still with us that necessitates a major trade negotiation at the present moment in our history.

III. Amendments to Incorporate an Approach to the Scarcity Issue

If the Trade Reform Act should be passed and the Geneva negotiations begun in earnest, what can be added to the legislation to assure that the issues involved in the question of access are given priority attention? Fortunately for the Committee and for the Congress, Senators Mondale and Ribicoff have already introduced a comprehensive approach in a set of amendments to the trade legislation. Their amendments address the scarcity issue (1) by expanding the bill's statement of purposes; (2) by calling for negotiations to strengthen and extend the provisions of the GATT or other international agreements to include rules governing access to supplies of food and raw materials, including rules governing the imposition of export controls and the use of multilateral sanctions against countries which deny equitable access; and (3) by expanding the President's powers of retaliation in Title III to include explicit retaliation against *export* restrictions deemed by the President to be "unjustifiable or unreasonable."

The Administration's response to the Mondale-Ribicoff amendments seems to suggest that there is a good deal of support for the general approach downtown. This general conclusion can be drawn both from Ambassador William Eberle's remarks before this Committee ("We believe that these ideas are conceptually

sound, and we join in the spirit of the proposals made. . .") and from several of the Administration's own proposed amendments.

I have one specific reservation about the Mondale-Ribicoff amendment to Title III. As written it would, in the extreme, allow the President to retaliate against a foreign export restraint which was simply deemed to be "unreasonable,"—not illegal—by the President. I would hope that at the very least the President would not be given this power until attempts have been made in GATT and elsewhere to develop some new rules of the game on the use of export controls. If all such attempts fail we may eventually have to resort to such broad Congressional delegations of authority to the Executive Branch in this area. But as an observer of the U. S. government concerned with the gravitation of power away from the Congress and toward the Presidency during the past half-century or longer, I have an instinctive bias against such sweeping delegations of authority even when the reasoning behind them is admirable.

This apart, I support the comprehensive thrust of the Mondale-Ribicoff approach, and commend the Administration's efforts to work constructively with these proposals to shape an approach to the issues of export controls and access to food and other raw materials in the Trade Reform Act. And, of course, I agree with the concern of Senator Chiles that there be the proper degree of congruity between the Trade Reform Act and the Export Administration Act on this issue. If not, the U. S. might get caught trying to move the international trading rules one way in Geneva while moving in an opposite direction domestically.

IV. After the Act: Access, Equity and the Role of Congress

If this Committee, the Senate, and the Conference Committee accept H.R. 10710, and if the President doesn't veto it, the real problems regarding the issues of access to food and raw materials will finally begin to be exposed. Some will undoubtedly prove non-negotiable, some will take years to negotiate, some may be manageable within the GATT forum, and others will have to be tackled elsewhere. If the "resource pessimists" are right, and we have crossed the threshold into an age of long term scarcities, many problems will prove harder to negotiate than otherwise; if the "resource optimists" are right, the international conflicts surrounding the access issue should prove easier to manage.

The reason for predicting protracted conflict over the access questions is quite simple. If we have entered an era of long term scarcities, then negotiating on the access question comes very close to negotiating on the essential question of all political activity—as Harold Lasswell put it, "who gets what, when and how." Such questions are, as you gentlemen know far better than I, hard enough to manage domestically. What makes them manageable within most nation-states is that the groundrules of the day-to-day conflict are accepted by most of the players in the game. They are accepted because of shared values and norms of behavior which together dilute the element of conflict in political life and create a sense of legitimacy which surrounds and supports the ultimately coercive powers of the state.

It is, of course, precisely these shared values and norms, this sense of legitimacy, which contracts intra-state politics from international politics. Sometimes the differences are overemphasized; there are groups of states in the world today which do share enough by way of values, norms, etc., that one must characterize their relationships as somewhere between the polar types of *international* and *domestic* politics. The European Community, the Atlantic Community, the U.S.-Canadian relationship, all fit somewhere between the extremes.

In general, however, the international system remains far closer to the world of Hobbes than the world of Locke, far closer to a "state of war" than a social contract. Yet this is the world of states which must of necessity enter into any comprehensive set of negotiations on the question of access to food and raw materials. This is true not simply because it makes good policy sense to encompass as many countries as possible in such arrangements, but also because a large and growing percentage of the world's proven reserves of natural resources are to be found in the so-called Third World. Therefore, a "family" arrangement among OECD countries, or even within the GATT itself, would leave out of the picture many of the states whose cooperation will be needed if the new "rules of the game" are to work successfully.

To the extent that "access" means access to the raw materials of the Third World, it also means that rules of access will only be negotiated insofar as the

question of "equity" in North-South relations is negotiated simultaneously. This is clearly understood by members of this Committee. It was Senator Mondale who said on the floor of the Senate in introducing his amendments that "rules must be formulated in a manner which insures a *fair return* to producing countries for their precious resources and which insures their economic development. I believe we can devise a system which is equitable to producing countries and to the industrialized world."

Senator Mondale's optimism, if it is to prove justified, will call for a capacity for statecraft in North-South relations which the United States has not yet demonstrated. It is precisely in the area of U.S. relations with the less developed countries that U.S. policy has been at its least imaginative, least persuasive, and most short-sighted. Despite the growing role of the Third World—real and potential—in international economic affairs, Fred Bergsten has persuasively argued that "present U.S. policy neglects the Third World almost entirely, with the exception of our few remaining military clients . . ."

Unless this policy framework is rather radically restructured, I can only foresee a rather limited effort on the part of the United States to discuss and negotiate seriously with Third World countries in the GATT, in UNCTAD, in the United Nations and wherever else talks are needed to make progress toward the goals set out by Senators Mondale and Ribicoff. In fact it is easier to believe that the United States will attempt to circumvent all forums save the GATT (or a group of developed countries within the GATT) on the assumption that it can better control the outcome of any negotiation on the use of export restraints within that body. If there were much solidity in the "Atlantic Community" (including, as usual, Japan) such a strategy, even if it could be objected to on moral grounds, might be successful. But with relations among industrial states in disarray and bilateral preemptive bidding already underway, such a strategy seems doomed to fail in the present context.

Therefore let me leave one underdeveloped thought for the Committee's consideration concerning an approach to the question of access to food and raw materials. If and when the Trade Reform Act becomes law, this Committee, directly or through its membership named to the U.S. negotiating delegation, should press the Administration for a comprehensive examination of the range of methods by which the *equity* issues at stake internationally might be examined and redressed. From the LDC point of view greater equity might be achieved in scores of ways, including individual commodity arrangements (guaranteeing a certain real rate of return) access to developed country markets for LDC *manufactured goods*, new "rules of behavior" for multinational corporation subsidiaries located in LDC's new rules of the game on the transfer of technology, new international monetary rules, new sources and modes of international and bilateral aid, concessional access to world food reserves, and a host of others.

In order to obtain new norms of behavior on access to LDC raw materials the United States (and other industrialized countries) should consider the full range of policies which might be offered to achieve their acceptance; choose among those policies the ones which are in the best interests of the United States; and negotiate with all countries in good faith. A comprehensive approach of this nature does not guarantee success. It simply guarantees that failure will not be inevitable.

Finally, there is at least one step which the United States might take very soon to help set the tone for the entire effort. This would involve the development and presentation of a comprehensive international approach to one potential area of scarcity—food—at this fall's World Food Conference.

The United States is the world's leading supplier of wheat and feedgrains. It has also recently become the leading exporter of rice. Together, the United States and Canada occupy a dominant supplier position in agricultural trade which exceeds that of the Middle East as the world's major source of energy. Moreover, the world is today more dependent on North American food supplies than it ever has been previously. If the United States chooses to use this position of strength to play a leading role in the development of new international ground rules of access to agricultural commodities, the creation of world food reserves, and the concessional financing of agricultural sales to less developed countries—particularly in periods of sharp price rises—it can greatly improve the prospects for eventually subjecting other potential scarcity items to new international rules of behavior.

PREPARED STATEMENT OF CHARLES R. FRANK JR., SENIOR FELLOW, BROOKINGS INSTITUTION

SUMMARY

The United States is becoming increasingly dependent on the less developed countries as sources of supply of food, minerals, and natural fibers. The great potential for increasing these supplies lies with these countries also. If we are to ensure the United States continued access to these potential supplies we must grant these countries access to our markets for both primary and manufactured exports from the less developed countries. The price that we will have to pay for disruptions in supply and higher prices for basic commodities is far greater than the costs of guaranteeing market access in terms of the loss of potential jobs in import-competing industries. Foreign trade is responsible for the loss of 40,000 potential jobs per year which is only a tiny fraction of the loss of job potental due to increased labor productivity or fluctuations in aggregate demand.

Assurance of market access requires an adequate adjustment assistance program so that the costs of freer trade do not fall unduly on a few while many others benefit. The cost to government of the adjustment assistance program provided in the Trade Reform Act should be more than $185 million, assuming that the eligibility criteria are interpreted in a reasonable fashion and that additional funds are appropriated for training, counseling, and placement.

There is still need for improvements to the proposed legislation. These include aid to communities, special help for older workers, health insurance, early warning, and extension of the eligibility criteria to firms indirectly injured by trade or workers injured by relocation of facilities outside the United States. These improvements would add at most $150–$200 million to the program. The total cost, in the range of $350 million, would be a small price compared to the enormous price that would be paid by consumers if the world engages in a mad scramble toward anarchy.

STATEMENT

Introduction

The economic growth and development of the Third World has always been in the interests of the United States. The less developed countries provide a growing market for U.S. exports of both agricultural commodities and skill—and technology-intensive manufactured products. They have been the source of many of our important imports—tropical agricultural products, oil, minerals, and inexpensive, labor-intensive manufactured goods. The United States consumer has an important stake in maintaining this flow of goods from the less developed world—his standards of living can suffer greatly if this flow were interrupted.

The recent crisis in oil and the worldwide inflation in basic commodity prices has made us even more acutely aware of this interdependence. In a time of surplus and oversupply of basic raw materials, economic events in the countries of Africa, Asia, and Latin America matter little to the United States. Now we can no longer ignore the effects of a bad monsoon in India, a poor sugar harvest in Brazil, or civil strife in an African country producing copper or petroleum. Not only do the Indians, Africans, or Brazilians suffer the effects, but they are transmitted quickly to other countries either in the form of higher prices, disruption in supplies, or combination or both.

Once the problems of interdependence have become recognized, there are two main ways to approach a solution. The first is to take steps to make the United States less dependent on foreign sources of supply. The second is to attempt to devise rules of the game through multilateral negotiations among countries. The two approaches are not mutually exclusive. For example, we have taken steps in both directions in our response to the oil crisis. The negotiated rules of the game should make for orderly processes of adjustment whenever there are dramatic changes in either supply or demand which threaten abrupt disruption in trade patterns or sharp increases in prices of internationally traded goods. The rules should also help to ensure that controls on trade will not be used as a political weapon to inflict harm on other countries either by disrupting supplies through export controls or cutting off markets through import controls.

The costs of the first strategy, increased self-sufficiency, are largely economic. If carried to the extreme, self-sufficiency will raise the costs of basic raw materials and labor-intensive manufactured goods to very high levels. The potential for economic growth will be reduced.

The costs of the alternative strategy, negotiating multilateral agreements, are largely political. The negotiations are likely to be long and difficult. They will require surrender of the right of governments to make independent trade policy. Agreement must be obtained on rules to govern the imposition of direct import and export controls as well as the use of non-tariff barriers to import and export trade. Precedents in this area are not as well established as they are with respect to agreements on tariffs. Negotiations will require not only statesmanship in dealing with other countries, but political skill in getting agreements approved over the objections and political pressures applied by special interest groups within the country that may be injured by a reduction in the government's ability to pursue an independent trade policy.

While it may be wise to take some steps to reduce our dependency on foreign sources of supply, it makes no sense to apply this strategy in the extreme. We must accommodate ourselves to the realities of an interdependent world and enter into serious negotiations. The role of the less developed countries in these negotiations will have to be substantial. We are just beginning to recognize our interdependence with the less developed world—oil is the most apparent example but there are others. The less developed countries are significant sources of supply for a wide range of minerals, including copper, tin, and bauxite. They are either main sources of supply or significant participants in world trade for quite a number of products, including coffee, cocoa, tea, sugar, natural rubber, rice, meat, fish products, cotton, hemp, sisal and other natural fibers. More importantly, looking to the future, the bulk of the potential for expanded sources of supply of food, minerals, and natural fibers lies in the less developed areas. Yields per acre are far less there than they are in advanced nations. The application of modern technology, particularly the development of more new seed varieties and the use of fertilizers, can very substantially raise productivity. The potential for increased agricultural productivity in developed countries is far less since technology has been applied much more intensively there. Mineral exploration has been conducted much more intensively in the developed nations. A combination of reluctance on the part of the less developed countries to cede exploration rights to foreign firms and reluctance on the part of foreign firms to explore in countries with unfamiliar political regimes and cultures and uncertain prospects for nationalization or for being allowed to expatriate profits has resulted in far less intensive exploratory activity in less developed countries. Discoveries of mineral resources are closely correlated with exploratory activity; thus the potential for increased reserves is very great.

If we are to enter into serious negotiations with less developed countries, in asking them to guarantee no disruptions in supply, we must offer them something of value in return. The most valuable thing we can offer is not a promise to maintain or increase foreign aid or an offer of tariff preferences, but a guarantee of wide and continued access to United States markets for their manufactured exports and, for food deficit countries, assurances that food supplies will be maintained at tolerable levels even in periods of worldwide shortages.

There is a growing consensus among policy-makers in less developed countries that the path to development lies not in following inward-looking policies of import substitution but through outward-oriented policies of export promotion. The most rapidly growing less developed countries are those whose manufactured exports are increasing at very high rates. A strategy based on export of manufactures allows expansion of the industrial base without running into high costs because of limited size of their own domestic markets. It permits these countries to utilize efficiently their most abundant factor—labor. But to pursue this strategy they must have reasonable access to foreign markets.

Foreign Trade and American Jobs

The greatest opposition to keeping United States markets open to expanding imports comes from those who fear the loss of jobs or loss of assets invested in import-competing industries. In order to assess the validity of these claims, we analyzed in some detail the major import-competing industries at the five-digit level of classification (Standard Industrial Classification). In particular, we selected all those industries for which at least one year between 1963 and 1969 imports were greater than 3 percent of domestic output and larger than $10 million. In addition we selected some industries with imports less than 3 percent of output but much higher than $10 million and others with imports less than $10 million but a much higher percentage of domestic output. These industries represented 207 out of approximately 2,000 five-digit industries for which data existed

and about one-half of total manufacturing employment in the United States in 1971.

The five-digit level of classification was the finest breakdown for which it was possible to obtain output, employment, and value-added data that matched with trade data. Although the level of aggregation is relatively small at this level, five-digit industries which produce products that are imported also produce products that are exported. It is surprising, however, to note that for all import-competing five-digit industries in the United States taken together total exports actually exceed imports in 1963 (see Table 1). By 1971, however, total imports became more important although for the import-competing segments of the chemicals, machinery, and transportation equipment sectors, exports still exceeded imports.

The increase in relative importance of imports was most pronounced for the less developed countries (see Table 2). This increase in imports from the LDC's was most striking in apparel, rubber and plastic products, fabricated metal products, electrical equipment and supplies, and instruments.

In the import-competing industries, there was only modest growth in employment between 1963 and 1971, increasing at a rate of less than 1 percent a year. In fact, between 1967 and 1971 there was a decline in total employment, averaging about 1 percent a year. In order to analyze the impact of trade on employment, we broke down the change in employment into four components:

1. increases in employment potential due to expansion of domestic demand;
2. increases in employment potential due to export expansion;
3. the decline in employment potential due to increased imports; and
4. the decline in employment potential due to increase labor productivity.

TABLE 1.—TRADE RATIOS FOR 5-DIGIT, IMPORT-COMPETING INDUSTRIES AGGREGATED TO THE 2-DIGIT LEVEL (PERCENT)

		1963			1967			1971		
		Imports to output	Exports to output	Net imports to output	Imports to output	Exports to output	Net imports to output	Imports to output	Exports to output	Net imports to output
20	Processed foods	9.4	3.2	6.3	9.6	3.1	6.5	10.4	3.1	7.3
22	Textiles	10.2	2.6	7.6	9.2	2.4	6.8	10.6	3.0	7.3
23	Apparel	3.8	.8	3.1	4.2	.8	3.4	8.2	.8	7.6
24	Wood products	10.7	2.5	8.2	11.0	3.1	7.9	13.9	3.2	10.4
25	Furniture	.6	.6	0	1.3	.6	.7	3.0	.5	2.7
26	Paper products	85.9	17.9	68.1	88.2	18.0	70.2	98.1	22.0	76.5
27	Printing and publishing	1.2	.4	.8	2.2	.6	1.6	7.9	.6	7.0
28	Chemicals	2.9	9.5	−6.6	3.6	9.7	−6.1	6.1	10.5	−4.4
29	Petroleum and coal products	12.6	3.8	8.9	12.5	3.3	9.3	17.8	2.8	15.0
30	Rubber and plastic products	1.9	8.5	−6.6	3.3	3.9	−.6	6.4	3.8	2.6
31	Leather products	5.0	1.5	3.5	8.2	1.4	6.8	17.1	1.4	15.7
32	Stone, clay and glass products	9.1	5.4	3.7	9.9	5.9	4.1	11.3	6.6	4.6
33	Primary metal products	6.4	3.5	2.9	10.0	2.9	7.1	15.7	3.3	12.4
34	Fabricated metal products	2.9	4.2	−1.3	4.7	5.8	−1.2	6.9	7.1	−.3
35	Machinery except electrical	3.8	19.3	−15.5	5.4	15.9	−10.5	8.2	19.5	−11.4
36	Electrical equipment and supplies	2.8	6.2	−3.4	5.1	6.3	−1.3	11.2	8.0	3.2
37	Transportation equipment	1.6	6.0	−4.4	5.1	7.7	−2.7	5.2	10.2	−5.3
38	Instruments	8.6	9.4	−.8	8.2	9.4	−1.3	10.4	10.5	−.1
39	Miscellaneous manufactures	6.7	3.8	3.0	9.0	4.4	4.6	13.5	5.5	8.1
	Total	5.3	6.0	−.7	7.0	6.2	.8	9.7	7.5	2.2

TABLE 2.—IMPORTS AS A PERCENT OF TOTAL U.S. OUTPUT FOR 5-DIGIT, IMPORT-COMPETING INDUSTRIES AGGREGATED TO THE 2-DIGIT LEVEL

	1964		1971	
	Imports from LDC's	All imports	Imports from LDC's	All imports
20 Processed foods	3.6	8.5	4.4	10.4
22 Textiles	4.3	9.9	6.3	10.6
23 Apparel	1.0	3.3	6.5	8.0
24 Lumber and wood products	1.7	10.1	3.9	13.9
25 Furniture	.1	.8	.7	3.0
26 Paper products	.1	95.2	.6	98.1
27 Printing and publishing	.1	1.2	7.1	7.9
28 Chemicals	.3	3.0	1.2	6.1
29 Petroleum and coal	6.6	12.9	7.5	17.8
30 Rubber and plastic	.2	2.0	3.3	6.4
31 Leather products	.9	5.7	4.4	17.1
32 Stone, clay, and glass products	.4	10.4	3.9	11.3
33 Primary metal products	1.6	7.1	4.8	15.7
34 Fabricated metal products	0	3.3	2.9	6.9
35 Machinery except electrical	0	3.8	1.7	8.2
36 Electrical equipment and supplies	0.1	3.1	8.2	11.2
37 Transportation equipment	0	2.1	2.2	5.2
38 Instruments	.1	9.6	4.2	10.4
39 Miscellaneous manufactures	1.8	7.5	8.9	13.5
	1.2	5.5	3.8	9.7

The contribution of these various factors are given in Table 3. The numbers in these tables indicate that by far the most important factors affecting employment growth in the import-competing industries are changes in domestic demand and in labor productivity. Increases in labor productivity have had roughly five times the negative impact on employment as has had the growth of imports and ten times the negative impact of net foreign imports (imports less exports) in the import-competing industries between 1963 and 1971. The loss of job potential due to net foreign trade in these industries has averaged only 40,000 jobs per year, about two-tenths of 1 percent of all jobs in manufacturing and less than one-tenth of 1 percent of the total United States labor force. Compared to the loss of job potential due to changes in aggregate domestic demand or increased labor productivity, the impact of foreign trade is a drop in the bucket.

Although the impact of trade on employment is likely to be small in relative terms, the political impact of any loss in jobs will be great if people believe that the loss could have been prevented by government action. Thus if we are to be receptive to the trade of less developed countries, we must provide for better means of adjusting our structure of production away from their exports. This must be done in a way that mitigates the injury to those U.S. workers and firms that will be required to move into new, more efficient, and technologically advanced product lines.

TABLE 3.—COMPONENTS OF GROWTH IN EMPLOYMENT IN U.S. IMPORT-COMPETING INDUSTRIES

[In percent per annum]

Period	Growth rate of total employment	Contribution of growth of domestic demand	Contribution of increases in imports	Contribution of increased exports	Contribution of increased productivity	Net contribution of trade
1963 to 1967	2.6	7.3	−0.9	0.3	−4.1	−0.5
1967 to 1970	−1.6	5.3	−1.4	.8	−6.5	−.5
1970 to 1971	−.0	5.5	−.7	.2	−5.0	−.5
1963 to 1971	.7	6.3	−1.1	.5	−5.1	−.6

There are two ways of alleviating the adverse impact of changes in trade and production patterns: (1) temporary restriction of imports and (2) trade adjustment assistance. The first of these approaches involves an economic cost in terms

of higher prices for restricted goods and a political cost in terms of a denial of market access to other countries. If we are to grant assurances of market access to other countries as part of our international trade strategy, and if we want to avoid high-cost imports, then the trade adjustment assistance route is the way to approach the problem of adjustment. It is important in making this judgment, however, to assess the costs of an adequate adjustment assistance program.

Costs of Adjustment Assistance

The costs of a program of adjustment assistance depend crucially on the eligibility criteria and how they are interpreted. The eligibility criteria for trade adjustment assistance to firms and workers under the 1962 Trade Expansion Act require that injury to the firm or its workers be caused *in major part* by increased imports and that a prior tariff concession be the *major cause* of increased imports. Injury to a firm must be established with respect to a reduction in sales, profits, or employment. Injury to workers means the loss of full-time job or threatened loss of such job.

The criteria for relief from import competition in the form of increased tariffs or quantitative restrictions (escape clause relief) were the same as the criteria for adjustment assistance. Under the Trade Expansion Act, no adjustment assistance was granted between 1962 and 1969 because of the strict interpretation of the eligibility requirements by the Tariff Commission. From 1970 to the present, the criteria have been interpreted more liberally and 43,000 workers had been declared eligible to apply for adjustment assistance as of November 30, 1973.

The current version of the Trade Reform Act of 1973 separates eligibility criteria for adjustment assistance and for escape clause relief and makes both more liberal. Since there has been no administrative experience with these criteria, it is difficult to estimate just how many workers or firms would qualify for trade adjustment assistance under the proposed legislation. The criteria in the bill before this committee are ambiguous. Depending on how these criteria are interpreted, they could make a very large difference in the number of eligible workers and hence the cost of the program.

One condition for the eligibility of a group of workers to apply for adjustment assistance is that the Secretary of Labor must determine whether a *significant* number or proportion of the workers in such worker's firm have become totally or partially *separated* or are *threatened* to become totally or partially separated. There are several ambiguities here. A *significant number or proportion* is not defined in the legislation and considerable discretion could be used by the Secretary of Labor in defining that phrase.

The term *separation* has no precise meaning. I would assume that the intent of Congress is to provide assistance to those workers who lose their jobs, wholly or partially, on a permanent basis and therefore are required to search for a new job or retire from the labor force. Seasonal layoffs, for example, would not be covered by the legislation. Nor would workers be covered if they were laid off from their jobs temporarily due to a downturn in business but were called back quickly from their layoff even if the temporary layoff were caused by a surge in imports. But what about the worker who is "temporarily" laid off but is not called back. When is he separated from his job? When should he be eligible to receive adjustment assistance? These questions may seem of minor consequence but, in fact, the administrative interpretation of the meaning of *separation* could make an enormous difference in the number of workers eligible for trade adjustment assistance benefits and hence the cost of the program; for it is a characteristic of our industrial relations that workers are frequently laid off for temporary periods.

A third ambiguity in this condition is the meaning of *threatened to become wholly or partially separated.*

Another condition of eligibility is "that increases of imports of articles like or directly competitive . . . contributed importantly to such total or partial separation, or threat thereof, and to a decline in sales or production." This condition likewise is open to a range of interpretations.

Despite the uncertainties in the administrative interpretations of the meaning of the legislation, we did make an attempt to estimate the number of workers who might be eligible each year for trade adjustment assistance. We did this only for the year 1971 by using the data we had compiled on five-digit import competing industries. Specifically, we selected those import-competing industries for which output had declined, imports had increased and employment had declined. The result was 70 five-digit industries employing about 2.4 million workers. We

then estimated both the layoff rate and the recall rate in those industries based on data from the Bureau of Labor Statistics. The difference between the layoff rate and the recall rate we called the separation rate. We applied this rate to the selected industries.

The result was an estimate that some 44,300 workers would have been separated in trade-impacted industries and would be eligible for trade adjustment assistance. This estimate is subject to a number of problems. First, it is based on data for five-digit industries while the legislative criteria are based on data for the firm. The estimate also involves some special interpretations of the meaning of separation. A worker is separated if he is not recalled, but waiting for a recall may take a substantial period of time and in the meantime a worker may be declared eligible for trade adjustment assistance benefits even though he is eventually recalled.

This estimate of separated workers in trade-impacted industries can be translated into a cost estimate of the trade adjustment assistance program as outlined in the bill before the committee. The average number of weeks of trade adjustment allowances under the present program is about 30. Under the proposed bill, the first 26 weeks would be covered at 70 percent of the worker's wage and additional weeks at 65 percent of his wage. Thus if we assume that the average worker would have a wage of about $170, the gross cost of the trade readjustment allowance should average about $3,536. The worker likely would have claimed anyway under unemployment insurance compensation. Currently, the average trade-impacted worker collects about 17 weeks of unemployment insurance—although this may be expected to rise to perhaps 20 weeks on the average—as more states allow for longer periods of eligibility. If we assume that the average unemployment benefit would be $60, the net cost per worker should be $2,336.

We argued above that some 44,300 workers should be eligible for trade readjustment allowances annually. To be especially conservative, we might assume that very liberal interpretation of the criteria result in 60,000 workers being declared eligible. The experience of the Department of Labor, however, in that only about three-quarters of those eligible to apply for benefits actually receive benefits. Thus we could expect at most some 45,000 workers to receive benefits at a total cost of $105 million. Perhaps an additional $45 million could be allocated to workers training, counseling, placement, relocation, or health benefits, and $35 million to adjustment assistance to firms. The total cost would be $185 million a year at most with $150 million a year a more likely estimate. This assumes, however, that actual appropriations of funds will be allocated to worker training, counseling and placement, appropriations which I believe are not now anticipated.

The costs of the adjustment assistance program are very much more dependent on how the eligibility are interpreted rather than on the level of benefits specified in the legislation. Thus, it is important that some legislative guidance be given to the Departments of Labor and Commerce. For example, Committee might specify a rule of thumb concerning the proportion of workers separated which would be regarded as significant. You might indicate that a worker should not receive benefits if there is a reasonable expectation that he will be called back to his job in less than 13 weeks and that his loss of work cannot be regarded as seasonal. These kinds of caveats will help ensure that the costs of the adjustment assistance program will not run out of control.

Even with a quite liberal interpretation of the eligibility criteria and with special appropriations for all aspects of the program, the costs will be minor compared to the billions of dollars lost to the consumer through trade restrictions or the billions more which would be lost if more protectionist measures were to be enacted because of loss of jobs without compensation.

Other Aspects of Adjustment Assistance

I do not want to repeat my testimony given to the House Ways and Means Committee, but it is clear that although the proposed bill represents an improvement over the provisions of the 1962 Trade Expansion Act, a much more imaginative effort could be mounted at very little extra cost to the government. For example, aid to communities should be part of the program. The principle of federal assistance to communities undergoing rapid economic change is firmly established in the South Bend assistance program in the middle sixties and the Defense Department's program for communities impacted by cutbacks in defense and aerospace.

A system of early warning is another needed improvement. Trade impacted industries should be identified ahead of real injury. Initial adjustment assistance efforts could be initiated at this early stage. Firms could be required to give advance notice of termination of a worker's job.

Benefits to workers could be improved. A significant omission is lack of health insurance benefits. The period of assistance should be more closely related to length of service and more substantial benefits given to older workers.

Assistance to firms should be expanded to allow tax credits for expenses of training, job counseling and placement of terminated workers.

Finally, eligibility criteria should be expanded to help firms indirectly injured by imports—makers of heels and soles for shoes should be just as eligible as makers of shoes. Adjustment assistance ought also to be provided when there is a sharp reduction in exports as well as a rise in imports or when their firm's facilities are relocated abroad.

These improvements would greatly strengthen the adjustment assistance program and provide adequate protection for workers at a reasonable cost. The additional costs would probably be no more than $150 to $200 million for a total program in the range of $350 million. At the same time, however, the American consumer would not have to pay the enormous price of runaway protectionism.

Senator HARTKE. The committee will come to order and we will proceed. The next witness is John M. Leddy.

STATEMENT OF JOHN M. LEDDY, CHAIRMAN OF THE ADVISORY TRADE PANEL OF THE ATLANTIC COUNCIL OF THE UNITED STATES, ACCOMPANIED BY JACQUES J. REINSTEIN

Mr. LEDDY. I am John M. Leddy. I am Chairman of the Advisory Trade Panel of the Atlantic Council of the United States. I have with me Mr. Jacques J. Reinstein.

Mr. Reinstein is rapporteur of our Advisory Trade Panel.

We have submitted a written statement, together with a copy of our Interim Report on Reform of the International Trade System.*

I would like to comment on that briefly, having in mind your 10-minute rule.

Mr. LEDDY. I just want to say that our trade panel is a group of former public servants with experience in international trade matters and an interest in reforming the international trade system.

We think that H.R. 10710 is essential to achieve any significant reform, and subject to a couple of observations I will make in a minute, we think it would equip the United States to effectively participate in this exercise.

If the United States is to make effective use of H.R. 10710, in the event it is enacted, the United States and other major trading nations must work out together a set of common objectives and a concrete plan to achieve those objectives, otherwise we fear the world trade conference of some 100 governments which has been called as a result of the last Tokyo meeting, GATT meeting, may bog down.

Our purpose has been to come up with ideas that will help to contribute to the thinking that we believe has to go into the business of formulating a set of objectives and a plan to achieve them. We are interested in stimulating public interest and public discussion on our report.

Our main proposal is that there should be a new Code of Trade Liberation concluded among the major trading nations, including, at a minimum, the European Community, the United States and Japan,

*See p. 915.

but also other Western European countries, Canada and Australia.

This would go well beyond the GATT, liberalize the GATT, go farther in the direction of trade liberalization along more equitable lines.

It would make for improved enforcement and administration of trade commitments; it would provide for enforcement by the countries which accept all of the common obligations, probably on some kind of a weighted voting basis.

The main features of this code are described in the statement and report I have given you, and I don't want to describe them in detail because it would run me well over the rule.

There are just a couple of main points that I want to make. First, this code would supplement and support GATT; it isn't intended to replace it. GATT would remain the world forum in which the less-developed countries and the industrialized countries would try to get together and sort out the very complex problems they have.

The code would not require anybody to discriminate against countries that didn't join. On the contrary, those countries that belong to GATT and stay in it, and also the Fund, would get the benefits of the code through the most-favored-nation clause.

The code would be open to any country prepared to accept its obligations. As a practical matter, we believe that only Western industrialized countries—Europe, Japan and so forth—"Western" in terms of non-Soviet-type market-economy countries—would be able to accept the kind of obligations we propose.

Finally, we don't believe that the objectives of a true trade reform can be achieved by attempting to amend the GATT formally. Two-thirds of the members of GATT are less developed countries. They do not now have to adhere to the full rules of GATT. They have special privileges and exceptions, and so forth, to take account of their developing stage. Nevertheless, they have a majority vote in the GATT and this affects the whole enforcement procedure.

We think that situation has to be cured and we think that the best chance of success of reforming the international trading system insofar as the larger part of world trade is concerned, which is the trade conducted by the industrialized world, would be through this supplementary code among the major trading nations which, as I say, would support GATT and not destroy it.

Now, I have said that the bill passed by the House, H.R. 10710 would give the United States adequate negotiating authority to participate fully in this enterprise. I think it is a very good bill, personally. It is a broad bill. It is comprehensive, probably one of the most comprehensive bills on trade ever passed by this Congress.

There is one provision in it, however, which gives us pause. That is section 121. That section calls on the President to renegotiate GATT and to achieve certain specified objectives that are laid out there in some detail.

Now, some of those specified trade objectives—apart from this whole question of amending GATT, which is a very formidable problem in itself—of achieving one or two of those objectives might not be practical, either in GATT or outside it.

Now, if that provision is construed broadly and flexibly, that is one thing. If it is supposed to be an expression of the general intent of Con-

gress, and a general statement of congressional policy, then I think the trade code we are proposing would meet most, if not all, of what that intent and policy is.

If it is construed rather narrowly, as a mandatory requirement that the President must do those specific things, including the formal amendment of the GATT, then I think the Congress is directing the President to do something which may not—in my judgment, my personal judgment, almost certainly could not—be accomplished, and I just want to leave it at that because it is a question of how section 121 is understood to be meant by the Congress. Now, I must say I can't tell from reading section 121 just what is the intent. Whether it is intended to be mandatory or whether it is intended to be more of an expression of the sense of Congress.

A second part of our report calls for strengthening the International Monetary Fund. I think we ought to realize that at present on the question of import restrictions for balance-of-payments purposes, you have got authority divided between the GATT and the Fund and neither one of them, in fact, is in a position under that combination of arrangements to prevent unilateral action.

We think this authority ought to be centralized in the International Monetary Fund because it is basically a monetary problem, the decision as to whether these trade measures should be applied for balance-of-payments reasons, and that this should be done only with the prior approval of the Fund and that it ought to extend not only to import restrictions but it ought to cover things like import surcharges which we felt we had put on sometime ago and other major countries have in the past.

It ought to be more broad in the coverage, but the institutional responsibility ought to be centered in the International Monetary Fund where you have the expertise of the finance ministers who can make a sound judgment as to whether putting on trade measures is a sensible thing for balance-of-payments purposes.

The second area where we would broaden the authority of the Fund is in the possibility that under certain circumstances, it may be wise to put on trade measures against a country in persistent surplus which refuses to take the proper adjustment measures.

We will be publishing a second interim report within a few days which outlines this International Monetary Fund—GATT problem in great detail. I would appreciate it if we could submit that report to the record for your information.[1]

Senator HARTKE. Thank you.

Mr. LEDDY. I haven't covered commodities. I could do it briefly; that is a very important thing.

Finally, our interim report contains some preliminary observations on the question of commodity shortages. The Code we propose makes a beginning: it suggests that the industrialized countries should agree not to apply export controls to meet shortage situations without prior international consultation and to apply such controls on the basis of equitable sharing. This is a new principle, not now in GATT. We also suggest jointly-financed stockpiles in the case of some agricultural products. In addition, we point out that long-term shortage situations

[1] See p. 920.

caused by the impact of increased demand on exhaustible natural resources requires, first of all, consultation among major consumers to alter consumption patterns and find alternative or substitute sources of supply. We suggest the OECD as the most suitable forum for this purpose.

But clearly these ideas are less than a complete answer to the problem. What should be done about the possibility of more producer organizations among less-developed countries, like the oil-exporting group, which could restrict output and exports in search of monopoly profits or political ends?

In our further study of this problem we shall be addressing three main questions:

How likely is the prospect that the oil experience can be repeated for other basic materials?

What assurances would it be reasonable to seek from developing countries which export basic materials, given their psychological attitudes and economic situations?

And, importantly, what assurances would such exporters in the less developed countries want in return, for example modification of monopoly and export practices by industrialized countries which affect the prices of the capital and other manufactured products they must import for their development, assurances against price instability in case of future surpluses, more foreign development aid, or what?

These problems are complex and require careful thought before the United States determines its policies for dealing with them.

Thank you, Mr. Chairman.

Senator HARTKE. How long would it take to negotiate this new code for trade liberalization within GATT?

Mr. LEDDY. It would take fully as long as it took to negotiate the Kennedy Round. I wouldn't put a time limit on it.

Senator HARTKE. Would that be done before or after the trade bill?

Mr. LEDDY. You can only do it after the President has authority. He has no authority without the approval of Congress.

Senator HARTKE. Most of the propaganda is in favor of giving the President this added authority. If you mean comprehensive, if you mean this is the greatest delegation of authority ever attempted by the Congress, I would say that it certainly is. Under this legislation, the President would have the authority to do too many things and if he did that, I think you would be opposed to it.

If he imposed high tariffs and quotas and import restrictions and did all the things which generally you don't approve of which is granted him in this legislation, you would be upset. You anticipate he will do the things which you really espouse?

Mr. LEDDY. Mr. Chairman, I am an old executive branch hand. I will take my chances on that.

Senator HARTKE. There is no assurance or recourse in the event that the other happens, isn't that true?

Mr. LEDDY. Mr. Chairman, I think the problem here is that in the past the thing as been the other way, that the President has not had in some respects the authority that he needed to accomplish the purposes of negotiation.

Now, I know that there is a risk here anyway, but I would think that on the basis of experience that the President, any President would use this authority internationally with great discretion and care.

We would hope so. If I did not believe so, I would not say so.

Senator HARTKE. One of the most prominent politicians on the scene is George Wallace who, certainly cannot be discounted as a future President. Would you anticipate that you would want this authority to be given to George Wallace?

Mr. LEDDY. I am not going to get into any partisan politics.

Senator HARTKE. I won't ask you to. These people who see roses out there may find out that it is only fertilizer.

Mr. LEDDY. I am sorry, I can't respond to that.

Senator HARTKE. I would ask you to look at it again, not from the viewpoint that you will prevail in your attitude. I am the greatest fair trader there is. I will be the advocate for an International Common Market Agreement for any country in the world with the United States.

I will be the proponent, protagonist, and advocate. I will go ahead if they will guarantee they will have no trade restrictions with any country in the world. I will advocate this policy in the U.S. Congress. And you know, not a country will accept it.

Mr. LEDDY. I agree with you.

Senator HARTKE. This bill provides excessive authority for the President, whomever he may be. That is what this bill does. You admit that, don't you?

Mr. LEDDY. There is one point where perhaps I think there is a misunderstanding. When I said that the House bill was the most comprehensive, I did not mean merely that it granted the most power to the President. I meant that it covered more elements of the problem as well.

Now, it does extend power to the President in certain fields that are greater than he has had before, but it is also more comprehensive, and it covers a number of new areas. I didn't mean to open up this point, but it is true that I do believe that a lot of problems have arisen in the past because he can go out and negotiate something, but when he comes back, nothing happens.

Senator HARTKE. Isn't the authority to do just as much exactly in the other direction as in the direction you want to go; isn't that authority granted?

Mr. LEDDY. I still go back to my point, Mr. Chairman. I believe the executive branch can handle it.

Senator HARTKE. You are talking about an entirely different thing. You are talking about what will happen. I am talking about what can happen, "will" and "can" are two different words.

Mr. LEDDY. You are correct.

Senator HARTKE. Am I right?

Mr. LEDDY. Anything is conceivable. I agree to that.

Senator HARTKE. All right, thank you for being with us.

[The prepared statement of Mr. Leddy and the interim reports of the Special Advisory Panel to the Trade Committee of the Atlantic Council follows:]

PREPARED STATEMENT BY JOHN M. LEDDY, CHAIRMAN OF THE ADVISORY TRADE PANEL OF THE ATLANTIC COUNCIL OF THE UNITED STATES

Mr. Chairman and distinguished members of this committee: I am pleased to respond to the Committee's invitation to testify regarding the studies which our group has been making and the recommendations which it has been developing on the subject of the reform of the world trading system.

The Atlantic Council of the United States is a non-governmental, bipartisan, tax-exempt citizen organization which has been operating for over twelve years, having been originally organized and headed by the late Secretary of State, Christian A. Herter, in cooperaion with the late Secretary of State, Dean Acheson. It is a center for information, ideas, and analysis with the objective of aiding the government and the public in the understanding of major international security, political, and economic problems. Its focus is particularly on relations between North America and Europe, but its interests necessarily are also directed to Japan and to the relations of all these countries with the developing world.

On February 14, 1973, the Trade Committee of the Council issued a statement calling for urgent action by the major trading nations to reform the world trading system parallel to the reforms being negotiated in the monetary system. The policy statement urged that broad negotiating authority be provided by the Congress to the Executive to permit effective U.S. participation in negotiations which such an initiative would require.

The Committee made a number of policy recommendations, including the improved use of international institutions. The Committee's report was endorsed by the Atlantic Council on April 30 of last year, at which time it welcomed the President's proposals for a Trade Reform Act as broadly in accord with the report.

The Advisory Panel, of which I am Chairman, was established to study and recommend practical measures for the implementation of the Committee's recommendations. The Panel recently made a first interim report on reform of the international trading system which I will briefly describe. It will publish within the next few days a second interim report containing detailed recommendations on strengthening the role of the International Monetary Fund in dealing with trade measures taken for balance-of-payments reasons and revising the relationship between the Fund and the GATT, the General Agreement on Trade and Tariffs. I shall be glad to make copies of that report available to the Committee when it is issued.[1]

The Panel is continuing its studies and will make other recommendations during coming months on the main issues it believes should be dealt with in the reform of the trading system. I should make clear that the two interim reports which have been completed so far have not been formally endorsed by the Atlantic Council. They represent the views of a concerned group of citizens who have considerable expertise in the field. The Council does regard the reports as worthy of serious consideration and is publishing them in order to stimulate public discussion of the issues involved.

The proposals contained in the panel's first report are designed to introduce reforms in the trading system by securing agreement on a more effective set of trading rules than now exists in GATT (the General Agreement on Trade and Tariffs). This would be done by an agreement among the more developed trading nations in a Code of Trade Liberalization in which they would undertake tighter obligations applicable to themselves than are generally accepted by GATT members and would establish measures for ensuring compliance with them. The GATT would continue as a general system of rules for developed and less developed countries on the basis of the most-favored-nation principle. It would constitute a forum in which the two groups could work out ways of handling their common trade problems and dealing with the special problems of the developing countries.

The report also proposes changes in the relations between GATT and the International Monetary Fund designed to strengthen the authority of the Fund regarding trade measures taken for balance-of-payments reasons and to bring certain types of measures such as import surcharges under effective international surveillance.

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[1] The report follows this statement.

The proposals would include measures for liberalizing trade in agriculture as an integral part of the trade reform arrangements. They would seek to deal realistically with agricultural trade by directing negotiations on farm products to the effective protection they receive, whether through import controls or domestic programs.

Recognizing the need for assurances of stability both in terms of income to producers and supplies to consumers, the proposals envisage special trade arrangements at the very outset for some agricultural commodities such as, for example, wheat, feed grains, some oil seeds and dairy products. International arrangements to maintain adequate stocks of such commodities, perhaps internationally financed, are envisaged.

The proposals would introduce the principle that, if products in short supply—whether foodstuffs or other basic commodities—are subjected to controls, they should be equitably shared with consideration for the needs of importing as well as exporting countries. Exporting countries would be obligated to consult internationally with regard to such controls. These measures, which would apply among the Code members, would constitute a first step toward dealing with export controls, which will be the subject of further study by the group. The report stresses the need for international cooperation to deal with resource scarcities by altering consumption patterns, increasing supplies or developing substitutes.

The text of the interim report and a list of the members of the Advisory Panel who prepared it are attached.

Special Advisory Panel to the Trade Committee of the Atlantic Council

Interim Report

Reform of the International Trade System—A Proposal

The Trade Committee of the Atlantic Council, in a statement on international trade policy of February 14, 1973, called for urgent efforts to reform the international trading system to accompany the negotiations already under way to reform the monetary system. It called for a consensus, at least among the governments of the principal trading nations, on the general nature of the negotiations to be conducted. This policy statement was endorsed by the Atlantic Council on April 19, 1973. The trade bill now before the Congress is in general accord with the principles agreed upon by the Committee and opens the way to progress if it is enacted into law.

The Trade Committee also established an advisory panel which has been studying practical steps to achieve the reforms advocated by the Council and to bring them into relationship with the monetary reforms. The purpose of this report is to sketch in preliminary form the outline of a proposal which the advisory panel believes may prove to be the most promising method for achieving needed reform of the international trade system.

The essence of the Panel's conclusion is that the principal trading nations should initiate a plan to agree among themselves on new rules and measures of trade liberalization aimed at achieving an improved and fairer trading system.

The Panel believes that this could be accomplished by an agreement in the form of what might be called a Code of Trade Liberalization, supplemental to and supportive of GATT, the essentials of which are set forth below. It may be recalled that in the early post-war period the countries of Western Europe, with United States support, established among themselves a code of liberalization under which substantial progress was made in liberalizing intra-European trade, thus helping to pave the way for general currency convertibility. The time has come when the principal trading nations might well revive this concept of a trade liberalization code on a broader and fully nondiscriminatory basis.

The Panel has also recommended steps for coordinating more effectively the work of the International Monetary Fund and the GATT (General Agreement on Trade and Tariffs) and for reinforcing the authority of the Fund in dealing with trade measures taken for balance of payments reasons.

Shortages of foodstuffs in 1973 and restrictive measures taken by exporting countries high-lighted what may be a recurrent problem of managing supplies of, and international trade in, scarce materials. An additional dimension has

been added to this problem by recent actions of the oil-exporting countries. Concern has been expressed that producers of other basic materials may restrict access to them or take action sharply to increase prices. The Panel has some preliminary recommendations regarding the commercial policy aspects of restrictions imposed on grounds of short supply. The subject of export controls raises other important questions which the Panel is continuing to study.

I. General Concept

Since its establishment over a quarter-century ago the General Agreement on Tariffs and Trade has become the central forum for world trade policy, the trade counterpart of the International Monetary Fund in the field of monetary affairs. Like the Fund, the GATT has contributed greatly to the expansion of world trade. It has brought about a gradual but substantial reduction of tariffs and disputes and has contributed to economic prosperity and the high degree of international economic interdependence which has now been reached.

But, also like the Fund, the GATT's trade rules and machinery are no longer adequate to meet the changed world economic scene. We have witnessed the creation and enlargement of the European Community; the spread of free-trade arrangements; the emergence of Japan as a world trading power; the growing requirements of the developing countries for wider market outlets for their export industries; persisting difficulties in agricultural trade accompanied by concerns for food shortages; the growing importance of non-tariff trade barriers; far-reaching changes in the international monetary system.

Morover, governments in highly industrialized societies are intervening more and more in domestic economic processes for social purposes—for example, improving the environment, assisting low income areas, and controlling price inflation—actions which have consequential effects on international trade. While these ends are desirable in themselves, the measures taken to achieve them will increasingly require a degree of international reconciliation if the benefits of an open trading system are to be maintained and improved.

All these developments call for fresh action to adapt and direct GATT's trade rules and machinery to the problems of today and the future.

The forthcoming trade negotiations will provide an opportunity to take the action required if the new trade legislation now being considered by Congress accords to the President authority sufficiently broad and sufficiently flexible—broad enough to enable the United States to play its part along with other industrialized countries and flexible enough to provide the necessary leeway to deal with the negotiating problems that will inevitably arise.

The basic trade principles of the GATT continue to have validity, and GATT should remain the primary forum for world trade policy. What is required is not so much the application of poultices or even radical surgery to GATT itself, but the undertaking of concerted action by those member countries capable of doing so to apply its rules in improved form with greater vigor, to adopt additional rules suited to modern needs, and to supply more effective means of international enforcement.

For many reasons it is improbable that such concerted action can be brought about by amendment of the GATT itself. More than 80 governments are members of GATT, most of them in such a stage of development that they are not expected to assume the full obligations of GATT as it now exists, much less more far-reaching obligations. Each GATT member has one vote in all GATT matters, even in commercial policy questions arising among the industrialized members with regard to matters on which all GATT members do not have full obligations. Amendment of the GATT to adapt the rules among the industrialized countries and to alter GATT's voting system and enforcement machinery to provide better economic balance would be a formidable undertaking of doubtful success. Under the existing GATT some amendments would have to have the formal approval of all eighty or more governments. Others would require at least two-thirds.

Fortunately, amendment of the GATT is not essential to enable some of its signatories to undertake, in concert, more far-reaching trade commitments than those presently provided for in GATT and assure balanced institutional machinery for their enforcement. This could be accomplished through a new Code of Trade Liberalization, supplementary to GATT and supportive of it, open to participation by the GATT members economically capable of assuming all the new responsibilities involved. At the outset, these would be the industrialized countries who now account for the largest part of total world trade.

GATT would continue as the leading international trade forum on a world scale and the central framework for handling trade policy questions arising between the industrialized countries on the one hand and the developing countries on the other. The Code of Trade Liberalization would create the setting for handling major policy questions arising in commercial relations among the industrialized members. All GATT countries would, of course, benefit from the new reductions of trade barriers undertaken by the industrialized countries in the Code by virtue of GATT's most-favored-nation clause. Additionally, in the implementation of the Code, the closest consultation would be necessary with GATT signatories which are not Code members on matters directly concerning them and which would, of course, continue to have all their legal rights under GATT.

There is need also for principles to govern restrictions on materials in short supply, for which GATT now contains no international guide rules or enforcement provisions. It is therefore proposed that the Code should require a signatory applying export restrictions for short-supply reasons both to consult with other Code members and to apply any such retsrictions on an equitable basis in the light of their essential requirements as well as its own.

II. Outline of a new code of trade liberalization

There are set forth below what appear to be the essential elements which should be incorporated in such a new Code of Trade Liberalization. These will require considerable fleshing out, which will be done in a final report by this panel. However, our studies to date suggest that the general concept is a practical one.

1. Membership.—Participation in the Code by the European Community, Japan and the United States as a minimum would be essential for its effectiveness. Other countries capable of assuming the obligations of the Code by virtue of their having achieved an economic position which would enable them to do so would include Austria, Australia, Canada, Norway, Sweden and Switzerland. Countries moving from the category of less developed to industrialized countries could join at that time and would be encouraged to do so. All members of the Code would be required to be members of GATT and the Fund.

2. General Application of GATT Trade Rules.—Code members would agree to apply GAT's trade rules in commercial relations among themselves only in accordance with, and subject to, the provisions of the Code.

3. Reduction of Tariff Levels.—All Code members would agree to reduce their tariffs in accordance with a common pattern and time schedule. For example, using the pattern suggested in the tariff section of the trade bill just passed by the House of Representatives and awaiting Senate action, all tariffs now amounting to five percent *ad valorem* or less might be eliminated, those between five and twenty-five percent *ad valorem* might be reduced by sixty percent and those over twenty-five percent *ad valorem* might be reduced by seventy-five percent but not below ten percent *ad valorem*. Reductions would be scheduled over a period of years. Necessary exceptions to the common tariff-reduction pattern would undoubtedly be required (in the United States probably as a result of the Tariff Commission hearings and analysis called for by pending trade legislation). The tariffs on these exceptional products could be established separately, in an annex to the Code. Exceptional treatment should, of course, be avoided to the extent practicable.

While all GATT countries would benefit from the Code tariff reductions, members of the Code would reserve to themselves the right to suspend tariff reductions on products principally supplied by an industrialized country which, although able to do so, refused to accept the obligations of the Code. This is essential to assure adequate reciprocity.

4. The Use of Trade Restrictions.—Import restrictions for protective purposes would continue to be outlawed, as under GATT. In addition, export restrictions for short-supply reasons, now permitted by GATT unilaterally and without qualification, would be made subject to processes of international consultation among Code members and to the requirement that export quotas for short-supply reasons provide for a fair sharing of the product in scarce supply in the light of the essential requirements of importing as well as exporting countries.

5. Nondiscrimination.—The GATT rules for equality of trade treatment (the most-favored-nation clause) would be tightened up in several ways:

Future free-trade areas and customs unions entered into by a Code member would be made subject to prior approval by other Code members to be sure

that the free-trade area or customs union concerned truly meets established criteria and is not simply a preferential commercial arrangement in disguise.

Code members would be required to give up their legal claims to preferential trade treatment in less developed countries (for example those now extended by some African countries to the European Community).

Preferences by Code members to the developing countries would be permitted, but should be granted on a non-discriminatory basis and in accordance with standards roughly comparable among the various Code members (see below under "*Trade Assistance to Developing Countries*").

6. *Agriculture.*—Major argicultural products for which existing GATT trade rules have proven clearly inadequate—mainly because domestic farm programs have made impossible adherence to conventional trade-agreement obligations—should be given special treatment in the Code to accomplish five main purposes:

Increased market access and expanded trade;

Equitable sharing of scarce supplies;

Adequate and more stable farm income;

International consultation on structural adjustments in agriculture on products for which domestic farm program exist or may be established; and

Where practicable, the establishment of agreed stockpiles of food to meet shortages and provide greater price stability.

The Code would, in an initial period of perhaps three years, establish specific arangements for certain major commodities (for example wheat, feed grains, certain oilseeds, dairy products).

These arrangements could include the setting of agreed margins of protection (or *montants de soutien*) which would limit the *total amount of effective protection extended in any form* (whether through border measures such as tariffs and quotas, price supports, income payments or other means) by importing and exporting countries. For certain products agreed stockpile goals, perhaps jointly financed, could be specified, and agreed levels of food aid to be provided less developed countries by Code members on concessional terms. Non-Code countries should participate in undertakings regarding specific agricultural products whenever their participation might prove necessary or desirable.

The Code should recognize the importance of helping farm communities to achieve an adequate level of income for their effort and invested captial, the need for continued structural adjustment in argiculture and for international consultation about such adjustments, and the principle that agricultural measures taken by a Code member should not entail a transfer of costs of adjustments to farmers and traders of other nations except on an agreed basis. Export restrictions on agricultural products in short supply should be subject to international consultation and the principle of equitable sharing among importing and exporting countries.

The Code would create an agricultural Committee to administer the commitments and further the principles of the agricultural section of the Code. In order to assure effective intergovernmental consultation, the Agricultural Committee should consist of senior officials having important policy-making responsibilities in the field of agriculture.

7. *Balance of Payments Adjustments.*—Code members would agree not to use the right which GATT gives them to apply import quotas unilaterally and without prior consultation to safeguard the balance of payments. Rather, they would agree not to apply any trade measure for this purpose without the prior approval of the International Monetary Fund, but would have the right to apply any trade measure (for example import surcharges) which the Fund has approved. In addition, the Code members would agree that trade measures against exports of surplus countries would be permissible when the Fund considered them appropriate for international monetary reasons. Thus, the Fund would decide what trade measures would be suitable for monetary purposes in particular circumstances and the present overlapping jurisdiction of the GATT and the Fund on this subject would be ended so far as Code members are concerned. Code members would, however, continue to observe certain commercial policy principles of equity established in the GATT for the administration of trade measures once the measures had been approved by the Fund.

These proposed changes would regularize and bring within the scope of international surveillance such trade measures as import surcharges. In making these proposals, the panel does not mean to suggest that such surcharges are desirable in a reformed system. Indeed, in a monetary system in which par values are adjusted frequently, there should be diminished need for such measures.

Some amendments to the Articles of Agreement of the IMF may well be required to give the Fund the necessary powers to carry out these added responsibilities; but amendments to the Fund Agreement in which both industrialized and developing countries participate on the basis of weighted voting should not present a serious problem.

8. Protective Safeguard Provisions—the "Escape Clause".—The GATT "escape clause" (Article XIX of GATT) would apply to trade obligations assumed in the Code. Further study is needed to determine whether any changes in the international aspects of this clause, or possibly additional provisions, would be needed.

9. Non-Tariff Barriers.—Provisions for dealing with certain non-tariff barriers, for example limits on the use of governmental "buy national" requirements or the international reconciliation of domestic environmental controls, might be the subject of specific commitments in the Code itself. Other non-tariff trade barriers would be the subject of later additions to the Code by means of supplementary agreements as they are negotiated. In the case of the United States, some of these supplementary agreements might be effective through the new Congressional-veto technique proposed in the trade bill recently approved by the House Ways and Means Committee.

10. Trade Assistance to Developing Countries.—Code members would agree on a system, comparable in scope and degree among the several Code members, of tariff preferences to the less developed countries which would be extended to them without reciprocity other than the promise of nondiscriminatory treatment in return. They would also agree that these preferences would not be allowed to stand in the way of further reduction of the general (non-preferential) tariffs of Code members, which some developing countries might seek to prevent. They would also agree that the trade preferences they give to developing countries would not, in general, discriminate among the developing countries so as to create exclusive, or preferential "blocs." Finally, Code members would agree to give up their existing legal claims to reciprocal or "reverse" preferences from the less developed countries and to seek no new reverse preferences. Through these measures the industrialized countries would help to widen the export opportunities of the less developed countries on an equitable basis while furthering equality of treatment as a governing principle in world trade.

Code members could not avail themselves of the special trade privileges allowed less developed countries under GATT (GATT Article XVIII and Part IV of GATT).

Code members would consult fully with the less developed countries in the GATT and through UNCTAD in administering these provisions of the Code and in exploring further means of helping the less developed countries through trade measures.

11. Institutions, etc.—No new international secretariat or budget would be needed to help administer the Code. Instead, staff and financing should be provided by the GATT or, alternatively, by the Organization for Economic Cooperation and Development of which all prospective Code members are now members.

The Code members would form a *Trade Council* at the ministerial level to meet at least once annually and an *Executive Committee* of senior trade policy-making officials from capitals to meet as required for purposes of administering and enforcing the Code. The Directors General of GATT and the OECD should sit in on the Trade Council and Executive Committee meetings without vote and one of them should chair the Executive Committee with the right to initiate proposals. *Panels of Experts* of independent, non-governmental personalities could be selected to help settle trade disputes.

Provision should be made for the interests of labor, agriculture, industry and consumers in member countries, to have their views considered by the Trade Council and its subordinate bodies.

Voting by Code members should reflect a better economic balance among them than the one-country-one-vote system prevailing in the GATT. In the context of such a balanced arrangement, the European Community taken as a whole and the United States should have substantial equality in the voting system, although the substantive importance of formal voting in a Code among industrialized countries should not be exaggerated.

Amending the Code from time to time should be made much more flexible than the present GATT system.

Members of the Code should be required, as in the Fund Agreement, to certify that they have taken all legal steps necessary to enable them to fulfill their Code obligations before signing. Any member should be free to withdraw from the Code at any time.

III. Observations on the problem of scarce resources: Food, fuel, and basic materials

In the Code of Liberalization suggested in Parts I and II of our Interim Report, we have proposed the introduction of two principles relating to scarce resources, neither of which are to be found in the present GATT arrangements. The first would require members of the Code applying for export restrictions for short-supply reasons both to consult with other Code members and to apply any such restrictions in accordance with the principle of a fair sharing of the scarce product in the light of the essential requirements of importing as well as exporting countries. The second, relating to agriculture, would call for Code members and other countries which may be important suppliers or consumers of a specific agricultural product to create jointly-financed stockpiles where this seems desirable both to assure against future shortages and create greater price stability. Additional provisions relating to scarce resources may be recommended as the Panel Continues its work on the proposed Code of Trade Liberalization.

But it should be recognized at the outset that the contribution which any set of international rules on commercial policy can make to the problem of scarce resources is necessarily limited. Well-designed trade agreement arrangements can require the equitable sharing of scarce resources. They can also be drawn to permit countervailing economic action if one or a few governments deliberately create artificial scarcities in pursuit of political ends or monopoly profits. But they cannot deal with the most important problem of all, which is the scarcity arising from the impingement of increased consumption on limited natural resources. This problem can be alleviated only by a combination of positive measures to alter consumption patterns of major consumers, or enlarge supplies through new discoveries, technological advances, diversification of sources and substitution.

The OECD is the logical place to center beginning international efforts to foresee and forestall future resource scarcities. The members of the OECD are at once the primary cause of rapidly rising consumption of basic materials and the primary source of the technology and investment capital that would have to be devoted to enlarging supply. The OECD has already launched a broad study of long-term energy problems going well beyond its earlier work in this field. Its organization and resources should permit it to undertake studies of other materials as may be required.

In the coming weeks the Panel will review the possibilities for suggesting further international action regarding basic materials, whether through strengthened trade agreement institutions or the OECD.

SPECIAL ADVISORY PANEL TO THE TRADE COMMITTEE OF THE ATLANTIC COUNCIL

SECOND INTERIM REPORT

TRADE MEASURES AND THE INTERNATIONAL MONETARY SYSTEM—PROPOSALS FOR INSTITUTIONAL REFORM

In our first Interim Report, dated February 4, 1974, the Advisory Panel proposed the negotiation of a Code of Trade Liberalization among major trading nations as a supplement to GATT. We sketched in a preliminary way the form which such a Code might take and suggested that Code members initially, and all GATT countries eventually, should agree to enlarge the authority of the International Monetary Fund to deal with trade measures for monetary, or balance-of-payments purposes, thus ending the present overlapping jurisdiction of the GATT and Fund in this field as well as strengthening multilateral surveillance of such measures.

It now appears that the Committee of Twenty of the Fund may recommend basic changes in the structure and operations of the Fund at their Ministerial meeting in June, 1974. The panel is therefore presenting at this time a detailed exposition of the background of the problem of trade measures for balance-of-payments purposes, together with recommendations for basic reforms. We also attach illustrative texts of the proposed changes in the existing rules of the

Fund Agreement which would be required to implement our recommendations, together with related draft provisions for inclusion in the proposed Code of Trade Liberalization.

The existing multilateral system for dealing with trade measures applied to protect the balance of payments has been outdated for a long time. Its provisions are a weak safeguard against unilateral national action. The impact on the world monetary system of the increase in the price of oil recently established by oil-exporting countries underlines the importance of preventing balance-of-payments problems from developing into a pattern of unilateral and self-defeating trade actions as each deficit nation seeks to protect its balance-of-payments position. The proposals we recommend would help to strengthen the international framework of finding cooperative, instead of mutually destructive, solutions to severe monetary disturbances.

Summary of Recommendations

1. The international rules governing the use of governmental measures to deal with balance of payments difficulties should be changed so that trade measures and foreign exchange measures designed for the same purpose are treated substantially on the same basis. Accordingly, the "prior approval" rule that is applied by the International Monetary Fund to the imposition of exchange restrictions should supersede the "consultation-after-the-fact" rule that is applied by the GATT to the Imposition of quantitative import restrictions to protect the balance of payments.

2. The international rules should also permit the use, under international supervision, of other trade measures adopted for balance-of-payments, such as general import surcharges and export subsidies. Like import restrictions, these measures should also be subject to the same "prior approval" test as exchange restrictions. (The present GATT rules make import surcharges a violation of GATT's tariff commitments, and export subsidies can constitute a violation of GATT's subsidy provisions. Nevertheless several major trading nations, including the United States, have imposed such surcharges in recent years, and export subsidies are a logical counterpart of import surcharges if the purpose is to improve the balance of payments.)

3. The international rules should provide for greater symmetry in the treatment of countries with payments surpluses and countries with payments deficits. The present Fund rules, backed by the power of the Fund to withhold financial support, create much stronger pressures on deficit countries to take adjustment action than on persistent surplus countries. In fact, the present "scarce currency" provisions of the Fund Agreement, which were designed to create an incentive for adjustment by surplus countries, have proved so narrow that they have never been utilized. Thus, the present Fund rules should be broadened to permit, under international supervision, the institution of national trade as well as exchange measures with respect to a country maintaining a persistent balance-of-payments surplus that is impairing the international monetary system.

4. The relations between the GATT and the International Monetary Fund should be redefined in the light of the quarter-century of GATT-Fund experience and the changes proposed above in the international rules on the use of exchange and trade measures. In particular, the Fund should be given the full international authority for evaluating the financial basis of, and approving, both trade and exchange measures designed to deal with balance-of-payments difficulties. Thus, the present overlapping of Fund and GATT responsibility would be eliminated. However, the GATT would remain responsible for reviewing the commercial policy aspects of trade measures that have been instituted with Fund approval. Thus, we propose for inclusion in The Code of Trade Liberalization, and eventually in Gatt, a provision that would require a country that has imposed balance-of-payments trade measures with Fund approval, to consult promptly through the Code, or GATT, regarding the administration of such measures.

These proposals of the Panel, if made effective, would help to ensure that trade measures for monetary purposes would be used only as a last resort when, in the judgment of the Fund, other less damaging measures of adjustment were not available. In order to carry out these proposals the following steps would have to be taken:

Article VIII of the articles of Agreement of the International Monetary Fund would require amendment so that the Fund would be legally empowered to accept full international jurisdiction, as it now has for exchange restric-

tions over trade measures for balance-of-payments purpose instituted by a deficit country.

Article VII of the Fund Agreement would require amendment to broaden the existing "scarce currency" authority of the Fund to include the power to authorize national trade measures directed at a surplus country which persistently refuses to adopt appropriate adjustment policies and thus endangers international equilibrium.

The proposed Code of Trade Liberalization initially, and the GATT eventually, would have to recognize the right of any country to adopt a trade measure for balance-of-payments purposes which had been authorized by the Fund.

Finally, there would need to be an inter-organizational agreement between the administrative body of the Code of Trade Liberalization and the Fund, and eventually between the GATT and the Fund, in order to bring these amendments into full operation.

These proposals are developed in detail in the attached analysis, to which are appended illustrative texts of the various changes in present international rules mentioned above.

TRADE MEASURES AND THE INTERNATIONAL MONETARY SYSTEM—ANALYSIS AND RECOMMENDATIONS FOR CHANGE

The design of the world's trade and payments system worked out during and immediately after World War II encompassed two complementary multilateral organizations: The International Monetary Fund (IMF) and the International Trade Organization (ITO). The General Agreement on Tariffs and Trade (GATT) which contained the most essential trade provisions of the ITO Charter, was provisionally applied while waiting for the approval of the Charter; when the Charter was abandoned, the GATT continued in force.

Explicit provisions linking the GATT and the Fund were included in the GATT; they were reinforced by written procedural agreements between the Fund and the Secretariat of the Contracting Parties. These arrangements deal with the range of financial questions that can arise in the context of GATT. They give particular attention to the multilateral surveillance and control of quantitative import restrictions employed by a contracting party to GATT to protect its balance of payments and monetary reserves. The international agreements also recognize the possible need for exchange measures or equivalent trade measures, to be applied against transactions with a country which runs persistent surpluses to the point that the currency of the surplus country becomes scarce in the Fund (the "scarce currency" concept).

In the discussion that follows, the primary of the Fund and subordinate position of the GATT in the field of balance-of-payments measures will become apparent. This difference is a reflection of the underlying fact that a national decision to control trade for payments reasons is a financial question of high importance that governments must deal with in a financial context, through finance ministers and financial experts. Nevertheless, the institutional arrangements for dealing with these problems internationally have been awkward and unsatisfactory. Excessive leeway has been left for purely unilateral national action to restrict trade for monetary reasons and the joint Fund-GATT surveillance provided for has given neither the Fund nor the GATT sufficient responsibility to enable either to act effectively.

It should be noted that the use of quantitative import restrictions to safeguard the position of a deficit country has not been resorted to by any major trading country since the beginning of the general movement to restore currency convertibility in the late 1950s. Instead, import surcharges, which are in violation of GATT's tariff commitments and outside the jurisdiction of the Fund, have been instituted on a number of occasions.

In looking to the future, we assume that the nations of the world will agree to restore an orderly international regime governing the national administration of exchange rates with a greater degree of flexibility than existed under the old par value system. Under such a new system, even with exchange rate flexibility, national governments may encounter circumstances in which they desire to utilize trade measures for payments reasons as a temporary measure of last resort. Also, with growing recognition of the need for more symmetrical treatment of surplus and deficit countries, a new monetary arrangements may call for a broader approach than the old "scarce currency" concept in dealing with the

problem of countries in persistent surplus. The consideration of the reform of the international trade and monetary systems should therefore encompass both new multilateral rules on the employment of trade measures for monetary reasons and new institutional arrangements for the clear assignment of responsibilities among international organizations.

The GATT and Import Restrictions

In Articles XI–XV (and in Article XVIII, Section B for the less developed countries), the GATT contains an elaborate and complex structure of procedural requirements and substantive rules on quantitative import restrictions (QRs). The basic rule (Article XI:1) prohibits the use of QRs but the text goes on to specify a number of exceptions—among them, the use of QRS to protect monetary reserves and the balance of payments.

A summary of the important features of the GATT in this area follows:

1. A country may introduce or intensify balance-of-payments QRs to safeguard its external financial position and balance of payments (Article XII:1). It need not obtain prior approval of, or engage in prior consultations with, the Contracting Parties; it must consult, however, as soon as possible after it acts (Article XII:4(a)).

2. The Contracting Parties must invite the Fund to participate in such a consultation and must accept the findings of the Fund on the financial position of the restricting country, including the Fund's determination regarding the level of the restricting country's monetary reserves and other financial aspects of the consultations (Article XV:2).

3. QRs must be non-discriminatory in their treatment of exporting countries (Article XIII). Certain deviations from this rule are permitted by Article XIV—e.g., for balance-of-payments QRs having equivalent effect to exchange restrictions approved by the Fund or allowed by the transitional period provisions of the Fund Articles and for QRs having equivalent effect to exchange restrictions authorized under the scarce currency provisions of the Fund Articles.

4. QRs must meet the commercial policy standards specified in Article XII:3 (c). That is, the restrictions must avoid unnecessary commercial or economic damage; permit the importation of minimum commercial quantities; and allow the importation of commercial samples and compliance with patent, trademark, and copyright procedures.

5. The restricting country is free to determine the incidence of its restrictions on different products or classes of product, on the basis of essentiality (Article XII:3(b)).

6. The restricting country is obliged to relax its restrictions progressively as its financial position improves (Article XII:2 (b)).

7. If the Contracting Parties find that a country is maintaining QRs inconsistently with the GATT (Articles XII and XIII, in particular), they may, after going through specified procedural steps, release an injured country from particular GATT obligations towards the restricting country (Article XII: 4 (c) and (d)).

8. The foregoing outline and citations apply to the industrialized contracting parties. A similar regime is provided for the less developed countries (Article XVIII, Section B), making allowances for their special problems.

9. The Contracting Parties must hold annual consultations with the industrialized countries, and biennial consultations with the less developed countries, maintaining balance-of-payments QRs (Article XII:4 (b); Article XVIII:12 (b)).

The GATT and Other Trade Measures to Deal with a Payments Deficit

The GATT makes no provision for imposing import surcharges or granting export subsidies to safeguard the payments position of a deficit country. The Contracting Parties of GATT may, in such cases, grant a waiver from the provisions of Article II, which deals with tariff commitments, and Article XVI, which deals with subsidies. In practice, however, the imposition of surcharges has not been normally accompanied by a request for a waiver and export subsidies have not been avowedly granted for balance-of-payments purposes.

The Fund and Restrictions Affecting Trade

The Articles of Agreement of the Fund reflect the aims of its members to facilitate the expansion of international trade, to promote exchange stability, to maintain orderly exchange arrangements and to eliminate foreign exchange restrictions which hamper the growth of world trade.

In line with these aims, the Fund Articles provide (Article VIII) that a member shall not impose restrictions on the making of payments and transfers for current international transactions (including, of course, payments for imports) without approval of the Fund (Executive Board). "Approval" means "prior approval" and "restrictions" includes exchange quotas, exchange licensing requirements, and multiple currency practices, such as exchange auction systems and exchange taxes. The Articles do not provide detailed rules on the circumstances in which the Fund may approve the use of various kinds of exchange restrictions; each case is considered by the Executive Board on its merits.

The Fund Agreement (Article XIV: 3) permits the maintenance of exchange restrictions (without approval) during the postwar "transitional period" (without a terminal date). This escape is now of limited significance for world trade; however, once a member establishes the convertibility of its currency in accordance with the Articles, as the important trading countries have done, it loses its access to Article XIV. Moreover, the Fund decided in its early days that exchange restrictions that operate through the exchange rate (e.g., exchange taxes) require prior approval even during the transitional period, thus limiting the freedom of action of many less developed countries under Article XIV.

The Fund agreement requires a member maintaining exchange restrictions to consult annually with the Fund (see Article XIV: 4). In addition, the Fund Board has agreed that each member should consult annually even after it has surrendered its transitional period privileges. A member that maintains restrictions inconsistent with the Fund's purposes may lose access to the Fund's resources (Article XIV:4) and ultimately be expelled.

The distinction between exchange restrictions on payments for imports and quantitative import restrictions is important to member countries if only because a country desiring to institute or reinstitute limitations on imports through exchange restrictions must first obtain the approval of the Fund, whereas a country that chooses QRs need only consult with the Contracting Parties after it acts.

A given quantitative exchange restriction applied to imports of merchandise can be the same in all practical respects as a quantitative trade restriction. The Fund, however, has had to develop legal criteria to distinguish between the two in order to decide which measures come under its approval jurisdiction. The basic criterion is whether a restriction limits the use of exchange as such. An important test is how a quantitative restriction is administered. If it is administered by the banking or foreign exchange system, it ordinarily will be deemed an exchange restriction subject to the Fund's jurisdiction; if a similar restriction is administered by customs officials, it ordinarily will be deemed a trade restriction subject to the GATT's jurisdiction.

The Fund-GATT Relationship: An Evaluation

The rules in the Fund Articles and the GATT on restrictions affecting imports and on Fund-GATT relationships no doubt seemed sensible—or at least acceptable to the negotiators—when they were written. Today, however, they appear not only awkward and cumbersome but also ill-suited to world conditions and governmental practice.

The division of the area of jurisdiction between the Fund and the GATT has turned out to be essentially arbitrary. The differences between various types of exchange restrictions, on the one hand, and trade restrictions, on the other, are usually formal rather than substantive; yet the rules governing their initiation are significantly different, with prior approval required for the former and post-consultation satisfactory for the latter. Moreover, although a system of exchange taxes on imports or similar exchange measures may be legally imposed following approval by the Fund, the trade analogue—i.e., import surcharges—is contrary to the GATT when applied to products subject to GATT tariff commitments.

Industrialized countries have generally avoided the imposition of controls affecting imports that are subject to the Fund's approval jurisdiction. In the early postwar years, these countries used both QRs and exchange controls, but the exchange controls escaped the Fund's approval jurisdiction by virtue of the transitional period provisions of the Fund agreement. In more recent years, a number of large trading countries (France, Canada, U.K., U.S.) as well as less developed countries have resorted to import surcharges, even though they are in violation of GATT.

The Fund, of course, becomes involved in the GATT consideration of trade measures imposed to protect the balance of payments, whether or not the measures are illegal. Although the Fund is supposed to "consult" with the

Contracting Parties when they consult with a restricting country, the institutional setting puts it in the position of an uncompromising authority. The Fund's position on a country's restrictions is established within the Executive Board, after the restrictions are in force, without any discussion with the Contracting Parties; it is presented as final in the consultations under the GATT. Although the Fund representatives provide the GATT with a technical background paper for discussion, the Fund's judgment is not open to real challenge or significant debate by the Contracting Parties. In some instances, the Fund has apparently been reluctant to speak its mind freely in GATT consultations (e.g., concerning the availability of alternatives to QRs) in order to safeguard the confidentiality of its relations with Fund members.

In a few cases in the 1950s when countries, e.g., Germany, were slow to dismantle their balance-of-payments QRs after their financial recovery, the Fund presented a position in a GATT consultation contrary to the view of a restricting country. But in situations where a country has alleged fresh financial problems and introduced trade restrictions for payments reasons, the Fund's decisions have not generally provided a basis for challenging the legitimacy of the restrictions under the GATT standards.

Since the Fund, like the GATT, has had no authority to disapprove trade restrictions before they were applied, the Fund has been able to provide only limited comfort for the Contracting Parties in enforcing the GATT rules on the resort to trade restrictions for payments reasons. Considering the experience of the quarter-century since the GATT came into force, it is questionable whether the existing GATT-Fund arrangement in the balance-of-payments area can serve any useful purpose in the future. Even sympathetic observers believe that Fund-GATT coordination leaves much to be desired. But more importantly, it is illogical and unwise to permit continuation of the two arbitrarily different sets of rules that we find in the Fund Articles and the GATT. One set of rules administered solely by the Fund would be administratively simpler, arrow for quicker international action, preclude evasion, and avoid the disrespect for the GATT system that obviously now exists. The Contracting Parties would be left with the job that they can claim to have the knowledge and experience to carry out: to see that restrictions are administered with proper regard for those agreed commercial policy principles which have been designed to protect the trading interests of other countries in the administration of restrictions once they have been applied.

It may be noted, finally, that GATT provides little leverage to influence the behavior of a restricting country. The remedy available—the release of an aggrieved country from its obligations to the offender—could be economically damaging rather than helpful if utilized, e.g., by the imposition of retaliatory restrictions. The Fund's influence can be much greater, both because of the prior approval rule and because of the possibility of withholding its financial resources.

The Present Fund-GATT system, in short, produces results that are not desirable. A country that wants to exercise direct control over imports, and finds it administratively and politically feasible to operate quantitative import restrictions, can introduce them without prior approval of the Fund or consultation with anyone; or if it wants to join in the violation of the GATT, it can impose import surcharges. Sometime later it must face a Fund finding in the GATT, but in circumstances where the Fund's concern is less than direct and immediate, its inclination to do battle is ordinarily restrained, and its power virtually impossible to utilize. On the other hand, a country that cannot use a trade control mechanism but must operate through the exchange system is subjected, properly, to prior examination.

The Remedy

The foregoing analysis suggests several conclusions:

(a) All types of balance-of-payments measures affecting trade—not only exchange restrictions—should require prior multilateral approval;

(b) The Fund should be assigned the full responsibility for approving, in advance, the introduction or intensification of such measures leaving only the commercial policy aspects[1] to the Contracting Parties to the GATT; and

[1] The "commercial policy aspects" include the following questions: whether the restricting country is (a) adhering to the principles in Article XII:3(c) concerning the avoidance of unnecessary commercial or economic damage, allowing the importation of minimum commercial quantities and commercial samples, and permitting compliance with patent, trademark, and copyright procedures; (b) complying with the rules on nondiscrimination (Article XIII); (c) using reasonably its freedom to determine, on the basis of essentiality, the incidence of its restrictions on different products or classes of product (Article XII:3(b)).

(c) No form of trade control should be barred if the Fund approves it in a particular set of circumstances.

The implementation of these conclusions would require the amendment of both the Fund Agreement and the GATT. The Fund Agreement should be amended to provide, in Article VIII, that no member shall, without the approval of the Fund, impose quantitative trade restrictions, import surcharges, or other trade measures in order to safeguard its external financial position and its balance of payments. This new rule would become operative on the effective date of arrangements made between the Fund and the Contracting Parties pursuant to Fund Article X (dealing with Fund relations with other international organizations). It should be noted that the new prohibition in Article VIII, like the existing prohibitions, would be subject to the transitional period provisions of Article XIV. Accordingly, the countries still availing themselves of Article XIV—i.e., a large number of LDCs— would be able to maintain their existing trade controls without prior Fund approval, subject to annual consultation with the Fund.

In addition, the GATT should be amended in several respects:

1. Articles XII and XVIII:B should be amended to (a) authorize a contracting party to apply trade measures, including import surcharges, approved by the Fund to protect the balance of payments; (b) delete the present financial criteria and other rules pertaining to the imposition and removal of balance-of-payments QRs; (c) retain the provisions containing the commercial policy and administrative principles applicable to import restrictions, including the obligation of a restricting country to consult with the Contracting Parties.

2. Article XIV should be amended to (a) permit deviation from the rules on nondiscrimination to the extent specifically authorized by the Fund in the application of trade measures approved by the Fund; and (b) delete the existing rules thus rendered unnecessary.

3. Article XV should be amended to provide for Fund-GATT relations within the framework of the new allocation of responsibilities. Supplementary arrangements between the Fund and the GATT might provide, among other things, for the participation of the Secretary-General of GATT in the development of policy guidelines by the Fund in order to inform member countries, in general terms, of the kind of restrictive trade measures the Fund was (or was not) prepared to consider for approval in various circumstances.

4. The Fund provision on "scarce currencies" (Article VII of the Fund Agreement) should be broadened to permit a greater degree of symmetry as between surplus and deficit countries. (The Committee of Twenty established by the Fund is now considering the question of symmetry in its review of the Fund Articles). A companion amendment to the GATT should also be adopted. At the present time, Article XIV:5 of GATT permits a contracting party, notwithstanding Articles XI–XV and Article XVIII:B, to apply quantitative restrictions having equivalent effect to exchange restrictions authorized under Article VII:3 (b) of the Fund Agreement—which, in turn, authorizes a member, after consultation with the Fund, to impose temporary restrictions on exchange operations in a currency formally declared to be "scarce."

The requirement to obtain advance Fund approval for balance-of-payments trade measures would not delay the imposition of trade measures in a critical situation. The Fund's ability to act quickly in circumstances of urgency has been thoroughly demonstrated over the years, and there is no reason to doubt its ability to act with necessary speed on a member's request to institute trade measures. The Fund's action would presumably be directed to the general scheme of proposed measures, the expected monetary effects, adherence to the principle of non-discrimination, and other broad questions rather than the time-consuming examination of the details of administration.

The Proposed Code of Trade Liberalization

In our first Interim Report we have recommended the negotiation of a new Code of Trade Liberalization among the industrialized countries that would commit the signatories to standards of trade policy more stringent than those provided for in the present GATT. All the changes proposed here for the GATT would also be incorporated in the Code. This would be a first, and major, step which could

be taken in advance of the coming into force of the necessary amendments to the GATT.

Summary of Objectives and Recommendations

An important objective of the current negotiations for reform of the international trade and monetary systems should be to revise the Old Bretton Woods systems so as:

To centralize in the International Monetary Fund the currently divided responsibility for determining the legitimacy of trade measures applied for monetary purposes, whether to protect deficit countries or bring pressure against surplus countries; and

To leave to GATT and the proposed Code of Trade Liberalization the task of keeping under surveillance the purely commercial policy aspects of such trade measures as may be applied consistently with Fund decisions.

In order to achieve this objective, action along the following lines would have to be taken:

1. Article VIII of the Articles of Agreement of the International Monetary Fund would require amendment so that the Fund would be legally empowered to take jurisdiction of trade measures imposed for balance-of-payments purposes by a deficit country. An illustrative amendment of this kind is shown in Annex A.

2. Article VII of the Fund Agreement would require amendment to broaden the authority of the Fund to include trade measures designed to penalize surplus countries which persistently fail to adopt appropriate adjustment policies and thus endanger the international monetary system. An illustrative amend-

3. The proposed Code of Trade Liberalization initially, and the GATT eventually, would have to recognize the right of any country to adopt a trade measure for monetary purposes which had been authorized by the Fund; and the existing GATT provisions standing in the way of this principle would be abandoned. An illustrative provision of this sort, superseding existing GATT rules and proposed for inclusion in a Code of Trade Liberalization, is attached as Annex C.

4. The foregoing would be in the nature of "enabling" amendements. To activate them would require an agreement between the members of the Code of Trade Liberalization and the Fund, and eventually between the GATT and the Fund. These agreements could provide any necessary liaison arrangements as well. The present text of both the Fund Agreement (Article X) and the GATT (Article XV, paragraph 1) already provide adequate authority for such inter-organizational agreements.

Annex A

INTERNATIONAL MONETARY FUND AGREEMENT TO EXTEND FUND JURISDICTION TO ILLUSTRATIVE TEXT OF PROPOSED REVISION OF SECTION 2 (a) OF ARTICLE VIII OF THE TRADE MEASURES DESIGNED TO PROTECT DEFICIT COUNTRIES

(Deleted language is shown in brackets: New language is *italic*)

"Section 2. Avoidance of restrictions on current [payments] *transactions.*

(a) Subject to the provisions of Article VII, Section 3(b), and Article XIV, Section 2, no member shall, without the approval of the Fund, (i) impose restrictions on the making of payments and transfers for current international transactions or, (ii) after *the date specified in arrangements entered into by the Fund with other appropriate international institutions pursuant to Article X and subject to the provisions of those arrangements, take trade actions, including the application of import restrictions, import surcharges and export subsidies, for balance-of-payments purposes.*"

Annex B

ILLUSTRATIVE TEXT OF PROPOSED AMENDMENT TO SECTION 3 OF ARTICLE VII OF THE INTERNATIONAL MONETARY FUND AGREEMENT TO BROADEN THE AUTHORITY OF THE FUND IN DEALING WITH SURPLUS COUNTRIES

NOTE: The illustrative amendment to Section 3 of Article VII of the Fund Agreement suggested below is designed to introduce the principle that trade measures as well as exchange measures may be used when necessary to limit transactions with surplus (i.e., "scarce currency") countries and to suggest certain circumstances in which this may be appropriate. As the Committee of Twenty of the Fund proceeds with its examination of the means for assuring greater symmetry in the Fund's treatment of surplus and deficit countries it will

no doubt review the technical monetary concept of the "scarce currency" and related monetary aspects dealt with in Article VII. It is not the intention of the Advisory Panel to propose solutions to this monetary problem but simply to set forth the circumstances under which trade measures might be used along with, or separately from, the exchange measures already within the jurisdiction of the Fund.

The illustrative amendment proposed to Section 3 of Article VII is as follows (deleted language is shown in brackets; new language is *italics*):

"Section 3. [Scarcity of the Fund's holdings] *Determination of Scarcity.*

(a) [If it becomes evident to the Fund that the demand for a member's currency seriously threatens Fund's ability to supply that currency] The Fund whether or not it has issued a report under Section 1 of this Article, shall formally declare [such] *a member's* currency scarce [and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative need of members, the general international economic situation and any other pertinent considerations. The Fund shall also issue a report concerning its action] *if the Fund determines that:*

(i) the demand for the member's currency seriously threatens the Fund's ability to supply that currency; or

(ii) the member, experiencing a large and persistent surplus in its international balance of payments that is materially contributing to an impairment of the international monetary system, is (A) failing to apply or to pursue with sufficient effectiveness, within its capacities, measures to moderate or eliminate its surplus consistent with a finding by the Fund that adjustment is needed and in accordance with the regulations of the Fund, or (B) maintaining policies that are impeding the efforts of the Fund, pursuant to Article I, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

[(b)] *If* a formal declaration *is made,* under (a) (*i*) above, *the Fund shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation and any other pertinent considerations. The Fund shall also issue a report concerning its action.*

(*b*) *Unless otherwise determined by the Fund, a formal declaration under* (*a*) (*i*) *or* (*a*) (*ii*) *above* shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose measures limiting the freedom of exchange operations in the scarce currency *or applicable to its merchandise trade with the member whose currency has been declared scarce. The nature of such measures may be determined by the member, subject to the provisions of* Article IV, Sections 3 and 4, [the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they] *and the regulations*[1] *of the Fund. Such measures* shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce."

Annex C

SUGGESTED TEXT OF SECTION OF PROPOSED CODE OF TRADE LIBERALIZATION REGARDING TRADE MEASURES RELATING TO THE INTERNATIONAL MONEY SYSTEM

"TRADE MEASURES RELATING TO THE INTERNATIONAL MONETARY SYSTEM

"The Signatories agree that in their commercial relations with each other they will apply the following provisions in lieu of Articles XII, XIV, and XV of the GATT:

[1] It is assumed that, as in the case of interpretations of other provisions of the Fund Articles of Agreement, the Board of Governors would have final authority to determine the procedural and substantive scope of the phrase "regulations of the Fund." In any case it is the belief of the Advisory Panel that it is wiser to permit discretion in this matter to the Fund institutions than to attemp to spell out in the Articles of Agreement themselves the detailed criteria and procedures which may be most suitable.

"1. Nothing in this Code shall prevent any signatory from applying trade measures for balance-of-payments purposes authorized by the Fund (a) pursuant to Article VIII, as amended, of the Articles of Agreement of the International Monetary Fund,[1] or (b) pursuant to Article VII as amended, of the Fund agreement.[2]

"2. If the measures applied under paragraph 1 of this Section take the form of import restrictions, signatories applying the restrictions shall administer them in accordance with the principles of paragraph 3(c) of Article XII of the GATT.[3] A signatory which has instituted trade measures pursuant to paragraph 1(a), above, shall consult promptly with other signatories, in accordance with regulations which the Trade Council may establish, regarding the administration of the trade measures being applied.

"3. The Trade Council shall seek cooperation with the International Monetary Fund pursuant to Article X of the Articles of Agreement of the International Monetray Fund to the end that the Trade Council and the Fund may pursue coordinated action with regard to monetary policy within the jurisdiction of the Fund and trade policy within the jurisdiction of the Trade Council."

Senator HARTKE. The next witness is G. W. Fincher, senior vice president, General Tire International, on behalf of the East-West Trade Council.

STATEMENT OF G. W. FINCHER, SENIOR VICE PRESIDENT OF GENERAL TIRE INTERNATIONAL AND MEMBER OF THE EAST-WEST TRADE COUNCIL, ACCOMPANIED BY MAX N. BERRY, A MEMBER OF THE BOARD OF DIRECTORS OF EAST-WEST TRADE COUNCIL

Mr. FINCHER. Mr. Chairman, I am pleased to have this opportunity to appear today in my capacity as senior vice president of General Tire International Co. and a board member of the East-West Trade Council.

I would like to introduce at this time Mr. Max N. Berry, who is also a member of the board of directors of the East-West Trade Council and general counsel.

We would like to submit for the record my presentation and also Mr. Eugene Moos' statement as president of the board of directors of East-West Trade Council and past president of the National Wheat Growers Association, and also the statement of Prof. Jerome Cohen, Harvard Law School, member of the EWTC board.

The council, a nonprofit U.S. corporation receiving dues from only U.S. members, has approximately 150 members, 100 of which are business firms, many doing business with U.S.S.R., the Eastern European countries, and the People's Republic of China.

A list of the council's membership and board of directors is submitted herewith. I am privileged to appear on behalf of the council for the purpose of stating our support for the granting of most-favored-nation status—MFN—to the U.S.S.R., Romania, the other Eastern European countries, and the People's Republic of China.

The American business community supports the normalization of our trade relations with the U.S.S.R., the Eastern European countries,

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[1] Relating to exchange or trade measures applied by countries in deficit (See Annex A).
[2] Relating to exchange or trade measures affecting countries in persistent surplus (See Annex B).
[3] Relating to the commercial policy aspects of import restrictions to safeguard the balance of payments.

and the People's Republic of China. For too many years we have had our hands tied while the Canadians, West Germans, the English, the French, other European countries, and Japan have been selling their products, equipment, and technology to the Socialist countries.

Recent developments have created a better atmosphere both in the Socialist countries and in the United States and we are now beginning to make progress in expanding our trade.

Our example is the agreement which we at General Tire International Co. entered into with Romania last year for the design and construction and production supervision of a $75 million modern manufacturing plant to make radial tires at Floresti, Romania.

This will result in the sale of U.S. machinery and technical service valued at approximately $35 million. This project is the largest single industrial manufacturing venture to be negotiated by Romania with a Western company.

A fact of significance in this agreement is that this is the first Romanian tire factory to be fully equipped with U.S. machinery since the end of the Second World War.

They have been buying their products, equipment and technology from Europe and elsewhere for many years. This is an example of the potential of new business available in the Socialist nations for U.S. companies and their workers.

An interesting feature of the arrangements which we have with Romania is the option to enter into a joint venture and to take an equity participation in the tire factories which are to be built. General Tire has had considerable experience in this type of minority participation in Socialist countries and our experience has been most favorable.

I visited the Eastern countries numerous times, having recently returned from Russia, and we found that the government officials, down to the factory technicians, are particularly impressed by American technology and American business tactics.

The quality of American technology and machinery is held in the very highest regard. This puts us in a favorable competitive situation versus European competitors who have dominated supply to these countries.

The additional potential business available in Romania was obvious not only to me, but to other people in my group during my visit. These people have a vast demand, not only for tires and tire technology, but there are unlimited possibilities for further penetration in many other fields, including various other fields in which General Tire is involved.

However, to be able to buy more goods and services from the United States of America, the Romanians need to increase their exports to our country.

U.S. companies can, if given the opportunity to compete in an atmosphere free from the political policies of 1951, recapture much of the market in socialist countries that has been lost over the last 20 years.

Prior to World War II trade with the Socialist countries represented less than 3 percent of total U.S. exports and imports and in the years following the withdrawal of MFN in 1951, the level of trade decreased to approximately 1 percent.

Traditionally the United States has enjoyed a favorable balance even in years when products from all the Socialist countries received MFN treatment.

The technology of the West and the natural resources of the East make them obvious and compatible trading partners. One example of compatibility is in the petroleum field where the demand for our technology and equipment presents obvious joint venture opportunities.

To realize the full potential of East-West trade we must develop a policy of trade with regard to the socialist countries that has as its cornerstone equality-of-treatment for these nations.

Several reasons can be advanced for adopting such a policy:

(1) The political climate between the East and the West has changed appreciably since the passage of the Trade Agreement Extension Act of 1951;

(2) The denial of MFN as a policy directed at the socialist countries has had an uneven impact on the exports to the United States from socialist countries, with the percentage of exports subject to substantial discrimination ranging from 10 to 85 percent among the socialist countries not receiving MFN; and

(3) The granting of MFN is in our best interest, as evidenced by the favorable impact trade with the socialist countries has had on our balance of trade—whether figured on a f.o.b. or c.i.f. basis—and the lessening of tension between the East and West.

Title IV of H.R. 10710 as passed by the House of Representatives should be amended to eliminate the unduly restrictive features of the freedom of emigration provisions.

Senator HARTKE. Mr. Fincher, you have made specific reference to Romania in your statement. Would you favor the extension of the most favored nation treatment to Romania by separate legislation independent of the provisions of the trade bill?

Mr. FINCHER. Well, we would ask that consideration would be given to all the countries.

Senator HARTKE. I know that. Would you favor it separately?

Mr. FINCHER. Yes.

Senator HARTKE. I have introduced legislation to that effect. This was a commitment made by the President when he was in Romania. I think it was 4 or 5 years ago, and without any discussion about the general overall merits of the proposition, I do think that commitment should have been kept.

Mr. FINCHER. We agree.

Senator HARTKE. It is only right. Those are all the questions I have.

[The prepared statements of Messrs. Fincher, Moos, and Cohen follow:]

PREPARED TESTIMONY OF G. W. FINCHER, SENIOR VICE PRESIDENT OF GENERAL TIRE INTERNATIONAL, MEMBER OF THE BOARD OF DIRECTORS, ON BEHALF OF THE EAST-WEST TRADE COUNCIL

Mr. Chairman and members of the Committee, I am pleased to have this opportunity to appear today in my capacity as Senior Vice President of General Tire International Company and as a member of the Board of Directors of the East-West Trade Council. The Council, a nonprofit U.S. corporation receiving dues from only U.S. members, has approximately 150 members, 100 of which

are business firms doing business with the U.S.S.R., the Eastern European countries, and the People's Republic of China. A list of the Council's membership and Board of Directors is submitted herewith. I am privileged to appear on behalf of the Council for the purpose of stating our support for the granting of Most-Favored-Nation status (MFN) to the U.S.S.R., Romania, the other Eastern European countries, and the People's Republic of China.

The American business community supports the normalization of our trade relations with the U.S.S.R., the Eastern European countries, and the People's Republic of China. For too many years we have had our hands tied while the Canadians, West Germans, English, French, other European countries and Japan have been selling their products, equipment and technology to the socialist countries and in the U.S. and we are now beginning to make progress in expanding our trade.

One example is the agreement which we at General Tire International Company entered into with Romania last year for the design and construction and production supervision of a $75 million modern manufacturing plant to make radial tires at Floresti, Romania. This will result in the sale of U.S. machinery and technical service valued at approximately $35 million. This project is the largest single industrial manufacturing venture to be negotiated by Romania with a western company.

A fact of significance in this agreement is that this is the first Romanian tire factory to be fully equipped with U.S. machinery since the end of the Second World War. They have been buying their products, equipment and technology from Europe and elsewhere for many years. This is an example of the potential of new business available in the socialist nations for U.S. companies and their workers.

An interesting feature of the arrangements which we have with Romania is the option to enter into a joint venture and to take an equity participation in the tire factories which are to be built. General Tire has had considerable experience in this type of minority participation in socialist countries and our experience has been most favorable.

I visited Romania in connection with General Tire's agreement to build this tire plant. In talking with Romanians, from top government officials to factory technicians. I was particularly impressed by their sincere and obvious interest in doing business with the United States. The quality of American technology and machinery is held in the very highest regard. This puts us in a favorable competition situation versus European competitors who have dominated supply to these countries.

The additional potential business available in Romania was obvious to me during my visit. These peoples have a vast demand, not only for tires and tire technology, but there are unlimited possibilities for further penetration in many other fields including various in which General Tire is involved. However, to be able to buy more goods and services from the U.S.A., the Romanians need to increase their exports to our country. They find it difficult to be competitive in the absence of Most-Favored-Nation status.

Recent examples of other commercial arrangements with Eastern Bloc countries include the following:

(1) In January, Allis-Chalmers Corporation announced a contract valued at $36 million to supply equipment for an iron ore pellet plant in the U.S.S.R.

(2) Westinghouse Electric Corporation recently announced a contract to design, equip and initiate operations for a power semi-conductor manufacturing plant in Poland.

(3) Singer Co. has recently signed an agreement to provide Romania with technical and marketing information as well as products in such fields as information systems, climate control and audio-visual aids.

These are but a few of the recent sales of major significance to the socialist countries, and I mention them as examples of the potential new business available in the socialist countries for U.S. companies and their workers. We can, if given the opportunity to compete in an atmosphere free from some of the political policies of 1951, recapture much of this market that we have lost over the last twenty years.

While we have had dramatic increases in our trade with the socialist countries in the last three or four years, we are still below our pre-World War II levels. The Tariff Commission's 1972 staff report titled "United States East European Trade" indicated that prior to World War II, U.S. trade with the socialist countries represented less than 3 per cent of total U.S. exports or im-

ports. In the years following the withdrawal of MFN treatment in 1951, the level of trade decreased to approximately 1 per cent. The Tariff Commission staff report set forth that merely "to have achieved the same degree of importance that existed prior to World War II, for example, U.S. trade with Eastern Europe in 1970 would have had to amount to about $1.3 billion in exports and $1.0 billion in imports, or about 5 times the volume actually realized."

The low and inadequate level of trade is reflected by the following figures:

UNITED STATES TRADE WITH THE U.S.S.R. AND EASTERN EUROPEAN COUNTRIES, 1966-73

[In thousands of dollars]

Year	Exports	Imports
1966	197,737	171,022
1967	195,258	171,228
1968	215,024	196,621
1969	249,286	190,763
1970	353,320	215,505
1971	384,225	223,017
1972	816,463	319,736
1973	1,796,600	518,600

The fact the figures reveal an increase in the level of trade is encouraging, and the favorable balance of trade is certainly welcomed in light of our overall trade deficit. In this regard, I believe the U.S. will continue to have a favorable balance of trade with the socialist countries.

We know, for example, that the U.S. balance of trade with the U.S.S.R. has traditionally run heavily in favor of the U.S. The Department of Commerce has estimated the balance in our favor to be generally at the ratio of 3 to 1 and predicts a surplus in the coming years of at least a few hundred million dollars each year. Russia and the United States are two of the largest trading nations in the world, yet ironically Russia represents less than 1% of our external trade. The latent opportunities for vastly increased business with Russia are untold.

The nature of this trade is also important. Former Secretary of Commerce Peter G. Peterson commented in October of 1972 on the trade agreement with the U.S.S.R. and the nature of our trade with the U.S.S.R. and said:

> . . . the goods we are likely to export to the Soviet Union are products like machine tools, earth-moving equipment of various kinds, consumer goods, grain products, which are characterized by what the economists call 'high labor intensive products.' In plain language—jobs.
>
> On the import side, we plan to import substantial amounts of raw materials which we need; Clean energy, I might emphasize. But here, again, with low labor content. So I think it is safe to predict that in addition to having a favorable balance of trade surplus, the evidence I think is very persuasive that we will have an even more favorable balance of job surplus.

Mr. Peterson's observations regarding our trade with the U.S.S.R. are, to a considerable extent, true of our trade with the Eastern European countries.

One aspect of East-West trade is the opportunity of cooperation between the East and West in meeting their respective energy demands in the coming years. The technology of the West and the natural resources of the East make them obvious and compatible partners.

Major sales of western petroleum technology are announced almost daily. Studies of the Bureau of East-West Trade, U.S. Department of Commerce, indicate a high potential for the sale of a wide range of petroleum related equipment to the East, particularly to the U.S.S.R. and Hungary. Recently TRW signed a major agreement with the U.S.S.R. amounting to at least a $20 million contract for the sale of oilfield equipment; GE signed an accord which is expected to lead to GE's participation in developing U.S.S.R. gas and oil fields; and similar sales by other companies have been made in Romania and Hungary.

Mr. John McLean, Chairman and Executive Officer, Continental Oil Company and Chairman of the National Petroleum Council Energy Study Commit-

tee, has said that "Russia will be the only major world power in the coming decade that will be self-sufficient in energy resources." It is estimated that the U.S.S.R. has 12 out of the top 20 largest gas fields in the world. In developing this industry, the U.S.S.R. has already been cooperating with Western European countries and has, for example a long term contract to supply gas to France and West Germany.

I believe the International Economic Report of the President was correct in stating that: "Large joint ventures particularly in raw materials of which the U.S.S.R. possesses large resources, such as natural gas and petroleum, are potentially an important product of the new commercial relationship."

To realize the full potential of East-West trade, I believe the U.S. must develop a policy of trade with regard to the socialist countries. The cornerstone of this trade policy should, to the degree possible, be equality-of-treatment for these nations. There are, of course, certain limitations which relate to our national security, but not to the degree that the American businessman has been restricted in the past several years.

To achieve equality-of-treatment, legislation is needed which would authorize the President, subject to Congressional veto, to enter into bilateral commercial agreements providing MFN treatment to the products of countries heretofore denied such treatment whenever he determines that such agreements with such countries will promote our best interests.

The political climate between the East and West has changed appreciably since the passage of the Trade Agreement Extension Act of 1951 which directed the President, in Section 5 of the Act, to withdraw or suspend MFN to all countries under the control of international communism. Yugoslavia was, as we know, exempt on the basis of not being under the control of international communism.

Many of the same factors which led President Eisenhower to grant MFN to Poland in 1960 are now present in our relations with Romania, the U.S.S.R. and the other Eastern European countries. Poland was granted MFN after becoming a party to GATT and after it had signed an agreement for the settlement of $40 million worth of claims of U.S. citizens against Poland. In recent months, our government has signed a trade agreement with the U.S.S.R. which is contingent on the granting of MFN. The U.S. has signed an agreement with Hungary settling financial claims of the U.S. totalling approximately $18.9 million and, furthermore, Hungary has now joined GATT. Romania has joined GATT, has signed a bilateral agreement with the Overseas Private Investment Corporation (OPIC) authorizing the U.S. Government to insure and finance projects, and has negotiated agreements for Export-Import Bank credits and become a member of the World Bank and the International Monetary Fund. The President in 1969 promised MFN for Romania. Important negotiations with Czechoslovakia on a consular treaty and certain economic matters have been in progress. A series of visits by the highest representative of our government and the governments of the socialist countries have been taking place.

In this regard, I would like to add here a few words confirming the considerable help and encouragement which General Tire received from our own government in negotiating our agreement in Romania. Very real cooperation and support came from: Export-Import Bank; Department of Commerce; U.S. State Department; U.S. Embassy in Bucharest; and OPIC, Overseas Private Investment Corporation.

During my visit the Romanian officials specifically mentioned to me the favorable impression made upon them by the support given by these government entities. This cooperation clearly helped to facilitate the success of our negotiations.

This Committee is, of course, aware that Section 231 of the Trade Expansion Act of 1962 withdrew the discretionary authority that President Eisenhower had with regard to Poland. Therefore, without legislation, the changes that have occurred in the world cannot be economically recognized.

A second argument in support of a workable MFN provision is that the denial of MFN as a policy directed at the socialist countries has had an uneven impact on the socialist countries. This has created hard feelings beyond that which would be expected from a consistent policy that is evenly applied. Mention has already been made of the fact that Poland has MFN and the other socialist countries, excepting Yugoslavia, do not have, even though some of the countries have met the exact same conditions which led to Poland receiving MFN. Furthermore, because of the nature of their imports to the U.S., the denial of MFN has fallen

harder on some countries than others. The Tariff Commission staff report, referred to earlier, discussed this question and provided the following information:

PERCENTAGE OF U.S. IMPORTS SUBJECT TO SUBSTANTIAL DISCRIMINATION, BY SPECIFIED EAST EUROPEAN COUNTRIES

Country	1951	1966	1970
U.S.S.R.	22	4	10
Czechoslovakia	68	56	73
East Germany	53	27	85
Hungary	56	36	43
Bulgaria	84	29	17
Romania	2	37	42
Poland	37		

However, perhaps the strongest argument for a workable MFN provision is that the granting of such authority is in our best interest. The denial of MFN to the socialist countries is an impediment to broadened trade. It is symbolic and real, as the Tariff Commission staff report reveals, to the socialist countries and as long as we maintain discriminating tariffs on their goods, East-West trade will never reach the desired level. We cannot realistically expect the socialist countries to continue to purchase U.S. products in large quantities if we do not give them an equal opportunity to sell in the U.S.

It is also symbolic to many American businessmen. Symbolic of an abnormal market situation that requires more resources to penetrate. This will not necessarily deter companies such as General Tire International, Control Data and other large firms, but many of our smaller and medium size companies are discouraged by, without knowing all the details, what they consider to be an abnormal market situation.

In developing a sensible trade policy with the socialist countries, there are a number of other items which need attention. The relaxation of our export control procedures which were accomplished by the 1969 and 1972 amendments were welcomed, particularly since most of the items we were previously refusing to license were being sold to the socialist countries by West Germany, Japan or other competing nations. The American businessman is now hopeful that the Congressional sentiment favoring relaxed procedures will be reflected in the administration of the 1972 amendments.

Before closing, I would like to address myself briefly to the problems which have arisen over the free emigration question. I recognize that certain members of this Committee have co-sponsored the Jackson-Vanik Amendment, which is a part of Title IV of H.R. 10710. I also understand the concern over this issue which prompted the attention of Congress. I do hope that efforts to reach a compromise on this problem will be successful. To the extent that we can, we should separate trade matters from political questions. This, of course, is not always possible, but I think a general relaxation of tensions can be increased by further economic cooperation among the great powers.

The passage of a workable MFN provision represents an important and significant first step in formulating a trade policy with the U.S.S.R. and the Eastern European countries and the People's Republic of China. Ambassador Averell Harriman, at a Washington, D.C. symposium on National Policy Trends in East-West Trade sponsored by the East-West Trade Council, discussed the necessity of setting aside old ineffective policies and said:

> It just doesn't make any sense for us to try to think that we are interfering with the operations of the Soviet Union in Eastern Europe because we are trying to restrict it. The idiotic people who talk about our preventing the economic development, preventing the military development of the Soviet Union because we are restricting business is a lot of nonsense. And we ought to get it out of our systems. They can buy practically everything they want from Europe and Japan in the areas, except for those restricted items, and it's nonsense that we don't join in that trade. It's ridiculous. It's not only that it creates an atmosphere which is not in our interest but also a mutual atmosphere of suspicion. With the result, we are losing trade which we ought to be getting.

. . . but this idea that because we are trading with them, we are doing them a favor is ridiculous. We are doing ourselves a favor. We need that trade.

Title IV of the Trade Bill, as passed by the House, not only has the practical effect of denying MFN to the socialist countries, but also represents a step backwards in denying Export-Import Bank credits to those countries who do not have a policy of *free* emigration. Without these credits, U.S. companies will find it extremely difficult to compete with other industrialized countries. We are not asking for special credits or special tariff treatment, but we do believe that our trade with the socialist countries should be normalized so that U.S. companies can compete with the other industrialized Western countries.

So that this can be accomplished, we are hopeful that the Committee can find a suitable compromise to the free emigration provisions of Title IV.

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See footnotes on p. 938.

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See footnotes on p. 938.

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[1] Member of Board of Directors.
[2] Member of Executive Committee of Board of Directors.

PREPARED STATEMENT OF EUGENE MOOS, PRESIDENT OF EAST-WEST TRADE COUNCIL BOARD OF DIRECTORS, AND INTERNATIONAL TRADE AFFAIRS REPRESENTATIVE FOR THE NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to submit this statement for your consideration. My name is Eugene Moos and I am President of the Board of Directors of the East-West Trade Council, the immediate past president of the National Association of Wheat Growers and currently serve as International Trade Affairs Representative for the Association.

The Council is a nonprofit organization whose membership includes U.S. businesses, associations, academics and interested individuals. The Council is financed solely from its membership. Our Board of Directors represent an impressive cross-section of U.S. interests deeply committed to expanded East-West trade. The main activities of the Council include a bi-monthly newsletter, sponsorship of symposiums on East-West trade and efforts to gain increased trade opportunities for the U.S. in those countries through advocacy both in the Congress and the Administration for policies which promote East-West trade.

The East-West Trade Council strongly favors passage of a workable Most-Favored-Nation (MFN) clause which would authorize the President to negotiate MFN status with those countries not now receiving such status. Likewise the National Association of Wheat Growers at its annual meeting in Omaha, Nebraska, on January 13 through 17, 1974, passed a resolution urging Congress to pass a trade bill that eliminates discrimination of our trading partners and grants them equal status in the form of MFN designation and adequate normal credit arrangements.

Granting MFN to those countries in Eastern Europe not now receiving MFN and to the PRC would, I believe, be a positive step toward normalization of both economic and political relations with those countries. Our agreement with the U.S.S.R. already concluded has promised MFN status and Romania has been assured every year since 1969 that MFN status would be forthcoming. The continued increase in trade with those countries depends heavily, in our opinion, on the granting of MFN status.

It is our position that Title IV of H.R. 10710, as passed by the House of Representatives, should be amended by this Committee. The language of Title IV, which requires a finding by the President that a country has a policy of *free* emigration before MFN can be granted, is unduly restrictive. Furthermore, the denial of Export-Import Bank credits to a socialist country that does not have *free* emigration represents a step backwards.

Secretary of Agriculture Butz criticized export controls, saying that one couldn't keep a market by getting in and out. Yet that is precisely what the present Title IV as passed by the House of Representatives is doing to the American farmer and businessman, completely undermining a market that was difficult to enter.

This market would be bolstered by granting MFN to these countries. This market will be severely jeopardized by denying government credits. Secretary of State Kissinger testified that he did not believe detente would survive passage of the Jackson-Vanik Amendment.

Congressman Wright Patman recently said on the floor of the House of Representatives that Americans must not "allow our fears to overcome common sense in dealing with a nation like the Soviet Union where great economic benefits can be derived for America." He said, "If we are to continue to prosper as a nation, we cannot automatically reject all trade agreements with the U.S.S.R. as being to their advantage and potentially harmful to this country." He praised the Occidental Petroleum Corp. agreement to build a fertilizer complex in the U.S.S.R. as an example of mutually beneficial trade.

The U.S.S.R. will buy $200 million of concentrated phosphates from Occidental each year. Occodental will annually buy $200 million of ammonia and urea. Both these products are made from natural gas and desperately needed by American farmers since it is in such short supply. The farmer cannot expand or even maintain present production without adequate quantities of fertilizer. The U.S.S.R. will spend $750 million in the U.S. for plant equipment, for which the Exim Bank granted the Soviets credit. This particular agreement, like many others past and future, is important to the equipment suppliers, but eventually as important to the American farmer and finally the consumer.

We know that the potential for trade with the socialist countries is significant. The U.S.S.R. and other Eastern European countries, for example, in 1972 did $24.2 billion worth of trade with the Western nations and Japan. That was more than 20 times the U.S. trade with the socialist countries. The total U.S. share of the trade with the socialist countries in 1972 was only 5 percent of those countries' total trade with the West. The story in the PRC has been, of course, one of total prohibition on U.S. trade until restrictions began to be lifted in 1971. Yet, in the past two years there has been a tremendous increase in trade with the socialist countries, indicating, we believe, the great scope of potential trade with those countries. Total exports from the U.S. to the U.S.S.R. have jumped from $162 million in 1971 to $547 million in 1972 to $1,190 million in 1973. Imports from the U.S.S.R. likewise showed an increase from $57 million in 1971 to $96 million in 1972 to $214 million in 1973. In 1972 the U.S. enjoyed its largest trade surplus with any single country with the Soviet Union, $451 million and in 1973 that surplus reached $976.4 million.

Exports to the other Eastern European countries have also increased, from $222 million in 1971 to $271 million in 1972 to $606 million in 1973. Exports to the PRC went from "0" in 1971 to more than $60 million in 1972 to more than $689 million in 1973. The charts which follow indicate both a dramatic increase in trade between the U.S. and the socialist countries and also show the miniscule portion of trade the U.S. conducts in that market as compared to other Western countries.

COMMUNIST COUNTRY TRADE[1]

TABLE 32.—U.S. FOREIGN TRADE WITH EASTERN EUROPE, THE U.S.S.R., AND CHINA[2]

[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	26.5
1952	1.1	(3)	0	22.7	16.8	27.7
1953	1.8	(3)	0	25.6	10.8	.6
1954	5.9	.2	(3)	30.5	11.9	.2
1955	6.7	.3	(3)	38.8	17.1	.2
1956	7.4	3.8	0	40.8	24.5	.2
1957	81.6	4.6	(3)	44.5	16.8	.1
1958	109.8	3.4	(3)	45.0	17.5	.2
1959	81.9	7.4	(3)	52.2	28.6	.2
1960	154.9	39.6	0	58.2	22.6	.3
1961	87.9	45.7	(3)	57.8	23.2	.4
1962	105.1	20.2	(3)	62.5	16.3	.2
1963	143.9	22.9	(3)	60.2	21.2	.3
1964	193.5	146.4	(3)	77.7	20.7	.5
1965	94.8	45.2	(3)	94.7	42.6	.5
1966	155.8	41.7	(3)	129.0	49.6	.1
1967	134.9	60.3	(3)	135.7	41.2	.2
1968	157.3	57.7	0	139.7	58.5	(3)
1969	143.7	105.5	0	143.6	51.5	(3)
1970	234.9	118.7	0	153.3	72.3	(3)
1971	222.2	162.0	0	165.5	57.2	4.9
1972	271.5	546.8	60.2	224.6	95.5	32.3
1973	606.3	1,190.3	689.6	304.7	213.9	64.0

[1] International Economic Report of the President.
[2] Exports are f.a.s. and imports are f.o.b.
[3] Negligible.

COMMUNIST COUNTRY TRADE[1]

TABLE 31.—FREE WORLD TRADE WITH THE U.S.S.R. AND EASTERN EUROPE

	Free world (billion U.S. dollars)[2]		United States (million U.S. dollars)[3]	
	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

[1] International Economic Report of the President.
[2] Exports are f.o.b. and imports, in general, are c.i.f.
[3] Exports and imports are f.o.b.

The one U.S. export that consistently holds a favorable position in the balance of trade is agricultural products. U.S. agriculture has been and continues to be our most dependable export. In 1972 when the total U.S. trade balance showed a $6.8 billion deficit, U.S. agriculture enjoyed a $2.9 billion favorable balance. In 1973, a $1.7 billion surplus year using f.o.b. figures, U.S. agriculture enjoyed a $9.3 billion favorable balance.

One reason for the increase in U.S. agricultural exports has been the increased trade with the socialist countries. Exports of U.S. farm products to Eastern Europe and the U.S.S.R. hit a record of $1.5 billion in 1973, which is more than double the previous year. Exports of agricultural products to the U.S.S.R. rose to $916 million in 1973—up from $430 million in 1972. The large increase in agricultural exports to the socialist countries make those countries our fastest growing market, and is a welcome contrast to our continuing difficulties in significantly increasing exports to the EEC.

In the past, agricultural product trade has been the biggest U.S. seller in the socialist countries. For example, 80 percent of the total exports to the socialist countries in 1973 consisted of agricultural products, but the U.S. has been selling less than 5 percent of the total machinery imports of the socialist countries. The U.S. can and should break into the growing market for equipment, machinery and technology on all levels. The goals of increased production in the socialist countries provide an opportunity for greatly increased sales, a fact already demonstrated by recent deals made between U.S. firms and the socialist countries. There is also every indication that agricultural product exports will increase substantially in the next few years. The long-term opportunity for U.S. agricultural exports to the U.S.S.R., for example, is indicated by publicly stated intentions of the Soviet government to increase the animal protein component of their national diet by 25 percent as part of the current five-year plan.

The figures noted in the charts on the following pages show the increase in overall agricultural exports and imports with the U.S.S.R. and the Eastern European countries, and the PRC.

TABLE 11.—U.S. AGRICULTURAL TRADE WITH THE U.S.S.R., SELECTED COMMODITIES, 1968-69 TO 1972-73 [1]

[In thousands of dollars]

	1968-69	1969-70	1970-71	1971-72	Estimated 1972-73
U.S. exports (total)	9,368	17,763	12,363	136,799	1,041,000
Animals and animal products	9,336	17,525	11,182	8,951	10,000
Hides and skins (including furs)	7,819	17,514	11,080	8,589	0
Grains and preparations	18	0	2	126,634	886,000
Wheat	6	0	1	731	658,000
Feed grains	1	0	0	125,903	228,000
Fruits, nuts, and preparations	11	193	1,068	1,206	1,000
Almonds	0	193	1,056	1,125	(2)
Vegetables and preparations	0	0	108	0	0
Vegetable lecithin	0	0	108	0	0
Oilseeds and products	1	0	0	3	0
Soybeans	0	0	0	1	144,000
Cotton, raw (excluding linters	0	44	0	0	0
Other	2	1	3	4	(2)
U.S. imports (total)	1,967	548	3,013	3,060	(2)
Animals and animal products	1,057	365	2,665	2,853	(2)
Hides and skins (including furs)	237	148	2,378	2,740	(2)
Grains and grain preparations	0	0	0	0	(2)
Fruits, nuts, and preparations	3	0	1	0	(2)
Vegetables and preparations	22	44	46	81	(2)
Mushrooms (dried, whole)	22	44	44	81	(2)
Spices	0	0	20	0	(2)
Wines	0	0	3	3	(2)
Tea (crude or prepared)	2	0	0	8	(2)
Drugs (vegetable origin)	445	(1)	159	23	(2)
Licorice root	436	0	129	0	(2)
Cotton linters	317	48	0	0	(2)
Essential oils	112	89	111	91	(2)
Other	9	2	8	1	(2)

[1] USDA, Economic Research Service.
[2] Not available.
[3] Negligible.

TABLE 18.—UNITED STATES: AGRICULTURAL TRADE WITH EASTERN EUROPE, 1970-72 [1]

[In millions of dollars]

	U.S. 1970 exports			U.S. 1971 exports			U.S. 1972 exports			U.S. imports		
	Direct	Trans-ship-ments	Total	Direct	Trans-ship-ments	Total	Direct	Trans-ship-ments	Total	1970	1971	1972
Czechoslovakia	9.3	12.1	21.4	27.8	6.5	34.3	39.4	NA	NA	2.5	1.9	1.1
East Germany	12.2	13.9	26.1	19.4	7.0	26.4	11.6	NA	NA	0	.2	.2
Poland	50.4	.2	50.6	62.3	.9	63.2	79.9	NA	NA	52.5	49.5	64.6
Northern countries	71.9	26.2	98.1	109.5	14.4	123.9	130.9	NA	NA	55.0	51.7	65.9
Bulgaria	5.4	0	5.4	1.1	-0	1.1	1.6	NA	NA	1.7	1.8	2.3
Hungary	20.2	0	20.2	18.9	0	18.9	10.5	NA	NA	3.3	4.5	5.7
Romania	27.8	9.9	37.7	37.0	1.6	33.6	44.8	NA	NA	1.1	1.7	5.3
Yugoslavia	42.3	2.0	44.3	86.2	6.2	92.4	95.7	NA	NA	26.6	31.1	32.2
Southern countries	95.7	11.9	107.6	138.2	7.8	146.0	152.6	NA	NA	32.7	39.1	45.5
Total	167.6	38.1	205.7	247.7	22.2	269.9	283.5	NA	NA	87.7	90.8	111.4

[1] USDA, Economic Research Service.

NA—Not available.

TABLE 19.—UNITED STATES: AGRICULTURAL TRADE WITH EASTERN EUROPE, BY COMMODITY, 1969-72

[In millions of dollars]

Commodity	1969	1970	1971	1972
Exports:				
Soybean meal [1]	34.0	63.0	49.4	[2] 53.5
Soybeans [3]	14.2	20.2	18.4	[2] 9.9
Soybean oil	0	15.9	27.7	28.0
Soybean products	48.2	99.1	95.5	91.4
Feed grains [3]	41.3	44.4	82.0	[2] 60.2
Wheat [3]	0	9.8	43.1	[2] 31.5
Grains	41.3	54.2	125.1	91.7
Cotton	10.3	12.5	8.4	15.1
Hides and skins	12.8	14.6	19.0	50.8
Tobacco	2.0	1.1	2.1	3.7
Inedible tallow	.7	4.5	4.4	1.5
Donations relief or charity	3.6	2.0	.9	.1
Other	4.3	17.7	14.5	29.2
Total	123.2	205.7	269.9	283.5
Imports:				
Hams and shoulders, canned	47.0	52.2	49.9	66.6
Other canned pork	8.6	8.4	7.2	5.5
Canned pork	55.6	60.6	57.1	72.1
Tobacco	11.2	11.6	15.8	11.1
Spices [4]	2.2	2.7	1.3	1.0
Hops	2.6	2.1	1.5	3.7
Cheese	1.7	1.5	1.7	2.3
Feathers and downs	1.5	1.1	2.0	2.7
Other	8.7	8.1	9.3	18.5
Total	83.5	87.7	90.8	111.4

[1] Includes interzonal trade unless otherwise indicated.
[2] Direct shipments only.
[3] Includes transshipments unless otherwise indicated.
[4] Largely paprika, poppyseed, sage, and caraway.

Source: USDA, Economic Research Service.

U.S. AGRICULTURAL EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA: QUANTITY AND VALUE BY COMMODITY, JULY-MARCH 1972/73

Commodity and unit		July-March	
		Quantity (thousands)	Value (thousands)
Wheat, unmilled	metric	542	$34,004
Corn, unmilled	do	573	38,977
Barley, unmilled	do	0	0
Oats, unmilled	do	0	0
Soybeans	do	0	0
Oil cake and meal	do	0	0
Cattle hides, whole	number	10	244
Other			13,850
Total			87,075

The great ability of U.S. agriculture to compete in the markets of Eastern European and the Soviet Union has been aided by the various credit arrangements through which agricultural exports are financed. The CCC credits, for example, have increased the competitiveness of U.S. agricultural exports. The further normalization of credit lines, the granting of Most Favored Nation status, the loosening of archaic export controls, coupled with the positive long term effect of currency realignments, can help to make *all* U.S. products more competitive.

The importance of agricultural exports to the American farmer is perhaps more crucial than most people realize. While trade is only a small percentage

of total U.S. GNP, to the farmer export trade is a large and ever-growing part of farm income. In 1973 approximately $20 out of every $100 of net farm income was derived from agricultural exports. Approximately 85 million acres in the U.S. were devoted to agricultural exports, one-quarter of the total U.S. acreage in agricultural production. The percentages of total agricultural exports devoted to the U.S.S.R., the countries of Eastern Europe and the PRC are becoming a larger and larger portion of those figures. The U.S.S.R. alone was the fourth largest export market for U.S. agricultural products in 1973. The PRC was the ninth largest export market for U.S. agricultural products in 1973. In the 1972–73 period there was over $1 billion worth of agricultural exports sold to the U.S.S.R. alone. The U.S. farmer, whose productivity and technology make him the best in the world, will continue aggressively to seek out and sell in the opening markets of the Eastern countries.

The political ramifications of MFN have and will continue to have a very real effect on the U.S. ability to sell in socialist countries. The continuing increase in agriculture sales and the great potential, just now being realized, in manufacturing and technology sales, depends in great part on the granting of MFN to those countries not now receiving such status. Although only a portion of goods coming from the socialist countries not having MFN status are subject to a higher tariff, the fact of discrimination has been a psychological barrier to increased trade. It is not a misplaced assumption, in our opinion, that the recent increases in trade of all kinds with the U.S.S.R., the countries of Eastern Europe and the PRC have rested on the promises for and expectations of, removal of discriminatory treatment by the U.S. on the goods of those countries. Continuing to withhold MFN is rightfully considered as placing those countries in a second class category. The political as well as economic consequences of the refusal to grant MFN status has been detrimental to the U.S. in all respects.

At the 24th Annual Meeting of the National Association of Wheat Growers, held at Omaha, Nebraska, on January 13 through 17, 1974, Youri A. Malov, First Secretary, Office of Commercial Counselor, Embassy of the U.S.S.R., concluded his remarks to the meeting with the following statement:

> In conclusion I want to emphasize that the Soviet-American trade and economic relations are now facing a severe test, but regardless of the difficulties involved in the process of political and economic détente, it nevertheless remains the only reasonable quality in our age. And if it is not we who proceed along this path, it will be started by others. Tomorrow, in ten years, in twenty years, but they will start it by all means as soon as they get convinced again and again of the futile and wasteful nature of the cold war. Should we wait for the 21st Century to breast it, taking into account that we could have over 25 years of our own regrettable experience of the cold war on our shoulders? To a great extent it depends on all of us. . . . Let me conclude with one Indian proverb. Three things never come back to men or women—the spent arrow, the past life, and the missed opportunities. Let us try to do our best not to waste opportunity while we have it now.

PREPARED STATEMENT OF JEROME ALAN COHEN, DIRECTOR, EAST ASIAN LEGAL STUDIES, HARVARD LAW SCHOOL, CHAIRMAN OF THE CHINA COMMITTEE, EAST-WEST TRADE COUNCIL

Mr. Chairman and members of the Committee, I am happy to have the opportunity to submit testimony regarding H.R. 10710, the Trade Reform Act of 1973.

Let me say at the outset that my comments are derived from both academic and practical concerns. I have long been a student of Chinese affairs, and in recent years have written and lectured about legal and economic aspects of Sino-American relations. I have also negotiated with trade representatives of the People's Republic of China (PRC) on behalf of American firms and have just attended the spring session of the Chinese Export Commodity Fair in Canton.

I want to express my strong support for a compromise position to Title IV of H.R. 10710. By authorizing the President, subject to appropriate safeguards, to extend Most-Favored-Nation treatment to imports from countries that do not now receive it, Congress will make it possible for the United States to significantly expand its trade with China. Title IV, H.R. 10710, as it presently reads, is too restrictive and most definitely needs to be amended.

Obviously, granting MFN treatment to imports from China will benefit American consumers by substantially reducing the cost of a variety of Chinese commodities. Similarly, it will aid American manufacturers who wish to process Chinese raw materials. American trading firms will also benefit from an increase in the volume of import from China.

Moreover, the extension of MFN to China should help to increase American exports to that country. Although China does not insist on maintaining an evenly balanced relationship with each of its trading partners, it has become concerned about developing a gross and long-run imbalance in its trade with the United States. For example, at the Canton Fair, officials who were charged with the responsibility for negotiating China's acquisition of foreign machinery frankly said, "We would like to purchase large amounts of capital equipment from the United States, but we are worried about our balance of payments. What are you going to buy from us to help pay for our purchases? We don't say that you must buy from us as much as you sell us, but we would like you to make a good-faith effort to do what you can to correct the existing situation."

Current figures plainly reveal the basis for this concern. In 1972, Sino-American trade totaled $93 million, but we exported approximately twice as much as we imported. Although 1973 witnessed an eight-fold expansion of trade to almost $753 million, over 85 percent of this great leap forward consisted of China's purchases from us.

Unless we take affirmative steps to facilitate the entry of Chinese goods to American markets, it is quite likely that Peking will try to reduce the growing imbalance by purchasing less from us than they otherwise would. We must bear in mind that many of China's purchases from us to date have been made from other countries. If we do not wish to lose future orders, whether for airplanes, telecommunication equipment, cotton, or grain, we ought to grant Chinese goods tariff treatment equal to that conferred on most other countries.

This is not to say that the advent of MFN alone will suddenly reverse he present trend. MFN is only one of many problems that need to be solved as the very different, long-separated Chinese and American economic systems seek to adjust their institutions for doing business. How property claims, frozen assets, Food and Drug Administration requirements, contract provisions, banking arrangements, credit terms, dispute resolution facilities, shipping, airline and trade agreements, and a host of other matters are handled will also have an impact on both the volume and the balance of Sino-American trade.

Yet MFN is an important factor. It is also a highly visible symbol of our good will, about which Peking is understandably sensitive for historical reasons. Not only did we discriminate against Chinese goods in the past by continuing to ban all trade with the PRC for almost two decades after the end of the Korean War, but in the nineteenth century, after the European powers used armed force to exact MFN treatment for their exports to China without granting China reciprocity, the United States also shared in the benefits of this unequal arrangement for many years.

If the proposed trade bill is enacted, the President will be able to negotiate extension of MFN treatment to China on a fair basis. The fact that the People's Republic is a state-trading, socialist state will preclude us from obtaining a meaningful reciprocal MFN concession from it, but the Executive Branch should be able to obtain other appropriate trade concessions from Peking in exchange for granting MFN. The fact that Peking and Washington have not yet established formal diplomatic relations should not prevent a conclusion of a bilateral commercial agreement in one form or other.

I would like to confine my remaining remarks to Section 402 of H.R. 10710. It (1) prohibits the extension of MFN to "any non-market economy country" that denies its citizens the opportunity to emigrate or imposes significant financial impediment to emigration; (2) prevents such a country from receiving United States government credits for credit or investment guarantees; and (3) precludes the President from concluding any commercial agreements with such a country.

As its principal sponsors make clear, this proposal represents an effort to persuade the Soviet Union to permit free emigration of those wishing to leave the U.S.S.R. Nevertheless, although public discussion is focused on the impact of this proposal on Soviet-American trade, the language of the proposal is not limited to the U.S.S.R. but embraces every "non-market economy country" that restricts emigration.

Furthermore, neither Section 402 nor the statements of its sponsors limit the applicability of the bill to situations where a non-market economy country discriminatorily restricts emigration on the basis of race, religion, ethnic origin, or other similar factors. Rather, Section 402 appears to ban MFN treatment with other commercial benefits if the countries in question restrict emigration for any reason whatever. Although sponsors of Section 402 frequently allude to the right to free emigration enshrined in the Universal Declaration of Human Rights adopted by the U.N. in 1948, the Act itself even goes beyond the Declaration, which subjects the right to emigrate "to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society."

In these circumstances Section 402 would necessarily apply to the PRC. It is a non-market economy country that plainly restricts emigration, although its restrictions are not designed to discriminate against any racial, religious, ethnic, or other sub-group of its society, nor do they appear to have such a discriminatory effect.

Passage of Section 402 in its present form would deal a devastating blow to the gradually developing, vitally important Sino-American reconciliation. It would deny both our country and the PRC the previously mentioned benefits of MFN treatment for Chinese products.

More important—virtually unknown to the American public, it would prevent our government from directly or indirectly extending credits or credit guarantees to the PRC at a time when the PRC is at long last considering accepting credits from Western countries in order to increase substantially its purchases abroad.

It will also prevent our government from in any way guaranteeing American investments in China. Although the PRC is not likely to permit direct foreign investments in familiar forms such as wholly-owned foreign subsidiaries or joint ventures, it is currently considering a variety of propositions for indirect investments that have been put forth by American and other foreign firms. Firms eager to cooperate in extracting China's mineral wealth have suggested production-sharing agreements to the PRC. Yet before obligating itself to spend millions of dollars drilling for oil, for example, under such an agreement, any American company would presumably wish to obtain a U.S. Government guaranty against subsequent Chinese interference with what would be tantamount to an investment in China. But Section 402 would not permit such a guarantee.

Finally, the Act would also prevent the President from even concluding a commercial agreement with the PRC, despite the fact that a bilateral agreement is badly needed to establish an appropriate framework for trade. Negotiation of a trade agreement is high on the Sino-American agenda because both sides realize the great contribution that it can make towards facilitating trade by settling a number of pending problems.

MFN, credits, investment guarantees, and commercial agreements are all instruments which the world's other industrialized countries are prepared to employ in competing with us for the China trade. If we deny ourselves these instruments, we will lose out on a significant share of that trade and damage our political relations with the PRC.

No adequate reason has been advanced for applying Section 402 to the PRC, and indeed little attention has been devoted to this aspect of the Act. In the existing circumstances, it would make no more sense to apply the Act to China than to the many market economy countries that enjoy MFN and other commercial benefits despite their severe restrictions upon emigration.

In any event, even if free emigration from China is an objective we sincerely wish to achieve, continuing denial of mutually beneficial economic advantages is surely not going to pressure Peking into yielding. The PRC will only regard such an attempt as an unfriendly gesture that is both politically and economically foolish.

Senator HARTKE. These hearings are recessed until 10 a.m., Monday, March 25, 1974.

[Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 10 a.m., Monday, March 25, 1974.]

TRADE REFORM ACT OF 1973

MONDAY, MARCH 25, 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, Hon. Herman E. Talmadge presiding.

Present: Senators Talmadge, Bennett, Hansen, and Packwood.

Senator TALMADGE. The committee will please come to order. This morning we resume our hearings on H.R. 10710, the Trade Reform Act. We will hear today from various groups representing the agricultural community.

All witnesses have been instructed to confine their remarks to a 10-minute summary of the principal points in their written briefs. The 5-minute rule will be in effect during the first round of interrogation. Senators who wish to interrogate a witness for a longer period of time may utilize the executive rule after the witness has been interrogated by all of the members of the committee.

Our first witness this morning is Mr. Bill Jones, executive vice president of the National Livestock Feeders Association. Mr. Jones, we welcome you and you may proceed with a summary of your statement and you may insert your full statement in the record of the printed hearings.

STATEMENT OF BILL H. JONES, EXECUTIVE VICE PRESIDENT, NATIONAL LIVESTOCK FEEDERS ASSOCIATION

Mr. JONES. Thank you, Mr. Chairman, and as per your remarks, we will take that option of summarizing the statement, sticking rather closely to our summary that we have outlined in our statement and ask that the complete statement be included in the record.

Before going to our statement, we would like, Senator Talmadge, to highly commend the staff for the excellent job they have done in preparing information for this committee.

The summary and analysis of the bill under consideration is excellent. The section-by-section analysis and comparison with current laws is very good and we were particularly glad to see the CIF data contained in the balance-of-trade information, because even though we have done a lot of ballyhooing about having a plus balance in 1973, the actual fact is, on a CIF basis, that we still, of course, do have a negative balance.

As far as our overall trade policy is concerned, we are primarily concerned with the United States adopting a truly reciprocal trade stance in our formal trade policy and in actual trade negotiations with other nations. We think that the "ivory tower" free trade philosophy has been a dismal failure. And now that we see some indication in the executive department to depart from this, why we would encourage the Congress to do likewise.

We recognize, of course, that world monetary reform must go hand in hand with trade reform. We would like to emphasize to the committee that the United States is among the most liberal in the world in its agricultural import policy and that nontariff barriers constitute the principal restraint upon agricultural trade throughout the world and the highly restrictive nontariff deterrents of the EC, and Japan in particular, have been especially damaging to the United States.

For example, the United States is losing most of its duty-free food lard exports to the United Kingdom because of the entry of the United Kingdom into the EC. We had a duty-free binding and negotation right amounting to $30.4 million. Now this, of course, is out the window with the United Kingdom going into the EC and we have no sign whatsoever that we will receive any compensatory payment for this market loss.

Imports of beef and veal into the EC are restricted by import licenses, in addition to the variable levy, a relative high tariff, and other restrictions. The variable levy is now active on beef and other red meat animal products and the tariff on beef now stands at 20 percent ad valorem.

In addition, we would like to emphasize this to the committee, to show how these countries act purely in their own self-interests on the spur of the moment, anytime it moves them.

We now have a ban on the importation of fresh and chilled beef and live animals from the United States, for an indefinite period, in France, Italy, Belgium, and Luxembourg.

In the case of Japan, also, an import ban on beef was imposed as of February 1 of this year, and no U.S. pork is entering that country now because of the high import levies.

We fail to understand why the United States has not used the countervailing duties authority that the Congress has given it. Section 303 of the existing act, clearly requires the United States to levy a countervailing duty whenever any country pays an export subsidy on a dutiable product. Yet no countervailing duty has ever been levied on subsidized pork exports from the EC, even though last summer this export subsidy on canned hams reached 32 cents a pound.

The potential of U.S. agriculture to continue to contribute to a positive balance can be accomplished, but it is not automatic. We cannot assure this role unless we do depart from the "ivory tower" free trade philosophy and insist upon reciprocity from other nations, including the assurance of access to the food and other agricultural markets on an equitable and a continuous basis and we stand firm on giving agriculture prominence and equal status with industry in trade negotiations.

And we would certainly like to emphasize this point, particularly in view of the Kennedy round at GATT and the way agriculture was sold down the river literally in those negotiations.

Now we have had some increase in the exportation of livestock and red meat products, but these red meat sales abroad are still of relatively small volume. The important volume of red meat is still about seven times what our export volume is. Our trade, of course, in these animal products has been mainly in variety meats, fats and oils, hides and skins, and other byproducts. And, in terms of value, our total livestock and meat and livestock and meat products imports—including live animals—were more than one and one-half times the value of U.S. exports during last calendar year 1973.

These U.S. products are plagued, particularly with highly restrictive import control systems on the part of important importing nations.

Now if we move along to the law itself, Mr. Chairman, we will confine our remarks to the major points in the law and we have gone into these in more detail in the statement.

We do support the stated purposes of H.R. 10710. We do view the bill as being complicated—perhaps beyond necessity—and we think there are areas here where the authority granted the President is too discretionary; that there should be, perhaps, more specific instructions rather than leaving the actions entirely up to his discretion.

In title I, in section 101, we cannot go along with the wiping out of any duty of not more than 5 percent ad valorem. Our concern, of course, here, lies primarily with the low duty on beef, and the fact that these products are very trade sensitive, and tariff sensitive, and, therefore, we would recommend the deletion of section 101(b)(2).

We do favor strong action against nontariff trade barriers of other nations. As we stated, this is our main major impact here; our roadblock to the agricultural exports.

However, if we studied the sector approach contained in the House bill, we cannot buy this. We do not think that agriculture would fare well under it. Also, we are opposed to giving the President authority to negotiate agreements involving U.S. laws and regulations. We think that the Congress, of its own volition, should move first to either repeal or amend these laws before we give the President any authority to sort of back Congress into the corner on it.

We realize that there is a shortage-export control question. This has been brought up by several Senators. We want to emphasize that we will vigorously oppose any system of mandatory export controls, despite the short-run benefit which might accrue to feeders through this in the form, perhaps, of controls on feed and feedstuffs, because we cannot think that in the long run this is in the best interest of the United States, domestic agriculture, or consumers.

We do not think we can benefit U.S. consumers by crippling U.S. agriculture by imposing export restrictions.

In section 122, in the balance-of-payments section, we recommend that the President be specifically directed to exempt those articles where material injury is involved. And, in restraining inflation, we would like to see limits set in the duty reductions and quota increases, because we think that agriculture, in operating in a free market framework, is rather vulnerable to this kind of authority.

We support, certainly very much, the requirement for the President to involve the private sector in trade negotiation processes. We are not altogether in harmony with the advisory procedures set up in the act.

We think that the general farm and commodity groups should function directly in these advisory capacities, with respect to agriculture.

Moving into trade negotiation and administrative responsibility of the State Department in the section that deals with the Office of the Representative of Trade Negotiations, we favor this because of the tendency on the part of the State Department to use U.S. trade negotiations as an international relations tool instead of concentrating on the economic considerations.

We do suggest, however, that the law should treat the relationship between the Office of the Special Representative and the Council of International Economic Policy. Both would be set up of statutory groups and the statute does not address itself to the relationship here.

One thing, too, that we would like to emphasize particularly to the Congress, that we recommend provisions to the congressional override on the actions such as refusal to grant import relief. We also favor some relaxation of the stipulated congressional disapproval procedure to allow Congress to discharge its responsibility in a more judicious manner.

We do not think that you ought to be tied to the timetable as strictly as this bill ties you.

On the other hand——

Senator TALMADGE. Mr. Jones, I am sorry, your time has expired. We will insert your full statement in the record.

Now in your testimony you have stated that we import one and one-half times as many meat products as we export.

Is that correct?

Mr. JONES. This is on a boundary basis. On a CIF basis it would be about 1.8——

Senator TALMADGE. Do you have a breakdown, in detail, enumerating what those figures are?

Mr. JONES. Yes, we have two charts at the end of our statement.

Senator TALMADGE. Is it in your statement already?

Mr. JONES. It is attached to the statement in two tables, Mr. Chairman.

Senator TALMADGE. Good. What is the total value of our meat exports, including all products derived from meat?

Mr. JONES. If we take the year 1973, it is $1.3 billion.

Senator TALMADGE. $1.3 billion? What are our imports?

Mr. JONES. $2.1 billion.

Senator TALMADGE. $2.1 billion?

Mr. JONES. This is including live animals and this would be on an F.O.B. basis. It would be higher, of course, on a CIF basis.

Senator TALMADGE. Now in your statement you describe how the United States has been discriminated against in the agricultural trade area and that the bill before us should be tightened to assure reciprocity in the future.

Is that an accurate statement?

Mr. JONES. Yes, sir.

Senator TALMADGE. We hear reports that cattlemen are losing now about $100 to $150 a head because of the high cost of feed and the low wholesale price of meat.

At the same time we hear reports that the middlemen, meat processors, and the retail chain distributors, are making huge profits.

Do you have any comment on that?

Mr. JONES. My comment on that, sir, would be that certainly this has been throughout much of the latter part of 1973. We do have to say, however, now that the retail prices have come down, there have been more "featuring," and so forth.

So this is working toward correction. It is working too slowly to have many people from loss. At the same time, we cannot disregard the fact that the ban on our exports is not helping the situation either.

Senator TALMADGE. As you may be aware, the Agriculture and Forestry Committee that I have the honor to chair, at the request of Senator Curtis, has been holding some hearings in that field. I hope the hearings will be productive in that area. I presume your organization testified?

Mr. JONES. We did appear, yes, sir.

Senator TALMADGE. Senator Bennett? We are invoking the 5-minute rule this morning, if there are no objections. We have quite a number of witnesses.

Senator BENNETT. I obviously have no right to question the witness. I just arrived.

Senator TALMADGE. Senator Packwood?

Senator PACKWOOD. Why does Japan have a ban on imported beef and a high duty on pork? They are not protecting a local industry in either of those cases, are they?

Mr. JONES. Yes, they are, in a way. This is—one time last year they did increase their beef quotas, well, by about one-third, to double, and they did lift their levy on pork.

But, as of February, they put the ban back on beef where they are not shipping beef and the price now on pork is sufficiently high to where there is no pork moving.

So I think it is a matter of two things. No. 1, they do get a great deal of static even from their domestic industry, as small as it is, and also I think they have a need here, or they feel they have a need, perhaps to protect their currency in view of the oil crisis at the present time.

It is interesting to note that the Japanese interests are buying pork. They are speculating, taking a speculative position, trying to hedge against the currency. But Japan is the same as E.C. and other nations. They run these things down and put them in and take them out as they see fit, for their own self-interest.

We have no assurity whatsoever of continuous access to that market.

Senator PACKWOOD. In beef, in particular though, as I recall they have next to no beef industry there. They do not eat much beef; or they cannot get much beef for their citizens is a better way to put it.

Are you saying they are trying to save their currency for oil rather than beef if they have to make a choice?

Mr. JONES. I think that this would be one of the factors. You are correct that their consumption is very low, about 7 to 8 pounds per capita, and beef in that country is very high. Then again, it does compete, too, with other foodstuffs that they are concerned about as far as their domestic industry is concerned.

Senator PACKWOOD. Thank you very much. I have no other questions, Mr. Chairman.

Senator TALMADGE. Thank you very much, Mr. Jones, we appreciate your excellent statement.

[The prepared statement of Mr. Jones follows. Oral testimony continues on p. 964.]

PREPARED STATEMENT OF MR. BILL JONES, EXECUTIVE VICE PRESIDENT, NATIONAL LIVESTOCK FEEDERS ASSOCIATION

SUMMARY

Overall trade and negotiation policy.—The NLFA's primary concern is for the United States to adopt a reciprocal trade stance in both its formal trade policy and in actual trade negotiations with other nations. The "ivory tower" free trade philosophy which has characterized U.S. trade policy during the past several years has proved to be a dismal failure.

World monetary reform.—World monetary reform must go hand in hand with trade reform since the relative values of currencies play a vital role in the flow of products across national borders; and no matter how flexible a currency rate adjustment process is achieved, it can be undermined and distorted by trade barriers or the subsidization of commodities and products which are exported.

Discriminatory trade barriers.—The United States is among the most liberal in the world in its agricultural import policy. Nontariff barriers constitute the principal restraint upon agricultural trade throughout the world; and the highly restrictive nontariff deterrents of the EC and Japan have been especially damaging to the U.S.

Specific examples of trade discrimination.—The U.S. is losing most of its duty-free food lard exports to the United Kingdom because of the entry of the U.K. into the EC. Imports of beef and veal into the EC are restricted by import licenses, in addition to the variable levy, a relatively high tariff, and other restrictions. The variable levy is now active on beef and other red meat animal products and the tariff on beef now stands at 20% ad valorem. In addition, a ban on the importation of fresh and chilled beef and live animals from the U.S. is now in force for an indefinite period in France, Italy, Belgium, and Luxemburg.

In the case of Japan, an import ban on beef was imposed on February 1 of this year and no U.S. pork is entering that country because of import levies.

Strong action recommended against the EC.—We strongly recommend that the U.S. take immediate steps to withdraw all of the concessions given the EC during the Kennedy Round. Any action short of this kind of firm stand will fail to impress upon the EC that the U.S. will indeed insist upon reciprocal treatment.

U.S. failure to use countervailing duties.—Section 303 of the Tariff Act of 1930 clearly requires the U.S. to levy a countervailing duty whenever any country pays an export subsidy on a dutiable product. Yet no countervailing duty has ever been levied on subsidized pork exports from the EC, even though export subsidy on canned hams reached a whopping 32¢ per pound last summer.

U.S. agricultural exports.—The potential of the United States to export agricultural commodities and products is the bright light on an otherwise dismal U.S. trade horizon. Agriculture will continue to make a substantial and critical contribution toward keeping U.S. trade in balance, but such a development is not automatic. This role cannot be assured unless this country departs from the "ivory tower" free trade philosophy which has prevailed; insists on reciprocal treatment from other trading nations, including the assurance of access to their food and other agricultural markets on an equitable and continuous basis; and stands firm on giving agriculture prominent and equal status with industry in trade negotiations.

Livestock and meat products.—Although there has been some increase in red meat sales abroad, these exports are still of relatively small volume—about 1/7 of U.S. imports of red meat for calendar 1973, on a tonnage basis. Trading in variety meats, fats and oils, hides and skins, and other by-products has traditionally constituted the overwhelming volume of U.S. exports in the red meat animal category. In terms of value, total livestock and meat and livestock and meat products imports (including live animals) were more than one and one-half times the value of U.S. exports during 1973.

These U.S. product exports are plagued with highly restrictive import control systems on the part of important importing nations.

H.R. 10710—"Trade Reform Act of 1973".—The NLFA supports the stated purposes of H.R. 10710, but does view the bill as being complicated beyond necessity.

Title I.—The Association strongly opposes the authority to "wipe out" any duty of not more than 5% ad valorem. Our concern lies primarily with the low duty applied to fresh, chilled, and frozen beef and veal, trade sensitive products. Recommend deletion of Section 101(b)(2).

Favor strong action against nontariff trade barriers of other nations, but do not favor the sector approach contained in Section 102(c). Also, we are opposed to giving President authority to negotiate agreements involving U. S. laws and regulations; must be limited by these unless and until Congress of its own volition moves to repeal or amend same.

Shortage-Export Control Question: Will vigorously oppose any system of mandatory export controls, despite short-run benefit which might accrue to feeders. Not in long-run best interest of U. S., domestic agriculture, or consumers.

In Section 122, we recommend the President be specifically directed to exempt those articles where material injury is involved. And in Section 123, limits should be set on duty reductions and quota increases. Agriculture is vulnerable since it operates in "free" market framework.

Support requirement for President to involve private sector in trade negotiation process, and strongly suggest that general farm and commodity groups function directly in advisory capacities with respect to agriculture.

Support moving trade negotiation and administrative responsibility out of State Department to extent practical, but suggest the relationship between Office of the Special Representative For Trade Negotiations and the Council of International Economic Policy be given attention in proposed legislation.

Recommend provision for Congressional override on actions such as refusal to grant import relief. Also, favor relaxation of stipulated Congressional disapproval procedure to allow Congress to discharge its responsibility in judicious manner.

Do not favor proposal for Congress to inject itself into day to day administrative acitivties by functioning as advisors to trade delegations.

Title II.—Title is unduly complex. Favor alternative choices of remedy, but not the choice to do nothing (Chapter 1). Congress should have override authority with respect to import relief in face of affirmative finding by Tariff Commission.

Seriously question fitness of adjustment assistance as a remedy. Negotiating implementing agreements on truly reciprocal basis, plus import relief provided for in Chapter 1 of this title and unfair trade practice authority provided in Title III should forego any need for welfare treatment of workers or firms.

Title III.—Strongly support intent of this title, is in harmony with cause of reciprocity. However, we are concerned over various "roadblocks" which would prevent President from retaliating immediately against adverse acts of other nations, particularly the requirement to hold a public hearing and the procedure involved as set forth in Chapter 1.

One of serious U. S. weaknesses in trade area is failure to act promptly in retaliation. By time this country moves, other nation has accomplished its objective. Case in point right now, ban on beef imports by Japan, France, Italy, Belgium, and Luxemburg; and Canadian surcharges on live cattle and beef last winter.

Recommend Section 301 provide for complaint procedure and decision time frame; authority as written entirely discretionary with President.

Association does not favor treating duty-free articles different from dutiable goods under the countervailing duties chapter (Chapter 3), or giving discretion in the imposition of such duties.

Title IV.—Association does not favor injecting sociological considerations into economic arena of international trade and, therefore, must oppose the inclusion of Section 402.

Title V.—No summary comment.

Title VI.—No summary comment.

STATEMENT

The National Livestock Feeders Association's primary concern is for the United States to adopt a reciprocal trade stance in both its formal trade policy and in actual trade negotiations with other nations.

OVER-ALL TRADE AND NEGOTIATION POLICY

For many years the United States Government, under the guidance of the State Department, has used foreign trade negotiations as an international relations tool in an attempt to buy goodwill around the world; and in so doing has hewn to an "ivory tower" free trade philosophy. This approach has divorced negotiations from economic considerations and has been a dismal failure, as evidenced by our critical negative balance of payments during recent years, the substantial loss of gold reserves, and the irreparable harm it has brought to U.S. agriculture and industry.

The U.S. approach to trade negotiations has cultivated the attitude so prevalent among other nations that they should enjoy unlimited access to this market and yet allow the importation of only those U.S. commodities and products—and in the volume—which suits their domestic producers and industries. Japan and the European Economic Community are prime examples of this attitude; and they have enjoyed substantial benefits therefrom, as evidenced by their dependence on the U.S. market and their positive balances of payments at the expense of this country.

The "diplomatic" attitude of the State Department has definitely carried over into the administration and policy determinations of our embassies and has often made it difficult for our agricultural attachés to work effectively in market development and product promotion activities.

The use-of-foreign-trade-for-buying-goodwill policy existed as an integral part of U.S. foreign policy until President Nixon rocked the world in August of 1971 by imposing a surtax on imports and announcing to the world that the U.S. would no longer play this kind of one-sided "sucker" game.

Let me emphasize at this point that the stand of the National Livestock Feeders Association with respect to foreign trade is not one of isolationism, nor is the Association in harmony with the opposite philosophical extreme of "ivory tower" free trade. For many years NLFA has preached reciprocity in trade policy and negotiations.

Now that there is definite evidence of a swing in this direction on the part of the Executive Branch, we again urge the Congress to assume this type of stance in foreign trade legislation—and, in fact, set down legislative guidelines which will force those charged with trade negotiation responsibility to demand reciprocal treatment for U.S. agriculture and industry.

WORLD MONETARY REFORM

World monetary reform must go hand in hand with trade reform; otherwise it will be impossible to ascertain the end results of certain trade policy changes. Although identified as separate entities, monetary policy and trade policy are actually entwined parts of the international economic system.

The relative values of currencies and the manner in which such values are determined play a vital role in the flow of products across national borders. And this is not a static influence, especially as it bears on a developed country such as the United States. The relationship is being constantly affected by internal economic changes in the countries which are influential in international trade.

Thus, the monetary system must be sufficiently flexible to cope with constantly changing relationships among the economies and economic strengths of influential trading countries, while at the same time lend sufficient stability to the world situation to maintain monetary confidence and to avoid gross inequities.

Most certainly the gross inequities and serious injury resulting from having its currency become dear in relation to that of other economically influential nations has been indelibly impressed upon the U.S. during recent years in which the dollar was "misused" as the peg on which other countries have hung their "currency hats".

The existence of the European Economic Community and its recent expansion further complicates the issues. Because of the special considerations given agricultural commodities under the EC's Common Agricultural Policy (CAP), when an EC country permits its currency to float but maintains an official par value, two exchange rates come into being for agricultural commodities: (1) the official par value which applies to domestic production through support prices; and (2) the international market value which applies to imports and exports.

Negotiations are already under way on international monetary reform, and,

hopefully, solutions can be found to the problems which plague this highly technical area of international economics. No matter how flexible a currency rate adjustment process is achieved, however, it can be undermined and distorted by trade barriers which shield industries from price competition.

DISCRIMINATORY TRADE BARRIERS

The United States is among the most liberal in the world in its agricultural import policy. All major trading countries, with the possible exception of Canada, provide a much higher degree of protection for domestic livestock producers than does this country.

The USDA Agricultural Handbook No. 132 (revised March 1964) entitled *Agricultural Policies of Foreign Governments* stated: "In most countries, discretionary import control authority is still vested in governmental agencies and is widely used to restrict imports. Many governments have programs for maintaining domestic prices of selected farm products above the level of world market prices. In addition, a good many use export subsidies, bilateral trade agreements, and other devices which tend to create special trade advantages for agricultural commodities of certain countries not enjoyed by products of other countries."

Also, in the USDA study covering nontariff barriers published in *Agricultural Protection by Nontariff Trade Barriers* (ERS–Foreign–60, September 1963), the then Secretary of Agriculture made the following statements in announcing the results of the study: "The study shows that all our major trading partners practice a higher degree of agricultural protectionism through nontariff barriers than does the United States. The United States is among the most liberal in the world in its agricultural import policies. The farmers of the United States carry out their production operations with far less protection from competitive imports than do farmers of practically all other countries." With regard to livestock and meat specifically, the study showed that *the United States and Canada were the only major trading nations in the world with no nontariff protection for domestic producers.*

Why refer back to 1963 and 1964 when talking about trade barriers? Merely to vividly point out that the more things change, the more they stay the same, as far as trade barriers and discrimination practiced by other nations are concerned. Again we plead the case for the U. S. to depart from the "ivory tower" free trade philosophy (free trade for free trade's sake) and adopt a policy calling for reciprocity in trade policy and negotiations.

The degree to which other major trading nations and groups of nations have taken advantage of the U. S. during recent years is ample evidence that academic idealism simply does not work in the real world of international trade. We should start playing our trading hand instead of merely laying our cards face up on the table and letting other countries play for us.

When challenged by the U. S. on specific protectionistic trade barriers on their books, other countries typically respond, "Oh, yes, but we are not using them." The fact of the matter is, however, that they have used them and will do so again whenever it is in their own best interest. If they are not, and do not intend to use said restrictive devices, they should have no reluctance to drop them from their portfolios.

The Committee is knowledgeable as to the existence of various types of trade barriers, tariff and nontariff, and therefore we do not intend to belabor the point. It may be well, however, to review the current situation with respect to the European Common Market because of its importance to U. S. agricultural exports and the added problems continued restrictiveness will bring in light of the recent expansion of the EC.

The European Community is the single most important importer of U.S. agricultural products. Therefore, the expansion of the Community and the provisions of its Common Agricultural Policy (CAP) have important implications for the United States. To date there is no indication that member nations have any intention of moving away from the traditional highly restrictive trade stance which has been a part of EC policy since its beginning, or that they have any intention of giving serious consideration to the call for reciprocal treatment of non-member trading partners. Apparently the Community looks upon the statements being made by this country regarding agricultural trade as a smoke screen and fully expects the U.S. to capitulate, as it has done in the past, and accept whatever trading cards the EC chooses to deal.

The fact that the Community at times does not use all of the ammunition it has on the books to restrict agricultural imports should not lull U.S. negotiators into complacency. The CAP includes highly restrictive tariff and nontariff barriers to agricultural trade, coupled with strong incentives to increase domestic production. For many products these incentives guarantee markets for unlimited production, either through export subsidies or government purchases.

USDA has stated that over 90% of the value of agriculture production in the six original EEC countries is subject to support and import protection under the CAP. In addition, there are still national barriers against imports for a number of products.

The most restrictive nontariff barrier employed by the EC is the variable import levy. Variable levies protect over two-thirds of the Community's agricultural production and severely limit the importation of U.S. products subject to the levy. These products include beef, veal, and live cattle and calves, all of which are subject to tariff protection as well.

Fresh, chilled, and frozen beef and veal are subject to the variable levy, import duties, and import licenses, as well as health restrictions which are often used purely as import restrictive devices under the guise of health considerations. Fresh, chilled, and frozen pork is also subject to the variable levy.

In addition to the restrictions of the Community, West Germany prohibits the importation of beef cuts and pork and accepts meat only from U.S. processing plants which have been inspected and passed by West German authorities. Italy requires certification that the animals from which the meat was derived were not fed an estrogen.

Nontariff barriers constitute the principal restrain upon agricultural trade throughout the world. For additional details on these barriers in the EC, the Committee is referred to *Agricultural Trade Policy.* Foreign Agricultural Service, U.S. Department of Agriculture, December 1972 (ATP–10–72), and the report of the Tariff Commission referred to in the information prepared by the staff of this Committee in connection with the legislation under consideration.

SPECIFIC EXAMPLES OF TRADE DISCRIMINATION

The case of food lard vividly points out the extent to which U.S. exports stand to suffer as a direct result of the United Kingdom becoming a member of the European Community. The U.S. has been the principal supplier of food lard to the U.K., furnishing about 60% of the country's imports in 1970 and 1971.

The U.S. obtained a duty-free binding from the U.K. on lard in 1947 and had negotiating rights amounting to $30.4 million. This zero duty binding is now withdrawn and replaced by the EC's variable levy.

The EC first instituted a CAP for pork in 1967. Since that time European lard production and export capacity have been steadily increasing as a result of production stimulation including high minimum import prices, a variable levy on imports, and the payment of export subsidies on sales of lard to the U.K., previous to its entry into the EC.

We stand to lose most of these exports to the U.K. over the next few years unless the variable duty is either eliminated or bound at some ad valorem rate well under 50%

The U.S. is entitled under GATT to request duty-free treatment on food lard on the part of the enlarged Community, but the EC has shown no inclination to honor this request. In addiiton, food lard is one of the seven agricultural commodities for which the U.S. is holding out for just compensation for market loss; however, again, the EC shows no inclination to offer just compensation.

In the case of pork itself, even when we do clear up hog cholera completely in the U.S., we have no assurance that pork can be shipped to the EC. Contrary to the case of lard, we have no historic base to show loss of dollars.

The EC variable levy is now active on beef and other red meat animal products. The levy was reimposed on beef during the second week of February. Also the tariff, which at one time was cut in half, was again raised after the first of the year to the 20% ad valorem level.

In addition on February 24, France and Italy acted to ban the importation of fresh and chilled beef and live animals. On February 27, this ban was extended to include Belgium and Luxemburg for a 30-day period (through March 24). A week ago, however, action was taken to extend the ban indefinitely with respect to all four countries.

Certain of the EC countries go so far as to restrict imports of beef by designating the form of importation. Beef imports into Germany are restricted to carcasses; no cuts may be imported. France allows only pieces weighing three kilograms or more to be imported; in the Netherlands and Belgium the size restriction is 10 kilograms or more.

Beef and veal imports into the EC are further controlled by import licenses, which are not freely given. The effectiveness of this requirement as a control measure is clearly evidenced by the recent situation with respect to Australia and New Zealand. To the uninitiated eye it would seem that the EC was rather liberal during much of 1972–73. No levies were imposed on beef imports as of February 1972, because prices were well above the equivalent of the target price. Also, in November of 1972 the Community cut its import duty on beef in half from 20% to 10% ad valorem. The question logically arises, in view of the high prices which prevailed in the EC countries for beef—higher than the U.S. market—why didn't more of the beef being exported from Australia and New Zealand go to the EC? The answer was simply that import licenses for beef were not issued.

Also, the existence of the variable levy discourages distant countries, such as Australia and New Zealand, from trading with the Community since the levy is capable of being changed each week; and in times past, the combination of the levy and the duty has amounted to as much as 45–50% ad valorem.

In the case of Japan, an import ban on beef was imposed on February 1. The ban affects 40,000 metric tons of purchases to be made during the second half of the Japanese fiscal year and an additional 10,000 metric tons already in storage. The Japanese have indicated that import licenses will not again be issued until domestic prices increase to a given level.

With respect to pork imports, levies are in effect and the only pork currently entering the country is that which is under contractual arrangements—no tonnage from the U.S. Japanese traders are presently buying pork for speculative reasons as a hedge against their own currency but no U.S. shipments are now entering Japan.

It is vividly clear that without radical changes in the import structures in Japan and the EC in particular U.S. exports can be shut out at any time the importing country desires and for as long a period of time as suits their selfish interest.

We strongly recommend that the U.S. take immediate steps to withdraw all of the concessions given the EC during the Kennedy Round. Any sort of this kind of a firm stand will fail to impress the EC that the U.S. will indeed insist upon reciprocal treatment.

In plain language, U.S. negotiators have failed to date to take a sufficiently strong stand to fulfill commitments made to the Congress.

In visiting with firms engaged in the export trade in meat, we have found key officials reluctant to specify dates, times, and exact circumstances wherein import restrictions of other nations have given them problems. The reluctance stems primarily from public relations considerations of not wanting to take the risk of harming established relations with the client or with the officials of the importing country.

Quotas, and all the government red tape connected therewith, have been very restrictive and troublesome, specifically in the case of Japan. Import levies on pork have also given us similar problems in our attempted trade with the Japanese.

The required import licenses by the EC were also cited as a troublesome restriction. The importer must deposit a surety to obtain the license; it is issued for a specified volume of product and must be renewed. In this way the quantity can be varied at will by the EC and the exporter is never assured of access to the market.

The highly stringent sanitary requirements in force for Germany have made it impossible for many U.S. processors and traders to export meat to that country. According to one of the beef packers most heavily involved in sales to Germany, it was mandatory that the inspector (German representative) actually be in the plant and carry on inspection at the time of slaughter and then during the entire fabrication and processing of the product. This has been relaxed of late; but again the point is that the situation can readily revert to previous degree of stringency at the will of the receiving country, to suit its interests of quantity and other control of its imports.

The U.S., of course, has inspection requirements also, but these are consistent and are used only for wholesomeness and health purposes; whereas, other nations have typically used health and sanitation standards for a variety of self-interest purposes and have relaxed or tightened them at will to fit the occasion.

The EC variable levy combined with the tariff caused one U.S. packer to abandon his exportation of sausage-type meat. "It just proved to be too costly to try to sell to the EC countries."

Cost of entry was also given the most often as a problem in exporting variety meats and other offal items and by-products. At this point it is well to note that the United States cut tariffs in half on most livestock and meat products in 1948. The effective level, however, has been reduced much more than the per pound figures indicate due to the failure of the U.S. to adopt the ad valorem basis during the inflationary years since the 1930's. In contrast most other major trading countries, including the EC and Japan, are on the ad valorem basis. Therefore any apparent relaxation cannot be compared directly with the U.S. In view of the consistent inflationary trend, the U.S., in effect, has continuously reduced its tariffs on most meat imports.

U.S. FAILURE TO USE COUNTERVAILING DUTIES

The failure of the U.S. to follow its own law with respect to levying countervailing duties has resulted in other nations taking additional advantage of this country in the trading arena. Section 303 of the Tariff Act of 1930 clearly states that whenever any country pays an export subsidy on a product which is dutiable, the U.S. shall levy a duty equal to the subsidy paid. Note the use of the word "shall" which leaves no room for administrative discretion. Yet no countervailing duty has ever been levied, for example, on subsidized pork exports from the EC to the U.S. Last summer the EC export subsidy on canned hams reached the equivalent of a whopping 32 cents per pound in U.S. currency.

U.S. AGRICULTURAL EXPORTS

The potential of the United States to export agricultural commodities and products is the bright light on an otherwise dismal U.S. trade horizon. It is not necessary to belabor here the very serious plight of this nation during recent years with respect to its balance of payments. The Committee is as knowledgeable of the situation as we are. Also, it is not necessary to dwell on the U.S. loss of its favored world position of yesterday on a wide range of manufactured and industrial products and materials. In general, this leaves the U.S. in a strong trading position on only sophisticated equipment and systems, heavy equipment and machinery, and agricultural commodities and products.

Fortunately, the world position of U.S. agriculture has been greatly enhanced of late as other countries of the world have developed "money economies" and realigned their currencies. The significant increase in U.S. agricultural sales for dollars compared to government-assisted foreign shipments evidences the effect of the changing world situation.

According to the USDA, dollar sales—which included barter for overseas procurement and CCC credit sales—during fiscal year 1973 reached a record $11.9 billion, accounting for over nine-tenths of total farm exports. This expansion in sales for dollars accounted for all of the increase in U.S. agricultural exports during that year. Thus, dollar sales accounted for 92% of the $12.9 billion of total agricultural shipments in fiscal 1973.

Government-assisted foreign shipments totaled $1 billion, down 8.2% from the fiscal 1972 level.

In connection with these comparisons, however, it must be noted that higher prices accounted for about 40% of the increase in the value of fiscal 1973 exports.

Agriculture truly has the potential to continue to make a substantial and critical contribution toward the U.S. trade balance, as the Committee is aware. However, we hasten to raise the red flag of caution lest it be assumed that such a development is automatically going to come about.

If agriculture is given segregated and last priority treatment, such as was done during the so-called Kennedy Rounds, U.S. agriculture will again be left in the untenable position of facing insurmountable trade obstacles—mainly in the form of visible and nonvisible nontariff barriers—whenever other importing countries see fit to invoke them.

LIVESTOCK AND MEAT PRODUCTS

Export sales of livestock and meat, and livestock and meat products, have been, and are currently, for dollars. Although there has been some increase in red meat sales abroad of late, these exports are still of relatively small volume. The primary reasons for this are domestic demand, overseas transportation costs and problems, and the highly restrictive import systems of other nations.

Trading in livestock and meat products, including variety meats, fats and oils, hides and skins, and other by-products, has traditionally constituted the overwhelming volume and value of U.S. exports in the red meat animal category. For the most part, domestic preferences have not been strong for these products compared to their traditional usage in other countries, such as those of Western Europe.

In contrast to its export sales, the U.S. is a large importer in red meat. In calendar 1973, red meat imports of nearly two billion pounds were almost 7½ times the export tonnage (not including variety meats). Conversely, U.S. exports of variety meats, fats and oils (edible and inedible), hides and skins, and other by-products were 2.8 billion pounds.

In terms of f.o.b. port value, total livestock and meat and livestock and meat products imports (including live animals) during 1973 were 1.6 times the value of U.S. exports of these commodities and products—$2,106 million of imports vs. $1.306 million of exports. (See Tables 1 and 2 for detailed breakdown of categories.)

The aforegoing comparison is based on export value being defined as the value at port of exportation (selling price or cost plus inland freight, insurance, and other charges to the port); import value is the market value in the foreign country and excludes import duties, ocean freight, and marine insurance—in other words, foreign value rather than landed cost of U.S. ports.

Figuring imports on a c.i.f. basis (ocean freight, marine insurance, and other shipping charges included) would increase the import values by around 10%; according to U.S. Tariff Commission estimates for all imports. On this basis, the value of U.S. imports of livestock and meat and livestock and meat products for 1973 would be $2,317 million, or 1.8 times the value of exports.

PROPOSED LEGISLATION

We would hope that all U.S. interests are now in accord on the basic question of the need for trade reform, and that all agree on the proposition to adopt a truly reciprocal stance on trade policy and actual negotiations. If we can proceed on such an assumption, the deliberations of the Congress can then focus on the specific provisions to be written into law to accomplish that basic objective.

Surely one of the crucial legislative considerations is the extent to which it is necessary and proper for the Congress to delegate authority to the President, especially in view of the responsibility reserved to the Congress in the Constitution to regulate foreign commerce and determine duties. Legislative proposals should be viewed in the light of this consideration.

H.R. 10710—"Trade Reform Act of 1973"

The NLFA supports the stated purposes of H.R. 10710. It does seem to us, however, that the bill is unduly complicated in the form in which it comes to the Senate and we suggest this be borne in mind as changes and rewrites are made.

We recognize that the House put forth much effort to reorganize the legislation as originally proposed and, also, made substantial additions in carrying out the recommendations of the NLFA and others to place appropriate limitations on the negotiating and trade-agreement authority to be delegated to the President. In so doing, however, it would seem that the bill has become complicated beyond what is necessary to accomplish the desired results.

TITLE I—NEGOTIATING AND OTHER AUTHORITY

Chapter 1—Rates of Duty and Other Trade Barriers

Sec. 101.—The NLFA strongly objects to the provisions contained in (b)(2) giving authority to "wipe out" any duty which is not more than five percent ad valorem. Our concern lies primarily with the existing low duty applied to fresh,

chilled, and frozen beef and veal and the adverse consequences of reducing said rate to zero.

We recommend the deletion of (b) (2).

Sec. 102.—As previously stated, the NLFA favors strong action against nontariff barriers of other countries, to further the cause of reciprocity. Other nations have a long way to go to reach the liberal position of the U.S. in this respect.

We do have grave reservations about the sector approach outlined in (c), and the use of the word "shall" in this connection. In our judgment, it is doubtful that Agriculture will fare well under such an approach, especially if it is mandatory; therefore, we recommend its deletion.

With respect to authority to negotiate away alleged U.S. nontariff barriers, H.R. 10710 would provide the broadest authority ever delegated to a President in the trade area. This would include authority to negotiate agreements involving laws and regulations on the U.S. books. Such agreements could then become effective if not rejected within 90 days by either House of the Congress.

Despite our concern in this area, we cannot support the delegation of such far-reaching authority. The President simply must be limited in this area by the laws which are on the statute books unless and until the Congress of its own volition moves to repeal or amend them.

Sec. 103.—No comment.

Chapter 2—Other Authority

Shortage—Export Control Question.—Several members of the Congress have expressed concern over the development of shortages of certain commodities and products and have indicated they will push for some system of mandatory export controls, supposedly in the interest of domestic consumers.

The NLFA will vigorously oppose any such move, despite the fact that some short-term benefit might accrue to feeders. The inflexibility of a mandatory system, cast in statutory concrete, can bring great harm to agriculture. And dealing crippling blows to agriculture—or industry, for that matter—cannot bring any lasting benefit to U.S. consumers.

Demonstrating that you are a dependable supplier is an essential ingredient to building and maintaining foreign markets. Interrupting foreign shipments through a program of export controls cannot be other than counterproductive.

Sec. 121.—Without a doubt, there is need to revise the GATT machinery; however, such an attempt will likely be a slow and tedious process. Therefore, it might be well to provide for greater flexibility in working toward the same ends, than is provided in the present language.

Any contributions to GATT, as provided by Section 121(b) should be subject to Congressional appropriation.

Sec. 122.—We have a reservation with respect to this section; namely, that actions on the surplus side could be injurious to given commodities and product lines if the provisions allowing for exceptions are not exercised. We would prefer that the President be specifically directed to exempt those articles where such action would cause or contribute material injury to firms or workers (see page 18, lines 10–15).

Sec. 123—We recommend that limits be set on duty reductions and quota increases. This section could be harmful to agriculture articles since agriculture operates in a "free" market framework and both supplies and prices go up and down in the short run.

Sec. 124.—No comment.

Sec. 125.—No comment.

Sec. 126.—No comment.

Sec. 127.—No comment.

Sec. 128.—No comment.

Chapter 3—Hearings and Advice Concerning Negotiations

The Association generally agrees with the provisions of this Chapter requiring the President to involve the Tariff Commission, executive departments, and the private sector in the negotiation and trade agreement process. We strongly support the call for public hearings to give interested persons an opportunity to present their views.

The language of Section 135 specifically directs that advisory committees from the private sector "be representative of all industry, labor, or agricultural interests." To us, this means that agricultural trade associations will be directly involved, rather than individuals who represent no one but themselves.

In this connection, we would strongly suggest that as far as agriculture is concerned the general farm and commodity groups function directly in the designated advisory capacities.

Chapter 4—Office of the Special Representative for Trade Negotiation

The NLFA has supported the establishment of this office because of the need to move the responsibility for trade policy, program administration, and the actual negotiations, as far as practical, out of the State Department. This position has been adopted because of the State Department's traditional use of trade negotiations as a tool of international relations.

There is one addition which needs to be made to the chapter, in our view. The existing language does not deal with the relationship between the Office of the Special Representative for Trade Negotiations and the Council on International Economic Policy. Certainly, the law should provide for close coordination between the two, if not an actual marriage.

Chapter 5—Congressional Disapproval Procedures With Respect to Presidential Actions

Please refer to comments on Section 102 setting forth opposition to granting the President authority to negotiate agreements involving U.S. laws and regulations.

There should be provision for Congressional override on actions of the President, such as refusal to grant import relief when a domestic industry is being, or will be, injured.

Also, we would suggest that the time limits and other stipulated procedure be relaxed to give Congress and its committees the opportunity to discharge the outlined responsibilities in a judicious manner.

Chapter 6—Congressional Liaison and Reports

We cannot agree with the provisions of Section 161 calling for Congressional advisors to the U.S. delegation to international conferences, meetings, and negotiation sessions. We recommend said language be replaced with provisions for Congressional oversight of negotiations.

The function of Congress is legislative, not administrative. Once it has established the policy to be followed, the delegation of authority and the restraints thereon, and established the other legal framework for the Executive Branch to follow, the Congress should not attempt, through statute or otherwise, to inject itself into day to day administrative activities.

TITLE II—RELIEF FROM INJURY CAUSED BY IMPACT COMPETITION

Chapter 1—Import Relief

The provisions of present law have not provided a practical avenue of recourse for domestic firms or industries injured by imports. The proposed changes contained in Chapter 1 would no longer require a linking of increased imports to previous concessions, or proof that the increased imports were the "major" cause of injury. The President would also be given alternative choices of remedy in the form of increasing the duty, imposing some other import restriction, negotiating an orderly marketing agreement with other countries, or a combination of remedies; or he can do nothing.

The latter—the privilege to do nothing—along with the authority to terminate or reduce said import relief at will are bothersome to us. The authority for the Congress to override a Presidential determination to not provide import relief in the face of an affirmative finding by the Tariff Commission, as provided by current law, should be retained.

Also, under the proposed language of this chapter, no affected party, whether industry, agriculture, or labor, would have import relief or adjustment assistance rights as a matter of law. Said party would be purely and simply a petitioner, and this could lead to resolution on the basis of political power or lack of it. Therefore, we recommend a change in the language to overcome this objection.

Chapter 2—Adjustment Assistance For Workers

The proposed bill would liberalize the criteria for assistance and would replace the direct involvement of the Tariff Commission with the Secretary of Labor, who would have full authority to determine whether or not such assistance should be extended. The latter, of course, substitutes a very partisan party for the supposedly unbiased expert in the field. This, however, is not our main concern with the chapter.

We seriously question the fitness of adjustment assistance as a remedy. It can do nothing to prevent imports from despoiling a market in this country. Such assistance is purely welfare in nature and includes helping workers in an industry, which has been measurably injured by imports, to turn to something else.

To carry on the activities spelled out in the chapter would require liberal administration and large financial outlays by the Federal Government, which, in turn, would feed the fire of inflation *with no corresponding strengthening of competitive position for the U.S., the industry, or the workers.*

Negotiating trade agreements on a truly reciprocal basis, and insisting on their administration strictly on this basis, plus providing import relief of the nature set forth in Chapter 1 of this title and the authority contained in Title III to deal with unfair trade practices, should forego the need for outright welfare grants to U.S. workers.

Chapter 3—Adjustment Assistance For Firms

As with workers, the lanugaue of this chapter would simplify and liberalize the criteria for assistance for firms. Also, the Secretary of Commerce would replace the Tariff Commission and make the determinations as to certification of eligibility for adjustment assistance.

The provisions of this chapter do not constitute a practical avenue for agricultural producers to seek adjustment assistance. The additional comments made with respect to adjustment assistance to workers, Chapter 2, apply here as well.

We simply cannot embrace the adjustment assistance concept. Trade negotiation efforts aimed at keeping domestic firms and industries strong and vigorously competitive are a much more fruitful approach in our view.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

The intent of this title is in harmony with furthering the cause of reciprocity and, if prompt action is taken, said provisions can go a long way in correcting one of the serious weaknesses of the U.S.; namely, the failure to retaliate immediately and effectively against the adverse actions of other nations.

Chapter 1—Foreign Import Restrictions and Export Subsidies

We strongly support the intent of Section 301, but we are concerned about the numerous "roadblocks" which will effectively prevent the President from acting immediately to counteract actions taken against the U.S. By the time the U.S. moves, the other country, in many cases, has already accomplished their short-term objective.

This is the existing problem and as the language now reads, this deficiency will not be overcome. Our good friends to the north are very prone to use this tactic during peak harvest periods, times of plentiful supplies of fed cattle, and the like. Other nations similarly take advantage of our reluctance to move quickly.

In calling attention to this serious problem of inaction, or greatly delayed action, and stressing the need for the President to have authority to take retaliatory action promptly, this is not to say that we do not favor holding public hearings when needed, or providing for the finding of fact.

However, to tie the President's hands by requiring him to hold a public hearing before taking any action under Section 301, in itself defeats in large measure what should be the objective of the section.

Also, the authority contained in Section 301 is wholly discretionary on the part of the President. There is no complaint procedure or decision time frame. The President should be given the flexibility of alternative actions, but the decision to act or not to act should not be entirely discretionary with him.

Chapter 2—Antidumping Duties

Here again, the elapsed time—six months and nine months after question has been raised to make a determination—greatly reduces the effectiveness of the provisions.

We cannot agree that foreign interests should have the *right* to appear at hearings, but U.S. interests be required to show good cause before being allowed to present their views.

Chapter 3—Countervailing Duties

We recommend the allowable time for a determination on the part of the Secretary of the Treasury be cut from one year to six months.

The Association is in favor of making duty-free goods subject to countervailing duties, in the interest of preventing trade and monetary distortion; however,

we oppose treating them differently than dutiable imports in this regard. In light of the authority proposed to be delegated to the President to reduce U.S. tariffs to zero, the list of duty-free goods could be significantly expanded. Also, making the imposition of countervailing duties on duty-free imports subjects to a determination of material injury by the Tariff Commission is contrary to the prevaling theme and purpose of the proposed legislation.

We therefore urge that the provisions relating to duty-free articles and merchandise be deleted from the proposed bill and that said goods be treated in the same manner as dutiable imports.

The Association also urges the deletion of the language which provides for discretion in the imposition of countervailing duties [Section 303 (d)]. The distortion resulting from a bounty or grant upon the manufacture, production, or exportation of an article or merchandise can do serious harm to trade and to the international monetary system. Therefore, we favor the mandatory language now contained in the 1930 Act.

Chapter 4—Unfair Import Practices

No comment.

TITLE IV—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING NONDISCRIMINATORY TREATMENT

In the absence of specific Association policy with respect to trading with Communist nations, the NLFA withholds comment on most of this title.

The Association does not favor the injection of sociological considerations into the economic arena of international trade and, therefore, we must oppose the inclusion of Section 402 in the proposed Trade Reform Act.

TITLE V—GENERALIZED SYSTEM OF PREFERENCES

It is not anticipated that this title will have a measurable or direct effect on agriculture, or specifically on livestock and meat.

TITLE VI—GENERAL PROVISIONS

We have no additions or changes to suggest under this title.

TABLE 1.—VALUE OF U.S. EXPORTS OF LIVESTOCK AND MEAT AND LIVESTOCK AND MEAT PRODUCTS [1]

	Calendar 1972	Calendar 1973
Live red meat animals	$66, 934, 000	$167, 288, 000
Red meat and meat products	293, 875, 000	373, 659, 000
Fats, oils, and greases [2]	208, 748, 000	333, 073, 000
Hides and skins (excluding fur skins)	292, 063, 000	375, 468, 000
Other red meat animal products (hair, wool, sausage casings, etc.)	41, 493, 000	56, 736, 000
Total (not including live animals)	746, 179, 000	1, 138, 936, 000
Total (including live animals)	813, 113, 000	1, 306, 224, 000

[1] Export value—value at port of exportation (selling price or cost plus inland freight, insurance, and other charges to the port).

[2] Lard exports showed a quantity decline of 51,000,000 lbs. from 1972 to 1973 (164,000,000 in 1972 versus 113,000,000 in 1973).

TABLE 2.—VALUE OF U.S. IMPORTS OF LIVESTOCK AND MEAT AND LIVESTOCK AND MEAT PRODUCTS [1]

	Calendar 1972	Calendar 1973
Live red meat animals	$169, 735, 000	$216, 982, 000
Red meat and meat preparations	1, 219, 354, 000	1, 665, 320, 000
Hides and skins (excluding fur skins)	65, 201, 000	83, 604, 000
Other red meat animal products (bones, hair, bristles, fats and oils, gelatin, sausage casings, wool, etc.)	121, 178, 000	140, 402, 000
Total (not including live animals)	1, 405, 733, 000	1, 889, 326, 000
Total (including live animals)	1, 575, 468, 000	2, 106, 308, 000

[1] Import value—market value in foreign country (excludes ocean freight, marine insurance, and other shipping costs); in other words, foreign value rather than landed cost at U.S. ports. Figuring imports on the basis of c.i.f. (ocean freight, marine insurance, and other shipping charges included) would increase the above dollar amounts by approximately 10 percent, according to U.S. Tariff Commission estimates.

Senator TALMADGE. The next witness is Mr. Patrick B. Healy, Secretary of National Milk Producers Federation. We are delighted to have you with us, Mr. Healy. You may insert your full statement in the record and summarize it, sir.

STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION

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

I am Patrick B. Healy, the Secretary of the National Milk Producers Federation. The Federation is a national farm commodity organization representing dairy farmers and their cooperative marketing associations througohut the United States.

Dairy farming is a major segment of American agriculture and the general economy. In 1973, the sale of milk and cream returned over $8.1 billion to American farmers, the second most important single source of farm income. In addition to being a major factor in the farm picture, the dairy industry is a significant employer across the country. The dairy industry, on and off the farm, is a major business in every State in the Union.

U.S. dairy farmers and the dairy industry as a whole are among the most efficient in the world. One measure of such efficiency is the fact that in 1973, almost the same amount of milk was produced by one-half as many cows as in 1950. Comparison of the efficiency of the industry on this basis or by any other absolute measure with that of any other country, particularly the European Economic Community, belies the claims of some about a production advantage for dairy industries abroad.

Since World War II, production patterns of the dairy industry have undergone significant change. The marketing of farm-separated cream has virtually disappeared and almost all marketings are as whole milk—either eligible for fluid use or eligible only for manufacturing purposes. About 75 percent of total milk output falls into the former category, while about 46 percent of total milk production finds its way into fluid use.

In view of this, some have suggested that we can greatly expand imports of manufactured dairy products and still maintain adequate production of milk for fluid use. Such reasoning ignores both the biologics and economics of the milk industry.

Milk production varies seasonally while consumption is relatively stable throughout the year. This pattern is compounded by varying demand for fluid milk during the week due to consumer purchasing patterns.

To have sufficient milk, for example, to meet the demand on a Friday in November, it is essential to have more than can be readily absorbed by the market on a Sunday in May. That additional milk serves as a reserve supply to meet the needs of the fluid market as well as being made into manufactured products to meet consumer demand.

Two programs established by Congress provide a degree of price assurance to dairy farmers and are intended to assure the production of adequate supplies of milk to meet the needs of this market. The dairy price support program authorized by the Agricultural Act of

1949 and the Federal milk market order program, authorized by the Agricultural Marketing Agreement Act of 1937, both have the assurance of adequate milk production as a basic goal.

Congress has long recognized that excessive and unneeded imports of agricultural products can defeat the stated intention to assure adequate production of food and fiber wherever possible.

This recognition led to the enactment of section 22 of the Agricultural Adjustment Act and its maintenance as a shield behind which our agricultural programs could function effectively. While these programs have been of major benefit to the farmer, the consumer has been the ultimate beneficiary of them.

Since 1953, a comprehensive system of section 22 quotas on dairy products has been developed. These have been necessary because of the tendency for many to look at the U.S. Market as a dumping ground for world dairy surpluses.

This problem has been compounded by the tendency on the part of some nations to use extensive export subsidy programs to gain access to this market. If allowed to continue unchecked, this action will depress prices in this country, discourage milk production and, in the end, lead to higher consumer prices as domestic production can no longer meet the market needs.

The attitude that we can trade off a substantial portion of the U.S. dairy market in the vague hope of either lower domestic prices or gains in exports of other commodities is dangerous in the extreme.

Prices for dairy products in major cities around the world are generally higher than right here in the United States. History shows the extreme volatility of supply of dairy products in the world market. There is no way that the United States can adopt policies that will assure adequate rainfall in New Zealand or the constancy of the dairy policies of the Common Market.

The dairy farmer does not want to stand in the way of economic progress of other segments of the agricultural economy. Neither does he wish to be the sacrificial lamb.

We are today witnessing the implementation of policies which amount to a studied destruction of the American dairy industry. Administration actions over the last 15 months have completely ignored the direct, specific intent, of Congress.

In the face of declining milk production, dairy farmers have been denied needed price assurances their markets have been violated by expanded imports that are reducing the American consumer to a dependence on foreign supplies faster than Government spokesmen will admit. All of this is being done as a part of a grant plan to lead the way to expanded trade.

But the success of such an undertaking appears doomed from the start. The EEC, toward whom most of this is aimed has told us that their policies, in which changes are sought, are nonnegotiable.

What is being done, surely and inexorably, is the destruction of an American resource that is an important element in our economy and a vital source of food production for the American people.

The legislation now before the committee provides the vehicle to prevent the proposed trade-off and to maintain the constitutional authority of Congress in the vital trade policy field.

The recommendations contained in our statement fall into four areas: negotiating authority; Congressional review of agreements; authority to deal with unfair trade practices; and Congressional and public representation in trade talks.

Negotiating authority: Congress must retain the power to determine national policy in areas so important as food production. If we have learned nothing else from recent events that have brought us shortages of key materials, it should be that the best and most certain source of supply is our own output.

All of the talk about offering section 22 import quotas as a trade-off in the coming trade talks is aimed more directly at the dairy price support program itself. What would be decided in such a trade-off would not be the fate of section 22, but that of the price support and related programs and the congressional mandate for adequate milk production in this country.

Because of this, we strongly recommend the inclusion of H.R. 10710 of language identical to section 257(h) of the Trade Expansion Act of 1962, which maintains section 22 and actions under it.

We also support the inclusion of specific sector areas along commodity lines for agriculture. The intent of this approach is brought out in the House committee report and in debate on the House floor. Specific inclusion in the bill would make this provision stronger and more direct.

Congressional review of agreements: Each agreement reached under the authority contained in section 102 of the bill must be required to be returned to Congress for review and approval. Further, the review procedures set forth in the bill should provide for positive action on agreements rather than for the negative action called for.

A further strengthening of the bill in this area would provide for the individual consideration of each agreement rather than the lumping together of a broad range of agreements.

Authority to deal with unfair trade practices: Rather than adding to the administration's ability to deal with unfair trade practices, some of the provisions of H.R. 10710 actually weaken it. To correct this, we would recommend that the time period for determination on the enforcement of countervailing duties be shortened to 30 days; that the authority to waive the collection of counervailing duties where quotas are in force be removed; and removal of authority to waive collection of countervailing duties during a 4-year period when trade talks are in progress.

As pointed out in our complete statement, the real effectiveness of a measure to deal with an unfair trade practice is the certain knowledge that it can and will be used. The record of the United States, insofar as the countervailing duty statute is concerned, is a sad one. All of the rhetoric about the possible use of such measures will not replace the visible, positive fact that it is not being used.

Congressional and public representation in trade talks: Congressional delegates to these trade talks could more effectively represent the basic interests of the Congress if they were seated in more than an advisory capacity. In this connection to, we would urge specific provision be made in the bill for the appointment of industry advisers in connection with the negotiations.

These recommendations, we feel, point toward the strengthening of the position of those representing the United States in trade negotiations. Our past record in these trade talks has not been good. It is essential that those who represent this Nation in the coming years have a clear and direct mandate from the Congress that their work will be closely reviewed, that the interest of this Nation is to be maintained and that the United States will not, by itself, seek to solve the trade problems of all the rest of the world.

Senator TALMADGE. Mr. Healy, I take it from your remarks that you have read the so-called Flanagan report?

Mr. HEALY. Yes, sir, I have read it and I have been writing about it for almost 18 months now.

Senator TALMADGE. That report, as I recall, purports to liquidate the dairy industry of the country and other agricultural industries in the vain hope of increasing our exports of feed grains and soybeans.

Is that a correct statement?

Mr. HEALY. Yes, sir. And do you know that it is effective beyond the wildest dream of the people who framed the report, by the actions that were taken as set forth in that Flanagan report?

Senator TALMADGE. Administrative actions prior to the passage of the Trade bill?

Mr. HEALY. Administrative actions. We have cut our milk production in 1 year somewhere between 4½ and 6 billion pounds. We no longer produce for the needs of our market.

Senator TALMADGE. 17-percent reduction in dairy products in Georgia last year, which was the highest in the——

Mr. HEALY. Yes, sir, I know that only too well. I hear from my membership in Georgia.

Senator TALMADGE. I am sure you do.

Now do you have the total value of the imported dairy products and exported dairy products?

Mr. HEALY. Yes, sir; yes sir; it is just short of $300 million during 1973.

Senator TALMADGE. Give me the figures now.

What were the imports? And what were the exports?

Mr. HEALY. Just short of $300 million in 1973——

Senator TALMADGE. Let us break it down. What were the imports in 1973?

Mr. HEALY. Imports total $222.6 million in value while exports were about $86 million. In 1973 we imported 84 million pounds of butter or butter equivalent, 47 million pounds of cheese, and 265 million pounds of nonfat dry milk as a result of administrative actions relaxing quotas.

Senator TALMADGE. Do you the dollar figure of all dairy products, of all kinds? Cheese, butter——

Mr. HEALY. Yes, I can give it to you.

Senator TALMADGE. Let me suggest this, then, if you do not have the figures——

Mr. HEALY. I do not have them available, Mr. Chairman.

Senator TALMADGE. I believe you stated that the difference between imports and exports was $300 million?

Mr. HEALY. Just roughly that.

Senator TALMADGE. Does that include everything? Powdered milk, cheese, and everything?

Mr. HEALY. Powdered milk, cheese, butterfat.

Senator TALMADGE. Would you supply for the committee a complete breakdown of all of those items, please? The imports versus the exports?

Mr. HEALY. Yes, sir.

[The information referred to above follows:]

VALUE OF DAIRY PRODUCT IMPORTS AND EXPORTS, 1969-73

[In thousands]

	Imports	Exports
Year:		
1969	$100,569	$120,892
1970	125,144	127,046
1971	113,493	196,131
1972	167,341	149,731
1973 (preliminary)	331,003	60,388

Source: Foreign Trade Agricultural Statistics, Foreign Agricultural Service, USDA.

HISTORICAL DATA—U.S. IMPORTS OF DAIRY PRODUCTS

TABLE 1.—DAIRY IMPORTS, JANUARY-OCTOBER 1972 AND 1973

[In thousands of pounds]

Country of origin	1972	1973
Butter:		
Denmark	137	232
Netherlands	12	183
New Zealand	287	260
Others	130	19
Total	566	694
Cheese:		
Canada	2,403	5,289
El Salvador	88	80
Argentina	7,337	6,656
Brazil	333	49
Austria	8,429	12,950
Belgium and Luxembourg	467	1,325
Denmark	32,291	40,494
Finland	10,523	12,549
France	9,669	12,656
Germany, West	3,832	6,952
Greece	4,163	675
Iceland	465	779
Ireland	1,545	2,205
Italy	13,805	12,067
Netherlands	6,675	8,221
Norway	4,364	5,859
Portugal	292	657
Sweden	1,741	2,954
Switzerland	10,952	9,987
United Kingdom	602	1,443
Czechoslovakia	236	397
Poland	1,590	1,873
Romania	1,797	1,391
Yugoslavia	91	686
Cyprus	42	41
Israel	319	188
Australia	1,251	3,082
New Zealand	12,590	19,554
Others	3,157	3,790
Total	139,077	172,876

TABLE 2.—DAIRY PRODUCTS: U.S. IMPORTS, QUOTA AND NONQUOTA, TOTAL 1972 AND JANUARY-NOVEMBER 1972-73 [1]

[In thousands of pounds]

Product	Calendar year quota [2]	1972 imports	November 1972	November 1973	November 1973 as a percent of 1972	Cumulative, January-November 1972	Cumulative, January-November 1973	Cumulative, January-November 1973 as a percent of 1972
Cheese, quota types:								
American, Cheddar	19,273.0	9,516	1,540	2,392	155	8,426	19,902	236
Other	9,144.9	5,959	1,392	1,258	90	5,198	5,547	107
Italian, Original loaves	17,250.2	10,802	487	648	133	9,417	9,182	98
Other	2,241.0	1,350	76			1,190	1,091	92
Edam and Gouda, Natural	13,800.6	10,146	1,210	1,110	92	8,558	9,672	113
Processed	4,726.5							
Blue Mold	7,525.5	4,434	447	759	170	3,711	5,387	145
Swiss, Emmenthaler, 72 cents	30,630.0	11,235	194	2,432	1,254	2,532	21,584	852
Gruyere, process, 72 cents	15,954.0	4,499	385	1,322	343	2,417	7,948	329
Other, over 0.5 percent fat, 72 cents	58,226.0	32,225	1,706	6,712	393	22,283	45,373	204
Under 0.5 percent fat	12,911.0	8,397	507	742	146	7,607	10,874	143
Total	191,682.7	98,563	7,944	17,375	219	71,339	136,560	191
Cheese, nonquota types:								
Swiss, Emmenthaler, 72 cents+		22,337	2,979	4,015	135	27,282	21,991	81
Gruyere-process, 72 cents+		8,287	1,333	756	57	9,096	5,560	61
Other, 72 cents+		23,275	4,827	4,350	90	27,466	19,403	71
Pecorino		22,976	2,869	2,223	77	20,638	15,380	75
Roquefort		2,543	190	306	161	2,338	1,818	78
Other [3]		1,508	186	184	99	1,386	1,373	99
Total		80,926	12,384	11,834	96	88,206	65,525	74
Other quota products:								
Butter	56,707.0	714	51	41,185		617	43,482	7,047
Butteroil	23,800.0	1,200		15,862		1,200	17,062	1,422
Butterfat mixtures	2,580.0	2,430	535	612	114	2,072	2,003	97
Ice cream	3,377.3	1,375				1,375		
Frozen cream	12,540.0	12,600	225	2,018	897	11,568	12,054	104
Nonfat dry milk	266,807.0	1,602	47	12,469		496	265,956	
Dried buttermilk	496.0	594	238	100	42	594	100	17
Evaporated milk	1,312.0	94		154		67	1,388	
Condensed milk	4,079.0	2,345	172	60	35	2,200	1,241	56
Chocolate crumb, Regular	17,000.0	6,838	270	69	26	4,607	4,945	98
Lowfat	4,680.0	3,171	1,143	64	6	2,227	176	8
Animal feed with milk solids	16,300.0	10,356		1,000		6,839	15,724	230
Nonquota products:								
Casein		105,401	8,309	10,529	127	98,060	101,137	103
Lactose		1,540	153	90	59	1,500	1,323	88
Milk equivalent, fat solids basis, total all products	3,608,400.0	1,683,585	179,909	1,578,712	878	1,499,252	3,183,162	212

[1] Preliminary.

[2] Includes temporary quotas of 63,900,000 pounds for cheese, 265,000,000 pounds for nonfat dry milk, 22,600,000 pounds for butteroil, and 56,000,000 pounds for butter.

[3] Gjetost, Bryndza, Cammelost and Noekkelost, and Goya.

TABLE 3.—DAIRY PRODUCTS: U.S. IMPORTS, QUOTA AND NONQUOTA PRODUCTS

1966–72 CALENDAR YEARS

[In thousands of pounds]

Product	1966	1967	1968	1969	1970	1971	1972
Cheese, quota types:							
American, cheddar	4,178	4,967	9,841	9,606	10,132	9,324	9,516
Other	45,991	55,230	5,860	6,034	5,969	7,624	5,959
Italian, original loaves	7,776	8,412	8,390	10,547	6,617	6,458	10,802
Other	450	1,494	1,852	1,742	674	852	1,350
Edam and Gouda, natural and processed	10,899	11,615	21,386	11,457	11,799	10,126	10,146
Blue mold	5,177	4,789	4,822	4,878	4,766	4,485	4,434
Swiss, Emmenthaler	[1] 14,751	[1] 14,355	[1] 38,853	3,678	3,581	2,533	11,235
Gruyere, processed	[1] 9,124	[1] 9,836	[1] 19,977	2,744	3,098	2,720	4,499
Other over 0.5 percent fat	[1] 18,068	[1] 22,996	[1] 39,377	28,912	22,766	15,701	32,225
Other under 0.5 percent fat				2,859	10,951	7,580	8,397
Cheese, nonquota types:							
Swiss, Emmenthaler				16,430	22,847	21,784	22,337
Gruyere, processed				9,905	10,777	8,879	8,287
Other				13,403	23,103	17,961	23,275
Pecorino	15,761	15,750	17,352	19,227	20,621	16,566	22,976
Roquefort	1,820	1,808	1,948	2,061	2,063	1,671	2,543
Other [2]	1,442	528	767	619	1,587	1,663	1,508
Other quota products:							
Butter	667	677	740	678	[3] 747	628	714
Butter oil	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Butterfat mixtures	[4] 105,626	[4] 100,548	1,882	2,741	2,398	2,572	2,430
Ice cream				20,263	62,689	2,549	1,375
Frozen cream	14,957	11,915	12,605	14,748	11,062	11,235	12,600
Nonfat dry milk	2,835	924	1,747	1,914	1,759	2,136	1,602
Dried buttermilk	401	158	536	174	421	355	594
Evaporated milk	[4] 611	[4] 1,311	[4] 4,909	1,313	1,236	1,299	94
Condensed milk	[4] 2,678	[4] 4,079	[4] 4,854	4,058	1,506	1,670	2,345
Chocolate crumb:							
Regular	[4] 6,500	[4] 21,544	[4] 45,337	18,603	13,746	10,589	6,838
Low fat				478	15,944	4,185	3,171
Animal feed with milk solids				9,965	27,297	11,812	10,356
Nonquota products:							
Casein	107,906	99,670	116,100	116,107	135,288	105,939	105,401
Lactose		596	374	4,187	4,222	1,652	1,540
Milk equivalent, fat solids basis (in millions of pounds)	2,791	2,908	1,780	1,621	1,874	1,347	1,684

[1] Includes both quota and nonquota items.
[2] Includes Gjetost, Bryndza, Cammelost, Noekkelost, and Goya
[3] Includes 40,400 pounds not subject to quota.
[4] Not under quota at this time.

TABLE 4.—DAIRY PRODUCTS: U.S. IMPORTS BY COMMODITY, QUANTITY, AND VALUE, 1969-72 CALENDAR YEA RS

Commodity	Quantity				Value			
	1969 (Pounds in thousands)	1970 (Pounds in thousands)	1971 (Pounds in thousands)	[1] 1972 (Pounds in thousands)	1969 (Dollars in thousands)	1970 (Dollars in thousands)	1971 (Dollars in thousands)	[1] 1972 (Dollars in thousands)
Milk and cream, fresh	15,172	11,380	11,592	12,962	3,200	3,072	3,507	3,607
Canned milk	5,371	2,741	2,969	2,439	1,004	405	464	602
Dry whole milk	7	3	10	0	2	1	4	0
Nonfat dry milk	1,914	1,759	2,136	1,602	209	170	383	360
Buttermilk, dry	174	421	355	594	24	76	86	164
Malted milk compounds	12	11	40	6	4	2	7	4
Butter	678	748	628	714	367	395	393	474
Butterfat mixtures	2,741	2,398	2,572	2,430	740	664	728	743
Casein	116,107	135,288	105,939	105,401	24,904	30,475	31,956	50,920
Lactose	4,187	4,222	1,652	1,540	627	645	245	239
Cheese:								
Swiss	20,108	26,355	24,317	33,497	10,600	14,706	14,159	20,948
Gruyere	12,649	13,949	11,600	12,792	6,329	7,210	6,308	8,087
Romano	4,440	1,447	1,799	3,584	1,331	594	971	1,575
Pecorino	19,227	20,621	16,566	22,950	12,882	14,678	11,177	17,950
Reggiano and Parmesano	3,648	2,311	1,814	4,605	1,690	1,956	1,383	3,068
Provoloni and Provolette	2,459	2,859	2,846	2,645	2,073	2,665	2,944	3,077
Roquefort	2,059	2,063	1,671	2,543	2,326	2,416	2,159	3,889
Cheddar	9,606	9,720	9,324	9,512	3,840	4,235	4,574	4,903
Blue Mold	4,877	4,766	4,485	4,417	2,773	2,834	2,874	3,070
Edam and Gouda	11,457	11,799	10,126	10,149	5,306	5,670	5,598	6,523
Colby	6,029	1,682	523	792	2,044	538	186	317
Other cheeses	47,543	63,364	50,856	71,870	17,030	25,799	23,373	36,903
Total cheese	144,102	160,936	135,927	179,356	68,224	83,301	75,706	110,310
Total value, all dairy imports					99,305	119,206	113,479	167,423
Whole milk equivalent of total imports [2] (pounds in billions)	1.6	1.9	1.3	1.7				

[1] Preliminary.
[2] Includes ice cream and chocolate crumb.

TABLE 5.—BUTTER AND CHEESE: U.S. IMPORTS BY COUNTRY OF ORIGIN, 1969-72

[In thousands of pounds]

Country of origin	1969	1970	1971	[1] 1972
Butter:				
Denmark	184	180	175	171
Netherlands	176	155	65	25
New Zealand [2]	314	388	368	354
Other	4	25	20	[3] 164
Total	678	748	628	714
Cheese:				
Canada	2,420	4,478	2,969	3,738
El Salvador	53	75	71	102
Argentina	8,505	3,113	3,930	8,809
Brazil	10	603	252	388
Austria	7,593	9,959	8,523	10,728
Belgium and Luxembourg	758	881	477	585
Denmark	25,560	39,206	31,128	39,607
Finland	6,620	8,946	8,149	12,997
France	12,822	7,925	7,776	13,201
Germany, West	4,645	5,362	4,844	5,095
Greece	2,034	4,420	3,540	5,510
Iceland	560	560	657	648
Ireland	1,894	2,360	2,107	1,926
Italy	17,470	17,778	13,002	17,412
Netherlands	8,876	9,408	8,864	9,038
Norway	2,249	2,754	3,437	5,639
Portugal	636	596	295	349
Sweden	2,116	2,070	2,145	2,412
Switzerland	11,826	13,072	11,916	13,847
United Kingdom	768	1,604	1,411	983
Bulgaria	475	24	873	1,480
Czechoslovakia	138	205	257	322
Hungary	614	968	368	268
Poland	2,141	2,313	1,391	2,037
Romania	2,255	1,580	2,458	2,132
Yugoslavia	397	462	132	174
Cyprus	47	42	48	46
Israel	211	254	622	378
Australia	3,460	3,713	3,409	3,289
New Zealand [2]	16,794	16,165	10,762	16,130
Other	[4] 155	40	[5] 114	[6] 86
Total	144,102	180,936	135,927	179,356

[1] Preliminary.
[2] Includes Western Samoa prior to Jan. 1, 1972.
[3] Includes 29,000 pounds from Argentina and 128,000 from Sweden.
[4] Includes 30,000 pounds from Costa Rica, 53,000 from the Dominican Republic and 36,000 from Jamaica.
[5] Includes 37,000 pounds from the other Pacific islands, not elsewhere classified.
[6] Includes 33,000 pounds from British Honduras.

TABLE 6.—CHEESE: U.S. IMPORTS BY TYPE AND COUNTRY, 1969-72 CALENDAR YEARS

[In thousands of pounds]

Type and country of origin	1969	1970	1971	[1] 1972
Cheddar:				
Canada	1,086	1,629	1,489	1,620
Belgium and Luxembourg	168	200	68	56
Denmark	39	32	46	19
France	100	0	0	0
Germany, West	25	28	0	5
Ireland	506	525	554	557
Sweden	117	114	86	126
United Kingdom	17	5	24	57
Australia	1,662	1,699	1,675	1,670
New Zealand [2]	5,860	5,475	5,364	5,386
Other	26	13	18	16
Total	9,606	9,720	9,374	9,512
Swiss: [3]				
Canada	116	36	76	19
Austria	7,238	9,603	8,260	10,349
Denmark	5,397	6,987	5,427	6,186
Finland	5,522	7,653	7,272	11,680
France	42	55	282	475
Germany, West	2,410	2,248	2,165	1,923
Ireland	248	266	206	71
Netherlands	53	244	159	156

TABLE 6.—CHEESE: U.S. IMPORTS BY TYPE AND COUNTRY, 1969–72 CALENDAR YEARS—Continued

[In thousands of pounds]

Type and country of origin	1969	1970	1971	[1] 1972
Swiss:[3]—Continued				
Norway	1,107	1,600	2,288	4,221
Portugal	59	275	28	0
Sweden	11	47	5	103
Switzerland	10,452	11,045	9,239	10,981
Hungary	0	51	29	0
Israel	77	101	398	58
Australia	5	31	7	11
Other	20	[4] 62	[5] 76	56
Total	32,757	40,304	35,917	45,289
Pecorino:				
Greece	2,032	4,420	3,540	5,508
Italy	13,090	12,894	9,042	13,259
Bulgaria	475	24	873	1,480
Hungary	614	899	338	268
Romania	2,255	1,580	2,458	2,132
Yugoslavia	397	462	132	174
Cyprus	47	41	48	46
Turkey	0	0	0	15
Australia	163	139	64	27
Other	[6] 154	[7] 162	71	41
Total	19,227	20,621	16,566	22,950
Roquefort:				
France	2,055	2,062	1,635	2,543
Other	4	1	[8] 36	0
Total	2,059	2,063	9,671	2,543
Romano:				
Argentina	4,384	1,379	1,776	3,584
Italy	52	53	23	0
Other	4	15	0	0
Total	4,440	1,447	1,799	3,584
Reggiano and Parmesano:				
Argentina	2,548	799	1,236	3,635
Italy	1,014	1,512	578	957
Other	86	0	0	13
Total	3,648	2,311	1,814	4,605
Edan and Gouda:				
Argentina	9	297	116	275
Austria	19	51	5	14
Belgium and Luxembourg	2	21	8	4
Denmark	1,396	1,638	615	294
Finland	81	39	0	36
Germany, West	358	176	421	358
Ireland	215	235	269	187
Netherlands	8,449	8,723	8,318	8,510
Norway	316	291	296	357
Portugal	363	10	3	7
Sweden	196	81	73	71
Israel	3	0	0	0
Other	0	[9] 237	2	36
Total	11,457	11,799	10,126	10,149
Blue Mold:				
Denmark	4,651	4,520	4,208	4,067
France	3	1	2	13
Germany, West	2	1	17	38
Italy	84	89	85	113
Norway	54	57	63	57
Sweden	9	9	12	14
United Kingdom	74	81	95	104
Other	0	8	3	11
Total	4,877	4,766	4,485	4,415
Provoloni and Provolette:				
Italy	2,454	2,852	2,842	2,637
Australia	5	7	0	5
Other	0	0	4	3
Total	2,459	2,859	2,846	2,645

TABLE 6.—CHEESE: U.S. IMPORTS BY TYPE AND COUNTRY, 1969-72 CALENDAR YEARS—Continued

[In thousands of pounds]

Type and country of origin	1969	1970	1971	[1] 1972
Colby:				
Belgium and Luxembourg	240	46	142	7
Denmark	40	75	2	18
Germany, West	10	140	0	14
Ireland	516	533	307	621
Sweden	122	122	71	122
United Kingdom	13	0	1	8
Australia	1,602	704	0	0
New Zealand [2]	3,469	61	0	0
Other	17	1	0	2
Total	6,029	1,682	523	792
Other cheeses:				
Canada	1,180	2,810	1,370	2,093
El Salvador	53	75	71	102
Argentina	1,563	637	803	1,297
Brazil	10	588	251	375
Austria	303	298	241	358
Belgium and Luxembourg	335	607	253	439
Denmark	14,037	25,946	20,813	29,019
Finland	1,017	1,254	877	1,251
France	10,589	3,806	5,857	10,152
Germany, West	1,842	2,570	2,241	2,757
Iceland	560	560	657	648
Ireland	409	798	771	481
Italy	777	378	430	417
Netherlands	277	381	368	357
Norway	771	807	790	1,014
Portugal	186	279	241	324
Sweden	1,661	1,697	1,893	1,977
Switzerland	1,374	2,018	2,669	2,855
United Kingdom	658	1,448	1,270	811
Czechoslovakia	127	160	257	322
Hungary	0	18	0	0
Poland	2,139	2,296	1,385	2,037
Israel	130	146	221	321
Australia	24	1,134	1,663	1,573
New Zealand [2]	7,465	10,622	5,398	10,744
Other	56	31	66	120
Total	47,543	61,364	50,856	71,844

[1] Preliminary. [2] Includes Western Samoa prior to Jan. 1, 1972. [3] Includes Emmenthaler with eye-formation and Gruyere, process cheese. [4] Includes 34,000 pounds from the United Kingdom. [5] Includes 37,000 pounds from the other Pacific islands, not elsewhere classified. [6] Includes 38,000 pounds from Canada, 36,000 from Jamaica, and 32,000 from France. [7] Includes 40,000 pounds from Czechoslovakia, and 53,000 from the Netherlands. [8] Includes 34,000 pounds from Canada. [9] Includes 36,000 pounds from the United Kingdom.

TABLE 7.—CASEIN: U.S. IMPORTS BY COUNTRY OF ORIGIN, 1969-72

[In thousands of pounds]

Country of origin	1969	1970	1971	[1] 1972
Canada	6,990	10,583	7,579	2,049
Trinidad and Tobago				48
Argentina	15,431	11,880	9,871	16,318
Brazil	22		219	172
Uruguay	1,660	637	1,518	263
Belgium and Luxembourg	5		65	
France	11,184	11,237	8,271	8,661
Germany, West	521	379	2,325	2,635
Netherlands	147	210	1,727	4,602
Austria		168		
Denmark	336	432	255	521
Ireland		32	905	4,439
Norway	185	254	333	137
Sweden			50	
Switzerland	52	81	110	100
United Kingdom	204	1,072	604	862
Bulgaria		220	88	44
Poland	2,775	658	2,260	6,996
South Africa, Republic of	100	104		26
Japan			1	44
Syrian Arab Republic				112
Thailand				435
Australia	30,088	34,335	31,800	27,273
New Zealand [2]	46,407	63,006	37,958	29,664
Total	116,107	135,288	105,939	105,401

[1] Preliminary. [2] Includes Western Samoa prior to Jan. 1, 1972.

Senator TALMADGE. Now do you think our dairy farmers in this country would be able to compete in the free market if the Europeans agreed to drop their subsidy programs?

Mr. HEALY. We would be able to compete with the Europeans very readily. For example, right now we are exporting grain to Europe, running it through animals which produce on the average about half as much milk per animal as ours do, and bringing the material back—bringing the milk back.

Yes, we could compete quite readily with the European community in the production of milk and milk products.

Senator TALMADGE. I understand at one point the butter surplus in the common market countries exceeded the weight of the entire population of Austria?

Mr. HEALY. I think that could well be true.

Mr. Chairman, on that point, the interesting thing is that right now they have 800 or 900 million pounds of butterfat surplus in the Common Market. Three years ago they did not have enough to feed themselves.

I myself went to Europe and arranged the conditions under which we sent them 140 million pounds of butter because they did not have it.

Senator TALMADGE. Did they not sell a part of that surplus last year to the Soviet Union at ridiculous low prices?

Mr. HEALY. They sold it at about 19 cents, when their intervention price which corresponds very roughly to our price support level, was about $1.02, so they subsidized it roughly in the neighborhood of 80 cents.

Senator TALMADGE. Could you supply us, for the record, the average prices dairy farmers have received over the past 5-years compared with the average cost over that period?

Mr. HEALY. Yes, sir.

[The information referred to above follows:]

Prices Received by Farmers for All Milk Sold to Plants, 1969–73

Year:	*Dollars per hundredweight*
1969	5.49
1970	5.71
1971	5.87
1972	6.07
1973	7.17

Source: Agricultural Prices, SRS, Crop Reporting Board, USDA.

It is difficult to identify a "cost" figure for milk production as it varies widely between regions of the country and even between farms in a given region. Since milk production over the last year has been falling at an accelerating rate, it goes without saying that current price levels are inadequate to cover the cost of production.

It was partially because of the lack of good production cost data that the Congress directed the Department of Agriculture, as a part of the Agriculture and Consumer Protection Act of 1973, to conduct an investigation into the costs of producing major farm commodities, including milk, in the United States.

A long standing measure of the profitability of milk production is the milk-feed ratio. This ratio represents the number of pounds of concentrate ration that are equal in value to one pound of milk. The following table shows the milk-feed ratio for the years 1969 through 1973.

Milk-feed Price Ratio, 1969–73

Year:	Ratio
1969	1.74
1970	1.74
1971	1.71
1972	1.73
1973	1.44

Source: Economic Research Service, USDA.

Since feed costs are the largest single item in the cost of milk production, running 50 percent or more of the total cost, this ratio is a good measure of the level of profitability of the dairy enterprise. It is generally considered by dairy production specialists that a milk-feed price ratio in the area of 1.70 is the minimum essential for a profitable operation. It should be pointed out that the 1.44 ratio experienced in 1973 was the lowest in the past 18 years.

Senator TALMADGE. Thank you, Mr. Healy.

Senator Packwood?

Senator PACKWOOD. Mr. Chairman, Senator Dole will be by shortly. He is in an Agriculture Committee meeting right now and he asked me to express his regrets at not being here.

As I understand, in response to Senator Talmadge's question, you were saying you could compete in the European community if they had no barriers on our export of dairy products?

Mr. HEALY. Under two conditions, Senator. If they had no barriers to our sending material to them; and if they did not subsidize their exports to us.

The committee should be mindful, however, that I do not think we could compete in New Zeland. They practice grassland farming down there and it produces very efficiently. We could not compete there.

But, with the European Community, I think we could, very, very well.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator TALMADGE. Thank you very much. We appreciate your appearing before us. Mr. Healy, and your fine statement.

[The prepared statement of Mr. Healy follows. Hearing continues on p. 995.]

PREPARED STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION

Mr. Chairman, I am Patrick B. Healy, secretary of the National Milk Producers Federation. The Federation is a national farm community organization representing dairy farmers and the dairy cooperative associations they own and operate. The Federation's membership consists of dairy cooperative associations doing business in all fifty States and the Union. The policy positions presented by the Federation are the only nationwide expression of dairy farmers and their cooperatives on national public policy.

We are pleased to have this opportunity to testify before this Committee on the Trade Reform Act. For more than a year there has been a growing concern and apprehension on the part of the dairy farmers of the country over the new round of trade talks under the General Agreement on Tariffs and Trade. This concern, as we shall make clear, is rooted in policy recommendations that have been advanced and in actions that have been taken by the Federal government in the past year on questions of greater importance to our industry.

THE DAIRY INDUSTRY IN THE UNITED STATES' ECONOMY

A basic knowledge of the importance of the dairy industry to American agriculture and to the overall economy is essential to an understanding of the industry's position on the pending legislation. It is also necessary to bear in

mind that any discussion of this issue deals, not only in the dollars and cents of the balance of trade, but, more importantly, with the production of vital food items for the American consumer.

Dairying represents a major segment of the Nation's agricultural economy. Beyond the farm, the processing and distribution of milk and its products are a major source of employment and business activity in many communities.

During 1973, farmers received $8.1 billion from the sale of milk and cream (Table 1). Over the years, farm income from dairy has been the second leading source of total farm income. Only farm marketings of beef have exceeded dairy as a source of income. When one considers the dairy calves and cull cows that are included as a part of the beef marketings, the impact of dairy on the agricultural economy becomes even more significant.

Nor is the dairy industry confined to a single geographic area. While there is a heavy concentration of dairy production in the Great Lakes states, the dairy industry is a major source of farm income across the nation. We automatically think of Wisconsin and Minnesota when discussing the dairy industry, but the industry is the foremost source of farm income in such states as Vermont, New Hampshire, Massachusetts, Connecticut, New York, Pennsylvania and Michigan. California is the second leading state in total milk production. Milk production is the first, second or third major source of farm income in 22 of the 50 states and ranks fourth in 15 others.

In 1971, there were almost 5,400 plants either packaging fluid milk or manufacturing milk into butter, cheese, nonfat dry milk, ice cream, cottage cheese and other dairy products. Many of these plants were located in rural communities near the source of milk production. It is not uncommon in these rural areas to find such plants to be the largest employer in the community.

In addition to the thousands of employees working directly in the milk plants, over 40,000 persons are employed as milk haulers moving milk from farms to the processing plants. Another 16,800 find employment in the movement of milk and manufactured products from the processing plants to wholesale and retail outlets.

Thus, the off-farm payrolls generated, the supplies and equipment needed and the other economic activity produced by the dairy industry is far broader than what is visible on the nation's dairy farms.

In recent years, we have seen structural changes that have transformed American agriculture and made it the production marvel of the world. Nowhere are these changes more apparent than in the dairy business.

In 1950, 3,648,000 farms reported having milk cows and the average herd size was fewer than six cows. The most recent Agricultural Census—1969—shows only 568,000 farms with cows and an average herd size of almost 20 cows (Table 4). It is generally considered that about 300,000 commercial dairy farmers produce most of the milk in the country today.

As the number of dairy farms has declined, herd size has increased, the investment in equipment, land, livestock and facilities has risen, and the degree of specialization has become greater. Twenty-five years ago, many farmers looked at a small herd of dairy cattle as a source of supplemental income to go with their meat animal production or their production of cash grain. With the increasing level of specialization, income from milk marketings is generally the prime source of income for today's dairy farmers.

In recent months, there has been much discussion regarding the efficiency of the American dairy farmer as compared to his contemporaries in foreign countries. Some economic analysts have made the totally unsupported statement that milk production in many countries, particularly those of the European Economic Community, enjoy a comparative advantage to that in the U.S. A brief look at some of the factors involved would call these claims into serious question.

In 1950, a national herd of almost 22 million cows produced 116.6 billion pounds of milk. In 1973, a national herd of 11,420,000 cows produced 115.6 billion pounds of milk. Production per cow has risen by almost 100 percent during that 23-year span, and half as many cows now produce the same amount of milk. (Table 1).

In 1950, it took 2.36 man hours to produce 100 pounds of milk. By 1972, the labor requirement per hundred pounds of milk had declined to .60 hours (Table 3).

The same technology and innovation that has raised the level of production on other farms is being employed on the dairy farms of this county. Looking at the level of production per cow, man hours per hundredweight of milk and other absolute measures, the basic level of productivity in the dairy

industry in this country outstrips that of other nations. If other nations are to have an economic advantage over the U.S., it must be gained through other means. More will be said on this later.

The modernization and expansion of the dairy farm has not been without its problems. As already noted, many farmers have departed from the business. Those who have stayed have invested millions of dollars to upgrade their producing herds, to enlarge and mechanize their feed production and handling systems, and to improve their milk production facilities. All of this has accomplished one basic need in the public interest—it has provided a continued and assured wholesome supply of an essential food item.

In addition to making this investment in their individual farm operations, dairy farmers across the country have organized cooperative marketing associations that today are an integral and essential part of the marketing structure of the industry. Through many of these cooperatives, farmers have invested large sums in modern, high volume processing plants that have improved the overall efficiency of the dairy industry. As these plants have come into being, they have replaced older, outmoded facilities that generally could not provide the economies of operation possible in modern facilities.

Of course, the modernization of the industry has not come about without substantial financing from off-farm sources. The agencies of the Federal Farm Credit System and private lending agencies have all made substantial advances to assist both the farmer and his cooperative in making these improvements a reality.

MILK PRODUCTION PATTERNS AND USE

Following World War II, dairy farming in this country underwent a change that saw a rapid conversion from the sale of farm-separated cream to fluid milk. Today, sales of cream by farmers represent less than ¼ of one percent of dairy farmers' income, while in 1950 it was almost 14 percent.

Milk marketings have been divided into two categories—milk eligible for fluid use (Grade A) and manufacturing milk (Grade B). More than 75 percent of the milk marketed in the country is now eligible for fluid use, and all indications are that all milk will meet the Grade A standard in a very few years. Despite this, only about 46 percent of the milk sold by farmers is consumed as fluid milk. This means that a substantial amount of milk eligible for fluid use is made into manufactured dairy products in addition to that milk which is only eligible for manufacturing.

In view of the above situation, some people have said that we can safely reduce the level of milk production in this country to that amount needed in the fluid milk market. Such an approach to the problem is a gross oversimplification and fails to recognize either the biologics or economics of the milk industry.

Grade A milk made into dairy products not only supplies the U.S. market for such commodities, but serves as a reserve supply which assures the consumer of adequate supplies of fluid milk throughout the year.

Consumption of milk and milk products is fairly constant throughout the year, but milk production shows a marked seasonal pattern. Production rises each year through the months of April, May and June and reaches a low point during the last quarter of the year—October, November and December.

Compounding this seasonal pattern is a daily variation in the demand for raw milk that has evolved from our marketing system. With the advent of single service containers, large supermarkets and reliable home refrigeration, the housewife today does her purchasing on one or two days a week. This means that the weekly requirements of fluid milk are often bought on or just before weekends and just ahead of holidays. This being the case, the demands of fluid milk bottling plants fall to near zero on weekends and vary considerably between days of the week.

Thus, to have sufficient fluid milk for the market on a Friday in November, there must be substantially more produced than the market will absorb on a Sunday in May. Since milk is highly perishable and must be processed within a short time, this reserve supply is made into manufactured dairy products which can be stored for sale to consumers at a later date when production levels are down.

GOVERNMENT PRICING PROGRAMS

The Congress, through a series of enactments, has recognized the need for a national food policy that assures the consumers of this nation adequate supplies of high quality food at reasonable prices. The success of these efforts is evident when we consider the fact that the American consumer spends a smaller part of his or her take-home pay for food than consumers in any other country. At the same time, these programs have enabled the farmers and ranchers of this country to develop production capacity that has made American agriculture the envy of the World. Besides producing abundantly for this market, we are able to provide substantial amounts of some farm commodities for foreign export.

In the dairy area, the Congress has enacted two major and related programs which are aimed at assuring the production of an adequate supply of milk while providing market and price stability for dairy farmers.

The first of these, the dairy price support program authorized by the Agriculture Act of 1949, directs the Secretary of Agriculture to establish a price support level for milk, between 80 and 90 percent of parity [1] which will assure the production of an adequate supply of milk and provide a level of farm income sufficient to maintain the production capacity needed to meet future anticipated needs. The mechanism through which this program is carried out is a program under which the Commodity Credit Corporation stands ready to purchase all butter, nonfat dry milk and Cheddar cheese of given quality offered to it at stated program prices.

The amount of dairy products acquired under the program by CCC has varied cinsiderably over the years (Table 6). During the past year, virtually no purchases have been made. Throughout the years, a substantial portion of the products acquired has been used to good advantage in the school lunch and other food assistance programs of the Federal government. In fact, the Congress has specifically recognized the value of these food stocks for this use by providing authority for the Department of Agriculture to buy them in the open market when CCC stocks acquired under the price support program were inadequate to meet the demands of the programs.

The second basic enactment of the Congress dealing with milk marketing is contained in the Agricultural Marketing Agreement Act of 1937 which provides the authority for the system of Federal Milk Market Orders. These market orders which are now in effect in 61 major markets in the country and cover about 80 percent of the milk eligible for fluid use, promote and maintain orderly marketing in the interest of both the producer and the consumer.

The orders provide a framework under which specified minimum prices for milk going into specific uses are determined. Handlers who process milk are required to pay these prices to farmers. The highest prices under the orders, of course, are for milk sold for consumption as fluid milk, while lower prices are paid for that portion entering into the production of manufactured dairy products. All such prices are determined from a formula which is based on the average prices paid for manufacturing milk in the Minnesota-Wisconsin production area. Since the Minnesota-Wisconsin price is heavily influenced by the price support program price level, all milk prices in the country are directly related to the price support program.

DAIRY PRODUCT IMPORTS

Congress has long recognized that excessive and unnecessary imports of agricultural commodities interfere with and defeat the intended purpose of the program established as a part of our national food policy. This is certainly true in the case of the dairy industry. Imports of dairy products add to the total supply available to the market, thus depressing milk prices for American farmers. This, in turn, discourages domestic milk production and defeats the stated intent of the Congress to achieve the production of an adequate supply of milk.

In 1935, Congress sought to overcome this problem through the enactment of Section 22 of the Agricultural Adjustment Act. As you know, this provision provides the basis for limiting imports of agricultural commodities when necessary to prevent interference with our agricultural programs. Since its original

[1] The Agriculture and Consumer Protection Act of 1973 increased the minimum price support level from 75 to 80 percent of parity for the period ending March 31, 1975. After that date, the minimum reverts to the 75 percent of parity contained in the Agriculture Act of 1949.

enactment, Section 22 has been amended and revised on several occasions, but the original intent remains clear that the statute is to be used as a tool in furthering the basic goal of the Congress in the enactment of our agricultural programs.

Since 1953, a comprehensive system of quotas has been imposed on dairy product imports under the authority of Section 22. This has been deemed necessary to prevent imports from flooding this market, depressing domestic prices, and defeating the intended purpose of the dairy price support program. When properly administered, this program can provide an effective limitation to the entry of unneeded product.

Despite arguments which have been advanced regarding lower cost dairy products being available from other countries, the record is clear that many of the dairy products imported into this country—particularly in recent years have been lower only because of export subsidies paid by the country of origin. Unfortunately, too many countries have tended to look to this market than taking the steps needed to adjust production to the level of demand that normal commerce would absorb. In a word, they have shifted their problem to U.S. dairy farmers.

The initial quotas on dairy products covered only the conventional items such as butter, nonfat dry milk and various types of natural cheese. Foreign producers, however, soon found that they could ship milkfat and nonfat milk solids into this market in other forms not previously found in international trade. Products such as butteroil and butterfat-sugar mixtures were soon entering this country in open efforts to evade and defeat the quotas. Similar evasions were common in the case of cheese, as the identity of the product was varied slightly to gain admittance.

The result of these actions was a series of Tariff Commission actions to broaden the coverage of import quotas and to close the existing loopholes.

As indicated earlier, unneeded and excessive imports of dairy products depress dairy product and milk prices in the United States. Milk produced in foreign countries can be made into any product that can be made from milk produced in this country. Thus, imports of any product made from milk displace domestic milk production and the resulting price depression or suppression discourages milk production here. As this cycle proceeds, the resulting decline in milk production leaves a void in this market that can only be filled by imports. Reliance on imported dairy products for any significant portion of this market's needs is shortsighted in the extreme, and the ultimate result can only be higher U.S. prices. Unfortunately, there are those who would lead us in that direction.

There are forecasters and policy-makers in the government that maintain that we can import additional dairy products and thus benefit the consumer through reduced prices. Other seers call for the expansion of dairy product imports to pave the way for hoped for expansion of the export of other commodities.

Both such attitudes are dangerous. Neither has any sound basis in the history of agricultural production and trade around the world. Both are, in effect, playing fast and loose with the welfare of the American consumer and the agricultural economy of this country.

What is the true picture regarding the availability of dairy products in the world market? Is there a stable, dependable supply available? Today, there may be supplies available—some countries are experiencing a surplus of product which is temporary at best. The European Economic Community is reported to have upwards of 900 million pounds of butter in store. But is this a dependable supply?

One only has to look to the situation that existed during the winter of 1971–72 to answer that question. That winter, the United States sold 140 million pounds of butter to the United Kingdom—the world's leading dairy importer. That sale was not made because we sought to unload the butter onto a market that did not need it. It was not made because of any preferential deal. It was made simply because the United States was the only source of butter in the world at the time.

Australia and New Zealand which had traditionally supplied the major portion of England's butter imports were suffering a drought that reduced their output. The nations of the EEC (six at that time) had reduced production because of poor feed crop harvests and internal policies aimed at reducing the cost of their dairy program.

Less than two years before this, the EEC had been selling butter for less than 20 cents a pound to Middle Eastern and Latin American countries. Yet in 1971–72, they could not meet the demands of a market just across the English Channel. This clearly demonstrates the volatility of this supply.

This is the type situation some people would have us depend on. Today the rains have return to Oceania. The EEC dairy policy has been revised—due to political pressures. Supplies are once again available—so available, in fact, that a year ago, the Common Market sold 440 million pounds of butter to the Soviet Union for an average price of about 19 cents a pound.

That sale carried an export subsidy of more than 80 cents a pound.

What is the truth of the availability of lower prices to consumers through expanded dairy product imports? Last July, the Foreign Agriculture Service of the U.S. Department of Agriculture reported on a survey of selected food prices in major cities of the world. Butter was then selling for 75 cents a pound in Washington, D.C. In Bonn, it was $1.51 a pound; in Brussels, $1.48; in Copenhagen, $1.42; and in Paris, $1.56. In fact, only Brazilia and London reported lower butter prices than right here in the U.S. The London price is the result of national policies that have been aimed at keeping food prices to consumers lower than have prevailed in Europe. These prices are now rising as the UK moves into full Common Market membership.

Cheese prices reported at the same time showed a similar pattern. The simple fact is that, given present agricultural policies around the world, the United States has and will continue to have the lowest food costs generaly available.

When then is there concern on the part of the American dairy farmer? His concern arises because of the indicated willingness of officials of this Administration to sacrifice a substantial portion of this market for dairy products on the alter of convenience to obtain a hoped for advantage to expand exports in other areas.

The much discussed "Flanigan Report" which is now almost two years old spells out this philosophy in some detail. Without any economic justification, the report develops a recommended trade negotiating strategy that calls for the expansion of dairy product imports by almost one billion dollars a year in an effort to grab larger markets for our wheat, feed grains, soybeans and beef.

The dairy farmer does not stand in the way of the economic progress of other segments of the agricultural economy. Neither does he wish to be the sacrificial lamb in any trade deal.

We are aware that Secretary of Agriculture Butz has told this Committee that nothing will be given away for nothing in the GATT trade talks. We are aware that he has acknowledged the concern of the dairy industry over this threat.

We are also aware that he has told the agricultural ministers of every major European nation that Section 22 will be on the bargaining table at Geneva. We are also aware that he has asked them to consider reorienting their policies to permit freer access for U.S. goods to their markets. He has urged them to reduce or eliminate the use of export subsidies as part of their program. What reply has the Secretary received? He has been told in specific, straightforward terms that the elements of the Common Agricultural Policy of the EEC (the internal price guarantees, the variable levy, and the export subsidy) are nonnegotiable.

Having been told this, the Secretary has sought to soothe the concern of the U.S. dairy industry by telling us that he has strongly recommended the enforcement of the countervailing duty statute to offset the effect of export subsidies. This would, he says, prevent the situation where the U.S. dairy farmer must compete with foreign governments to hold his market. We accept the Secretary's assurance in this matter. We know he is sincere in his statement. The only problem is that the Secretary of Agriculture does not administer the countervailing duty statute. This is the responsibility of the Secretary of the Treasury.

Members of this Committee are fully aware of the almost total unwillingness of the Department of the Treasury to move under this law even though it is a clear, direct mandate to act whenever there is knowledge of the use of an export subsidy to assist the export of a product to the United States.

Since 1968, the National Milk Producers Federation, our member dairy cooperative and Members of Congress have attempted to secure the imposition of countervailing duties on subsidized dairy products from the Common Market. The standard response has been that the matter is "being considered to determine if an investigation is warranted." The Treasury Department denies knowledge of the existence of export subsidies paid by the Common Market. This is a fiction. Such information is freely available to anyone interested in making a telephone call to the Foreign Agricultural Service. That agency can, and does, provide copies of the published subsidy rates posted periodically by the Common Market. The most recent such information is attached to this statement as Exhibit A.

In an effort to secure action to enforce the law, the Federation and several of its member cooperatives have sought recourse to the courts to force implementation of the countervailing duty statute.

Thus, we cannot find any reassurance in the position of the Secretary of Agriculture. It is the law. Simple justice requires its enforcement. There appears to be an attitude on the part of some, however, that they can place themselves above the law and do what they desire regardless of the damage this inflicts on others in our society.

Indeed, the statements of Secretary Shultz before this Committee in regard to the countervailing duty question point in the direction of giving the Department of Treasury complete discretion in its enforcement and collection.

I would like to return briefly to the questions raised and proposals advanced by the so-called "Flanigan Report." This document, which was prepared by the U.S. Department of Agriculture at the request of Mr. Peter Flanigan, the director of the President's Council on International Economic Policy, has been disclaimed by virtually every official qualified to comment on it. Despite the disclaimers, the very points that are advocated in the report are being carried out.

The report (written in 1972) acknowledges the size and strength of the American dairy industry. It argues that the size of the industry must be reduced and the strength sapped. It calls for an end to the dairy price support program. It recommends the development of a dependence on imported dairy products in this market.

Last March, Secretary of Agriculture Butz asked the Congress to eliminate the minimum level of price support under the dairy price support program as a part of the farm bill then before Congress. The Congressional response—taken under the leadership of several Members of this Committee—was to increase that minimum for two years and to restate and strengthen the Congressional direction that the program be used to assure the production of adequate milk supplies in this country.

Despite the clear fact that we are witnessing a dangerous decline in milk production in the United States, the Administration has acted three times in the last twelve months to set the price support level at the minimum allowed by law. The most recent action—announced just 17 days ago—infers that the minimum price support level will assure the production of adequate milk supplies, as that is the requirement of the statute. Using estimates developed by the USDA, projections show that we need 118.4 billion pounds of milk in this country this year. To reach this output, we must reverse the downward trend of production in this country and actually raise output 3 billion pounds over 1973. The announced price support action cannot and will not do this. It will, however, along with other actions that have been taken, serve to strengthen the inclination of dairy farmers to leave the business.

But the price support actions are not the only area of attack that has been employed over the last year.

Using the allegation of production shortfalls, dairy product imports in 1973 were expanded to the extent of 265 million pounds of nonfat dry milk, 47 million pounds of cheese, and the equivalent of 84 million pounds of butter. These actions were taken for the stated purpose of reducing domestic prices—in numerous instances the only way that could be accomplished would be through the willingness of foreign governments to continue their export subsidies.

Since January 1, 1974, imports have been expanded to allow the entry of an additional 100 million pounds of Cheddar cheese and 150 million pounds of nonfat dry milk. All of these import actions have been open, direct measures to reduce the ability of the American dairy farmer to meet his costs of production and, thus, to stay in business and meet the milk requirements of the nation.

The price support and import actions have actually been used in concert to demoralize the industry and to signal the dairy farmer the willingness to give this market away rather than take the needed steps to maintain domestic production.

On March 8, 1973, Secretary of Agriculture Butz announced that a price support level of 75 percent of parity—the minimum allowed by law—would assure the production of an adequate supply of milk. On that same day, the President requested the Tariff Commission to investigate the need to expand the imports of cheese by 50 percent for the purpose of reducing domestic prices and preventing shortages in the marketplace.

On August 14, 1973, the Secretary of Agriculture adjusted the prices support level as required by the Congressional direction in the Agriculture and Consumer Protection Act of 1973. At this time he again chose the legal minimum permitted since "this level will assure the production of an adequate supply of milk." Two weeks later, the President announced the expansion of nonfat dry milk imports by 100 million pounds "to prevent shortages in the marketplace."

We have come full circle on the price support issue. On March 8, 1974, exactly a year after the price support announcement referred to above, the price support level for the 1974–75 marketing year was announced. Once again, it was determined that the minimum allowed by law would achieve the production of an adequate supply of milk. Once again, the announcement was tainted even before it was made. On March 4, the President announced the expansion of nonfat dry milk imports by 150 million pounds to meet shortfalls in domestic production.

The open contradiction of these actions could be viewed as comic. To the dairy farmer they are tragic. Coming together as they have, they cannot help but be viewed as notice that this market is not his. That, despite the programs the Congress has provided to assure adequate milk production in this country, actions can and are being taken to make his continuation in business untenable. Urgent requests from the industry for relief have gone unheeded. A meeting with administration officials for the purpose of reviewing means of increasing milk supplies brought just one result—more imports.

This series of actions has represented a total disregard for the well-being of the dairy industry. They have caused the departure of dairy farmers from the business. They have resulted in a dangerous reduction in milk production in this country. We must question that they have been coincidental to the Flanigan Report and other such studies.

They can be viewed as steps toward the studied destruction of the dairy industry of the United States, and the reduction of the American consumer to a dependence upon foreign supplies for an essential part of her family's food needs, even though there can be no assurance that such supplies will be available or that the prices will in any way compare to those which would result by maintaining domestic production.

Many dairy farmers today can see viable alternatives for themselves either outside of agriculture entirely or in other lines of agricultural production. The relatively high prices for beef over the last year, rising land values, and high prices for feed grains have enabled many farmers to either leave the farm or shift their operations profitably. In some areas, however, the alternative to dairying is limited and that shift cannot be made so easily, if at all.

There is one group, however, that has no alternative whatsoever. That group consists of the consumers of this country. Thus, if we permit the implementation of policies such as advanced in the "Flanigan Report" we will be a party to increasing the cost of basic and essential items in the diet of every family in the United States. This can be avoided. The bill now before this Committee provides the vehicle to prevent this from occurring.

Despite the academic appearance of the "Flanigan Report" and its high-sounding pronouncements, its analysis and conclusions are not undergirded by any supporting documentation. The claim for a comparative advantage in dairy product production for the Common Market nations is supported simply by the statement: "Europe will export considerably larger quantities of dairy products inasmuch as she will be efficient in dairy products, a point which she has made to us consistently for a considerable period of time."

None of the supporting or background documentation for the study even attempts to support or substantiate that claim. We have seen the development of a thesis that says it will benefit all Americans, including the consumer, to ship American feed grains to Europe, feed them to lower producing European cows, take the milk from these herds that are on smaller and less efficient farms, process the milk into dairy products and ship those products back to the United States.

In the absence of any complete and adequate information in this area, the Federation has undertaken to develop cost structures for the dairy industry in the major producing nations of the world. While not complete as yet, preliminary indications are that the United States has a production advantage over other nations with the exception of New Zealand and possibly Australia. The grassland type agriculture that can be practiced in these countries, particularly New Zealand, does give them an advantage.

To develop a policy that would depend heavily on these sources of supply would be risky as well. New Zealand produces less milk than the State of Wisconsin. Though their dairy industry relies on the export market for its very existence, the industry leadership there is very determined never again to become basically dependent on one market as their major outlet. They learned their lesson with the entry of Great Britain into the Common Market. After having preferential access to that market for years, they are now faced with the prospect of having to find other markets as they are being phased out of the British market over the next few years.

There is another factor of major consideration in this discussion that cannot go unmentioned. Strict livestock disease controls and demanding sanitary regulations have been imposed on the domestic industry to insure the production of pure and wholesome milk and dairy products. While these actions have meant added cost to the dairy industry, they have been accepted as essential in the interest of improved public health. If these public health considerations are valid, can we logically insist on less strict standards being enforced on imported products? The answer of course is "no." Yet efforts to obtain strengthening of existing import inspection programs or to expand this inspection to conform to U.S. requirements are met with opposition by the administration.

Thus, we can see no real advantage to the proposals to expand dairy product imports. I doubt that anyone can actually deny that this policy is being implemented piecemeal, however, It is a disservice to a significant segment of American agriculture. It is a disservice to the American consumer.

A good deal has been said about the need to develop self-sufficiency in energy here in the United States. Basic self-sufficiency in food production, where possible, has long been the goal of the Congress. We have had and we continue to have that capability. It would be a grave error to permit the destruction of that capability now.

The discontent that has accompanied gasoline lines in recent months has been considerable. It would be dwarfed, unfortunately, by the discontent growing out of milk lines. That is the road down which current policies are taking us. That route must be detoured. It can be, but it must be the Congress which takes the leadership in bringing us back to the track that has been laid out over the years. We must return to the policies laid down by the Congress which sought to build an American agriculture under which both the consumer and the farmer benefited.

RECOMMENDATIONS

H.R. 10710, as passed by the House of Representatives, does provide the basis for multilateral trade negotiations that can prove beneficial to the United States. As we have outlined, there are deep concerns on the part of the nation's dairy farmers regarding these trade negotiations. We feel that much of this concern can be removed and, in fact, H.R. 10710 actually strengthened in important respects by certain changes in some provisions of the bill.

NEGOTIATING AUTHORITY

Much attention has been focused on the dairy import quotas maintained by the United States under the Section 22 authority. Our trading partners have argued that these quotas are repugnant to them and are an interference with free trade of the highest order. At the same time as finding these quotas offensive, major trading partners—notably the European Economic Community—have openly stated that their policies for restricting imports of the same or similar products, their programs to subsidize exports, and other actions to maintain producer prices and assure adequate production levels are matters of internal concern, and are non-negotiable as a part of international trade talks.

It comes as a shock to the American dairy industry that the Secretary of Agriculture would openly pledge to European leaders a willingness to revise or even eliminate these quotas even before hard negotiating begins. The Secretary's suggestion that EC nations might face the imposition of countervailing duties by this country does little to lessen the concern of the domestic industry in this regard.

There seems to exist a school of thought that Section 22 of the Agricultural Adjustment Act exists simply for the purpose of limiting imports. As you know, it does more than that. Congress provided this legislation for far more basic purposes. Section 22 is intended as a shield for various agricultural programs of the Federal government, including the dairy price support program. It is de-

signed clearly to be used when necessary to prevent imports from interferring with or preventing the achievement of the basic purposes of those programs.

The dairy price support program is designed to accomplish three basic purposes: 1) Assist farmers in receiving parity prices in the marketplace; 2) Prevent prices for milk from dropping to disaster levels; and 3) Assure the production of an adequate supply of milk in this country.

The actions of the past year, coupled with repeated proposals that dairy product imports be greatly expanded, are not aimed at Section 22. They are directed at the price support program itself and at the U.S. dairy industry. The elimination or drastic restructuring of these quotas through international negotiation would simply result in reduced income for American dairymen, reduced milk production in this country, and increased government costs as the dairy price support program was called on to remove displaced American production from the market. Inevitably, this would lead to demands for complete elimination of the price support program itself. Secretary of Agriculture Butz has already requested what amounts to an elimination of the programs.

The economic well-being of the American dairy industry—or any other American industry—must be a basic concern to the Congress. To permit major questions in this area to be determined on the basis of international negotiations fails to recognize the legitimate needs and rights of U.S. farmers and consumers alike.

While we speak of the impact of the Section 22 question on the dairy industry alone, it has been and is used for a wide range of other agricultural commodities. It is a valuable and necessary tool so long as it is the public policy of this government to assure and encourage the production of adequate supplies of essential food and fiber by American farmers at prices that permit those producers to share in the standard of living that has been developed generally in this country.

It is with this background that we would propose the inclusion in H.R. 10710 as a new subsection (i) to Section 102 the language which was included in Section 257 (h) of the Trade Expansion Act of 1962:

> "Nothing contained in this Act shall be construed to affect in any way the provisions of Section 22 of the Agricultural Adjustment Act, or to apply to any import restriction heretofore or hereafter imposed under such Section."

Such action will preserve the flexibility needed in the administration of a domestic programs. In addition, it will assure that the needed tools to maintain and advance basic sectors of the domestic economy are retained and not compromised through international agreements whose applicability and effectiveness cannot be adequately judged today.

The statements contained in the Report of the Committee on Ways and Means of the House of Representatives regarding the implementation of authority contained in Section 102 on nontariff barriers to trade are helpful in stating the intent of that Committee that provisions of concern to American dairy farmers will not be negotiated away in an attempt to secure a hoped-for advantage in other areas. The discussion of this point on the House floor during the debate on H.R. 10710 also helped to establish this point.

Section 102 of the bill establishes a product sector concept which we feel is sound and will lead to the development of negotiations which preclude the type of "trade off" where the interests of one industry could be severely damaged to gain advantage for another. In the agricultural area specifically, we would recommend that the project sector concept be extended to require the establishment of clearly defined sector areas along commodity lines. In the case of diary, all milk products should be included in one category or sector. Such an approach would be feasible and, in addition, it would facilitate the conduct of negotiations by more readily delineating the areas of concern.

We believe that this concept is implied in the Report of the Ways and Means Committee of the House of Representatives on H.R. 10710. It is also implicit in the discussion of this area during the floor debate on the bill. We feel this would be further strengthened, not only for dairy, but for other agricultural commodities as well, by having this made explicit in the language of the Act.

Extension of the sector concept to agriculture would also be in line with its employment in the industrial area. There is no more reasons to consider dairy products and wheat in the same context than there is to discuss electronic components and chemicals together. One of the criticisms of past trade negotiations

and a source of basic concern for many as we approach the current round of talks is the prospect of trade-offs where one industry can be seriously damaged in return for a hoped-for gain for another. This would remove a large amount of that concern.

Further, such an approach to the question would provide the Congress with an added degree of assurance that any benefits gained for the United States through the authorized trade negoitations could be more clearly measured. It would remove the difficulty of judging the relative merit of a loss in one industry versus a possible gain in another.

Such a provision would have the additional advantage of serving statutory notice to our trading partners that the United States Congress clearly expects to measure results in concrete terms rather than hoped for grants. All too often, past trade negotiations have seen the United States settle for some rather vague assurances of improved market access while we have been asked for and granted a more open market in this country. If trade is to be truly a two-way street, as it must be, the basic authority under which our negotiators operate should spell this out in clear terms.

CONGRESSIONAL REVIEW OF AGREEMENTS

H.R. 10710 is somewhat vague regarding which trade agreements would actually have to be submitted to the Congress for review. As pointed out in the Summary and Analysis of H.R. 10710, prepared by the staff of the Senate Finance Committee, the bill is not clear precisely which alleged U.S. nontariff barriers the President could alter by agreement without submitting the agreement to Congress.

The entire range of authority being sought in this legislation is far beyond the scope of anything previously granted to a President by the Congress. This body is however, ultimately responsible for these actions. To meet this responsibility, it is essential that each of these agreements be submitted for the appropriate review and action. We would, therefore, recommend clear, precise language setting forth this intent and requiring that all agreements developed under the authority contained in Section 102 be submitted for Congressional review and approval.

H.R. 10710 as sent to the Senate provides for a system of Congressional review of any agreements dealing with the so-called nontariff barriers. In addition, the opportunity is provided for a Congressional veto over such agreements. We feel that Congress could much more effectively exercise its constitutional responsibility in this area by strengthening this provision to require the specific, positive action of Congress on any such agreement. If such agreements are in the best interests of the nation, if they can stand the full scrutiny of a Congressional review, there should be little problem in securing their approval. If, however, they fail to meet these tests, they should not be allowed to become effective. Congress should insist on the fullest possible protection of its responsibility in this area.

In addition to requiring a positive action by the Congress, provision should be made in the legislation for such agreements to be submitted along product sector lines rather than lumped together. This would permit a clear analysis of each action on its own merit rather than lumping together an array of agreements on differing product sectors in an attempt to build support from individual areas for an entire package which may contain unwise and unwarranted proposals. Such a provision would again actually strengthen the provisions now provided, both for our negotiators and for the Congress, in dealing with the agreements that may be presented to it.

AUTHORITY TO DEAL WITH UNFAIR TRADE PRACTICES

Considerable attention has been focused on the provisions of this measure which provide tools for the President to deal with unfair trade practices of other countries. In fact, some criticism has been leveled because these provisions are too restrictive. In our view, this is not the case and in important respects, the bill actually weakens present law.

We have particular reference to the provisions dealing with the countervailing duty statute. At present, this law mandates the collection of a countervailing duty on any dutiable item entering this country with the benefit of a grant or

bounty paid by the country of origin. Congress has found this to be an essential measure to protect American industry from unfair disruption by subsidized imports.

We have already pointed out the great reluctance of the Department of Treasury to enforce the statute in the face of clear and irrefutable evidence of the existence of export subsidy actions in the case of dairy products. The same is true in other cases. This attitude has rendered the statute almost meaningless. Despite repeated requests from Members of Congress and from the industry, it has not been possible to obtain the enforcement of this measure. Because of this the National Milk Producers Federation is presently seeking enforcement by resort to the courts.

H.R. 10710 does require that a finding be made regarding the application of countervailing duties within 12 months of the question being presented to the Secretary of the Treasury. While this is an improvement over the existing situation where no time limitation is imposed, 12 months is far too great a time period. In the course of a full year, a domestic industry can be damaged extensively by the entry of subsidized imports. The provision of relief after the damage has been rendered is really no relief at all.

The failure of the Secretary of the Treasury to enforce a law that is clear and specific cannot lend any credibility to the statements that powers to deal with unfair trade practices of other nations will be used promptly and forcefully. Quite the contrary. In the current situation, there appears to be greater concern for the sensibilities of foreign nations and their producers than for the problems of domestic industries. It must be made absolutely clear, both to our trading partners and to those responsible for the administration of our laws, that Congress intends that these powers will be used whenever and wherever applicable. In the current situation regarding the dairy industry and the countervailing duty statute, the Department of Treasury is spending more time telling people how the Common Market would dislike the imposition of countervailing duties than they are looking at the needs of the American dairy farmer or the clear mandate of the statute.

Further, the effectiveness of a measure such as this is not in its enforcement so much as it is in the requirement that it be enforced. If foreign nations knew for certain that their export subsidy programs were to be offset by effectively and quickly enforced countervailing duties, they would be less inclined to resort to such measures in the first place. We would, therefore, strongly recommend that the period between receipt of the claim and enforcement of countervailing duties be shortened to 30 days.

Another aspect of the countervailing duty provisions of H.R. 10710 that we vigorously oppose is contained in Section 331(d) which makes the imposition of these duties on items subject to quantitative limitations optional with the Secretary of the Treasury. While we recognize that import quotas can provide an effective brake on the total amount of a commodity entering the country, they cannot eliminate the disruptive effect of price cutting possible because of export subsidy programs. In effect, this provision would give status to the blatant ignorance of the present law. Exhibit B details the extent of export subsidy activity on the part of European Economic Community on dairy products imported into the United States under five Presidential Proclamations during 1973. The effect of these subsidies was to permit entry of dairy products at prices below domestic production costs.

Import quotas when properly applied and administered do have the effect of limiting the quantitative impact, but cut-rate sales of product made possible by export subsidies still have a negative price impact on the industry.

Over the last 15 months, however, we have witnessed repeated assaults on the Section 22 quota program without even lip service to the possible enforcement of countervailing duties—even though the present law requires their collection. Thus, it has been clearly demonstrated that the quotas imposed under Section 22 can be made inoperative by administrative action. The combination of such actions plus authority to waive collection of countervailing would, for all practical purposes, remove any effective restraints on the use of this market as a world dumping ground.

As indicated earlier, the imposition of countervailing duties would not be the major benefit of that statute. Rather the certain knowledge that they would be imposed. This knowledge can only be imparted through action. In view of the years of inactivity in this area, it is understandable that our trading partners

protest any possible imposition of the duties. In view of the clear record that has been established in this regard, however, we must question the willingness to use this or other authority to provide needed protection to domestic industry or to counter unfair trade practices of other countries. This is why we look to the Congress to provide the need limitations on the discretion that can be used in the administration of these measures.

The American farmer and American industry is not unwilling to compete with producers abroad. They cannot, however, be expected to compete with foreign treasuries. We, therefore, recommend the deletion of Section 331(d).

In Subsection (e) of Section 331, the administration is granted authority to waive the collection of countervailing duties for a four-year period if it is found that such collection would interfere with the process of negotiations. It is difficult to accept that this provision can actually add anything to the strengthening of our negotiators' position. This is simply telling those countries with whom we are talking, "We haven't been collecting these in the past, and we won't do it, at least for the next four years."

This request, in itself, points up the contradiction in positions taken by at least two cabinet members. Secretary of Agriculture Butz has told the dairy industry of his strong support for imposition of countervailing duties. Secretary of the Treasury Shultz has actually requested that ths waiver be broadened.

This provision will simply continue the view on the part of our trading partners that we will never employ the countervailing duty authority effectively and will only lead to subsequent requests for its complete abandonment. It is a necessary and potentially effective tool. The element that is lacking is not flexibility but will to use it. The deletion of this section completely can serve to strengthen our negotiating position, and we recommend that such action be taken.

Section 122 of the bill provides the President with authority to deal with problems arising from fundamental international payments problems. In one respect we feel the provisions of this section are lacking in that they should specifically exclude the expansion of imports subject to a proclamation under Section 22 of the Agricultural Adjustment Act from the actions that can be taken to deal with balance of payments surpluses. Such an exclusion is provided in the authorities to deal with inflation in Section 123, and it would be consistent to also make a similar provision in Section 122.

Quotas imposed under Section 22 authority are put into effect to protect the operation of domestic programs directed toward maintaining farm income and assuring adequate production of agricultural commodities. To seek expansion of these imports to deal with balance of payments surpluses would have the simultaneous effect of disrupting domestic agricultural programs and defeating their purpose.

CONGRESSIONAL AND PUBLIC REPRESENTATION IN TRADE TALKS

In the development of H.R. 10710, an effort has been made to assure that all parties interested in these negotiations will have the opportunity to present their views. This is an essential step, and we approve of it. The proposed public hearings will provide a necessary forum for the development of the position of United States' negotiators.

We are also encouraged by the provisions calling for the creation of advisory committees and the appointment of Congressional delegates. In this respect, however, we feel that Congressional delegates should be seated in more than an advisory capacity. If the Congress is to maintain its authority in this extremely important field, its representatives should have the status of participants rather than mere advisors to these talks.

We feel too that it would be desirable to have industry advisors named in connection with the negotiations. The advisory committees already referred to would go part way toward meeting the need; however, it would seem that a closer and more constant liaison between the negotiating team and industries whose interests are at stake is essential. Such advisors should include individuals who are expert in the industry and who have the stature and ability to speak for major segments of the particular industry.

CONCLUSION

We appreciate the opportunity to appear before your Committee to outline the position of the American dairy farmer and his cooperative marketing associations. The task before the Committee is monumental. The questions to be resolved deal with the basic well-being of the American economy and your actions will have an impact for years to come.

In the past year we have seen developments that clearly outline the devastating impact on a nation that permits itself to become too reliant on outside sources for basic needs. The concern of dairy farmers and the dairy industry in the present legislation is that we have been told what is in store for us. We are today seeing those proposals implemented. This is contrary to the expressed will of the Congress. It is contrary to the best interest of the American consumer. Nonetheless, it is being carried forward on a broad front.

A halt must be called to these actions. Despite all the fine sounds of free trade and expanded international cooperation, we must first take stock of our own national interests. Where gains can be made, we should press forward. But they must be gains. We cannot afford the price of subscription to a policy that says the United States must, by itself, take the lead in opening its markets in the hope that someone else will take the hint and follow.

The only thing that will follow is expanded imports, future trade deficits, and a reduced economic vitality in this country.

This legislation provides the Congress an opportunity to express the clear intention that the United States is deadly serious about negotiating on equal footing. If our negotiators cannot make a deal unless they have a provable advantage in return, no deal should be made.

The proposals we have advanced will contribute to the strengthening of the legislation and will help to lay the groundwork for a successful round of trade negotiations. Further, they will help to maintain the productive capacity of American industry that has contributed to and given this nation the highest standard of living the world has known.

TABLE 1.—AVERAGE NUMBER OF MILK COWS ON FARMS IN THE UNITED STATES, AVERAGE MILK PRODUCTION PER COW, TOTAL MILK PRODUCTION, TOTAL MARKETINGS OF MILK AND CREAM BY FARMERS, AVERAGE PRICE OF MILK, AND TOTAL CASH RECEIPTS FROM FARM SALES OF MILK AND CREAM, SPECIFIED YEARS: 1950–72

Year	Number of milk cows (thousand)	Milk production per cow (pounds)	Total milk production (billion pounds)	Total farm marketings [1] (billion pounds)	Average returns per 100 lbs. milk [2]	Total cash receipts (million)
1950	21,944	5,314	116.6	98.3	$3.75	$3,719
1955	21,044	5,842	122.9	108.3	3.89	4,217
1960	17,515	7,029	123.1	114.0	4.18	4,760
1961	17,243	7,290	125.7	117.3	4.20	4,932
1962	16,842	7,496	126.3	118.6	4.10	4,860
1963	16,260	7,700	125.2	118.1	4.11	4,861
1964	15,677	8,099	127.0	120.5	4.17	5,027
1965	14,953	8,305	124.2	118.2	4.26	5,038
1966	14,071	8,522	119.9	114.4	4.84	5,533
1967	13,415	8,851	118.7	113.6	5.06	5,742
1968	12,832	9,135	117.2	112.6	5.29	5,957
1969	12,307	9,434	116.1	111.8	5.54	6,196
1970	12,000	9,747	117.0	113.0	5.78	6,525
1971	11,842	10,009	118.5	114.8	5.93	6,811
1972	11,698	10,250	119.9	[3] 116.3	6.15	7,157
1973	11,419	10,125	115.6	[3] 112.3	7.24	8,125

[1] Milk equivalent of milk and cream sold by farmers.
[2] Cash receipts divided by milk represented by farm marketings.
[3] Estimated.

Source: "Dairy Situation," Economic Research Service, U.S. Department of Agriculture, various issues.

TABLE 2.—U.S. AND FOREIGN MILK PRODUCTION, 1972

Country	Cows (thousand head)	Production 1972 per cow (pounds)	Production 1972 total milk (million pounds)
United States	11,698	10,250	119,904
France	7,500	8,583	64,374
West Germany	5,442	8,706	47,376
United Kingdom	4,696	6,385	29,985
Italy	3,165	6,687	21,164
Netherlands	1,970	10,153	20,002
Canada	2,211	8,010	17,709
Australia	2,566	6,137	15,748
New Zealand	2,255	6,436	13,820
Japan	1,111	9,771	10,884
Denmark	1,122	9,410	10,558
Ireland	1,895	4,559	8,639
Belgium	1,025	8,119	8,322
Austria	902	8,151	7,352
Switzerland	873	8,411	7,343
Sweden	740	8,854	6,552
Norway	414	9,672	4,004

Source: Foreign agriculture circular, "Dairy," FAS, USDA, December 1973.

TABLE 3.—TOTAL HOURS OF LABOR USED ON FARMS IN CARING FOR MILK COWS, HOURS PER COW, AND PER 100 LBS OF MILK PRODUCED IN THE UNITED STATES, SPECIFIED YEARS: 1950–72

[In hours]

Year	Total (million) [1]	Per cow	Per 100 lbs milk [2]
1950	2,749	125.3	2.36
1955	2,422	115.1	1.97
1960	1,745	99.7	1.42
1965	1,249	83.6	1.01
1966	1,134	80.7	.95
1967	1,044	77.9	.88
1968	966	75.4	.83
1969	900	73.2	.78
1970	845	70.5	.72
1971	768	64.9	.65
1972	721	61.6	.60

[1] "Changes in Farm Production and Efficiency 1972," Statistical Bulletin No. 233, Economic Research Service, U.S. Department of Agriculture.
[2] Total hours divided by average number of milk cows on farms and total milk production during each year, as reported in the "Dairy Situation," Economic Research Service, U.S. Department of Agriculture, various issues.

TABLE 4.—NUMBER OF FARMS REPORTING MILK COWS, AVERAGE NUMBER OF COWS PER FARM, FARMS REPORTING SALES OF MILK AND CREAM, AND AVERAGE SALES PER FARM BY CENSUS YEARS: 1950–69

Census of	Farms reporting milk cows: Number of farms (thousands)	Farms reporting milk cows: Average hard size (number)	Farms reporting milk sold: Number of farms (thousands)	Farms reporting milk sold: Average per farm (thousand pounds)	Farms reporting cream sold: Number of farms (number)	Farms reporting cream sold: Average per farm (pounds butterfat)
1950	3,648	5.8	1,097	62.5	862	676
1955	2,936	6.9	934	87.6	541	851
1960	1,792	9.2	770	126.7	262	967
1965	1,134	12.9	545	197.2	103	1,241
1969	568	19.7	330	[1] 331.0	(2)	(2)

[1] Total milk sold by farmers to plants and dealers and directly to consumers divided by number of farms reporting milk sold.
[2] Not reported separately.

Source: U.S. Census reports.

TABLE 5.—EXPENDITURES FOR FOOD IN RELATION TO DISPOSABLE INCOME, 1960 AND 1965–73

[Dollar amounts in billions]

Year	Disposable personal income	Personal consumption expenditures for food [2]					
		For use at home [3]		Away from home [4]		Total	
		Amount	Percentage of income	Amount	Percentage of income	Amount	Percentage of income
1960	$350.0	$56.8	16.2	$13.3	3.8	$70.1	20.0
1965	473.2	69.3	14.6	16.5	3.5	85.3	18.1
1966	511.9	73.8	14.4	18.2	3.6	92.0	18.0
1967	546.3	74.5	13.6	19.4	3.6	93.9	17.2
1968	591.0	79.0	13.4	20.7	3.5	99.7	16.9
1969	643.4	82.0	12.9	22.1	3.5	104.1	16.4
1970	691.7	88.1	12.7	24.0	3.5	112.1	16.2
1971	746.0	92.7	12.4	24.8	3.3	117.4	15.7
I	727.4	91.2	12.5	24.3	3.3	115.5	15.9
II	744.0	92.8	12.5	24.4	3.3	117.2	15.8
III	752.0	93.7	12.5	24.7	3.3	118.4	15.8
IV	760.4	92.3	12.2	25.7	3.4	118.9	15.6
1972	797.0	97.9	12.3	27.1	3.4	125.0	15.7
I	772.8	94.9	12.3	26.3	3.4	121.2	15.7
II	785.4	97.7	12.5	26.8	3.4	124.5	15.9
III	800.9	98.9	12.3	27.2	3.4	126.1	15.7
IV	828.7	100.2	12.1	28.1	3.4	128.3	15.5
1973	882.6	108.5	12.3	30.5	3.5	139.0	15.8
I	851.5	103.5	12.1	29.5	3.5	133.0	15.6
II	869.7	106.3	12.2	29.7	3.4	136.0	15.6
III	891.1	111.0	12.5	30.5	3.4	141.5	15.9
IV [5]	918.0	113.2	12.3	32.2	3.5	145.4	15.8

[1] Quarterly data are seasonally adjusted annual rates.
[2] Based on unpublished data of the Department of Commerce, and the Survey of Current Business and the National Income and Product Accounts of the United States, 1929–65. Omits alcoholic beverages, food donated by Government agencies to schools and needy persons, and nonpersonal spending for food such as business purchases of meals, food furnished inmates of hospitals and institutions, and food included with transportation tickets and camp fees.
[3] Includes food consumed on farms where produced.
[4] Includes food served to the military and employees of hospitals, prisons, and food service establishments.
[5] Preliminary.

Source: National Food Situation, Economic Research Service, U.S. Department of Agriculture.

TABLE 6.—DAIRY PRODUCTS REMOVED FROM THE COMMERCIAL MARKET BY PROGRAMS OF THE U.S. DEPARTMENT OF AGRICULTURE, 1949–74

Year	Removals [1] (million pounds)					Solids content of removals			
						Million pounds		As a percentage of marketings	
	Butter [2]	American cheese [3]	Evaporated milk	Nonfat dry milk [4]	Milk equivalent [5]	Milk-fat [5]	Solids not fat [5]	Milk fat	Solids not fat
1949	111.7	25.5	----------	325.5	2,489	100.4	321.1	2.6	4.6
1950	14.6	83.2	----------	327.2	1,126	40.9	339.9	1.1	4.9
1951	[6] −27.3	[6] −7.1	----------	35.3	[6] −618	[6] −24.0	31.5	(6)	.5
1952	16.1	1.7	----------	42.3	339	13.8	41.2	.4	.6
1953	355.2	302.5	----------	597.1	10,200	387.5	668.9	9.7	8.6
1954	305.1	242.5	----------	644.4	8,588	328.2	695.5	8.0	8.7
1955	162.0	141.3	----------	534.7	4,685	179.6	558.0	4.3	6.8
1956	164.6	186.5	----------	723.4	5,206	197.6	753.0	4.7	8.7
1957	172.5	240.6	----------	825.2	5,870	222.1	867.5	5.2	9.8
1958	183.7	75.0	----------	886.0	4,658	178.2	875.0	4.2	9.8
1959	123.7	57.2	----------	830.3	3,214	123.8	815.6	2.9	9.1
1960	144.8	.3	----------	852.8	3,101	122.6	819.8	2.9	8.9
1961	329.4	100.0	----------	1,085.6	8,019	305.0	1,075.3	6.9	11.2
1962	402.7	212.9	----------	1,386.1	10,724	402.4	1,399.0	9.1	14.3
1963	307.5	110.9	----------	1,219.2	7,745	291.8	1,210.1	6.7	12.3
1964	295.7	128.5	----------	1,168.8	7,676	287.6	1,166.9	6.5	11.6
1965	241.0	48.6	----------	1,098.4	5,665	217.4	1,074.0	5.0	10.8
1966	25.1	10.8	----------	365.8	645	26.2	355.5	.6	3.7
1967	265.1	180.5	----------	687.0	7,427	276.3	719.1	6.6	7.5
1968	194.8	87.5	54.9	557.8	5,159	193.2	575.4	4.7	6.0
1969	187.9	27.7	107.5	407.2	4,479	171.6	421.5	4.2	4.4
1970	246.4	48.9	48.4	451.6	5,774	221.1	460.7	5.3	4.8
1971	292.2	90.7	111.4	456.2	7,268	276.5	490.1	6.6	5.0
1972 [7]	233.7	30.4	97.0	345.0	5,402	208.4	362.4	4.9	3.6
1973 [8]	99.7	3.2	53.7	36.8	2,207	85.1	49.0	2.1	.5

[1] Delivery basis, after unrestricted domestic sales.
[2] Includes butter equivalent of anhydrous milkfat, PIK, and purchases under sec. 709.
[3] Includes purchases under sec. 709.
[4] Includes PIK certificates issued.
[5] Includes dry whole milk purchases beginning November 1971.
[6] Domestic sales exceeded purchases under sec. 4(a).
[7] Preliminary. Includes purchases under sec. 4(a).
[8] May not add due to rounding.

Source: Dairy Situation, ERS, USDA, March 1974.

EXHIBIT A

EC: EXPORT SUBSIDIES FOR DAIRY PRODUCTS, EFFECTIVE FEB. 15, 1974[1]

	United States	Subsidy, cents per pound: New subsidy[2]	Subsidy, cents per pound: Old subsidy[3]
Butter with fat content:			
62 percent but less than 78 percent	(28.95)	41.48	(45.47)
78 percent but less than 80 percent	(36.34)	53.40	(57.24)
80 percent but less than 82 percent	(37.37)	53.40	(58.71)
82 percent but less than 99.5 percent	(38.30)	54.72	(60.19)
Other:			
Not exceeding 99.5 percent (butter oil and ghee)	34.30	54.72	(60.19)
Exceeding 99.5 percent (anyydrous milkfat)	46.51	72.23	(77.70)
Cheese, emmenthal, and gruyere:			
Zone D		7.55	(23.31)
Austria		16.31	(14.66)
Others		33.80	(27.25)
Blue cheese, except Roquefort		27.62	(22.71)
Processed cheese up to 48 percent fat by weight of dry matter, 33 percent fat, but less than 38 percent:			
Others		12.19	(9.63)
Processed cheese:			
Less than 20 percent fat		12.19	(9.63)
More than 20 percent fat		17.32	(14.23)
40 percent fat or more:			
Zone D		28.29	(23.91)
Others			
Processed cheese over 48 percent fat with a dry milk content by weight:			
33 percent but less than 38 percent dry matter		12.19	(9.63)
38 percent but less than 43 percent dry matter		17.32	(14.23)
43 percent but less than 46 percent dry matter		28.29	(23.91)
46 percent but less than 55 percent dry matter:			
Zone D		17.89	17.89)
Others		28.29	(23.91)
Switzerland			
55 percent or more:			
Zone D		20.79	(17.89)
Others		32.79	(27.91)
Switzerland			
Grana, Parmigiano, Reggiano		37.17	(28.24)
Fiore Sardo, Pecorino		45.38	(36.44)
Cheddar, Chester with a fat content by weight of dry matter of 50 percent or more:			
Aged less than 3 mos:			
Zone D			
Others			
Aged more than 3 mos:			
U.S.S.R. and satellite countries		8.20	(31.78)
Others		29.32	(31.78)
United States		180.6	(31.78)
Tilsit with fat content by weight of dry matter over 39 percent up to 48 percent:			
Zone D			
Switzerland		6.46	(5.42)
Others		29.93	(23.97)
Asiago, Caciocavallo, Provolone, and Ragusano:			
Switzerland		6.46	(5.42)
Others		29.93	(24.30)
Cantal, Edam, Fontina, and Gouda:			
Zone D		21.72	(20.08)
Zone F		6.46	(4.52)
Switzerland		29.93	(23.97)
Others			
Butter Kasa, Italico, Kerham, Saint Paulin Taleggio, Saint-Nectaire:			
Zone D			
Zone F		20.63	(18.99)
Switzerland		6.46	(5.42)
Others		27.26	(21.89)
Others, with fat content 19 to 39 percent with a water content up to 62 percent:			
Switzerland		6.46	(5.42)
Others		29.46	(24.30)
Unspecified cheese, grated or powdered, with 85 percent or more dry matter content by weight, over 20 percent fat content by weight, under 5 percent lactose content by weight: Others		27.63	(22.16)
Milk and cream, canned in 454 grams without sugar: (evaporated milk)		4.46	(2.66)
3 percent up to 7 percent fat		7.87	(6.29)
Over 7 percent up to 8.9 percent fat		9.04	(7.20)
Others			

EXHIBIT A

EC: EXPORT SUBSIDIES FOR DAIRY PRODUCTS, EFFECTIVE FEB. 15, 1974 [1]

	United States	Subsidy, cents per pound	
		New subsidy [2]	Old subsidy [3]
Other canned milk with fat content up to 45 percent in containers up to 2 kg net weight:			
Over 3 percent up to 7 percent fat		4.46	(2.66)
Over 7 percent up to 8.9 percent fat		7.87	(6.29)
Over 8.9 percent up to 11 percent fat		9.04	(6.20)
Over 21 percent up to 39 percent fat		16.21	(15.98)
Over 45 percent fat		33.87	(33.43)
Milk and cream, canned in 454 grams with sugar (condensed milk): [4]			
Up to 6.9 percent fat		3.98	(2.19)
Over 6.9 percent up to 9.5 percent fat		9.76	(7.93)
Nonfat dry milk up to 1.5 percent fat: [5]			
Without sugar in packages up to 2.5 kg		5.47	(8.76)
Without sugar in bulk		4.37	(0)
With sugar added in package up to 2.5 kg.[6]		5.47	(8.76)
With sugar added in bulk [6]		4.87	(0)
To United States (all NFDM)		0	(7)
Dried milk without sugar (prepared for retail sales):			
Over 11 to 17 percent fat content		19.45	(14.28)
Over 17 to 25 percent fat content		22.69	(17.31)
Over 25 to 27 percent fat content		26.81	(21.34)
Over 27 to 29 percent fat content		27.83	(22.35)
Over 29 to 41 percent fat content		27.83	(22.35)
Over 41 percent fat content		34.11	(29.41)
Dried milk with sugar added (prepared for retail sales): [6]			
Over 11 to 17 percent fat content		19.45	(14.28)
Over 17 to 25 percent fat content		22.69	(17.31)
Over 25 to 27 percent fat content		26.81	(21.34)
Over 27 to 41 percent fat content		27.83	(22.35)
Over 41 percent fat content		34.11	(29.41)

[1] Change of value for units of account U.C.=U.S. $1.2063 plus increases in export subsidies.
[2] Countries other than United States, Canada, Mexico, and Puerto Rico.
[3] As of Jan. 15, 1974.
[4] Destined for consumption in this zone.
[5] 13.13 cents per pound on bulk and small package, May 14, 1973 to July 10, 1973.
[6] Additional subsidy for sugar to be added.
[7] 4.37 or 5.47.

Source of change: EC Brussels 1128, Feb. 21, 1974.

EC Export Subsidy Zones

ZONE A

Burundi
Cameroon
Congo (Brazzaville)
Congo (Kinshasa)
Ivory Coast
Dahomey
Gaboon
Guines
Upper Volta
Mali
Mauretania
Niger
Central African Republic
Madagascar
Ruanda
Senegal
Tchad
Afara and Issas
Togo

ZONE B

Mexico, States of Central and South America, Islands in the Pacific and Atlantic between 30 and 120 degrees longitude and 30 degrees latitude as well as the Islands Fernondo-de-Noronha (Cliffs Sao Paulo and Reeas-Atoll), Trinidad, Martin Vaz and the Southern Sandwich Islands.

ZONE C

Asian States east of Iran including the Asiatic parts of the USSR and the Islands of the Indian and Pacific Oceans between 60 degrees and 180 degrees latitude except Australia, New Zealand and Japan.

ZONE D

Spanish Territory of Iberian Peninsula and Baleares.

ZONE E

European territory of United Kingdom and Northern Ireland (including the Isle of Man and Channel Islands) except Gibraltar.

ZONE F

The territories of the United States situated on the American continent as well as Hawaii.

EXHIBIT B

IMPORT ACTIONS AND EUROPEAN ECONOMIC COMMUNITY EXPORT SUBSIDIES

(1) 25 million pounds nonfat dry milk authorized entry under Presidential proclamation 4177 dated 12/30/72:

	Pounds
Belgium	4,155,173
Netherlands	881,840
EEC total	5,037,013

Posted export subsidy rate at time was .0591 cents per pound.

Total export subsidy at that rate amounted to $297,687.46

(2) 64 million pounds of cheese authorized entry under Presidential Proclamation dated 4/25/73:

A significant amount of this cheese came from the Common Market. It is not possible to determine the exact level of export subsidy payment, however, due to differing descriptions used by the U.S. and EEC.

(3) 60 million pounds nonfat dry milk authorized entry under Presidential Proclamation 4216 dated 5/10/73:

	Pounds
Belgium	8,241,572
Denmark	1,170,870
France	661,380
Ireland	10,444,112
Netherlands	14,241,716
EEC total	34,759,650

Posted export subsidy at the time was .1313 cents per pound.

Total export subsidy at that rate amounted to $4,563,942.80.

(4) 80 million pounds nonfat dry milk authorized entry under Presidential Proclamation dated 7/18/73:

	Pounds
Belgium	11,375,736
Denmark	790,080
France	24,735,802
Ireland	14,032,100
Netherlands	2,177,483
United Kingdom	2,653,195
EEC total	55,764,396

Posted export subsidy rate was in state of flux at the time. A rate of .1313 cents per pound was effective until 7/11/73. This was dropped to zero from 7/11 to 7/18 and reset at .088 cents per pound again on the 18th. Shortly thereafter, it was reduced to zero once again.

At a rate of .088 cents per pound, the total export subsidy paid would equal $4,907,266.80.

(5) 100 million pounds nonfat dry milk authorized entry under Presidential Proclamation 4238 dated 8/28/73:

EEC quota: 40 million pounds.

	Pounds
Belgium	14,362,982
France	12,438,354
Ireland	1,213,415
Netherlands	9,823,161
United Kingdom	2,153,088
EEC Total	40,000,000

Export subsidy in effect at this time was zero on bulk shipments.

(6) Presidential Proclamation 4253 dated 10/31/73 authorized the import of additional butter and butteroil:

Butteroil—22.6 million pounds total expansion.

	Pounds
Belgium	7,881,676
France	2,589,139
West Germany	768,303
Ireland	1,085,657
Netherlands	8,089,422
United Kingdom	44,800
EEC Total	20,458,997

Posted export subsidy on butteroil at the time was .3830 cents per pound.

Total export subsidy at that rate amounted to $7,835,795.80.

Butter—56 million pounds total expansion.

EEC quota: 24,640,000 pounds.

	Pounds
Demark	2,050,682
France	2,822,400
West Germany	1,177,475
Ireland	12,948,993
Netherlands	4,564,018
EEC Total	23,563,568

Posted export subsidy on butter (80% but less than 82% fat) at the time was .3737 cents per pound.

Total export subsidy at that rate amount to $8,805,705.30.

(7) Based on the above, the export subsidies paid by the European Economic Community on nonfat dry milk and butter shipped to the United States under the emergency expansions during 1973 totaled $26,410,398.16. This does not include export subsidies that were involved on the cheese import authorized 4/25/73.

Senantor TALMADGE. The next witness is Mr. Robert N. Hampton, vice president of marketing and international trade, National Council of Farmer Cooperatives.

You may insert your full statement in the record, Mr. Hampton, and summarize it, please.

STATEMENT OF ROBERT N. HAMPTON, VICE PRESIDENT, MARKETING AND INTERNATIONAL TRADE, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. HAMPTON. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee and to present our views on this very important legislation. Although our agricultural export position is strong at present in the farm area, there are a number of current and potential problems which can become much more serious if we do not develop a more fair and effective set of international guidelines for trade and related issues.

In addition to the long-needed steps for fairer, assured access to markets, recent shortages and embargoes on food, fuel, and other important items make it equally urgent that the world's trading nations agree on a formula for assuring access to supplies.

In order to maintain and to further expand our market opportunities abroad, and to avoid arbitrary and unreasonable imposition of embargoes on vital imports or exports from abroad, the United States needs to negotiate now to improve the code of international trading rules and to build the institutional framework which encourages prompt consultations on all urgent trading conflicts or crises which might develop.

The National Council supports H.R. 10710, and we also support the Mondale amendments or similar steps, in which you intend to make it very clear that an international trading code should provide for fair access to supplies as well as to markets.

Agricultural trade barriers are among the most complex of the nontariff barriers to be dealt with under the authority of this bill. In order for us to be assured that unfair trade barriers are reduced, it is vital that agricultural issues be dealt with as part of the total trade monetary investment security issue package.

We urge that this committee vigorously encourage the intent of the administration to resist foreign efforts to fragment the negotiations, since the need for farm-product exports is of such urgent importance for our national welfare.

We are greatly concerned that the language of section 102(c), the Karth amendment, which was debated so vigorously in the House floor action, would encourage efforts already being made by France and others to isolate agricultural negotiations from other matters.

While individual sectors of a nation's economy do need to be treated fairly and their special problems considered, the overall thrust of section 102(c), as we read it, goes well beyond that precaution.

Indeed, it might be said that its spirit is contradictory to a longstanding principle which is the very rationale for major negotiations to reduce trade barriers—namely, that a nation's gain through reduction of a foreign barrier traditionally and often requires a reciprocal concession in another area where the foreign country may enjoy a comparative advantage.

Furthemore, we strongly support the consistent position of administration and other leading spokesmen that there is no realistic way in which trade and other economic issues can be considered in a vacuum, apart from military or other political considerations in today's world.

We believe that section 102(c) as it now stands would be counterproductive to our best national interest. Its language and its legislative history and intent are ambiguous and have created much uncertainty as to its scope and impact.

Its provision that, to the extent feasible, trade agreements are to be negotiated on the basis of each product sector of manufacturing would create endless problems and delays for the U.S. trade negotiator in the many situations where it is clearly undesirable, to negotiate a sector-by-sector basis in the national interest.

Any conclusion of an agreement on a sector basis would only narrow the scope of remaining negotiations, when our objective is to strengthen our trade balance position through an overall balance on the broadest possible basis—including other economic and political issues.

Even though our trade balance is relatively good and agricultural exports have expanded greatly within the past 2 years, largely due to droughts and increasing influence abroad, we still feel it is important to negotiate at this time to avoid disruptive threats to the world trading system in the years just ahead.

While we firmly support world trade expansion, it should take place within a framework of reciprocal fair play. We are particularly concerned with those dairy and other import problems which face us because of foreign government subsidies or other such factors which would put us at an unfair disadvantage.

And in view of the fact that our dairy industry believes that it can compete directly with Europe, I think it is very important that we protect them by not opening up our markets to a degree greater than their reduction of their protection and their subsidies that they are not competing with us unfairly on.

In summary, Mr. Chairman, we support H.R. 10710 as a constructive instrument for removing world trade barriers which impede the flow of goods on a basis of comparative advantage as a means of attaining fairer trading rules which assure access to supplies as well as to markets, and as the only practical alternative to trade-disruptive unilateral actions in the face of today's worldwide economic turmoil. We believe it is vital to our national welfare to avoid the damage to all which would result from such unfettered trade conflict.

H.R. 10710 seeks, among other things to further open up foreign markets for U.S. agricultural exports in order to pay for rapidly increasing imports in the energy area. To gain maximum benefits in agricultural exports, farm trade negotiations must be clearly related to other trade, monetary, and economic-political considerations.

Thank you again, Mr. Chairman, for the opportunity to present our view to your committee.

Senator TALMADGE. Thank you very much, Mr. Hampton.

I am familiar with the excellent job that the farm cooperatives have done in exporting agricultural products. Our favorable balance of trade last year was in the area of $9 billion. Unfortunately, the difficulty of it is that we were importing labor-intensive products and exporting products that have relatively small labor content.

Now, do you think that we will continue to export as many agricultural products in the future as we have in the past?

The Soviets are alleged to have a good grain crop this year, you know.

Mr. HAMPTON. Yes, sir.

I will quote first from the Department of Agriculture's expectations; their forecast, as you know, is that we will be up considerably in 1974 from the year just past, up from approximately the $12 billion level to something like $19 or perhaps $20 billion. Their expectation, based on their forecasts, are that in the following year, 1975, agricultural exports might come back to a plateau of about $15 to $16 billion.

As you know, the forecast for 2 or 3 years ahead is very difficult to make, partly because of the dangers of bad weather in other parts of the world; partly because we have a considerable difference of viewpoints on the degree of fertilizer shortage. The Department is officially forecasting about a 5 percent shortage of nitrogen fertilizer, and our membership and most of the fertilizer industry, I believe, has a figure closer to a 15-percent nitrogen shortage.

Senator TALMADGE. I have found that true in Georgia, too, I might say, Mr. Hampton.

Mr. HAMPTON. So it appears from our viewpoint that the Department is too conservative in its estimate of nitrogen shortages this year.

Senator TALMADGE. Would you say that the biggest obstacle to exporting agricultural products is not tariff, but nontariff barriers?

Mr. HAMPTON. Very definitely.

Senator TALMADGE. How can we cope with those, particularly when the problem is administrative decisions?

Mr. HAMPTON. Well, they are very difficult to deal with. They are imbedded in this country—as in other countries—very deeply in domestic policies. The nontariff barriers that in recent years have concerned us most, the kind of barriers that they have in Europe, have been almost impossible to deal with. The Europeans consider them to be the very glue that holds their union together. The variable levy is, of course, the type of trade-disruptive nontariff barrier that I am focusing on.

I think we have to hope that we can, in today's climate, make some headway in persuading the Europeans that it is costing them a great deal in order to continue that kind of a restrictive tariff—that is, the variable levy barrier.

Senator TALMADGE. That brings me to my next question.

Do you honestly believe the European Common Market will significantly liberalize its highly protective common agricultural policy in this round of trade negotiations?

Mr. HAMPTON. To be candid, sir, I do not feel too optimistic about it. I do feel somewhat more optimistic that the Europeans can be persuaded to reduce the amount of export support they are giving to certain products; and we definitely hope that can be done in the dairy field.

I must confess that my feeling about the up-coming round of GATT negotiations is one of apprehension: in many respects it may prove to be more defensive than offensive. However, we feel that the threat of disruption is very great if we do not have negotiations. But I think in agriculture we must look for modest gains and hope that we can stabilize in a way that improves our ability to plan and avoid the severe ups and downs that our producers could be subjected to in a very chaotic world market.

Senator TALMADGE. Now, your organizations favors this bill.

Can you explain the differences of view on this bill between your association and that of other groups representing farmers, such as the American Farm Bureau, the Grange, and the Farmers Union?

Mr. HAMPTON. I am not sure what specific points you refer to. We certainly have been consistent with all of those groups from the standpoint of hoping that we could set up an improved set of international trading rules which would provide reduced barriers and give us still greater opportunities to produce and to export abroad in very substantial amounts. So I do not believe that we have any significant differences with those organizations.

Senator TALMADGE. Thank you, Mr. Hampton.

Senator Hansen?

Senator HANSEN. Mr. Hampton, there has been a lot of concern expressed in the West in the last couple of years over agriculture's ability to export without a clearer definition or a redefining of the role that labor will play. I refer specifically to the inability of farmers, grain farmers particularly, to get loaded wheat that had been sold; a lot of it was going to Russia and other countries. It was stacked up on the ground throughout much of the West simply because there was a dock strike in progress on the west coast.

Does this pose a problem in your judgment, with regard to agriculture's ability to compete with nations around the world?

Mr. HAMPTON. Senator Hansen, as you know it has been a very difficult problem in past years when there were alternate sources of supply. In one sense, I suppose our problem is less now that we are to a greater extent the source of supply which Japan and other markets must rely on. There are two phases of the transportation problem which we are deeply concerned with. First, the disruptions that come from the kind of labor disturbances that you have mentioned, and which we have been active in trying to overcome. Next, the mechanical problems that we have in our transportation system. For example, lack of adequate freight cars, and need for better coordination within the transportation system to get the most efficient use out of the freight cars. We have a man on our staff who is working full time on those problems, as I think you are aware.

Senator HANSEN. You mentioned in your statement that efforts to tie U.S.S.R. trade opportunities to the ability of the United States to demand fully open immigration for Russia, as required by the Vanik Amendment to the Trade Reform Act of 1973, might be counterproductive if pressed too far.

A few weeks ago, I think, only a few weeks ago, Secretary Kissinger, in testifying before this committee, expressed a similar concern that I suspect motivates the statement on your part. I think his feeling was that on balance, when we consider all of the advantages that he believes, if I read him correctly, could accrue to the United States through a more liberalized trade posture between us and the nonmarket economies, as we euphemistically call them these days, were more important than the insistence at this time on a changed internal position by the Soviet Union with repsect to the immigration of certain minorities.

Do I infer correctly from this statement that I have just read of yours that you feel that there are some balances and some trade-offs that ought to be considered also?

Mr. HAMPTON. Well, I think our fear is that if we demand too much, we lose the leverage that we have. We agree with the thrust and the objective of a more open Russian society, and with the feeling of Congress that we ought to maintain pressure on Russia to keep a more open policy with regard to their emigration. But I think here we have to be very very careful and we have to develop the kind of arrangement or understanding between Congress and the administration that permits the Senate and the Congress to maintain an oversight and to assist the President—I think he needs the kind of continuing pressure that Congress can give. But I fear that the language as it comes out in the Vanik amendment is a bit strong and that we have to do this in

a more subtle and diplomatic way. And we are hopeful that some other arrangement of that sort can be found.

Senator HANSEN. One of the Members of the Senate has introduced a resolution—I believe it has been introduced—which would withhold most-favored-nation treatment to any country which jammed foreign broadcasts by the United States, with reference made specifically to Radio Free Europe, I think. The rationale behind this resolution is that understanding by the Russian people is basic to any lessening of tensions, and that if the Russians jam our broadcasts, we ought to deny them any loans, and deny them other measures contemplated in most-favored-nation treatment.

Do you share that view?

Mr. HAMPTON. Well, I would view that very much as I would the Vanik amendment. I think we are treading on overy delicate ground when we attempt to dictate the internal policies of any country in that regard. I think we should handle it carefully. I would agree with the goal of attempting to move in the direction in keeping pressure on the Russians to do that, keeping this as something over their heads, so to speak. But I think it would be dangerous to put it too bluntly, that is, in a specific legislative threat to withhold MFN if the U.S.S.R. does not do exactly what we demand.

Senator HANSEN. Thank you, Mr. Chairman.

Senator TALMADGE. Senator Packwood.

Senator PACKWOOD. You make reference to section 102(c) and the Karth amendment. How did this bill read as it went into the House, and what would you like 102(c) to say?

Mr. HAMPTON. Well, 102(c) is really an insertion in the House, within the committee—you mean the administration bill that went in the House?

Senator PACKWOOD. Right.

Mr. HAMPTON. It did not include this reference, this concept of sector-by-sector negotiations. I would say we have to consider the special needs of trade sectors, but we should not put the burden of proof on the negotiator to demonstrate each time that it is not feasible for him to negotiate on a sector basis.

Senator PACKWOOD. There was no separation of the manufacturing sector and the agricultural sector as it went in from the administration, is that right?

Mr. HAMPTON. No, and there is a great deal of ambiguity as to how it came out. I do not think the language of the bill indicates that agriculture is to be dealt with as a separate sector. In other words, any sector within manufacturing could be treated separately; but agriculture is not referred to in that way in the language of the bill itself. However, in the legislative history, in the report and also in the floor debate, it was claimed by some that what the committee intended was that a sector approach should also be used within agriculture.

And so I think there is a great deal of ambiguity, and this section needs a considerable amount of work.

Senator PACKWOOD. To the best of your knowledge, does that view represent the general agricultural community?

Mr. HAMPTON. Well, I would not profess to speak for the general agricultural community although I know that the people in the various

groups that I have talked with agree with this feeling. And I have talked to perhaps 10 or more of the major national groups' representatives here.

Senator PACKWOOD. Thank you very much.

Senator TALMADGE. Thank you very much, Mr. Hampton.

[The prepared statement of Mr. Hampton follows:]

PREPARED STATEMENT OF ROBERT N. HAMPTON, VICE PRESIDENT, MARKETING & INTERNATIONAL TRADE OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

I am Robert N. Hampton, Vive President, Marketing and International Trade of the National Council of Farmer Cooperatives. The National Council is a nationwide federation of farmer-owned businesses engaged in the marketing of agricultural commodities or the purchasing of farm production supplies, and of 32 state cooperative councils. The cooperatives making up the Council are owned and controlled by farmers as their off-farm business operations.

We appreciate the opportunity to appear before this Committee and present our views on this very important legislation. Although our agricultural export position is strong at present, there are a number of current and potential problems which can become much more serious if we do not develop a more fair and effective set of international guidelines for trade and related issues. In addition to the long-needed steps for fairer, assured access to markets, recent shortages and embargoes on food, fuel and other important items make it equally urgent that the world's trading nations agree on a formula for assuring access to supplies. In order to maintain and to further expand our market opportunities abroad, and to avoid arbitrary and unreasonable imposition of embargoes on vital imports, the United States needs to negotiate now to improve the code of international trading rules and to build the institutional framework which encourages prompt consultations on all urgent trading conflicts or crises which might develop.

The National Council supports H.R. 10710, the "Trade Reform Act of 1973," to give the President negotiating authority to reduce trade barriers and, if necessary, to impose appropriate restraints against foreign barriers which are "unfair" or which create undue disruptions, such as payments imbalance or other economic maladjustments. We also support the Mondale amendment or similar steps which are intended to make it unambiguously clear that an international trading code should provide for fair access to supplies as well as to markets. We believe it is important this legislation be acted on promptly in order to enhance our credibility in dealing with our major trading partners in the GATT multilateral negotiating round now being initiated. We are already involved in a series of important bilateral trade visits and talks, and our negotiators' ability to deal effectively with issues under discussion depends substantially on an indication of the Congress' will to move toward more equitable international "trading rules" for more open world markets and access to supplies.

We believe the President requires a broad authority in order to negotiate effectively with foreign nations. Both the language of the Trade Reform Act and the statements of Administration spokesmen have made it clear that we plan to gain more open world market access not only through reciprocal reduction of barriers but also through stronger authority to deal with practices which are unfair or illegal under the General Agreement on Tariffs and Trade. Titles II, and III represent a substantial response to major concerns of labor and other groups who fear unfair competition from abroad, although we believe that adjustment assistance for both firms and workers might be liberalized as part of a more comprehensive program to make industry-wide adjustments *before* a crisis stage is reached.

Agricultural trade barriers are among the most complex of the non-tariff barriers to be dealt with under the authority of this bill. In order for us to be assured that unfair trade barriers are reduced, it is vital that agicultural issues be dealt with as part of the total trade-monetary-investment-security-political issue package. We urge that this committee vigorously encourage the intent of the Administration to resist foreign efforts to fragment the negotiations, since the need for farm product exports is of such urgent importance for our national welfare.

We are greatly concerned that the language of Section 102(c), the "Karth amendment" which was debated so vigorously in the House floor action, would encourage efforts already being made by France and others to isolate agricultural negotiations from other matters. While individual sectors of a nation's economy do need to be treated fairly and their special problems considered, the overall thrust of Sec. 102(c) goes well beyond that precaution. Indeed, it might be said that its spirit is contradictory to a long-standing principle which is the very rationale for major negotiations to reduce trade barriers—namely, that a nation's gain through reduction of a foreign barrier traditionally and often requires a reciprocal concession in another area where the foreign country may enjoy a comparative advantage. Furthermore, we strongly support the consistent position of Administration and other leading spokesmen that there is no realistic way in which trade and other economic issues can be considered in a vacuum, apart from military or other political considerations in today's world.

We believe Sec. 102(c) as it now stands would be counterproductive to our best national interest. Its language and its legislative history and intent are ambiguous and have created much uncertainty as to its scope and impact. Its provision that "to the extent feasible" trade agreements are to be negotiated on the basis of each product sector of manufacturing would create endless problems and delays for the U.S. trade negotiator in the many situations where it is clearly undesirable to do so in the national interest. Any conclusion of an agreement on a sector basis would only narrow the scope of remaining negotiations, when our objective is to strengthen our trade balance position through an overall balance on the broadest possible basis—including other economic and political issues. We believe that our dairy interests would also be best served if they were considered as part of the broadest possible package of negotiations.

One of the most effective statements regarding the importance of U.S. agriculture in international affairs was the feature article "Can Agriculture Save the Dollar?" in the March 15, 1973, issue of Forbes Magazine. This article says:

> The U.S. has lost, probably forever, its edge over Western Europe and Japan in manufacturing efficiency and technology. At the same time, it is burning imported oil at an evermounting rate. Question: How do you pay for the oil if you can't export enough manufactured goods?
>
> That's where farming comes in. The U.S. is fast exhausting its once-plentiful natural resources. But there is one natural resource that, if cared for, never becomes exhausted: farmland. The U.S. has the acreage, the climate and the potential surplus over its own needs to become the granary of the world. . . .
>
> The Nixon Administration is betting on agriculture to save the dollar. For if oil is essential for industrial civilization, food is necessary for life itself. Food is, potentially at least, the most priceless of all natural resources.
>
> The U.S. last year ran a balance-of-trade deficit of $6.8 billion. On top of the current woeful situation, the future seems impossibly bleak: By 1980, under not overly pessimistic projections, the U.S. could be laying out $18 billion to pay for imported oil, compared with a $4.2 billion payout in 1972. If things were to stay the same, this would imply a potential trade deficit of $20 billion and international banckruptcy for the U.S.
>
> Agricultural exports already are one of the few bright spots in the U.S. trade picture. In fiscal 1973 (the year that ends June 30), the U.S. will export $11.1 billion worth of agricultural products. It will import, estimates the Department of Agriculture, $6.8 billion. After subtracting $1 billion of foreign-aid-type foodstuffs from the export total, that still leaves a healthy $3.3 billion cash trade surplus in agriculture—largely balancing the deficit in oil. . . .
>
> The Japanese can manufacture as well as we can. They cannot farm as well as we can. The American farmer is not a lone man standing in the field. It would be more accurate to describe him as the human operative of a system of industry, technology, and capital that has taken the natural resource of the abundant land and made it yield a hundredfold. "Our advantages go back 100 years," says Carroll Brunthaver, Assistant Secretary of Agriculture for International Affairs. "They center in our educational system. Our farmers are educated. The infrastructure—the roads, railroads, irrigation systems—all are there. We have an organized market and an industrial complex that supports the farmer."

These investments may now be at the payoff stage. Growing income overseas means meat in the diet: That is the bright hope of the U.S. balance of payments.

Meat, that is, shipped as grain. Just as the U.S. raises more meat animals than anyone else, it also raises more of the feed grains that fatten these animals. Who can raise corn like the U.S.? For the protein supplement soybeans, the U.S. soil and climate are ideally suited, and the U.S. grows 70% of the world's supply. Wheat, which we think of as food grain, is also a feed grain around the world, and the U.S. stands ready even now to export up to 1 billion bushels a year of it. In short, it is foodstuffs for meat animals that is the U.S. long suit in international trade. Remember, it takes eight pounds of feed to produce one pound of beef, seven to produce one pound of pork.

Even though our trade balance is relatively good and agricultural exports have expanded greatly within the past two years, due largely to widespread drouths and shortages in the world's other major grain-producing areas and to increasing affluence in other nations, we feel that it is still important to negotiate at this time to avoid the disruptive threats to the world trading system in the years just ahead. Recent skyrocketing of petroleum prices, tight supplies of foods, fertilizers and other vital commodities, world wide inflation and other pressures have increased the threat of abrupt unilateral trade or monetary actions which could trigger a series of retaliations and counter-retaliations that might completely disrupt world political as well as economic relations. This is why negotiations shoud not be delayed in seeking an improved code of fair trading rules and strengthening international institutions for continuing consultations and negotiations or procedures for settling trade disagreements.

While we firmly support world trade expansion, it should take place within a framework of reciprocal fair play. We are particularly concerned with those dairy and other import problems which face us because of foreign government subsidies or other such factors which put us at an unfair disadvantage. Many U.S. dairy leaders firmly believe the U.S. dairy industry is as efficient as that of Europe. If this is correct, then our interests can be protected by removing European dairy supports, subsidies, etc., to an extent equal to any reducing of our barriers to foreign dairy products.

The National Council endorses the concept of strong congressional and industry advisory groups to observe closely and assist in the upcoming round of international negotiations. We believe that private sector advisory activity as outlined in Title I, Section 135 should be encouraged on a continuous basis throughout the negotiations. This would be a most practical way of assuring that the benefits of private sector trade expertise is fully available to our negotiators; and close liaison between appropriate congressional committees and the Office of the Special Trade Representative would also help assure that Congress understands the pressures under which our negotiators operate and the rationale for agreements reached. We strongly support the principle of Congressional oversight and veto prerogatives over non-tariff barrier agreements.

We want to express our firm opposition to the Burke-Hartke bill (S. 151) which would establish sweeping and dangerous unilaterally imposed import quotas. Our credibility in seeking more open world markets would be seriously damaged if such legislation were to be passed. The road to greater world prosperity and peace is through more serious and more effective efforts in international consultations and negotiations—not in arbitrary and ill-advised unilateral action.

Efforts to tie USSR trade opportunities to the ability of the U.S. to demand fully open emigration for Russia, as required by the Vanik amendment to the Trade Reform Act of 1973, might be counterproductive if pressed too far. We are hopeful that a suitable means can be found to enable the Congress to encourage and assist the President in bringing pressures for a more open USSR. However, as it now stands, we risk reducing rather than improving our ability to influence the USSR if we are too adamant on our "all or nothing" approach.

Since the role of our chief trade negotiator is so vital to our success in achieving our trade goals, we hope that Congress will in every possible way assist in maintaining the stature and prestige of this office as that of the President's Special Trade Repreesntative. We believe this office should have more, not less authority for developing and coordinating our foreign trade policy. We

especially commend this office for its long-standing receptiveness to hearing agriculture's problems and for perceptiveness in relating agricultural trade to other issues.

In summary, we support H.R. 14710 as a constructive instrument for removing world trade barriers which impede the flow of goods on a basis of comparative advantage, as a means of attaining fairer trading rules which assure access to supplies as well as to markets, and as the only practical alternative to trade-disruptive unilateral actions in the face of today's worldwide economic turmoil. We believe it is vital to our national welfare to avoid the damage to all which would result from such unfettered trade conflict.

H.R. 10710 seeks, among other things, to further open up foreign markets for U.S. agricutural exports in order to pay for rapidly increasing imports in the energy area. To gain maximum benefits in agricultural exports, farm trade negotiations must be clearly related to other trade, monetary and economic-political considerations.

We appreciate the opportunity to present our views to this committee.

Senator TALMADGE. Our next witness is Mr. William J. Kuhfuss, president of the American Farm Bureau Federation.

We are delighted to have you with us, Mr. Kuhfuss.

Mr. KUHFUSS. Thank you, Mr. Chairman.

Senator TALMADGE. You may insert your full statement in the record and summarize it, sir.

STATEMENT OF WILLIAM J. KUHFUSS, PRESIDENT, THE AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY DONALD E. HIRSCH, STAFF, THE AMERICAN FARM BUREAU FEDERATION

Mr. KUHFUSS. Thank you, Mr. Chairman.

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represent a significant part of the total market for our agricultural production, and have a favorable effect on the net incomes of not only the producers of the commodities exported but also the producers of other commodities.

Urban families, as well as farm families, have a stake in continuation of agricultural exports at a high level. Higher per unit production costs for farmers mean higher food and fiber costs for all consumers. Lower net incomes for farm families reduce their expenditures for goods produced by industrial workers. And reduced agricultural exports would mean lower incomes and fewer jobs for workers now employed in transportation and other export-related industries.

Farm bureau vigorously supports H.R. 10710, the "Trade Reform Act of 1973," and urges you to report out an amended version of the bill at the earliest possible date. This bill is 151 pages long, and our written statement also is rather lengthy.

We have listed 11 specific changes that we believe would improve the bill. I would like to focus your attention on five basic issues.

The bill provides for conducting trade negotiations on a product sector basis. This is an unsound negotiating technique, and the results could be disastrous for agriculture. We urge you to add a provision that explicitly would direct the President and the U.S. negotiators to conduct joint negotiations on agriculture and industrial products. We are convinced that negotiations on trade problems in the agricultural and industrial sectors should be conducted jointly, not separately. The concept of joint negotiation is a fundamental element of the international trade negotiating process.

Nowhere in the bill is there a provision explicitly banning U.S. participation in international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices. A provision of this kind is greatly needed. International commodity agreements, which seek politically to determine markets, reduce opportunities for U.S. farmers to compete in world markets and, consequently, reduce farmers' incomes.

The bill now provides that countervailing duties need not be applied if the United States imposes quantitative limitations on imports or if quantitative limitations on exports to the United States are imposed by the foreign country. This provision should be deleted or at least amended to exclude agricultural commodities.

Recent Presidential proclamations have made certain import quotas almost meaningless. When a foreign supplier country provides subsidies—or other incentives having the effect of subsidies—on the commodities exported to our country, this constitutes an unfair trade practice. We are prepared to meet fair competition, but oppose subsidized competition.

The bill also provides that the Secretary of the Treasury would have 1 to 4 years of discretion, depending on circumstances, to withhold application of countervailing duties. We see no valid reason for placing countervailing duties for agricultural commodities on the negotiating table.

We support the extension of nondiscriminatory treatment in trade to the nonmarket economy countries when this is in the interest of our country. We recommend that extension of such treatment not be contingent on reduction or removal of domestic restrictions on emigration of their citizens. We are concerned about our national objectives in the area of human rights, but believe our country can be most effective in that area, and in trade negotiations, if the two unrelated areas are handled separately.

The bill contains a provision relating to generalized tariff preferences for products imported from developing countries. We recommend deletion of the entire title in the bill because this provision would violate the basic principle of nondiscriminatory treatment.

Senator, those are our condensed remarks related to our testimony. We appreciate very much the opportunity of presenting our statement.

Senator TALMADGE. Thank you very much for your statement, Mr. Kuhfuss.

Can you estimate how much of the dollar market for agricultural products we have lost because of the Common Market's variable levy system?

Mr. KUHFUSS. I do not have a figure at hand. No, I cannot estimate it.

Senator TALMADGE. Can you supply it for the record?

Mr. KUHFUSS. We can develop some pertinent information to comply with your request.

Senator TALMADGE. I have got several other questions I think you will not be able to answer off the top of your head, Mr. Kuhfuss, but I would appreciate your supplying them for the record.

Mr. KUHFUSS. We will be happy to if we can.

Senator TALMADGE. Now, can you break it down by products over the period 1964 through 1973? Would you also supply with the average

annual tariff equivalent of the variable levy for grains, and break that down into the category of wheat, corn, sorghum, barley and also for broilers—chickens, turkeys, and so forth—and meat products.

[The following was subsequently supplied for the record:]

The questions posed by Senator Talmadge are timely and directed toward development of information that can be highly significant during the upcoming multinational trade negotiations.

Intensive and extensive research analyses would be needed to provide complete answers to these questions. Insofar as we have been able to determine, no research reports that deal with these questions in depth have been published in recent years by public agencies or private institutions. In the brief period (9 calendar days) allowed for development of our answers, it has not been possible for us to assemble all of the information needed.

The Foreign Agricultural Service, U.S. Department of Agriculture, cooperated with us to the maximum extent possible within the limited time period. It gathered the data presented in the accompanying tables, and assisted in evaluation of them. The responsibility for preparing this statement was ours, however.

VOLUME OF EXPORTS TO EUROPEAN COMMUNITY (ORGINIAL SIX MEMBERS)

In a report published about five and one-half years ago,[1] the author estimated that the average annual loss in U.S. agricultural export sales to the European Community (E.C.) as a result of the adoption of the Common Agricultural Policy (C.A.P.) was $150 million to $200 million during the period 1958 through 1965. It was also estimated that the annual loss would rise to $215 million to $265 million by 1970.

These figures suggest that the total loss to the U.S. as a result of the C.A.P. during the sixteen year period, 1958 through 1973, might have been in the neighborhood of $3 billion or more. We must emphasize, however, that we do not at this time have sufficient information to enable us to make a scientific extrapolation of the data.

Tables 1 and 2 included herein provide some information concerning our agricultural exports to the E.C. in terms of dollar volumes.

U.S. commercial agricultural exports to the E.C. in the period 1968/69–1971/72 were 53.1 percent higher than in the period immediately preceding adoption of the C.A.P. (See Table 1.) A like comparison for commercial exports to other countries shows an increase of 106.4 percent. The C.A.P. undoubtedly played a significant role in accounting for this difference.

If U.S. commercial agricultural exports to the E.C. had risen at the same rate as those to the rest of the world, a market would existed in the E.C. for additional U.S. commodities valued at over $1.5 billion.

Similarly, during this period of time, the U.S. commercial agricultural exports to the E.C. that were subject to variable levies rose less than half as much—31.0 percent versus 64.2 percent—as those not subject to variable levies. (See Table 1). This dramatically supports the conclusions that the variable levy system has been a special deterrent to imports of the U.S. agricultural commodities subject to that system.

It is particularly disturbing to note that U.S. commercial agricultural exports to the E.C. under the variable levy system actually dropped 16.8 percent during the period from 1962/63-1966/67 to 1968/69-1971/72. During the same period our commercial export sales to other countries gained 27.8 percent. (See Table 1).

The break-down by major commodities, in dollar volumes of exports to the E.C., is shown in Table 2. In comparing exports in 1968/69-1971/72 with those in 1962/63-1966/67, it may be noted that declines occurred for feed grains, poultry, cotton, tallow, fruits and preparations, vegetables and preparations, and certain unclassified commodities.

We have not been able to give a truly definitive answer to this question, but hope that our reply will stimulate comprehensive research in this subject area. There are many variables to which careful attention should be given.

AD VALOREM INCIDENCE OF VARIABLE IMPORT LEVIES

The average annual ad valorem incidence of variable import levies for designated commodities in recent years is shown in Table 3.

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[1] Krause, Lawrence B. *European Economic Integration and the United States.* The Brookings Institution, Washington, D.C. 1968.

TABLE 1.—U.S. AGRICULTURAL EXPORTS: TOTAL WORLD AND TOTAL TO E.C. (EUROPEAN COMMUNITY); AVERAGES AND PERCENTAGE CHANGES, SELECTED PERIODS OF 4 FISCAL YEARS

Item	Average (million dollars)— (1) Prior to the agricultural policy	(2) Transitional under the common agricultural policy [2]	(3) Under the common agricultural policy after the transitional period [1]	Change from (percent)— (1) to (2)	(2) to (3)	(1) to (3)
	(1)	(2)	(3)			
Total, U.S. agricultural exports	4,466	6,138	6,916	37.5	12.7	54.9
Noncommercial—World	1,394	1,441	1,117	3.4	−22.4	−19.8
Commerical—European Community	1,015	1,375	1,554	35.5	13.1	53.1
Variable levy items	339	534	444	57.6	−16.8	31.0
Nonvariable levy items	676	841	1,110	24.4	32.0	64.2
Commercial—Others	2,057	3,322	4,245	61.5	27.8	106.4
European Community:						
Commercial, as percent of total				33.1	29.3	26.8
Variable as percent of total				33.4	38.9	28.6
Nonvariable as percent of total				66.6	61.1	71.4

[1] Prior to the C.A.P.: 1957-58—1961-62.
[2] Transitional under the common agricultural policy: 1962-63—1966-67.
[3] Under the common agricultural policy after the transitional period: 1968-69—1971-72.

Source of data: Foreign Agricultural Service, U.S. Department of Agriculture.

TABLE 2.—U.S. AGRICULTURAL EXPORTS: TO EUROPEAN COMMUNITY; DESIGNATED COMMODITIES, AVERAGES, SELECTED PERIODS OF 4 FISCAL YEARS

[In millions of dollars]

Item	Average: Prior to the common agricultural policy [1]	Transitional under the common agricultural policy [2]	Under the common agricultural policy after the transitional period [3]
Feed grains	205	367	324
Wheat, including flour	82	74	75
Rice	9	15	24
Poultry	23	27	12
Other	20	51	9
Total variable levy items	339	534	444
Oilseeds (mostly soybeans)	112	242	401
Oilcake and meal	18	98	211
Tobacco	88	114	150
Cotton, excluding linters	209	109	41
Corn by products, feed	1	12	34
Variety meats	13	30	41
Tallow	36	31	26
Hides and skins	22	24	31
Fruits and preparations	55	68	60
Vegetables and preparations	14	26	19
Other	108	87	96
Total nonvariable levy items	676	841	1,110
Total	1,015	1,375	1,554

[1] Prior to the common agricultural policy: 1957-58—1961-62.
[2] Transitional under the common agricultural policy: 1962-62—1966-67.
[3] Under the common agricultural policy after the transitional period: 1968-69—1971-72.

Source of data: Foreign Agricultural Service, U.S. Department of Agriculture.

TABLE 3.—U.S. AGRICULTURAL EXPORTS: TO EUROPEAN COMMUNITY; DESIGNATED COMMODITIES, AVERAGE ANNUAL PERCENT AD VALOREM INCIDENCE OF VARIABLE IMPORT LEVIES, RECENT MARKETING YEARS

Item	Marketing year [1]					
	1967–68	1968–69	1969–70	1970–71	1971–72	1972–73
Nondurum wheat	89	95	114	89	109	42
Durum	61	68	81	82	99	53
Corn	67	78	59	41	76	43
Barley	65	97	103	46	85	37
Oats	56	84	77	42	109	34
Rye	70	79	78	72	108	64
Whole poultry, "type c"	NA	37	33	31	36	39
Whole turkeys	NA	28	27	24	26	35

[1] Grains: 12-mo period, August through July. Poultry: 12-mo period, February through January.

Source: Foreign Agricultural Service, U.S. Department of Agriculture.

Senator TALMADGE. I think the biggest problem we have in agricultural exports as you know probably better than I, is not tariffs, but quotas and the variable levies and the nontariff discriminatory matters—frequently administrative decisions—there is no way to get a handle on them. I think this Trade Act must deal with that if we are to get agricultural products a fair break in trade. Unfortunately our previous negotiators, I do not think, have done a very good job for agriculture—and I have told them so—and I share your recommendation fully. These negotiations ought to be joint, manufactured products as well as agricultural products, not isolate us into one category at one time.

Mr. KUHFUSS. Senator, if I may comment. Back in the Kennedy Round of the GATT negotiations, the United States started reducing, or trying to reduce, tariff and nontariff barriers. We are still firmly in favor of going in the direction of reducing barriers. We were leaders at that time in this area, and I think that we have made some progress, but I think we have got a long way to go. And the very things that you just mentioned about variable levies or the other means of establishing and holding price are difficult to handle, but they are areas that we must work in because most of the countries of the world are trying to manage their production and their prices politically. Our trade philosophy is that products should be produced in the world wherever, in the long run, they can be produced of highest quality and at lowest prices. And we have some great advantages in this because we have lots of resources, we have good capability, and we have good knowhow in production; we can compete.

Senator TALMADGE. Thank you, Mr. Kuhfuss.

Senator Hansen?

Senator HANSEN. Mr. Kuhfuss, do you have any concerns about the thrust of some of the recently passed legislation dealing with fertilizers, pesticides, herbicides, one thing or the other that have been, at least in my judgment, effective in increasing our agricultural output and production in this country over the several years?

And I am wondering if you are concerned that we could go too far in prohibiting the uses of anything that could get into the water and could bring about a deterioration in the quality of the water, as far as it has been spelled out by some of the NEPA legislation?

Mr. KUHFUSS. Well, Senator, we are very concerned about these areas. We in agriculture are as concerned about not using excessive amounts of pesticides as anyone. First, we have to pay for these commodities we use. Second, we are likewise consumers and we are concerned about the cost of our food. Many of our applications of pesticides and fertilizers have greatly reduced the total cost of food production. Some persons have expressed the opinion that such chemicals are detrimental to the health of the people; we ought to base judgments upon facts and not upon emotion. And we think that too many times consumers are too readily moved to base judgment on emotion rather than upon fact.

We think that there has not been definite proof in some of these areas as related to a possible adverse impact on human health. And we are very concerned and we want to try to get an appraisal. This is a subject for a lot of discussion, and we are greatly concerned.

Senator HANSEN. In my State of Wyoming, our agricultural economy, insofar as the production of crops goes, largely is in response to our irrigating economy, as I am sure you know. Some of the standards that have been set up for irrigation are frightening to our farmers, and I am concerned that if we adhere right to the letter of all the environmental protection laws which have been passed, we could be in trouble.

I recall a couple of years ago, when there was an outbreak of the tussock moth—and I do not mean to get over into Senator Packwood's area—but I was disturbed that it took the Environmental Protection Agency as long as it did to conclude finally that some means of control was necessary. If this same attitude should characterize further management of that important division of Government, it occurs to me that the surpluses, with less and less land contributing more and more, could one day be a thing of the past in this country.

Mr. KUHFUSS. It is a possibility. I have not been one who has been fearful of not being able to produce. My problem and my concern have been that we have not been able to produce at the economic levels that have been provided in some instances. When we get an adequate economic return, we have been in effect skimming off easily acquired resources. You mentioned water—and you people in the western area have greatly appreciated water, better than many of the rest of us—but you have water that is every year causing tremendous damage through flooding. Usable fresh water is lost when it gets into the ocean; sometime or other we are going to divert that and use it on some of the arid lands. This is going to take some economic incentives in order to get that job done. If the economics are right, I think the opportunities for increased production are tremendous.

I am also concerned about strigent regulations for clean water. We want clean water, but some of these regulations are impossible, as you understand who know agriculture and how it has survived. We in agriculture are greatly concerned with the conservation and the preservation of land, water and other resources. Here again we must use good judgment, and not emotion, in order to get the right answers.

Senator HANSEN. Thank you, Mr. Chairman.

Senator TALMADGE. Senator Packwood.

Senator PACKWOOD. In your statement you say the elimination of section 402 of this bill would not mean an erosion of our support for the recognition of basic human rights. On the contrary, our national objectives in this area could be sought more vigorously and clearly in other ways if they are not forcibly interjected into trade negotiations.

What are some of those other ways?

Mr. KUHFUSS. I have Don Hirsch with me, our staff person who works in the international trade area. Would you allow me to have Mr. Hirsch comment on this?

Senator TALMADGE. Certainly.

Mr. KUHFUSS. Thank you, Senator.

Mr. HIRSCH. Mention was made earlier this morning of Dr. Kissinger's activities. This sort of diplomatic approach perhaps is more effective than trying to put a club into the trade bill. In other words, there is a problem with respect to the U.S.S.R. saving face; perhaps it can save face and make some additional concessions through informal discussions with Mr. Kissinger that it would not make if we had a specific provision like section 402 in this trade bill.

We do not have the solution to the U.S.S.R. emigration situation but we do think that our national commitments to (1) détente and freer trade, and (2) individual human rights, can be attained most effectively if the two are separated.

Senator PACKWOOD. I sense a certain willingness of everybody who testifies to write off this provision because it is allegedly a nongermane part of the bill—and it probably is non-germane—but it kind of reminds me of the argument about racial discrimination: Do not take care of it in education and do not do it in housing because that is a building problem, not a racial problem. I am just curious, when we get to this emigration problem of Soviet Jews, what is the best tool. Do not put it in the trade bill, do not bring it up in the SALT talks. Do not put it in this bill or that bill. How can we act beyond just words.

Mr. HIRSCH. Well, since it is not an international issue in and of itself—in other words, it is a domestic policy of a foreign government—even though we condemn it, it would appear that there is some other way to tackle the problem of emigration restriction that would be better than a provision in the trade bill.

Senator PACKWOOD. I have no other questions.

Senator TALMADGE. Thank you very much, Mr. Kuhfuss. We appreciate your excellent testimony and your contribution.

[The prepared statement of Mr. Kuhfuss follows. Hearing continues on p. 1017.]

PREPARED STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, PRESENTED BY WILLIAM J. KUHFUSS, PRESIDENT

Summary

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represent a significant part of the total market for our agricultural production, and have a favorable effect on the net incomes of not only the producers of the commodities exported but also the producers of other commodities.

Urban families, as well as farm families, have a stake in continuation of agricultural exports at a high level. Higher per unit production costs for farmers mean higher food and fiber costs for all consumers. Lower net incomes for farm

families reduce their expenditures for goods produced by industrial workers. And reduced agricultural exports would mean lower incomes and fewer jobs for workers now employed in transportation and other export-related industries.

Important trade negotiations can be conducted within the framework of GATT later this year. The effectiveness of the efforts of U.S. negotiators likely will depend to a great extent on changes in trade policy that may occur prior to that time.

Farm Bureau vigorously supports H.R. 10710, the "Trade Reform Act of 1973," and urges you to report out an amended version of the bill at the earliest possible date.

We urge adoption of the following amendments in order to effect needed improvements:

1. *Title I.* In subsection 102(b)(1) remove the present option for the President with respect to entering into trade agreements with foreign governments to reduce or eliminate nontariff trade barriers and other distortions. The word "may" should be replaced with the words "shall seek to" in order that the President will be directed to seek to enter into trade agreements when the foreign trade of the United States is being unduly burdened and restricted.

2. *Title I.* Delete subsections 102(c)(1) and (2), which provide for conducting trade negotiations on a product sector basis.

3. *Title I.* Add a provision that explicitly will direct the President and the U.S. negotiators to conduct joint negotiations on agricultural and industrial products. We are convinced that negotiations on trade problems in the agricultural and industrial sectors should be conducted jointly, not separately. The concept of joint negotiation is a fundamental element of the international trade negotiating process.

4. *Title I.* Add a provision explicity banning U.S. participation in international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices. Such agreements, which seek politically to determine markets, reduce opportunities for U.S. farmers to compete in world markets and, consequently, reduce farmers' incomes.

5. *Title I.* Make such changes in subsection 141(c)(1)—which relates to the duties and responsibilities of the Special Representative for Trade Negotiations—as may be necessary to avoid circumvention of the intent of the International Economic Policy Act of 1972 and Public Law 93–121, with respect to the policy coordinating function of the Council on International Economic Policy.

6. *Title II.* Amend subsections 201(b)(2)(A) and (B) in order that the criteria for relief from injury caused by import competition be the same for "threat of serious injury" as for "serious injury."

7. *Title II.* In 201(b)(4) replace the term "substantial cause"—and the definition therefor—with the term "major cause." The latter is used in existing law and means that relief from injury caused by import competition can be granted only when an import is a greater cause of damage than all other causes combined.

8. *Title III.* Delete subsection 303(d), or at least amend it to exclude agricultural commodities. This subsection would provide that countervailing duties need not be applied if the U.S. imposes quantitative limitations on imports, or quantitative limitations on exports are imposed in the foreign country.

9. *Title III.* Delete subsection 303(e) or amend it to provide a specific exemption for agricultural commodities. This subsection would enable the Secretary of the Treasury to have one to four years of discretion (depending on circumstances) to withhold application of countervailing duties.

10. *Title IV.* Delete Section 402, which makes extension of nondiscriminatory treatment to a nonmarket economy country dependent on reduction or removal of domestic restrictions on emigration of its citizens.

11. *Title V.* Delete this title. It deals with generalized tariff preferences for products imported from developing countries and violates the basic principle of nondiscriminatory treatment.

We appreciate this opportunity to present Farm Bureau's views with respect to H.R. 10710, the "Trade Reform Act of 1973." Farm Bureau is the largest general farm organization in the United States with a membership of 2,293,680 families in forty-nine states and Puerto Rico. It is a voluntary, nongovernmental organization and represents farmers who produce virtually every agricultural commodity produced in the entire country.

BACKGROUND

Before commenting on specific provisions in the bill we would like to mention briefly two subject areas that are of special concern with respect to any discussion of international trade. The first is the significance to the U.S. of its agricultural exports. The second concerns the principles of access to markets and access to supplies.

Significance of agricultural exports

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represent a significant part of the total market for our agricultural production. The production from approximately one harvested acre in four is exported. Exports have a favorable impact on the net incomes of not only the producers of the commodities exported but also the producers of other commodities. Conversely, the net incomes of all agricultural producers would be adversely affected by a drop in exports and the consequent diversion of a greater share of our productive capacity to the output of commodities destined for the domestic market.

Farmers and ranchers support two-way trade. In addition to gains from a high level of export trade, we can gain from imports of items used in farm production which can help to reduce our production costs.

Urban families, as well as farm families, have a stake in continuation of agricultural exports at a high level. Higher per unit production costs for farmers mean higher food and fiber costs for all consumers. Lower net incomes for farm families would reduce their expenditures for goods produced by industrial workers. And reduced agricultural exports would mean lower incomes and fewer jobs for workers now employed in transportation and other export-related industries.

Agricultural exports are continuing to set all-time highs. During the fiscal year ending June 30, 1974, they are likely to total $20 billion. This is two and one-half times the dollar volume of two years ago.

Agricultural imports also have risen rapidly and are expected to reach a new high of $9.5 billion this fiscal year. Nevertheless, when adjusted for government-program shipments under P.L. 480 and AID, this fiscal year's commercial trade balance for agriculture is expected to reach $9.6 billion. This tremedous contribution by American agriculture helps offset the rising costs of imports, particularly petroleum products, and lessens our problems with respect to our international balances of trade and payments.

Domestic inflation, created largely by excessive government expenditures, is the root cause of our balance-of-payments problem and must be attacked vigorously on every economic front at every opportunity.

Important trade negotiations can be conducted within the fremework of GATT later this year. The effectiveness of the efforts of U.S. negotiators likely will depend to a greater extent on changes in trade policy that may occur prior to that time. The United States government needs to "put its own house in order" with respect to payments to producers that actually are a disguised form of export subsidy. Progress is being made in that direction, and Farm Bureau frequently has made recommendations to the Congress which, if adopted, would reduce this problem further.

This is a crucial period not only for the international trade of the United States but also for the continued growth of the economy.

Farm Bureau policy, established by the voting delegates of the member State Farm Bureaus at the annual meeting of the American Farm Bureau Federation in January, 1974, clearly supports mutually advantageous international trade in farm products, reduction of barriers to trade, authority for the Administration to participate in the forthcoming GATT negotiations, joint negotiations on trade problems in the agricultural and industrial sectors, and the opportunity for American agriculture to compete in world markets without the restrictions inherent in international commodity agreements.

Access to markets and to supplies

Due in large part to the international energy crisis, much has been said in recent months about the desirability of establishing "access to supplies." This is the natural counterpart to "access to markets" which is so important to our farm and ranch families. "Access to markets" implies an opportunity for sellers to compete in markets in other countries; "access to supplies" impose an opportunity for buyers to compete in markets in other countries.

Each country needs to give consideration to the security and interests of its people. Beyond that point, however, trade must be as free and unfettered as is politically and economically feasible.

Farm Bureau support adherence to the twin principles of "access to markets" and "access to supplies", but we are concerned about possible misapplications of these principles. We seek opportunities to compete in foreign markets and favor trade agreements which provide equal opportunity for foreign producers—agricultural as well as industrial—to complete in our domestic market.

There is, however, a very important qualification. If international trade is to be mutually advantageous to the nations involved, it must be based on fair and effective competition. Fair competition cannot exist unless the terms of sale reflect fully the economic incentives that brought forth the production and delivery of a commodity. Unfair competition exists when a government grants a subsidy, or other incentive having the effect of a subsidy, for the production or export of a commodity to a foreign market in which the commodity will be in substantial competition with a commodity that is produced commercially and in volume in the importing country.

We vigorously oppose any proposal to (1) limit or control exports of U.S. agricultural commodities, (2) permit U.S. participation in international commodity agreements which would allocate markets or establish minimum and maximum prices, or (3) provide for U.S. participation in development or maintenance of internationally controlled reserves of agricultural commodities. Each of these cources would be counter-productive to our efforts to gain greater access to markets and to supplies.

Long-term commercial contracts are an essential tool which importers may use to gain access to supplies and which exporters may use to gain access to markets.

In this setting we shall now direct our comments to the principal provisions of the bill under consideration, H.R. 10710. This bill is urgently needed and basically sound. However, we recommend certain improvements.

Title I—Negotiating And Other Authority

Chapter 1—rates of duty and other trade barriers

The President is provided authority (section 101) for a period of five years to increase or decrease import duties within specified limits in order to carry out trade agreements. This provision and others constitute a significant expansion of Executive authority over that provided by previous legislation. We are concerned about further delegation of power to the Executive Branch of government; however, in view of the dynamically changing political and economic environment that characterizes the world situation in the mid-1970's such an expansion of authority for a limited period appears to be justified.

Section 102 pertains to nontariff barriers and to other distortions of trade. The variable import levies now imposed by the European Community are an example of nontariff trade restrictions. Such barriers are of great concern to farm families since they often are used by other countries to limit or even exclude opportunities for U.S. farm products to compete in national or multinational markets.

Subsection 102(b)(1) authorizes the President to enter into trade agreements with foreign governments to reduce or eliminate nontariff barriers and other distortions. This provision should be strengthened on line 18, page 8, by replacing the word "may" with the words "shall seek to" immediately prior to the words "enter into trade agreements" on line 19, page 8.

Subsection 102(c)—often called "the Karth amendment"—provides for conducting negotiations ". . . on the basis of each product sector of manufacturing and on the basis of the agricultural sector." Negotiations would be conducted in this manner to the "maximum extent appropriate" to obtain "competitive opportunities" for exports from a U.S. "sector" to developed countries, equivalent to those afforded like or similar imports into the United States.

We are convinced that negotiations on trade problems in the agricultural and industrial sectors should be conducted jointly, not separately. The concept of joint negotiation is a fundamental element of the international trade negotiating process. Failure to adhere to it during the "Kennedy Round" led to many problems and competitive disadvantages for American farmers and ranchers.

The largest and most valuable markets for our agricultural commodities are the EC (European Community) and Japan. These countries are heavily industrialized, but do not have the productive capacity to enable them to compete in a large way in the U.S. market for food, feedstuffs, and fibers. Thus it is inescapable that our negotiators must be prepared to make concessions with regard to removing or

reducing restrictions on imports of certain industrial products produced in Japan and the EC.

At best, subsections (1) and (2) in Section 102(c) would greatly reduce negotiating flexibility and the opportunity for mutually advantageous "trade offs" will all highly industrialized countries. We urge the deletion of subsections (1) and (2) of Section 102(c).

We favor subsections 102(c) (3) and (4). These subsections provide for dissemination of information of interest and concern to firms and workers engaged in produce sectors. Some rewording will be necessary after deletion of the immediately preceding subsections (1) and (2).

The bill contains references to trade negotiations and to the industrial and agricultural sectors; and the general thrust, aside from Subsections 102(c) (1) and (2), appears to contemplate joint negotiations; however, it would be much clearer and more binding on U.S. negotiators if an explicit provision to this effect were added. We recommend that a strong provision directing joint negotiations be included in H.R. 10710.

Subsections 102(d), (e) and (f) provide for appropriate consultation with the Congress by the President and for a ninety-day waiting period during which the Congress would have an opportunity to study—and to approve or veto—a proposed trade agreement providing for the reduction or elimination of nontariff barriers or other distortions of trade. This would give foreign negotiators some assurance that agreements negotiated would be implemented by the United States. It also would reserve to the Congress the power to disapprove agreements that it may determine to be undesirable or unsound. We favor these provisions.

Subsection 102(h) specifically designates the "American selling price" basis of customs valuation as a trade barrier. This is a barrier which the United States could and should eliminate through the negotiation process.

Chapter 2—Other authority

Section 121 is designed to modernize the structure and operations of GATT (General Agreement on Tariffs and Trade). Subsection 121(a) (1) deals with an important matter: revision of the decision-making machinery in GATT to provide for weighted voting "more nearly to reflect the balance of economic interest." ("Weighted voting" is not mentioned in this subsection but is referred to in the summary and analysis prepared by your staff). We favor this proposed change.

Nowhere in this chapter—and nowhere else in the bill—is there an explicit ban on U.S. participation in international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices. All attempts to operate commodity agreements which seek to determine market shares and prices on a political basis have failed. Agreements of this type reduce opportunities for U.S. farmers to compete in world markets, and consequently, reduce farmers' incomes. We urge an amendment to the bill to ban U.S. participation in such agreements.

Chapter 3—Hearings and advice concerning negotiations

In general, the bill has much to say about liaison between government and industry but relatively little about liaison between government and agriculture.

Section 135 which deals with advice from the private sector is of special interest to us. We believe that it is essential that U.S. negotiators receive advice from the private sector and keep agriculture properly informed about developments.

Farm Bureau will seek to keep those having responsibility for negotiating in behalf of the U.S. government, informed regarding the views of farmers and ranchers. As the largest general farm organization in the world, Farm Bureau is uniquely qualified to provide such representation.

Chapter 4—Office of the special representative for trade negotiations

Subsection 141(c)(1) provides, among other things, that the Special Representative for Trade Negotiations shall be responsible directly to the President and the Congress for the administration of trade agreement programs.

On September 20, 1973, the Senate agreed to the conference report on S. 1636 to continue the Council on International Economic Policy as a part of the Executive Office of the President. Farm Bureau communicated with the U.S. Senate in support of such action. The bill was signed on October 4, 1973, and became Public Law 93-121.

It was our understanding that an objective of the International Economic Policy Act of 1972 and Public Law 93-121 was to establish lines of authority—i.e.,

that the Council on International Economic Policy is to act as the overall coordinating body for foreign economic policy in the Executive Branch. The provisions of subsection 141(c)(1) appear to be in conflict with this objective. We recommend such changes in subsection 141(c)(1) of H.R. 10710 as may be necessary to avoid circumvention of the intent of the International Economic Policy Act of 1972 and Public Law 93-121.

Title II—Relief from injury caused by import competition

Inflationary pressures have encouraged imports, and some industries are seeking protection from international competition. Adjustment assistance and escape clause remedies should be readily available to such industries, and worker assistance should be granted to employees of these industries when the Tariff Commission finds that imports are causing, or threatening to cause, injury. Criteria for determining injury should be established to make it easier to obtain import relief when injury or threat of injury to any U.S. industry is apparent. Prompt determinations should be made on petitions for import relief.

We find, however, that the bill would liberalize relief provisions excessively. The result would be a shift toward protectionism rather than freer trade.

For example, in subsections 201(b)(2)(A) and (B) the criteria for determining "serious injury" are more difficult to meet than those for determining "threat of serious injury." It appears that more equitable treatment of injured parties would be possible if the criteria for "threat of serious injury" were the same as for "serious injury." We recommend that the subsections be changed accordingly.

Further, in determining whether imports of an article are injuring a domestic industry, the bill provides for an investigation of whether such imports are a "substantial cause of injury." Subsection 201(b)(4) provides that "the term 'substantial cause' means a cause which is important and not less than any other cause." The Trade Expansion Act refers to a "major cause"—a cause greater than all other causes combined. Thus this proposed change would lead to greatly increased claims of injury or threats of injury from imports. We recommend retention of the wording in the present law; i.e., "major cause."

It is our belief that farmers and nonfarmers can benefit from trade that permits producers in each country to specialize in production of the commodities for which they have the greatest comparative advantage. These are the commodities they can produce at lowest relative cost. National security and the need to avoid imposing undue hardship on domestic producers must be considered. Sometimes it is necessary to provide an adjustment period for producers, workers, firms, and industries which are confronted by rapidly rising imports. Nevertheless, the advantages of freer trade can be obtained only if comparative advantage in production and delivery generally prevails.

Title III—Relief from unfair trade practices

Of special concern to agriculture is the authority in Section 301 for appropriate action against a foreign country that ". . . provides subsidies (or other incentives having the effect of subsidies) on its exports of one or more products to the United States or to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products in the United States or in those other foreign markets. . . ."

Such unjustifiable subsidies have (1) hampered exports of U.S. agricultural commodities to third markets and (2) resulted in unfair competition in the U.S. market.

Subsection 303(a) provides for the levying of countervailing duties. When there has been a foreign production or export bounty paid on a product imported into the U.S., ". . . there shall be levied and paid, in all such cases, in addition to any duties otherwise imposed, a duty equal to the net amount of such bounty or grant, however the same be paid or bestowed."

We strongly support this provision of Subsection 303(a); however, there are two complementary provisions that weaken it. Subsection 303(d) provides that countervailing duties need not be applied to an article if the U.S. imposes quantitative limitations on imports or if quantitative limitations on exports to the U.S. are imposed by the foreign country. This would legitimize a current practice to which we are opposed and which now is of doubtful legality at best. Subsection 303(d) should be deleted, or at least amended to exclude agricultural commodities.

The other limiting provision is in subsection 303(e). The Secretary of the Treasury would be given one to four years of discretion (depending on circum-

stances) to withhold application of countervailing duties if he thought such inaction would assist in the satisfactory completion of multinational negotiations. Subsection 303(e) should be deleted or amended to provide a specific exemption for agricultural commodities.

Countervailing duties are not a new kind of restriction on trade. When applied by the United States to offset a subsidy paid by a foreign government on its products exported to our country, a countervailing duty is simply a means of responding effectively to unfair competition. If a country has no production or export subsidies, countervailing duties cannot be applied. Thus the initiative for this cause-and-effect relationship lies in the hands of the exporting country.

Countervailing duties should be applied to imports of agricultural commodities whenever such imports involve unfair competition—as we defined it earlier under "Access to Markets and to Supplies." We urge the application of countervailing duties whenever a subsidy is involved in the importation of a foreign-produced agricultural commodity that is in substantial competition with our domestic production. Countervailing duties should offset in full the subsidies paid directly or indirectly by the foreign government. The application of such duties should be mandatory so long as the foreign subsidy exists and should not be left to the discretion of the Executive Branch.

Title IV—Trade relations with countries not enjoying nondiscriminatory treatment

We support the principal objectives of this Title, in accordance with the following established Farm Bureau policy:

> "We favor the sale of American farm and industrial products in world markets whenever this will advance the best interest and security of the United States.
>
> "The new trade agreement with the Union of Soviet Socialist Republics provides the framework for enlargement of U.S.-USSR trade and investment.
>
> "Congress should approve Most Favored Nation status for tariff treatment of goods from the USSR. Any trade agreements with communist countries should not provide more favorable terms of trade than granted to other nations. Governmental barter agreements and special credit arrangements should not be allowed to supersede normal commercial trade."

Our nation is pursuing policies designed (1) to promote an effective detente with the U.S.S.R., and (2) to support and encourage recognition of the basic human rights of all individuals in the world. Our national commitment with respect to detente is based in part on increased commercial trade. Our commitment with respect to human rights is not directly related to international trade.

The U.S.S.R. is one of several nonmarket countries, including the People's Republic of China. that have restrictions on emigration of their citizens. Many of our citizens believe those restrictions are in violation of basic human rights. Unfortunately, this has led to amendments to the trade bill that are not germane (Section 402). The bill provides that no nonmarket economy country shall be eligible to receive nondiscriminatory treatment if it denies its citizens the right to emigrate or imposes more than a nominal tax on emigration. We recommend that this section be deleted.

The elimination of Section 402 of the bill would not mean an erosion of our support for the recognition of basic human rights. On the contrary, our national objectives in this area could be sought more vigorously and cleary in other ways if they are not forcibly interjected into trade negotiations. Further, the deletion of provisions that deal with nontrade matters would enhance the strength and effectiveness of the trade bill as a specialized tool for improving conditions in international trade.

Title V—Generalized system of preferences

Farm Bureau policy explicitly states support for American foreign aid programs for less fortunate nations that are ". . . based on well formulated, long range plans of recipient nations in order to insure proper utilization of aid funds." However, it also states that "we oppose granting special tariff concessions to developing countries."

We believe it is in the long-term best interests both of the developing countries and of the United States that this country treat commercial transactions with

developing nations in the same manner as similar transactions with other countries. Preferential arrangements are discriminatory and economically unsound whether the nations involved are considered to be developed or developing.

As noted in our discussion of Title IV, we support extension of nondiscriminatory treatment in trade relations to additional countries. The objective of Title V is precisely the opposite; it would grant generalized tariff preferences to products imported from selected countries and this automatically would mean discrimination against the products of all other countries. To grant preferential tariff treatment to developing nations would be another step away from the benefits to all nations that can be obtained by adherence to the basic principle of nondiscriminatory treatment.

We recommend deletion of Title V.

PRINCIPAL RECOMMENDATION

Farm Bureau vigorously supports H.R. 10710, the "Trade Reform Act of 1973", and urges you to report out an amended verison of the bill at the earliest possible date.

We urge adoption of the following amendments in order to effect needed improvements:

1. *Title I.* In subsection 102(b)(1) remove the present option for the President with respect to entering into trade agreements with foreign governments to reduce or eliminate nontariff trade barriers and other distortions. The word "may" should be replaced with the words "shall seek to" in order that the President will be directed to seek to enter into trade agreements when the foreign trade of the United States is being unduly burdened and restricted.

2. *Title I.* Delete subsections 102(c)(1) and (2), which provide for conducting trade negotiations on a product sector basis.

3. *Title I.* Add a provision that explicitly will direct the President and the U.S. negotiators to conduct joint negotiations on agricultural and industrial products.

4. *Title I.* Add a provision explicitly banning U.S. participation in international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices.

5. *Title I.* Make such changes in subsection 141(c)(1)—which relates to the duties and responsibilities of the Special Representative for Trade Negotiations—as may be necessary to avoid circumvention of the intent of the International Ecoonmic Policy Act of 1972 and Public Law 93-121, with respect to the policy coordinating function of the Council on International Economic Policy.

6. *Title II.* Amend subsections 201(b)(2)(A) and (B) in order that the criteria for relief from injury caused by import competition be the same for "threat of serious injury" as for "serious injury."

7. *Title II.* In 201(b)(4) replace the term "substantial cause"—and the definition therefor—with the term "major cause." The latter is used in existing law and means that relief from injury caused by import competition can be granted only when an import is a greater cause of damage than all other causes combined.

8. *Title III.* Delete subsection 303(d), or at least amend it to exclude agricultural commodities. This subsection would provide that countervailing duties need not be applied if the U.S. imposes quantitative limitations on imports, or quantitative limitations on exports are imposed in the foreign country.

9. *Title III.* Delete subsection 303(e) or amend it to provide a specific exemption for agricultural commodities. This subsection would enable the Secretary of the Treasury to have one to four years of discretion (depending on circumstances) to withhold application of countervailing duties.

10. *Title IV.* Delete Section 402, which makes extension of nondiscriminatory treatment to a nonmarket economy country dependent on reduction or removal of domestic restrictions on emigration of its citizens.

11. *Title V.* Delete this title. It deals with generalized tariff preferences for products imported from developing countries and violates the basic principle of nondiscriminatory treatment.

Senator TALMADGE. The next witness is Mr. Joseph Halow, executive vice president, Great Plains Wheat, Inc.

You may insert your statement in full, Mr. Halow, and summarize it please.

STATEMENT OF JOSEPH HALOW, EXECUTIVE VICE PRESIDENT, GREAT PLAINS WHEAT, INC.

Mr. HALOW. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to appear before the committee, and I appreciate also the opportunity to present this statement in its entirety for the record.

I have not prepared a summary, but I shall attempt very briefly to summarize I think what may be some of the salient parts of the statement which I have prepared of course for the committee.

In Great Plains we represent the farmers, the wheat farmers in the major wheat-producing part of the United States through the entire Great Plains area, from the north to the south. And our own interest, of course, in trade I think has been fairly evident, considering the strength of the wheat markets during the past couple of years, which has been attributable in a large measure, of course, to the very strong export outflow of grains from the United States.

We feel that this has, of course, created some problems in terms of prices in the United States, but we feel that these problems are fairly close to resolution. I think our own particular system has fairly well proved itself, and our own production this year, I think, has already helped alleviate some of the stress.

We never have had any real shortages. I think, of course, the term "shortage" is subject to definition, but there has not been a real shortage of grain in the United States, nor is there apt to be.

We feel that the climate is particularly favorable for an international trade negotiation, because I feel that not only the people in the United States but those in other parts of the world are also very well aware of the fact that liberalized trade is quite important, not only for improved access to markets but improved access to supplies.

I think the period of shortages, real or imagined, that we have been through has convinced people that trade is quite important in order to bring the citizens of the world the type of commodities which they want; that is, to permit countries to trade what they can produce most efficiently in return for the ability to import the type of products which are produced most efficiently in other parts of the world as well.

As I said, I think that the period of shortages, at least in agriculture, are fairly close to resolution. We have improved our own particular stocks and our production. I think this coming year will fairly well take care of problems which we may have had.

The export markets are of particular importance to the U.S. wheat producer, and in fact, possibly to a greater degree than many of the commodities which are produced in the United States. I think the Department of Agriculture has estimated that we export the produce of about one out of every four acres harvested in the United States, but in wheat the percentage is far greater. We have to export at least two-thirds of the wheat crop in the United States in order to maintain on balance.

I think we have come down quite a bit with wheat as a matter of fact, and our production has increased to such an extent that we have to export this type—this large percentage of the crop in order to continue to produce wheat economically and efficiently in the United States at prices that would be acceptable to the United States.

I think we have proved we can produce for both the domestic and a large portion for the export markets. The rest of the world, I feel, is also fairly well prepared for some type of trade negotiations. I think our own system has proved itself, for the rest of the world would have been in serious trouble, I feel, during the past 2 years if it had not been able to come to the United States for wheat supplies.

I feel that the time is particularly favorable also for negotiation with the European community, and particularly on the subject of non-tariff barriers. There is quite a bit of pressure within the European community for some type of modification of the common agricultural policy, and very strong pressure is, of course, coming from England. Pressures have come from Germany and Italy; and pressures may come even now from France and the French Government. The French have, of course, been one of the strongest forces in the community preventing some type of revision or modification of the common agricultural policy.

I think the Japanese themselves have also become much more aware of the fact that there has to be some greater trade liberalization, so I feel that in this area as well, the United States should have an easier time of attempting to negotiate. This is true in all the Far East, but particularly in Japan.

When we analyze, of course, own own export market, particularly in agriculture, we note that a great deal of strength in the agriculture market has come from increased trade in the Eastern bloc countries. As a result, I feel that the strength and the health of the agricultural community is going to have to depend in the future on continued trade with these countries.

We were—and I commented in the statement—disappointed to see that trade with the Eastern bloc countries may be hampered, by the so-called Vanik amendment, which would attach restrictions on trade with the Soviet Union—tied to their emigration policy. We would hope that a trade bill would be passed by the Senate without such restrictions.

I mentioned in the statement that we deplore restrictions on freedom of individuals in any part of the world, but we do not feel that this type of condition would be attached to an economic measure such as this one.

In closing, I might say that we feel that we are optimistic about what may be gained in some type of negotiations on trade, internationally, multilaterally, but we feel that our negotiators should have some strong negotiating authority. I think without a trade bill they would be seriously hampered, but we would hate to see them also hampered or hobbled by a trade bill which would give them only weakened authority to negotiate.

Senator TALMADGE. Mr. Halow, I believe the estimated production of wheat this year is something like 2,100 million bushels.

Mr. HALOW. That is right.

Senator TALMADGE. As you know, we use domestically about 500 million bushels. Are we going to have wheat running out our ears after this harvest season?

Mr. HALOW. I doubt that we will have wheat running out of our ears. I think our own stocks have, of course, been drawn down to some extent. I think we will probably add to our carryover this season. This is one of the reasons it is extremely important to try to negotiate for continued access to markets or for better access to markets.

I do not know that we will have wheat running out of our ears this year, but we could possibly have it in another year.

Senator TALMADGE. Most of the other nations handle their exports by State trading corporations. We do it by the private industry. Which do you think is the best method?

Mr. HALOW. I think the experience of the past year has proved that ours was really the only one that turned out to be beneficial—I mean for the world actually and for ourselves.

Senator TALMADGE. How can we avoid mistakes like we made a couple of years ago by selling the Soviets too much wheat too cheap.

Mr. HALOW. I think possibly through a better understanding of what happened in the markets. I do not know if in the longrun we can turn around and point to, or pick out one particular sale as having been a mistake. I think in retrospect all of us would have said we would have probably handled it differently.

I think that if we are better acquainted, first of all with what is transpiring in the world, I think we can handle our own export business much better.

Senator TALMADGE. We wrote in the Agricultural Act of 1973, as you may know, a provision that requires these export trading companies to make reports to the Department of Agriculture about their export sales and contracts, and that is to be a matter of public information.

Do you think that will give us adequate protection?

Mr. HALOW. Actually, no. I am not sure.

Senator TALMADGE. You see, what happened there, the Soviets were negotiating with several of our private export corporations. None of them apparently knew the enormous quantities of wheat the Soviets were purchasing from others; and it took the Department of Agriculture completely by surprise.

We sold too much of our wheat much too cheap, as you know, and left us in the ditch with short supplies. Since that time wheat has been extremely expensive.

You do not think that provision in the Agricultural Act is sufficient?

Mr. HALOW. Actually, I would like to explain my statement. I do not think that the type of reporting system we have at the present time has been particularly effective, as a matter of fact.

Senator TALMADGE. This is of recent origin now. We just put that in the provision last year.

Mr. HALOW. The type of provision that we have in here, I think, if applied properly, would be quite helpful. As a matter of fact, I was referring to or thinking in terms of the type of reporting system that we have at the present time, which I do not feel has been extremely effective.

Senator TALMADGE. Do you know of any way to make it more effective? I would appreciate your letting our committee know so it can consider it in the markup of this bill.

Thank you very much.

Senator Hansen.

Senator HANSEN. Mr. Halow, I am sure that if you were to ask the average person in the United States, "is wheat too expensive," you would get an almost unanimous yes for an answer.

Mr. HALOW. I hear even from my wife that food is too expensive, sir.

Senator HANSEN. Not too awfully long ago Secretary Butz was on a TV program—I have forgotten who all was there with him—but I remember very well he took a loaf of bread with 20 slices, and said these four slices represent the part of the loaf that goes back to agriculture in payment for the wheat from which the 20 slices are made. The other 16 represent costs that are added to that wheat by others who handle the wheat from the time it is harvested until it actually appears on the shelf at the counter.

I think it is unfortunate that agriculture was not able to witness a price rise that would have been more gradual, and yet a sustained price for the last 20 years. I think I know a little bit about the price of meat. I am sure many people today would say the price of meat is way too high, and yet when you compare the price of meat today with what it was 20 years ago, the typical feeder, the typical farmer, has not benefited in the same sort of price increase that labor has had or that many other segments of industry have had.

I would ask you—you say that unless we can export, the wheat grower is going to be in serious trouble. Is wheat too high priced in your judgment?

Mr. HALOW. No. I do not think wheat is too high priced. I think wheat, has reached a price on the free market in the United States. And I agree with you, of course, that it has been unfortunate that wheat prices have actually not really moved during a period of about 20 years; and then, of course they made their price adjustment fairly quickly.

And then I think it is also quite unfortunate that an increase in the cost of living has been tied to the increase in the cost of wheat. And I agree with Secretary Butz when he pointed out, as our own studies within the various wheat groups have proved, that the cost of wheat in the loaf of bread is a small fraction of the total cost.

And we would also like to point out the fact that historically when wheat prices have decreased, bread prices have not shown a corresponding decrease.

We feel that the price of wheat has been important and quite necessary, in fact, in bringing on the surge of the increase in production which we feel was needed. I do not think wheat is too high priced. As I say, it is unfortunate that when wheat finally reached a price level which corresponds more to the increase in the price levels of all of the other commodities, that it should then be singled out as having been responsible for the increase in the cost of living. It is quite unfair and actually quite incorrect.

Senator HANSEN. I have no further questions, Mr. Chairman.

Senator TALMADGE. Senator Packwood.

Senator PACKWOOD. What is Great Plains Wheat, Inc.?

Mr. HALOW. Great Plains Wheat is a nonprofit association which represents the wheat farmers of the Great Plains area, through their State wheat commissions, supported through a checkoff system. The checkoff system, in States where there is legislation calling for it, provides for a certain levy raised on each bushel of wheat produced within the individual State with this legislation. The levy may vary from 2 to 5 mills. The moneys are channeled through the State treasuries and are designated for promotion of wheat interests. The various State wheat commissions then group together into their regional market

development organizations, which work in collaboration with the Department of Agriculture under the so-called cooperator program, helping to expand export markets for U.S. agricultural commodities, in our case, of course, wheat.

Senator PACKWOOD. So you have members beyond what I would geographically think of as the Great Plains?

Mr. HALOW. Yes.

Senator PACKWOOD. Do you favor the elimination of section 102(c)(1) and (2), the sector-by-sector analysis provision?

Mr. HALOW. Yes, I do.

Senator PACKWOOD. You made reference to 750 million bushels of domestic consumption, rather static, but 530 million bushels of domestic milling requirement. What happens to the difference?

Mr. HALOW. The difference is either fed, or some is used for seed, of course. It is fed to livestock.

Senator PACKWOOD. That is all, thank you.

Senator TALMADGE. Thank you very much, Mr. Halow. We appreciate your contribution.

[The prepared statement of Mr. Halow follows:]

PREPARED STATEMENT BY JOSEPH HALOW, EXECUTIVE VICE PRESIDENT, GREAT PLAINS WHEAT, INC.

Mr. Chairman, thank you for the opportunity to appear before this Committee to present our views on the Trade Reform Act of 1973, which we feel is vital to agriculture and the rest of the U.S. economy. Despite the various forces within the United States which have urged trade restriction during the past two years, the one lesson which has been brought to us most vividly during recent years is that the United States is more than ever dependent on exports. This may, I believe, have come as a surprise to many who felt earlier that the United States contained its own consumer's market and did not have to depend on export trade in order to live. Coming through a period of shortages such as those we have experienced, particularly during the past year, convinces us more than ever that this type of reasoning has been false.

Considering the strength of the agricultural markets during the past two years, based on an unusually strong flow of grains and oilseeds into the export markets, it is not difficult to understand why the farmers of America are interested in maintaining a high level of exports. The higher commodity markets have, we realize ,caused some inconvenience to consumers, but we feel the period we have been through has been a very beneficial one to both farmers and the consuming, non-farm population. We feel we have been through a period of transition in U.S. agriculture, and we feel agriculture has passed the test. Despite fears and cries of alarm, the U.S. has not run out of food at any time and is not likely to do so. The stronger markets and continued demand, both domestic and foreign, have provided incentives to U.S. producers, who responded by increasing sharply U.S. farm production in 1973 and still further in 1974. Crops to be harvested in the United States in 1974 should be more than ample to meet domestic demand while still supplying large quantities of grains and oilseeds for the export markets.

The export markets are, in fact, now indispensable to the U.S. wheat farmer, whose crop this year is estimated at approximately four times the total U.S. annual milling requirement. Without the export market the U.S. wheat industry would be in serious trouble, and the burden of maintaining the excessive surpluses which would be created here in the U.S. would fall on the U.S. government and ultimately the U.S. taxpayer. Depressed markets would destroy the greatest incentive which has yet been provided the U.S. wheat farmer. For the farmer there is no return to the situation he knew before 1972. He must continue to export in order to be able to exist. Production costs have increased to such an extent that the U.S. wheat producer can continue to produce only if he is able to do so on a large scale. Only by decreasing his per-unit cost through large-scale farming can he continue to produce economically, and for this he needs expanded markets. The export markets provide him the only real possibility for

expansion. The U.S. milling requirement has remained fairly static through the years at about 530 million bushels, and during the past several years the United States has not produced a crop of less than about 1.5 billion bushels. Last year the wheat crop exceeded 1.7 billion bushels, and the crop this year is forecast to be over 2.0 billion bushels. Some wheat is fed to livestock in the United States, but this is limited by the location of the wheat with relation to the feeding areas and the wheat-corn price relationship.

World-wide shortages and fear of shortages of almost all commodities this year have convinced U.S. citizens that they must depend on trade to obtain from each country what it can produce most economically, in exchange for what we can produce most economically and efficiently in the United States. Rising costs of imports make it imperative that we not only maintain but increase the level of exports from the United States. Only through the continuation of a strong export program are we able to purchase abroad the commodities which we need and which are not available in the United States in the quantities needed to maintain stable markets.

The U.S. experience with shortages has been felt in almost all other parts of the world as well, in some areas even more keenly than in the United States. In some countries there was real fear that world food supplies might not be readily available. The situation during the past year has made countries which depend very strongly on food imports to feed their population more anxious to be sure of their sources of supply. A good trading relationship with countries which produce the commodities they need appears to be the answer.

The time appears, in fact, to be particularly propitious for large-scale trade negotiations. Countries and trading areas which have long maintained trade impediments may be starting to realize they must begin to relax them if they expect other countries to liberalize their own trade regulations. Trade liberalization is necessary not only for increased access to markets but also for increased access to supplies. A prime example of this is undoubtedly Japan, one of the largest importers of U.S. agricultural products. The Japanese, who have guarded their own markets in many respects while seeking greater access to other markets, are realizing they must open their own doors to the same extent they hope to find other doors open to them. Difficulties in obtaining raw materials has provided an even more vivid example of the need to have trade liberalization to facilitate two-way trade.

The European Community's Common Agricultural Policy is based on an intricate set of protective mechanisms which have restricted access for wheat and certain other products into the Community. At the present time the European Community is under pressure from even within to alter this policy. It is interesting to note that the Common Agricultural Policy, which many expected to see break under the load of large surpluses of certain commodities at a time when world commodity prices were lower than Community prices, is under still greater pressure because of a reverse situation. Pressure for a change in the CAP is coming from England, Germany and may now also come from even France. This would be a particularly favorable time to attempt to negotiate with the Community for removal or liberalization of what for world agriculture has been one of the most vexing protective systems in agricultural trade. The Common Agricultural Policy is not withstanding the test, for it has been too rigid to adjust to changes in the market place. At the present time despite the fact that Community grain prices are lower than world prices, food prices in the Community are not correspondingly lower. Under such a circumstance neither the farmer nor the consumer has been able to benefit. Changes in the Common Agricultural Policy would be beneficial not only to trade within the Community but also those countries with which the Community trades.

Trade with the Eastern Bloc countries offers what now must be the most exciting prospects. Because it is relatively new trade in agriculture it has been extremely important in bringing U.S. agriculture out of the doldrums and must be considered necessary in order to keep U.S. agriculture from slipping back into the doldrums.

The entire trade pattern is, of course, very important, but the three areas which I have just mentioned represent areas into which the United States may hope to gain greater access for its agricultural products through negotiations. The Trade Reform Act of 1973 should provide the authority for the type of negotiations which will be necessary during what may be a crucial period in world trade and trade considerations. There are changes taking place in thoughts on world trade patterns, and the United States negotiators should have the necessary flexibility and direction in order to be able to assure for the United States the best possible advantage.

The Trade Bill as passed by the House contains, however, an amendment which we feel may seriously prejudice our chances of continuing to expand trade with the Eastern Bloc countries, the so-called Vanik Amendment. We do not feel it is realistic to expect countries such as the Soviet Union to give preference to trade with the United States if we continue to impose what the Soviets have a right to feel are improper conditions to such trade. We deplore restrictions on people's rights in any part of the world, but we do not feel an issue such as Jewish emigration from the Soviet Union should be a condition in trade agreements. We would, I am sure, strongly resent imposition of such conditions on us by any of our trading partners. Such issues are best resolved in separate negotiations. We strongly urge that the Senate pass a Trade Bill without attaching to it such conditions.

When in other negotiations the United States has spoken of having other countries remove trade inhibitive practices, we have been reminded that we also have employed some forms of trade protectionism. During the past 18 months we have, however, been exporting wheat without benefit of subsidy, and our wheat farmers depend completely on the market place for their income. We have made a further move toward trade liberalization by suspending our import quotas on wheat, depending on fair trade practices of other exporting countries and our competitive advantage in wheat production to protect our farmers. Such an effort would, of course, be pointless—if not actually dangerous—unless we can convince other nations to do the same.

Our farmers are optimistic about what may be gained for the United States and the world in the form of greater trade liberalization through the forthcoming GATT negotiations. Our negotiators need authority to negotiate, however, and they should not be hobbled either by not having that authority or by legislation which does not provide them adequate flexibility.

Senator TALMADGE. The next witness if Mr. Robert G. Lewis, national secretary, National Farmers Union.

Mr. Lewis, you may insert your statement in full in the record and summarize it, please.

STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY, NATIONAL FARMERS UNION

Mr. LEWIS. Thank you, Mr. Chairman.

The Farmers Union reaffirms its traditional position in support of measures to expand world trade. But we have reservations as to the suitability of the approach which is taken in the pending bill, which is similar to the Kennedy round legislation in the 1960's.

Our reservations are based on the very differing problems and circumstances of the present time, both in the United States and in the world.

The remaining tariff and nontariff barriers to trade which are of primary importance to farmers are those that are applied against labor intensive goods in the markets of the rich countries. This is the kind of trade that is most effective in generating increased purchasing power for food, and therefore in generating expanded export opportunities.

But expansion of trade in labor intensive manufactures requires primary emphasis upon internal policies. These include measures affecting general economic conditions as well as trade adjustments, the multilateral negotiations such as are envisioned in the pending bill are only of secondary importance in getting the job done.

With little scope remaining for further reduction in tariffs, the Nixon administration now contemplates placing major emphasis in the trade negotiations on attacking the farm price support measures of the EEC. The goal is to force down European grain prices so as

to drive European farmers off their land or at least out of production, so that cheap American grain can take away their markets.

This objective on the world scene closely parallels the administration's efforts to reduce or eliminate price stabilization and support measures for farmers in the United States.

The Farmers Union does not believe this goal, even if successful, would be effective in generating an important expansion of export opportunities for American farm products. Governments of our trading partners will resist pressure to weaken their farm programs. And in any event, reducing farm prices is not likely to be effective in causing a quick reduction in farm output that would appreciably expand export opportunities for U.S. farm commodities.

We also question the Nixon administration's view of the price levels at which U.S. farm products would be expected to undercut the prices of farmers in other countries. The best evidence available indicates that the Nixon administration contemplates American farm product prices at about the 1971 level or below. For wheat, this was only $1.34 per bushel in 1971, without including the value of Government payments. In any event, Secretary of Agriculture Butz has expressed himself and the administration as opposing the continuation of payments.

Prices received by farmers in the United States in 1973 and at the present time are above those received by farmers in Europe. The administration's apparent price objective for U.S. farmers of $1.34 for wheat is barely one-quarter—in fact, it is a little less than one-quarter of the February 1974 wheat price.

The goal of forcing U.S. farm prices back below those prevailing in the EEC in order to undersell European farmers so as to increase U.S. exports is not acceptable to us. The Farmer Union favors, instead, a renewal of the pattern of international cooperation. This is what has been responsible for creating the economic and prosperity among our trading partners, which accounts for today's boom in agricultural exports and in farm prices.

We urge that the principles advocated by Secretary of State Kissinger in the energy conference last month, and which were embodied in the earlier textile agreement which was concluded by the administration recently, be applied also to international trade in grains, dairy products, sugar, cotton, and other agricultural commodities as the need might arise.

And specifically, the Farmers Union endorses and subscribes to the proposal for an international grains agreement that has been developed by the International Federation of Agricultural Producers.

We recommend further that Congress intervene positively and specifically to amend the pending trade bill so as to prevent misuse of trade negotiations as a way of reducing farm price support programs in other countries concurrently with undermining the agricultural policies that have been established by Congress for U.S. farmers.

We recommend specifically the following amendments:

1. To provide explicit recognition of the special character of agriculture, and the needs arising from that special character, for positive measures to be taken by national governments to support and stabilize agricultural prices and farmers incomes.

2. To reaffirm and reiterate, as the intent and purpose of Congress, the goal of achieving and stabilizing prices received by farmers in the United States at parity.

3. To provide that the President be directed to undertake to negotiate international agreements among the widest practicable group of countries providing, in respect to cereal grains, dairy products, sugar and other agricultural commodities as the need and opportunity may arise the following provisions: (a) maximum and minimum prices in world trade; (b) supply and import commitments; (c) rules on the disposal or stockpiling of surplus domestic production; (d) limitations on the use of export subsidies; (e) provisions for cooperation among exporting and importing countries; (f) managing the supplies put on to the world market; (g) provisions for consultation on the effects of the domestic price support measures on world production and trade; (h) world reserves subject to international review and surveillance so as to assure importing countries of the ability of exporting countries to meet supply commitments; and (i) national reserves under the control of national governments to provide for emergencies, price stabilization, and other purposes.

Thank you, Mr. Chairman.

Senator TALMADGE. Thank you, Mr. Lewis.

Senator Hansen.

Senator HANSEN. Mr. Lewis, you say that, speaking of the Nixon administration, the goal is to force down European grain prices so as to drive European farmers off their land and out of production, so that cheap American grain can take away their markets.

I was not aware that the administration had declared this as a policy. Do you have any documentation that you can provide with which to substantiate that statement?

Mr. LEWIS. That is the logical result of the expressed desire to weaken the variable levy system.

Senator HANSEN. The what?

Mr. LEWIS. To weaken the variable levy system of control of imports into the EEC. Now, the only way that the variable levy system can be weakened as a practical matter is by reducing the price levels in the European market, or at least by increasing the surplus burden on European governments through cash payments or otherwise.

And the effect that is intended is to reduce production of domestic farm products in Europe so that there will be greater scope, greater access for American products.

Senator HANSEN. Now, I am no authority on the EEC, but it is my understanding that the average farm in the European community is a very small one. The farmers have a lot of political clout. And if you were to ask the average nonfarmer over there, he probably would welcome cheaper food if it could be imported from some place else.

But I did not get the impression from anything I had read that the United States was cooperating with what I think some European politicians privately would like to see come about. They would like to see a more efficient use made of their land over there. And a 6- to 10-acre farm is not a very efficient operation. It does not lend itself to mechanization, as we have noted in this country; and they cannot come out publicly and say that though, because they are well aware of the clout that the farmer has.

France, of course, has been very, very much in the forefront in trying to see that a policy is recognized within the European Economic Community that would lead to the benefit of the French farmer.

I do not see much benefit at all, and while you reason and you have expressed yourself, that the logical conclusion to be reached from some of the actions that you have examined, we have taken in this country to mean that this is what we are saying in effect. I do not reach that same conclusion.

Mr. LEWIS. Senator, I spent the month of last September in Europe conferring with farm leaders in the countries of the Common Market and some others—not all the countries, but about eight or nine countries. In talks with farm leaders and the economists on their staff and some government officials and others, the view is universal that this is the thrust of American trade negotiating policy for agriculture.

Senator HANSEN. Well, I would have to say this about France: It seems to me that they like to poor mouth everything we do in this country practically. I say this not unaware of the fact that there may be lots of people who do not agree with me.

But really, it seems as though France always seeks an ulterior motive. I know in the energy situation they are always trying to see if they cannot find some ulterior motive that the United States has and in every conference that we have called. They tried to sabotage the energy conference in this country not too long ago, on the basis that we really are not good guys at all.

So I am not too sure that you are going to find a very realistic reflection of American policy by talking to politicians in France. On the other hand, I would say this; that I have talked with Secretary Butz. He has told me that the President told him that the policy and the goal of agriculture in this country, and specifically of the Department of Agriculture, ought to be to see that farmers' incomes are raised to acceptable levels. And if they can be raised there, and sustained there, he would hope that the whole price support program could go out the window.

And I do not find anything too un-American about that. As a matter of fact, I am inclined to applaud him. I think it sounds like a great idea.

Mr. LEWIS. Well, Senator, we do not see anything in the works that can assure that, for example, when the 1974 crop comes in, or at least the 1975 and 1976 crop with unrestricted production, that we might not be confronted with very low farm prices in the absence of effective governmental action to protect farmers from that calamity.

Secretary Butz and President Nixon have repeatedly advocated weakening or reducing the levels of protection to be afforded to American farmers in their messages and recommendations to Congress.

As far as the European agriculture is concerned, I am not here to defend the position of European agriculture by any means. I just think that if we look at what has happened in the world, we will perceive that the negative approach of trying to expand American exports by beating down somebody else's price has not really accounted for a very significant expansion in trade. But on the contrary, it is a positive approach of expanding the demand for food that has resulted in today's agricultural boom in the world. And I think it is fair to conclude that that is what is going to get the job done in the future, if

anything; and I doubt very much that attempting to weaken the European price support system is going to get much done for American farmers.

And that is my reasons for——

Senator HANSEN. Mr. Chairman, if my time were not up, I would like to take issue. I yield the floor.

Senator PACKWOOD. I will yield you my time.

Senator HANSEN. Well, just let me say this. I guess this is just a case where two people do not agree. I do not agree at all with the conclusions you have tried to reach or that you have reached. You certainly are entitled to your opinions, as I believe I am to mine.

You read our intentions in Europe entirely differently than I read them, and I suspect there is not any way we are going to resolve the argument. I did want it to be noted, though, that I do not agree. I might point out that leaders of the EEC in Brussels recognize that their farm policy is costly and inefficient, and have stated that if possible they would like to consolidate farms and abolish the variable levy.

Do you agree with that statement?

Mr. LEWIS. If the question is whether I agree that that is the statement of the——

Senator HANSEN. Leaders of the EEC in Brussels.

Mr. LEWIS. I just do not know. I am not familiar with that statement. They have told me that their farm price support system is not negotiable and that they do not intend to abandon the variable levy system, nor their system of agricultural supports. And that corresponds to what I have seen everywhere.

Senator HANSEN. Thank you, Mr. Chairman.

Senator TALMADGE. Senator Packwood.

Senator PACKWOOD. I have no questions.

Senator TALMADGE. Thank you very much.

We appreciate your appearance, Mr. Lewis, and your contribution.

[The prepared statement of Mr. Lewis follows. Hearing continues on p. 1036.]

PREPARED STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY, FARMERS UNION

The Farmers Union has consistently supported measures to expand world trade, as well as other forms of international cooperation. We reaffirm that traditional position in respect to the pending Trade Reform Act.

We have serious reservations, however, under existing circumstances in the world, as to the adequacy of the approach to trade problems that is taken in the pending bill.

Furthermore, we are opposed to the expressed intention of the Nixon Administration to seek, as its primary objective under the Trade Reform Act, to weaken the agricultural programs of other countries in conjunction with parallel efforts to eliminate effective farm price stabilization and support measures for farmers of the United States.

The trade legislation proposed by the Administration, and approved by the House of Representatives, is basically an extension of the legislation which authorized the "Kennedy Round" of trade negotiations in the 1960's. But the world economic situation has changed greatly since that time, and a rerun of the "Kennedy Round" is not an adequate response to present-day realities.

TARIFF-CUTTING JOB MAINLY COMPLETED

For one thing, the "Kennedy Round" itself completed the main part of the task of sharply reducing the tariffs remaining in effect on most kinds of goods after 25 years of earlier reductions under the Reciprocal Trade Act. Most of the tariff

barriers which have been "easiest" to bring down are now pretty well in hand.

Most of the tariff barriers that remain at high levels are of great importance to farmers in the United States. However, the Nixon Administration isn't doing much about them. These are the tariffs and non-tariff barriers that are imposed against *labor-intensive goods*—things like textiles, apparel, shoes, and others that require a large component of labor to produce.

Trade in these goods is important to farmers because most of the money that is spent for labor-intensive goods creates *purchasing power for food.* Machines don't eat farm products, and machine-made goods don't generate nearly as much food buying demand as labor-intensive goods. A bigger part of every dollar spent on imports of labor-intensive goods will return to buy farm products in the U.S.A. than of dollars spent on any other kind of imports.

ADMINISTRATION OPPOSES FARMERS

Yet the Nixon Administration is not concentrating on removing trade barriers against this kind of import. On the contrary, the Administration has completed negotiation of a "Textile Agreement" that will keep high tariffs and quantitative restrictions on textiles and clothing products on a long basis. Thus the Nixon Administration has put the interests of U.S. manufacturers and labor ahead of the interests of U.S. farmers and consumers in the kind of trade liberalization that would do the most to expand demand for U.S. farm products, and has entered into an elaborate "international commodity agreement" to protect those interests.

Agriculture represents one of our country's best export opportunities. Thus it is in the public interest generally, as well as of farmers directly, to seek to expand the opportunity to export our agricultural products. But the expansion of our imports of labor-intensive goods, which would do most to enlarge our opportunity to export agricultural products, is a very different proposition from the conventional approach to trade liberalization that was taken in the "Kennedy Round." Indeed, the very fact that so little has been done in past trade negotiations to expand trade in labor-intensive goods demonstrates the inadequacy of the old approach for dealing with this problem.

GENERAL ECONOMIC CONFIDENCE NEEDED

The basic difference is that in order to expand trade involving labor-intensive goods, the primary effort needs to be directed *internally* toward our own most affected citizens, rather than toward *external* negotiations with our trading partners in the world. General domestic economic policies, such as positive steps to assure full employment and to promote expanding employment opportunities in capital-intensive, high-technology, high-wage industries, as well as specific "trade adjustment" assistance for workers and businessmen, must be given the main attention in order to achieve substantial expansion of trade in labor-intensive goods. The prime necessity is to create a situation of domestic prosperity, high employment, and public confidence and economic security among our own people. If this could be done, there would be no appreciable difficulty in persuading the populous and hungry countries whose comparative advantage is in their large supplies of low-wage labor to export labor-intensive goods to us, and to accept our agricultural commodities and other goods in exchange.

The trade adjustment provisions in the House bill are an improvement over those of earlier legislation. But the general economic situation in the United States today is far from conducive to the spirit of confidence and optimism that is needed to get acceptance for expansion of this kind of trade. Furthermore, the general economic policies of the Administration, and its attitude toward the kinds of measures that would be needed to overcome the economic fears that would be engendered by such a trade initiative, are not at all adequate. Thus the Nixon Administration, by merely imitating the largely-outworn approach to trade negotiations that was taken in the "Kennedy Round", has missed the boat in the present-day situation.

AIMS ATTACK AGAINST FARM PROGRAMS

As the meager scope for further tariff reductions becomes apparent, the Administration has increasingly placed its emphasis upon agriculture as the main field of action for the next round of trade negotiations. Here again, we think that the approach being taken by the Nixon Administration misses the boat.

"Trade liberalization" is the expressed goal of the Nixon Administration for the negotiations on agricultural trade. The foremost target of the Nixon Admin-

istration's entire trade policy is the "variable duty" system employed by the nine-nation European Economic Community as the keystone in its farm price support system.

Under the Common Agricultural Policy of the EEC, farm prices in the nine countries are being supported at a level that is roughly half-way between farm prices in the United States during the 1950's and 1960's and what 100 percent of our "parity" would be. European farm prices are now generally below those in the United States, but they have been higher as a rule throughout the past two decades of sub-parity prices in the United States.

The key feature in the farm price support system of the EEC is a "variable duty" which is calculated to bridge the gap between generally lower world market prices and the level at which the EEC has decided to support its own farmers' prices. For example, if the EEC "support price" for wheat is $2.75 per bushel, and the price of imported wheat in European ports is $2.00, the EEC applies a duty on imported wheat equal to the 75-cent difference plus a margin of safety of another dime or so. Thus it would be economically unfeasible for anyone in the EEC to buy Canadian or American wheat until practically all of the European farmers' wheat had been sold at the EEC support price.

The variable duty of the EEC is described as a "non-tariff barrier" to trade, and therefore a fit target for the "trade liberalization" goals of the Administration. But the real target is the European farmers' price support system. The goal is to force down European grain prices, so as to drive European farmers off their land and out of production, so that cheap American grain can take over their markets.

HOSTILE TO ALL FARM PROGRAMS

This is nothing more than the Nixon Administration's general enmity against the principle of farm price supports, specially packaged and labeled "trade liberalization" for the export scene. It is the direct descendant of the ancient enmity against farm price support and stabilization programs that farmers have had to contend against ever since the first beginnings of the agricultural recovery from the great depression of 40 years ago. It is akin to the dogmas of Ezra Taft Benson in the 1950's. And it is paralleled by the Nixon Administration's present efforts to dismantle farm price stabilization and support measures in the United States today. For example:

The Nixon Administration has held dairy price supports down to the lowest level permitted by law, notwithstanding that dairy farmers' present adversities and uncertainty about the future have led to the worst milk shortage in a generation;

During consideration of the Farm Act of 1973, the Nixon Administration testified and lobbied assiduously, to get target prices and loan levels for wheat, feed grains, and cotton reduced to less than 50 percent of parity, far below present market prices;

Secretary of Agriculture Earl Butz recommended to the Committees on Agriculture of both House and Senate that the 75 percent of parity minimum price support floor for dairy products be abolished, so that dairy supporters could be reduced even further, or be eliminated completely;

President Nixon, in his farm message just a year ago, asked Congress to eliminate the dairy price support program and other farm price support and income supplements within three years;

On the recommendation of Secretary Butz, President Nixon opened up the nation's quotas to an all-time record of nearly four billion pounds of milk equivalent in imported dairy products, and removed restrictions on imports of wheat, feed grains, and cotton;

In his statement last month to the House Committee on Agriculture about new sugar legislation, Secretary Butz declared, "It is now time to consider the elimination of all farm payments."

The Farmers Union is fundamentally opposed to the domestic farm policy position that has been expressed in the words and deeds of the Nixon Administration. The Administration's agricultural trade policy is fully dependent upon the position that it espouses in domestic farm policy. Consequently, we have no choice but to declare our opposition to the direction that the Administration has chosen to take in its trade negotiating policy.

ADMINISTRATION'S AIMS UNWORKABLE

The first objection to the Administration's trade negotiating policy is that it would not work. To eliminate, or even to reduce, the variable levy would be to reduce the level or price support to the European farmer. European farmers represent larger percentages of the total population in most of the EEC countries than they do in the United States. Moreover, the non-farming European population is substantially more undertsanding and sympathetic to the social and equity interests of their farm people than is the Nixon Administration in the United States.

But even if our trading partners should be pressured into reducing the level of their farm price supports, there is no reason to suppose this would immediately drive European farmers off the land and European cropland out of production so as to make way for significantly increased volumes of imported grains from the United States. It has been amply demonstrated over the past 20 years that severe reductions in farm prices have not quickly achieved reductions in U.S. farm production, even if they do impose hardship and inequity upon farm families. Any reductions in European farm price supports that might be negotiated would likely be applied over not less than five to ten years. Any response in the form of reduced grain production is likely to lag even longer. None of this is likely to achieve important additional opportunities for exports of American farm products.

Events of the past year or so have exploded whatever plausibility there might have seemed to be in the economic dogmas that are reflected in the Nixon Administration's domestic and international farm policies. At the present time, world trading prices for grains are substantially above the price levels prevailing in the EEC. The worldwide shortage of basic agricultural commodities has confirmed the wisdom of the Europeans in maintaining their agriculture in a healthy and productive condition, rather than relying upon the boom-or-bust "free market" espoused by the Nixon Administration's trade negotiators.

WOULD UNDERMINE U.S. FARM PRICES

But there are reasons much closer to home than the objections of our trading partners for rejecting the Nixon Administration's agricultural trade negotiating policy. These are what it would do to the prices received by farmers in the U.S.A.

The Administration has been much less than forthright about the farm price implications of its agricultural trade policy. It is fair to say that the Administradition has "ducked the issue" by identifying it as "access to the market" rather than in terms of the dollars and cents per bushel at which it is proposed that American grain should be offered in the European market, and what this will mean in terms of the prices that would be received at the farm in the United States.

The average returns to farmers in the United States from wheat of the 1972 and 1973 crops were higher than the equivalent average level of support to the European wheat farmers. Clearly, then, the Administration regards U.S. wheat prices in 1972 and 1973 as "too high" and, consistent with its agricultural trade policy must seek to reduce them below those levels.

Therefore, we must look back to 1971 for a clue as to where the Nixon Administration aims to drive wheat prices for American farmers in order to fit into its trade negotiating objectives.

According to the International Wheat Council, the average level of support for wheat in the European Community for 1971 was $2.74 per bushel. In order to compare the European wheat price with the price received by farmers in the United States, it is necessary to take account of transportation and handling charges necessary to bring the two wheats together in the actual arena where they compete—in the great port and milling cities of Europe, such as Rotterdam.

Table I which follows shows approximately what these charges amount to. To sum up, the European support price of $2.74 per bushel at the farm in Europe is equivalent to a price of approximately $2.20 per bushel for American wheat at the farm in central Kansas. (See Table I next page.)

This is the target figure—$2.20 per bushel for wheat at the Kansas farm—at which the Nixon Administration farm trade strategy takes aim. It is the Nixon Administration's goal to price the American farmers' wheat sufficiently below that price so that substantial reductions can be expecterd in European grain production, thereby enlarging the scope for American exports at lower prices.

AIMS FOR $1.34 WHEAT

Apparently the Nixon Administration aims to drive prices received by American farmers for wheat back at least to the 1971 level. This was $1.34 per bushel, without including the value of government payments to program participants—and Secretary Butz has expressed himself as opposing the continuation of such payments.

TABLE I.—COMPARISON OF LEVELS OF SUPPORT FOR WHEAT, UNITED STATES AND EUROPEAN COMMUNITY, 1971

[In U.S. dollars per bushel]

	Amount	
Average level of support, European community, at farm, 1971	$2.74	
Plus estimated river freight, main producing areas in France to Rotterdam	.20	
Equivalent European Community wheat price in Rotterdam	2.94	
Less:		
Ocean freight, Houston/Galveston to Rotterdam, at $12 per long ton	.32	
Rail receipt and unloading to ship at Gulf ports	.035	
Rail freight, Reno County, Kans., to Houston	.312	
Truck receipt and loading out to rail car, country point in Reno County, Kans., uniform grain storage agreement (CCC) rate	.07	
Equivalent price at farm, Reno County, Kans	2.203	
	United States	Kansas
Comparisons:		
Average level of support for U.S. farmers complying with wheat program 1971	$1.85	-------
Average level of support for U.S. farmers not complying with wheat program 1971	1.31	-------
Average value of production at market prices of wheat, 1971 crop	1.34	$1.32
With average value of Government payments added	1.89	1.80

Sources: International Wheat Council and U.S. Department of Agriculture data.

Even with the value of government payments added, the U.S. average return to farmers for wheat in 1971 was only $1.89 for the U.S., and $1.80 in Kansas.

This brings the issue right down to cases. Are these price levels adequate for U.S. farmers? In supporting the pending trade legislation, do members of the Congress intend to ratify these price objectives sought by the Nixon Administration for farmers in the United States? Are you prepared to vote in favor of a level of U.S. farm prices that is represented by $1.34 per bushel for wheat?

We believe it is necessary for Congress to amend the trade legislation to make it crystal clear that Congress does not endorse nor subscribe to any such U.S. farm price objectives as those which appear to be sought by the Administration.

WOULD HINDER INTERNATIONAL COOPERATION

The third fundamental defect in the Nixon administration's agricultural trade policy is that it runs counter to what has actually worked successfully in the past and accounts for the enormous expansion of U.S. agricultural exports which we witness today.

The Administration betrays a remarkable lack of understanding of what is going on in the world economy and specifically in agriculture. Secretary of Agriculture Earl Butz, in speech after speech, has attributed the present-day agricultural boom to the Nixon Administration's farm policies. To quote him directly:

"The change began . . . under the three-year Agricultural Act of 1970 . . . whereby Congress and the Administration created a refreshingly favorable climate within which farmers could react to market signals to produce the crops needed at home and abroad."

"It was a break with the past—a change from the philosophy of scarcity to the philosophy of plenty," Mr. Butz explains.

"For more than 40 years," says Mr. Butz, "we have operated in an atmosphere of curtailment. In one form or another, our public policies and programs have been largely designed to hold down production or dispose of surpluses."

Mr. Butz describes the farm price support and stabilization programs that have been developed in the United States since the 1930's as "40 years of wandering through the wilderness of artificial price props and curbs and production controls." Invoking the name of Moses, Mr. Butz recalls that "it took the Chosen

People 40 years to break out of bondage and find their way to the Promised Land." And then, like a latter-day Moses, Mr. Butz promises with supreme confidence: "Today the promised land for agriculture is near at hand."

What Mr. Butz says about the agricultural programs of the past 40 years is nonsense. We have had a reasonably well-managed abundance of food and fiber in America, not a "philosophy of scarcity" as Mr. Butz calls it. Our American people have had more and better food to eat, for lower prices, then any great nation in the history of the world. For most of the past 40 years, we have had an "ever-normal granary" of reserves of storable farm commodities that rescued the nation from calamity half-a-dozen times, and saved millions of human lives in the process. Year in and year out, our reserves of feed grains have helped to stabilize the huge livestock and poultry sectors of our agriculture, to the long-term advantage of both producers and consumers.

But Mr. Butz's implication that all that has been necessary in order to achieve today's export agricultural boom has been to turn the farmers loose "to produce all we can" is simply preposterous. It overlooks the forces that really caused demand for food in the world to expand. Even worse, it has led the Nixon Administration into a negative approach to agricultural trade—of seeking to wreck other farmers' price support programs so as to drive down their prices and force them out of production and take away their markets—which works directly against the real opportunities for expanding our agricultural exports.

WORLD COOPERATION CREATED FARM BOOM

Contrary to the diagnosis of Secretary Butz, *today's agricultural export boom is the direct result of a generation of positive international economic cooperatin, led by the United States of America.*

It was started by the Marshall Plan, right after World War II.

It was given a powerful impetus by the formation and progress of the European Economic Community, which touched off the greatest explosion of prosperity in Western Europe and the Mediterranean Basin that part of the world has ever seen.

It was given further impetus by the Food For Peace program, which taught the people of Japan to eat American wheat and to drink American milk and to raise chicken meat on American corn and soybeans. Later the process was repeated in Korea and Taiwan and other countries of Asia and South America and Africa. Soon what started as famine relief advanced to sales for soft currencies and has now arrived at commercial sales for hard cash to the tune of billions of dollars every year.

And don't mistake it: *Today's farm boom was powerfully speeded on its way by the Kennedy Round of trade agreements in the 1960's.*

It is all too often said that "farmers didn't get anything out of the Kennedy Round".

That's flat wrong. *American farmers were about the biggest winners in the world from the Kennedy Round.*

The trade expansion that resulted from the Kennedy Round stimulated economic growth, and it raised levels of income. It gave higher purchasing power to workers and their families, and that created stronger demand for food and fiber.

These are the reasons why wheat is about $6 and corn is about $3 and milk is pushing $10 per 100 lbs. today.

It's going to take more *international cooperation*—and a lot of it—to keep farm prices from crashing within months of now.

Some way must be found for both the rich and poor countries of the world to secure adequate supplies of energy, and to pay for it. If that isn't done, the world will be plunged into a massive depression, worse than the 1930's.

If there is depression in Europe, and in Japan, and in the less prosperous countries which trade with them, then the export boom for American farm commodities could evaporate into thin air and crashing farm prices.

KISSINGER RAISES HOPE

The international energy conference held in Washington this past month was one of the first hopeful indications that we may escape from a worldwide energy-induced depression.

The most hopeful aspect of the conference is what Secretary of State Kissinger said, and is beginning to do, about international cooperation. It represents a 180-

degree turn-around from the position that the Nixon Administration has been taking on a number of fronts, and particularly in agricultural trade policy.

The principles advocated by Secretary Kissinger in the energy conference, and the principles embodied in the Textile Agreement concluded by the Administration recently, should be adopted and applied to international trade in grains, dairy products, sugar, corn, and other agricultural commodities, as the need arises.

FOREMOST PROBLEM: GRAINS

The problem of grains is foremost, because of the importance of grains to human nutrition, both directly for use as food, and indirectly as the raw materials from which meat, dairy products, and poultry products are produced.

The Farmers Union has played a leading role in the development of a proposed international grains agreement by the International Federation of Agricultural Producers, in which the Farmers Union of the United States and other national farm organizations of the major agricultural countries are members. A brief description of this proposal follows:

1. Multi-lateral treaty

The proposal calls for a treaty which, in effect, would constitute a contract between countries that buy and countries that sell wheat and other grains in international trade. Its aim is for a "bargain" to be struck between the two groups of countries with balancing rights and obligations of each side toward the other. The Agreement would be administered by a Council, on which all participating countries would be represented, with each country having a number of votes corresponding roughly to its relative importance in the market.

2. Coverage

Wheat and cereal feed grains would be covered.

3. Prices

A "range" of prices would be established by negotiation within which countries participating in the agreement would buy and sell grain to each other. These prices would be, by agreement, deemed fair both to producers and to consumers of grain.

The Farmers Union, at its national convention in Milwaukee, Wis., March 10–13, 1974, recommended that international commodity agreements be negotiated for wheat and feed grains, dairy products, and other agricultural products for which the need might exist or arise, to maintain world trading prices within a range of 90 to 110 percent of parity. This would be somewhat below present world trading prices for wheat, but above the levels that have prevailed during most of the past two decades.

4. Obligations of Importing Countries

Importing countries would be obligated to buy specified percentages of their total requirements for grain from exporting country members at not less than the agreed minimum price.

5. Obligations of Exporting Countries

Each exporting country would be obligated to supply quantities of grains equal to each importing country's average past purchases from the respective exporting country at prices not exceeding the agreed maximum price. Exporting countries as a group would be obligated to supply any needs of member importing countries that could not be filled by a specific exporting country which had supplied the importer in the past. Each exporting country's share of the world market would grow or be reduced over time to reflect its actual performance in producing for and supplying the world's trade requirements.

6. Marketing

The primary means for making the agreement effective is the management of the supply of grain put onto the market so as to keep prices within the agreed range. A part of the total estimated world volume of sales for the year would be allocated to each exporting country, and any grain produced in any country in excess of its share of the world's export sales would have to be either (a) used domestically; (b) distributed for food aid; (c) added to the World Food Reserve; (d) stored as part of the country's own National Reserve; or (e) used domestically or for export as an off-set to a reduction in production under the country's domestic supply management program.

7. Market access

Importing countries would guarantee to buy specified percentages of their total requirements from exporters. This would guarantee a share of their market, *plus a share of their market growth,* to exporting country members. If an importing country should increase its production in any year to more than enough to supply the difference between its import obligation from exporters and its total requirements, it would be required to dispose of the excess outside of world trade channels by one of the methods listed above in paragraph 6 (a) through (e).

8. Reserves

Two categories of reserve stocks would be established:

A. World grain reserve

Exporting countries would be required to hold and maintain shares of the World Grain Reserve related to the proportionate share of each in total world export sales of grain. The main purpose of this reserve is to underwrite the exporter's guarantee of ample supplies for fulfilling the import entitlements of each of its importer-customers at the maximum price in time of world shortage. With the consent of the Council (requiring a majority of both exporting and importing country votes) an exporter could sell stocks from the World Grain Reserve within its custody for other needs. The cost of maintaining stocks in the World Grain Reserve would be borne by the exporting country in whose custody they are stored, and would be compensated by the level of prices agreed to by importing country members.

B. National grain reserves

Any country could, at its own expense, maintain its own stocks for use as it sees fit, except that these stocks could be sold in the commercial export market only within the country's agreed share of the total world grain sales for the year. These stocks would be managed by each country as part of its own "national food reserve" and "supply management" programs. Each country could solve its supply management problems in whatever way it prefers, either by storing the surplus, using it for food aid outside commercial world trade channels, using it to meet shortages when they occur either for domestic or export requirements; or by drawing on stored supplies to off-set current reductions in production. Most countries would probably want to maintain some level of stocks as security against short crops or to add to their assurance of stability of supplies.

9. Food aid

Exporting and Importing countries would share in the cost of supplying an agreed quantity of food aid to poor countries. Any country could supply additional food aid if it wanted, but under agreed guidelines to avoid interfering with commercial trade.

10. Less-developed country members

Countries with large numbers of unemployed and low-income people could receive agreed quantities of free food supplies to "tie-in" with their purchases of food at agreement prices.

CONGRESS MUST AMEND TRADE BILL

We believe Congress must assert itself positively and specifically in this legislation to prevent the Administration from continuing to misuse the trade negotiations as a means to attack farm price support programs in other countries and to undermine the agricultural policies that have been established by Congress for the United States itself. Accordingly, we recommend that the bill before you be amended in the following ways:

1. To provide explicit recognition of the special character of agriculture, and the needs arising therefrom for positive measures by national governments to support and stabilize agricultural prices and farmers' incomes;

2. To reaffirm and reiterate, as the intent and purpose of Congress to which trade negotiations under this legislation must conform, the goal of achieving and stabilizing prices received by farmers in the United States at parity;

3. To provide that the President be directed to undertake to negotiate international agreements among the widest practicable group of countries providing, in respect to cereal grains, dairy products, sugar, and other agricultural commodities as the need and opportunity may arise, (1) provisions for maximum

and minimum prices in world trade, (2) supply and import commitments, (3) rules on the disposal or stockpiling of surplus domestic production, (4) limitations on the use of export subsidies, (5) provisions for cooperation among exporting and importing countries in managing the supplies put onto the world market, (6) provisions for consultation on the effects of domestic price support measures on world production and trade, (7) world reserves subject to international review and surveillance so as to assure importers of the ability of exporters to meet their supply commitments, and (8) national reserves under the control of national governments to provide for emergencies, price stabilization, and other purposes.

The amendments we propose, if faithfully observed by the Administration, could help to rescue the forthcoming trade negotiations from the futile acrimony that now seems destined to be their main product. Construction participation by the United States in a worldwide cooperative effort to bring a needed measure of stability and security to world food supplies and prices would be a major accomplishment in itself. Beyond that, it would bring to the fore the valuable experience that the world has already had with international cooperation in the economic arena through the successful operation of International Wheat Agreements and others during the past quarter-century, as a useful model for international cooperation in other problems concerning basic raw materials which have recently arisen. Secretary Kissinger has rightly perceived the necessity for cooperation and accommodation to the needs and interests of other countries and their peoples in such vital fields as energy and trade in textiles. The extension of these principles to the complex problems concerning food and agriculture is sound for its own sake, and can do much to help the world learn how to cope with the newer problems that have only recently started coming to the surface of our attention.

Senator TALMADGE. The next witness is Mr. Henry Schacht, president, U.S. National Fruit and Fruit Export Council.

You may insert your statement in the record and proceed, Mr. Schacht.

STATEMENT OF HENRY SCHACHT, PRESIDENT, U.S. NATIONAL FRUIT EXPORT COUNCIL

Mr. SCHACHT. The U.S. Fruit Council represents 16 organizations and associations; members which are producers and processors who seek to increase exports of fruits and fruit products—fresh, dried, frozen, and canned. The Fruit Export Council therefore supports title I of H.R. 10710 providing for U.S. participation in the new round of multilateral trade negotiations and section 301, to enlarge the President's authority to respond to unjustifiable or unreasonable foreign import restrictions or export subsidies.

It is noteworthy that the only public hearings held by the executive branch pursuant to section 252(d) of the Trade Expansion Act, since its enactment more than 11 years ago, were initiated by two of the groups affiliated with the Fruit Export Council, and each of the trade barriers then at issue is still maintained by the EEC against U.S. fruits and fruit products, and moreover, each is still at issue in the current XXIV :6 negotiations.

The California-Arizona citrus industry in 1970, and again in 1973, sought U.S. Government action under section 252 to obtain most-favored-nation treatment for U.S. citrus in the EEC. The National Canners Association in 1970 sought U.S. Government action under section 252 to obtain the elimination of the EEC variable levy on calculated added sugars in canned fruits.

We consider that the EEC trade restrictions are illegal under the GATT, should have been eliminated long ago, and in any event should be eliminated in the XXIV:6 negotiations currently underway. We consider that the manner in which the Community resolves these and other trade matters in the XXIV:6 negotiations should be observed closely by the Finance Committee as an indication of the Community attitude toward meaningful negotiations. There is, in fact, a serious question whether the United States should agree to a new round of multilateral trade negotiations unless and until a satisfactory conclusion is reached in the current XXIV:6 negotiations.

The United States and other GATT contracting parties have asserted their claims for compensation. The Community has agreed that compensation is due. It seems to us that the Community must grant such compensation before other countries can consent to begin new negotiations. But that is not today's subject.

The National Fruit Export Council supports title I of H.R. 10710, providing authority for U.S. participation in multilateral trade negotiations. This authority should be used vigorously on behalf of agricultural exports, as the executive branch has said it will be.

However, we consider that section 102(c) of the bill, requiring sector negotiations on nontariff barriers, is not a desirable means of pursuing the stated objectives of enlarging competitive opportunities for U.S. exports. We believe this requirement will interfere with and impede the chances of negotiations being carried to a successful conclusion. We urge that section 102(c) be stricken.

The Fruit Export Council supports title I except for that particular section.

The National Fruit Export Council favors section 301, to enlarge the President's authority to respond to unjustifiable or unreasonable foreign import restrictions or export subsidies. We regard the existing section 252 and the proposed section 301 as an important assertion by the United States of its right to be treated fairly in international trade. We support the new authority and hope that its reenactment will strengthen the hand of the executive branch in obtaining fair treatment for U.S. exports.

The council does not support title IV of the proposed legislation. We believe that the social and political problems treated therein might better be handled outside legislation of this nature. We recognize and deplore the possibility that inclusion of this title as now written might produce a Presidential veto, as we are told it might. We hope that the Congress would reach a course of action on these issues which would avoid such an impasse and make possible the creation of new authority this legislation is designed to produce.

In short, we support those portions of the legislation which promise to encourage broadened opportunities for export trade. We recognize the need for creation of the new negotiating authority and hope for its passage and its signing into law. We believe that it is in the best interests of the fresh and processed fruit industries represented by the council and of the Nation as a whole.

That is our statement, Mr. Chairman.

Senator TALMADGE. Mr. Schacht, do you have the figures on the fruits imported into the United States and the exports?

Mr. SCHACHT. I do not have them on hand.

Senator TALMADGE. Would you supply them for the record?

Mr. SCHACHT. I will.

Senator TALMADGE. Senator Hansen?

Senator HANSEN. I yield my time to Senator Packwood. We do not have any fruit in Wyoming.

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

Senator TALMADGE. Well, thank you very much. We appreciate your appearance, Mr. Schacht.

[The prepared statement of Mr. Schacht and material requested by Senator Talmadge follows:]

PREPARED STATEMENT OF HENRY SCHACHT, PRESIDENT, U.S. NATIONAL FRUIT EXPORT COUNCIL

The U.S. National Fruit Export Council, representing producers and processors interested in increasing the exportation of fresh fruits and fruit products, is in its 21st year of activity in support of a policy of freer and more open international trade to be achieved on the basis of negotiations for mutual advantage.

Some of the member organizations are submitting statements to this Committee on their own behalf. This statement is presented on behalf of the following organizations: California-Arizona Citrus Industry: Pure Gold, Inc., Redlands, Calif., Sunkist Growers, Los Angeles, Calif.; California Canning Peach Association: San Francisco, Calif.; California Grape & Tree Fruit League: San Francisco, Calif.; Canners League of California: Sacramento, Calif.; Cranberry Institute: South Duxbury, Mass.; DFA of California: Santa Clara, Calif.; Florida Canners Association: Winter Haven, Fla.; Florida Citrus Commission: Lakeland, Fla.; Florida Citrus Mutual: Lakeland, Fla.; International Apple Institute: Washington, D.C.; National Canners Association: Washington, D.C.; National Red Cherry Institute: East Lansing, Mich.; Northwest Horticultural Council: Yakima, Wash.; Pineapple Growers Association of Hawaii: Honolulu, Hawaii; Texas Citrus & Vegetable Growers & Shippers: Harlingen, Tex.; Texas Citrus Mutual: Weslaco, Tex.

The U.S. National Fruit Export Council wants to increase exports of fruits and fruit products—fresh, dried, frozen and canned. None of these products is price-supported. None is the subject of a U.S. export subsidy. None is protected by an import quota. Exports of fruits and fruit products including tree nuts contributed $545 million to the U.S. balance of payments in 1972–73, an increase of 17 percent over the exports of $465 million during the crop year 1971–72.

FOREIGN IMPORT RESTRICTIONS

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

It is noteworthy that the only public hearings held by the Executive Branch pursuant to Section 252(d) of the Trade Expansion Act, since its enactment more than 11 years ago, were initiated by two of the groups affiliated with the Fruit Export Council. The California-Arizona Citrus Industry in 1970 and again in 1973 sought U.S. Government action under Section 252 to obtain MFN treatment for U.S. citrus in the EEC. The National Canners Association in 1970 sought U.S. Government action under Section 252 to obtain the elimination of

the EEC variable levy on calculated added sugars in canned fruits. Both of these proceedings, as well as the many informal representations made by Fruit Export Council members on these and other illegal barriers have had little effect.

XXIV :6 NEGOTIATIONS

We consider that the EEC trade restrictions are illegal under the GATT, should have been eliminated long ago, and in any event should be eliminated in the XXIV:6 negotiations currently under way. We consider that the manner in which the EEC resolves these and other trade matters in the XXIV:6 negotiations should be observed closely by the Finance Committee as an indication of the EEC attitude toward meaningful negotiations. There is a serious qeustion whether the United States should agree to a new round of multilateral trade negotiations unless and until a satisfactory conclusion is reached in the current XXIV:6 negotiations.

TRADE REFORM ACT

The U.S. National Fruit Export Council gives its unqualified support to the proposal in Section 301 of H.R. 10710 to enlarge the President's authority to respond to unjustifiable or unreasonable foreign import restrictions or export subsidies which reduce U.S. exports. We regard the existing Section 252 and the proposed Section 301 as important assertions by the United States of its right to be treated fairly in international trade. We support the new authority in the hope that its reenactment will strengthen the resolve of the Executive Branch to obtain fair treatment for U.S. exports in furtherance of United States trade agreement rights.

The U.S. National Fruit Export Council also supports the Administration's request for new authority (Title I of H.R. 10710) to negotiate tariffs and non-tariff barriers—but with the admonition that this authority be used vigorously in behalf of U.S. agricultural exports. This appears to be the Executive Branch's intent. However, we consider that Section 102(c) of the bill, requiring sector negotiations on non-tariff barriers, is not a desirable means of pursuing the stated objective of competitive opportunities for United States exports, and that this requirement will interfere with and impede the U.S. negotiators, restricting their ability to negotiate. We believe that the multilateral trade negotiations will be more successful for the United States without that restriction on our negotiators. The Fruit Export Council supports Title I except for Section 102(c), and we ask that this be stricken from the bill.

The Fruit Export Council also urges that the Congress cooperate closely with function strongly during the negotiations to assure that the United States negotiators utilize all of the rights and powers at their command.

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

U.S. AGRICULTURAL EXPORTS: QUANTITY AND VALUE, BY COMMODITY

[In thousands]

Commodity	Unit	January–December			
		Quantity		Value	
		1972	1973 [1]	1972	1973 [1]
Fruits and preparations				$428,692	$534,669
Canned	Pound	368,258	360,924	62,590	73,611
Cherries	do	24,045	16,735	5,500	5,777
Fruit cocktail	do	92,738	109,140	17,222	24,296
Peaches	do	134,159	118,087	19,290	21,467
Pears	do	13,047	9,239	1,852	1,900
Pineapples	do	71,310	78,764	11,879	13,064
Other	do	32,958	28,960	6,848	7,107
Dried	do	204,757	195,046	59,023	85,114
Prunes	do	82,155	100,926	23,995	40,163
Grapes (raisins)	do	101,007	70,296	26,621	34,132
Other	do	21,594	23,824	8,407	10,819
Fresh	do	2,124,019	2,314,016	234,931	283,744

U.S. AGRICULTURAL EXPORTS: QUANTITY AND VALUE, BY COMMODITY—Continued

[In thousands]

Commodity	Unit	January-December Quantity 1972	Quantity 1973 [1]	Value 1972	Value 1973 [1]
Apples	do	127,621	178,869	$14,187	$24,326
Berries	do	28,391	34,687	7,123	9,532
Grapefruits	do	414,777	426,734	38,165	38,934
Grapes	do	217,854	224,316	41,588	47,443
Lemons and limes	do	345,164	443,362	38,594	53,071
Oranges, tangerines, and clementine	do	666,786	642,561	61,743	65,224
Pears	do	58,705	81,557	6,639	10,926
Other	do	264,721	281,930	26,893	34,289
Fruit juices	Gallon	35,679	42,143	66,317	81,267
Grapefruit	do	6,358	6,722	10,252	11,401
Orange	do	18,451	22,701	42,477	51,225
Other	do	10,871	12,720	13,588	18,642
Frozen fruits	Pounds	10,531	19,314	2,202	5,584
Other				3,629	349
Nuts and preparations	Pounds	144,699	133,917	93,127	121,284
Almonds	do	72,858	56,219	55,988	69,428
Walnuts	do	36,356	40,292	14,190	21,282
Other	do	35,485	37,406	22,949	30,574

U.S. AGRICULTURAL IMPORTS: QUANTITY AND VALUE, BY COMMODITY

Fruits and preparations				$181,675	$217,132
Apples, fresh	Pound	97,182	96,731	8,952	12,200
Apple and pear juices	Gallon	25,566	20,644	8,599	13,675
Blueberries	Pound	13,984	15,249	4,399	5,833
Strawberries	do	136,041	162,075	21,356	33,563
Other berries	do	16,158	21,131	3,232	4,929
Cherries	do	9,147	6,817	2,919	2,899
Dates	do	26,101	24,934	2,787	2,778
Figs	do	18,177	7,562	2,089	2,029
Grapes	do	36,356	31,904	5,470	6,631
Melons	do	340,393	361,175	13,661	16,922
Oranges, mandarin, canned	do	81,055	90,932	17,710	20,130
Oranges, fresh	do	109,670	121,745	6,952	8,896
Orange juice, concentrated	Gallon	38,075	20,146	14,836	7,822
Pears, fresh	Pound	21,606	28,173	3,062	3,970
Pears, prep. or preserved	do	8,990	1,621	1,031	253
Pineapples, canned, prep. or preserved	do	257,068	221,590	30,685	29,247
Pineapple juice	Gallon	10,680	10,102	2,554	2,339
Jellies and jams	Pound	12,107	9,518	3,505	3,528
Other				27,873	39,488
Nuts and preparations				115,657	148,163
Almonds	Pound	327	244	252	235
Brazil nuts	do	38,232	34,683	11,882	13,255
Cashew nuts	do	106,797	108,032	66,029	75,728
Chestnuts	do	10,621	12,856	3,911	4,705
Coconut meat, fr, prep, or preserved	do	118,367	102,595	12,813	16,917
Filberts	do	5,560	10,245	3,235	6,096
Pistache nuts	do	17,786	34,086	14,318	27,597
Walnuts	do	758	1,253	440	862
Other				2,779	2,769

[1] Preliminary.

Source: Economic Research Service, U.S. Department of Agriculture.

Senator TALMADGE. Our next witness is Mr. Harold M. Williams, president, Poultry and Egg Institute of America.

We are delighted to have you with us, Mr. Williams.

As you know, Georgia is No. 2 in broilers and No. 2 in eggs, so we have a great interest in your testimony.

Mr. WILLIAMS. We know that very well. We might mention that Georgia has quite a few members in the institute and on our board.

Senator TALMADGE. I am well aware of that, sir.

Mr. WILLIAMS. We appreciate the strong concern you have had for the poultry industry.

That is Mr. William I. Austin, chairman of our board of directors, from the State of Washington.

Senator TALMADGE. We are delighted to have you, sir.

STATEMENT OF HAROLD M. WILLIAMS, PRESIDENT, POULTRY & EGG INSTITUTE OF AMERICA, ACCOMPANIED BY WILLIAM I. AUSTIN, CHAIRMAN OF THE BOARD

Mr. WILLIAMS. Mr. Chairman, I am Harold M. Williams, president of the Poultry and Egg Institute of America, a national voluntary trade association representing all interests of the poultry and egg industry. Our members include individual businessmen, cooperatives, and corporations.

The opportunity to appear before this committee on such a vital issue is appreciated.

As you have requested, Mr. Chairman, and in the interest of conserving the committee's time, I will read only the summary.

Senator TALMADGE. Your full statement, I may say, will be inserted in the record, Mr. Williams.

Mr. WILLIAMS. Thank you.

The U.S. poultry and egg industry has been prevented from reaching optimum achievement in lowering domestic and world food costs. In our complete statement, we demonstrate the wisdom in supporting the trade reform bill and make the point that the poultry industry has in no way benefited from any past actions of the U.S. trade negotiations.

For 12 years the poultry and egg industry has been subjected to arbitrary regulations and levies unilaterally applied almost at will. Reading this statement will tell you how the European Community, since July 1, 1962, has arbitrarily and capriciously discriminated against U.S. poultry products. It explains how the levies of 30 to 50 percent ad valorem have been successively applied on all poultry items of the United States, but the U.S. industry has moved from the sale of whole chickens and turkeys to parts, then to specialties, and then to cooked goods. At the same time, the same treatment, against, was applied to egg products.

Even in applying the so-called common agricultural policy levies, the European Community determines the gate price by using unrealistic feed conversion ratios, yields, and unrealistic parts-to-whole coefficients to give the computed costs of its own production items unrealistically high prices.

It has become a practice of the Common Market to raise the levy with only a 3-day notice. Product on the water, en route to a customer, is thus raised in price. It makes it difficult to negotiate sales. On top of this, the European Community has been engaging in a concerted effort to disrupt our markets throughout the world by using export subsidies.

The U.S. feed grains, on the other hand, have enjoyed relatively free access in the very countries where the U.S.-produced poultry items have been excluded. Behind the protective wall of the European Community levies, the free flow of feed grains to Common Market countries generated uneconomic production and distorted competitive influences.

The Trade Reform Act will give the President and our negotiators the authority and organizational structure to deal with problems on a continuing basis. Agriculture and industry must be negotiated together. This was not the case during the Kennedy round.

Experience, typified by the Russian wheat sale, demonstrates that the U.S. food industry, operating in a free market system, cannot responsibly and effectively serve the consumers here and throughout the world without a strong, carefully spelled-out global food policy as a framework within which to operate.

For the U.S. poultry and egg industry, 1973 was turbulent, with growing uncertainties. Nothing could be taken for granted, especially in the area of inputs, soybeans, corn, wheat, fishmeal, labor, energy, and transportation. All were uncertain and still are. Both supplies and prices gyrated wildly in 1973. Within 6 weeks the price of dressed broilers went up more than 30 cents a pound and fell even faster in response to consumer resistance, increased production, and a free market.

Nineteen seventy-three was the first full year in which poultry and egg operators were totally subjected to global forces generating utter uncertainty: Abnormal and unprecedented demands on our raw agricultural ingredients due to the vagaries of weather; worldwide inflation; devaluation of the dollar; block buying by controlled economies; arbitrary exclusion to the market for our finished food products; Government price controls on a domestic base.

Neither U.S. consumers nor the farmers who produce livestock and poultry and eggs can tolerate any longer our not having a food policy. Producers of livestock and poultry and eggs must be assured of an adequate supply of the raw ingredients they need. They are no longer willing to let other nations acquire unlimited quantities of the raw materials that they could use themselves, especially when these same nations refuse to allow our finished food products access to their markets.

We need a policy framework within which we can operate our free enterprise system so that we can properly and effectively serve the consumers, both here and abroad.

The U.S. consumers and industry and labor, as well as the consumers abroad, will best be served by: one, development of a global food policy. If this policy is to provide an adequate framework to help establish a rational economic order on a global basis, it must be based on valid and enduring principles. It must be consonant with the interdependent world in which it operates.

Two, by Congress granting the administration authority to negotiate down trade barriers to make a more open marketing system throughout the world. Reasonable access to marketing will allow the United States to focus on serving consumers throughout the world, as well as at home. An outward looking attitude will provide the

United States an opportunity to innovate in products, in distribution, and in selling.

Not only will the active marketing of U.S. food products throughout the world improve the standard of living, but it will also help to build a more lasting peace.

We urge the committee to report H.R. 10710 favorably.

Thank you.

Senator TALMADGE. Thank you, Mr. Williams. You have made a brilliant statement here which documents very well how the European Economic Community has systematically shut out American broilers from their market. I refer specifically to your full appendix of your full statement here, and I ask unanimous consent to insert that in the record.

That indicates every time we build up a market for a particular product, the EEC makes some sort of administrative decision to effectively preclude it. For instance, beginning in 1955, we exported 127,000 pounds of poultry to the EEC. We built that up to 180 million pounds by 1962, and that is when they started all sorts of gimmicks to eliminate poultry from the European market.

Can you estimate what the dollar value would be on the broiler market if the Europeans had not erected this protective wall.

Mr. WILLIAMS. Mr. Chairman, I could make a guess. In just a period of a couple of years for Germany alone, we built up a market from practically nothing to 150 million pounds. I would guess that if we had had access to market, it could be well over a billion pounds in Western Europe, at least, just in broilers alone.

Senator TALMADGE. Now, do you think we should put a variable levy on Volkswagens and other products until they remove their levy on our chickens?

Mr. WILLIAMS. Well, we did through GATT.

Senator TALMADGE. Well, only President Johnson took some temporary action, and you remember the famous chicken war, and we have had no further action since that time.

Mr. WILLIAMS. That is right, and that was on Volkswagen buses and brandy.

Senator TALMADGE. Champagne, I believe, among other things.

Mr. WILLIAMS. But we believe that the consumers will best be served, whether they are in the United States or here, if we insist that to negotiate to bring down the barriers, rather than—we may have to threaten to retaliate, but we feel——

Senator TALMADGE. As I understood you to say, this trade bill will give the President the power to retaliate and take appropriate action. The previous trade bill did, too, but they did not do it.

What makes you think any future Chief Executive will do it?

Our State Department is more interested in looking after the interest of foreign countries than they are ours.

Mr. WILLIAMS. Mr. Chairman, I might mention that in December 1960, the Institute and the ITD Committee—International Trade Development Committee—had a trade barriers committee—met down in Arkansas in December 1960. Senator Fulbright was there, and we had some representatives from the State Department and from the Department of Agriculture and Commerce, and we warned, at that time, we saw this coming.

We felt this coming, and we have taken it up with the State Department many times without any result.

Senator TALMADGE. That has been my experience, I might say.

Mr. WILLIAMS. Without any result.

Senator TALMADGE. The State Department, unfortunately, thinks they are supposed to represent the interests of foreign governments instead of our own.

Senator Hansen.

Senator HANSEN. Mr. Chairman, I could not add anything to what you have said.

Thank you.

Senator TALMADGE. Thank you very much, Mr. Williams. We appreciate your contribution.

[The prepared statement of Mr. Williams follows:]

PREPARED STATEMENT OF HAROLD M. WILLIAMS, PRESIDENT, POULTRY & EGG INSTITUTE OF AMERICA

The Poultry and Egg Institute of America is the one national (also international) all-product voluntary trade association representing all interests of the poultry and egg industry. Our members are breeders, hatcheries, growers, processors, distributors, and allied interests. Our members include individual businessmen, cooperatives, and corporations.

The poultry and egg industry contributes substantially to the agricultural income of the United States. It is the fourth largest cash income for agriculture. This industry uses about 60 percent of the commercial feed manufactured in the United States. Let us look at commercial broilers. Their per capita consumption has increased from 8.6 pounds in 1950 to 41.9 pounds in 1973. With approximately 3 pounds of feed going to produce one pound of eviscerated weight of broilers, this means that the average per capita consumption of broilers in the United States represents 120 pounds of feed per person or a grand total of about twenty-five billion pounds of commercial feed.

POULTRY AND EGGS EFFICIENT CONVERTERS OF PROTEIN FEEDS

Broilers, turkeys and eggs contribute substantially to improving the consumer standard of living in the United States. Broilers, turkeys and eggs have been termed *inflation fighters* because of their reasonable cost to consumers. The general rule of thumb is that it takes 8 pounds of feed to produce one pound of live beef, 5 pounds of feed for one pound of pork, and just over 2 pounds of feed to produce one pound of live broilers. In a world of burgeoning demands and rising costs and shrinking resources, are we not under a moral as well as an economic mandate to assign a higher priority to the production and marketing of poultry and eggs? Because poultry and eggs are the most efficient converters of scarce protein feeds into highly nutritious foods for consumers, our products, if given fair and reasonable access to markets abroad, can be a potent weapon in fighting inflation throughout the world. As we rapidly move toward a world economy, consumers on a global basis must not be denied availability of our high quality, low-priced food products.

Exhibit No. 1

U.S. EXPORTS OF POULTRY MEAT TO COMMON MARKET COUNTRIES IN 1955-62

[In thousands of pounds]

Destination	1955	1956	1957	1958	1959	1960	1961	1962
Belgium-Luxembourg	59	83	122	180	292	90	276	430
Germany, West	56	4,451	5,834	7,690	52,374	85,980	134,749	152,322
Italy				32	5	30	607	748
France	2	38	44	40	34	74	331	53
Netherlands	10	89	841	2,451	5,712	11,444	20,863	27,223
Total European community	127	4,661	6,841	10,393	58,417	97,618	156,826	180,776

Source: Poultry Industry International Trade Development Committee.

BALANCED FOOD/FEED EXPORT PROGRAM NEEDED TO STABILIZE U.S. ECONOMY

By developing and pursuing a balanced food export program of selling finished broiler, duck, turkey and egg products abroad rather than major reliance on feed grains, we help to stabilize and strengthen our domestic economy by:

(1) Providing thousands of jobs in the growing and processing of these products.

(2) Tax income to the Federal and State Governments

(3) A means of helping to fight inflation

An export-only raw agricultural products (feed grains) policy can undercut U.S. labor by exporting potential jobs and increasing foods costs to U.S. labor or consumers. There is little labor involved in corn or soybeans, whereas every pound of exported chicken represents 5–7 cents employment income—$50,000–$70,000 for labor per million pounds. Broilers, turkeys, eggs and especially further processed items are highly labor intensive.

A balanced food/feed export program can avoid wide gyrations of price/cost increases which our economy is presently subjected to due to inordinately large sales of feed grains without adequate reserve for domestic use. These large sales of feed grains have:

(1) Worked a hardship in the industry and

(2) Generated higher food prices for the U.S. consumers.

The Poultry and Egg Industry has a fifteen year history of demonstrating its ability to open up and develop markets abroad, this with strong cooperation of the United States Department of Agriculture.

EC BARRIERS DRASTICALLY REDUCED U.S. MARKET

Prior to 1956, the United States exported very little poultry meat commercially, except for moderate amounts to Canada and Latin America. In 1958 about three-quarters of one per cent of the total United States production was exported (about 42,000,000 pounds). Our world-wide exports steadily increased, reaching 271,000,000 pounds in 1962 or about 3.8 percent of our total production. Exports of poultry and poultry products in 1962 were valued at 96.3 million dollars. Poultry meat, including canned, accounted for 75.8 million dollars. Eggs, egg products, baby chicks and other poultry accounted for the balance of 20.5 million dollars.

Remember, too, that these products were produced under the full impact of competition. We did not receive benefits of any price support program or government subsidy and, in fact, utilized supported grains.

The bulk of our poultry trade was originally with Western Europe. Germany was our largest customer. The market in Germany alone reached about 50 million dollars in 1962 and was growing rapidly. This trade would have been substantially greater than it was had it not been for restrictive measures in the form of monetary controls and import licenses which were continued in effect long after any justification for such measures had ceased to exist. These measures directly limited the quantity of United States poultry which could be imported. It was not until 1961 that these barriers were finally removed and United States poultry was given access to the German market upon an equitable basis upon the payment of a duty of 15.9 percent ad valorem. But on July 1, 1962, the EC's Common Agricultural Policy went into effect.

COMMON MARKET CONSUMER INTERESTS SUBVERTED BY TRADE BARRIER

We submit a recent study of "The Development of EC Regulations for Imports of Poultry, Poultry Parts, and Eggs".

This study points out in detail the systematic development and regular use of highly protectionist mechanisms to exclude our poultry and eggs from the EC. (six country markets) now nine. (See Appendix) Classifications of products were named and changed constantly as we introduced new items for sale. These products were subjected to high levies. High gate prices were assigned to each product, to which were added a basic levy and also a supplemental levy. The imposition of these levies caused immediate and drastic reductions of our tonnage into the EC market. After July 1, 1962, (effective date of EC levies on poultry and eggs) the 15.9 percent import tax on whole chickens was increased to a total import levy of 43 percent. And the tax on chicken backs and necks on which we had built up a very substantial business with the German consumers was raised from *15 percent to 320 percent* of value of the product, thereby denying

German consumers the right to buy and use these reasonably priced chicken necks and backs which they had so readily accepted. When the market for whole chicken was taken away from us, we turned to chicken parts—but then the levies went up on chicken parts. Tariff classifications were developed to tax these new products.

It has become a practice of the Common Market to raise the levy with only a 3-day notice—thereby damaging our trade by creating uninsurable risks. We even suggested to our government the possibility of getting insurance against these arbitrary and abrupt increases imposed while the product was in transit in order to offer the buyers some protection to induce them to buy.

After the market for chicken parts was largely destroyed we turned to whole turkey—and then up went the levies on turkey parts.

U.S. egg products received the same treatment.

All of this violates the basic principles of GATT.

United States poultry and egg products have, over these past twelve years, been the victims of arbitrary and discriminatory actions applied systematically and abruptly by the EC.

The EC in determining the gate price uses unrealistic feed conversion ratios, yields and unrealistic parts to whole coefficients to give the computed costs of its own production items, unrealistically high prices. The gate price is the target price below which poultry and eggs cannot be offered. Then, to this high gate price is added a variable levy and a supplemental levy. *The total of these two levies at times has been 50%* or more of the gate price which is usually higher than needed to represent actual internal costs.

Mr. Walter Hallstein, formerly president of the European Economic Commission, in his recent book, *"Europe in the Making,"* discusses the highly inflationary impact of the EC's Common Agricultural Policy. He says, "But the wall around the Community has become very high". But as far as U.S. poultry and eggs are concerned, there is not just one wall around the Community, there is a three story wall—a high gate price, a variable levy and a supplemental levy.

AGRICULTURE AND INDUSTRY MUST BE NEGOTIATED TOGETHER

International trade is a two-way street and trade policy a two-sided coin. If subjecting U.S. chicken, turkey, and eggs to gate prices, variable and supplemental levies, often 40–50% ad valorem, is sound policy, then it must be sound policy for the United States to subject German Volkswagens, French wines, and Dutch hams to like treatment. As Harold B. Malmgren in his, *"International Economic Peace Keeping in Phase II"*, says, "Industrial trade problems and agricultural trade problems today are very similar, and the old presumption in Trade negotiations that 'agriculture is different' no longer holds—if it ever did". The "Average Tariff Rates after the Kennedy Round" on manufactured and semi-manufactured products—(weighted by OECD Trade) were:

	Percent
Into United States	[1] 8.3
Into European Community	8.4
Into United Kingdom	10.2
Into Japan	10.9
Into Canada	10.12

[1] Volkswagens only 3%.

according to, *"The United States in the Changing World Economy"* by Peter G. Peterson. In the area of industrial goods, the free world was progressively moving toward an "open and equitable trading system".

AUTHORITY NEEDED TO NEGOTIATE REMOVAL OF UNFAIR TRADE BARRIERS

The Trade Expansion Act of 1962 paved the way for the Kennedy Round Trade Negotiations, which ended in May 1967. These trade rounds were recognized as highly successful. Fifty-three nations representing 80% of the world trade participated. Tariffs were reduced by one-third. However, as you can see, negotiators did not deal adequately with the system of levies established by the EC under the Common Agricultural Policy, especially as related to poultry and eggs. The only direct reduction in poultry or egg levies, accomplished by the Kennedy Round Trade Negotiations, was import duties on U.S. turkey into Japan. The import duty had been 10 percent, so in anticipation of negotiation, Japan raised

the duty to 20 percent and then in negotiations reduced it to 15 percent. So in effect we settled for a 50 percent increase not a 25 percent decrease.

For twelve years we, in the poultry and egg industry, have been subjected to arbitrary regulations and levies uni-laterally applied almost at will. The poultry and egg industry, with the help of the Foreign Agriculture Service of the U.S. Department of Agriculture, has stayed in there fighting. Germany is still our largest poultry market in spite of the barriers, but far short of what might have been had we had fair access. We are now shipping virtually no whole chickens but when the C.A.P. went into effect in 1962 our sales to West Germany were virtually all whole chickens, approximately 150,000,000 lbs.—this only four years after we started marketing U.S. chickens in West Germany.

STILL A MARKET DESPITE BARRIERS

We would like to quote from the Under-Secretary of Agriculture, J. Phil Campbell, in a talk given September 16, 1969. The Secretary says, "I think it is a tribute to all those who have been involved in this overseas selling effort that the U.S. is still very much in the poultry exporting business. I am talking about the effort of individual exporters—of the Institute of American Poultry Industries (now the Poultry and Egg Institute of America) acting for the poultry industry's International Trade Development Board—and the Foreign Agriculture Service of the U.S. Department of Agriculture."

"Working together, they have pierced some of the trade barriers; they have created and exploited demand for specialized American poultry products. They have new opened new markets."

"These things don't just happen. Determined men in government and the poultry industry have worked together to *make* them happen."

For the calendar year of 1973 we exported a total of 168,350,000 pounds of poultry meat for a value of over $70,000,000 and total poultry and eggs and breeding stock for a total value of about $120,000,000. This is solid achievement when we bear in mind that ever since July 1962, the Common Market has arbitrarily subjected our poultry and eggs to almost insurmountable barriers.

On top of this the EC has engaged in concerted effort to disrupt our markets throughout the world by using export subsidies. While lowered recently these subsidies still greatly hamper our sales into key markets such as Japan and Hong Kong.

Global opportunities and problems call for global thinking, policies and programs. Burgeoning demands and rising incomes make for *marketing opportunities* throughout the developed nations of the world.

How well we seize upon and expand these opportunities depends on how effectively the U.S. government and industry can work together in developing an open and equitable world trading and marketing system. Real leadership and courage have been demonstrated in the area of international relations. What the administration now needs is continuing authority and trading stock to reduce, eliminate or harmonize barriers and other distortions of international trade.

We strongly urge the passage of the "Trade Reform Act."

LIBERALIZED TRADE—BEST DEFENSE AGAINST INFLATION

Inflation stalks the world. In a world of tariff walls and barriers, pockets of inflationary pressure can build up and destroy those separate and individual economies. We cannot afford to let this happen. We need an open and fair world trading system right now for the free flow of products, especially foods.

If we can gain fair and reasonable access to the markets of the developed nations of the world, we can then proceed in developing a well-conceived and articulated marketing policy for the total U.S. agriculture and food industry. This policy will be evaluated on a cost/benefit basis to the consumers on a global marketing basis. People are our only ultimate markets, and marketing assigns top priority to people as consumers. Our strategy will be marketing finished products as well as the trading of raw feed grain ingredients and other raw agricultural products. This balanced approach will provide more stability and will, in the end, result in continuing and expanding markets.

PROCESSED FOODS EXPORTS—BEST HOPE FOR U.S. AGRICULTURE

The Green Revolution is here. The high yielding dwarf wheats developed in Mexico by Dr. Norman Borlang (Nobel Prize Winner, 1970) and the prolific

dwarf rice IR 8 (Miracle Rice) developed by Dr. Robert Chandler can be a boon to the under-developed nations in their fight against famine and malnutrition. However, this should give us cause to *rethink our total agriculture policy*. India has doubled its wheat production in six years. West Pakistan has increased its wheat harvest over 70 percent between 1967 and 1970. West Pakistan is now a net exporter. Between 1965 and 1970 acreage in the new varieties of wheat and rice mostly in Asia increased as follows:

1965	200
1966	41,000
1967	4,047,000
1968	16,660,000
1969	31,319,000
1970	43,914,000

and China and Brazil with double cropping pose threats to our soybean export markets of the future.

We emphasize *marketing* rather than trading. We contend that marketing in its broader sense is a socio-economic force comparable to research and development. It can be an engine of change. Trade barriers are harmful not only because they misallocate productive resources but also because they hold out and thwart marketing know-how. Only through effective marketing can we make the fullest use of assets and productive capacities. Marketing with a focus on consumers is:

Alert to change
Innovative and creative
Outward looking
And forward looking

Creative marketing increases total demand by building markets and finding new uses and outlets for newly-developed products. Global marketing will enable us to capitalize fully on our high technology in our food production and processing. Our technological lead in agriculture and food production will enable us to expand markets by providing better values to consumers throughout the world. Marketing, because it is based upon persuasion, promotes a better mutual understanding; in fact the English philsopher, Alfred North Whitehead, has termed commerce as the great civilizer because it is based on face-to-face persuasion. We presently have cooperative or joint marketing programs for selling poultry and egg products in various parts of the world. These programs can be expanded tremendously by better access to markets abroad. A strong commitment to marketing both by government and industry can truly be a dynamic force in upgrading diets throughout the world and expanding total demand for our products on an orderly and continuing basis.

GOVERNMENT/INDUSTRY PARTNERSHIP NEEDED

The Communist countries present increasing opportunities for trade, but on terms generally unfamiliar to the average U.S. company. State trading and centralized government trading organizations using barter and long-term credit demands put our free enterprise firms at a disadvantage. We need a government/industry partnership abroad. We need collective intelligence and coordinated action. We need to broaden the opportunity for more companies to participate and for more products to be offered between our country and the Communist countries. Barter, like any other trade, is a two-way street, but we will have to accommodate in order to get and expand the business.

As global resources diminish relatively to potential demands, our best hope is global production based on comparative advantage and creative global marketing to provide consumers with the best possible food values. Implementation of the Trade Reform Act can be a giant step toward this objective. We urge its enactment.

Appendix

The Development of EEC Regulations for Imports of Poultry, Poultry Parts and Eggs

Imports of poultry, poultry parts, and poultry eggs to the EEC countries had been levied by a 15.9 percent ad valorem duty until July 1, 1962, when a new system of duties became effective.

This new system of duties had been developed to enhance the formation of the European Common Market for agricultural products by preventing any disturbances in the price system originating from third countries. It is effectuated through three types of regulations:

(*1*) *A basic levy*

It was first introduced on August 1, 1962, and takes into account three factors of the import price formation:

(*a*) The differences in production costs of poultry between EEC countries and the world market;

(*b*) The differences in production costs for poultry within the six member countries until July 1967;

(*c*) A fixed value depending on the average import prices for poultry into the EEC during the last year, which originally was set at 2 percent, but was increased up to 5.5 percent in 1966 and is now at 7 percent.

The basic levy is a variable one and, depending on the cost and price development is revised in three months periods. Furthermore, this levy varied until July 1967 for each of the member countries according to the differences in their national conditions with regard to production costs of poultry (factor b) against imports from all third countries but as well can be used against specific countries or groups of countries.

This new system of duties was introduced on July 1, 1962, but was revised and adapted to prevailing market conditions several times, so that it was fully elaborated only after a period of about five years of existence. This development can be described by the history of regulations of the EEC Commission to complete the duty system and the development of the tariff positions 02.02 B (Parts of Poultry).

I. THE HISTORY OF REGULATIONS OF THE EEC COMMISSION 1962 THROUGH 1967

July 1, 1962: Introduction of gate prices for slaughtered poultry (Reg. Nos. 35 and 40).

August 1, 1962: Introduction of basic levies for slaughtered poultry (Reg. No. 76) and of gate prices for live poultry and poultry parts (Reg. Nos. 77, 78).

October 1, 1962: Introduction of gate prices for shelled eggs and egg yolks and extension of the tariff position "poultry parts" into "backs and necks of poultry" and "other poultry parts". (Reg. No. 126).

November 7, 1962: Introduction of the first supplementary levy for whole chicken (Reg. No. 135).

March 1, 1963: Belgium and Luxemburg form an economic and monetary unit.

March 9, 1963: Introduction of supplementary levy for backs and necks of poultry and settling a basic levy for "backs and necks of poultry" and "other poultry parts" (0.5 and 1.25 of basic levy of the mean for whole chicken, prep. B and whole turkey) (Reg. No. 24).

August 1, 1964: Introduction of gate prices and basic levies for further extension of tariff position "other poultry parts" into "breasts and legs of poultry" and "other poultry parts" (Levy fixed at 1.25 and 0.46 of the mean for whole chicken prep. B and whole turkey) (Reg. No. 94).

October 1, 1964: Introduction of gate prices and basic levies for further extension of tariff position "other poultry parts" into "halves and quarters of chicken" and "halves and quarters of turkeys" (levy fixed at 1.00 of whole chicken, prep. C and of whole turkey, respectively). (Reg. No. 130).

May 2, 1965: Introduction of a supplementary levy for halves and quarters of chicken" (Reg. No. 57).

April 1, 1966: Introduction of gate prices for further extension of tariff position "poultry parts" as follows:

Breasts and legs of poultry into breasts of turkey;
Breasts of other poultry;
Drumsticks of turkey and other legs of poultry; and
Other poultry parts into wings of poultry and other poultry parts.

July 1, 1966: Introduction of gate price for further extension of tariff position other poultry parts" into "boned parts of poultry" and "other poultry parts". Fixation of basic levies for various poultry positions, as follows:

Live chicken (0.7 of whole chicken, prep. C), live turkey (0.7 of whole turkey);

Poultry parts in relation to the mean levy of whole chicken, prep. B and of whole turkey at 2.0 for breasts of turkey, boned poultry parts, and other poultry parts;

1.4 for breasts of other poultry;
1.25 for legs of poultry other than turkey drumsticks;
0.75 for turkey drumsticks; and
0.46 for edible offals of poultry. (Reg. No. 79).

March 26, 1967: Introduction of supplementary levy for "breasts of poultry other than turkey" and "legs of poultry other than turkey" originating in Hungary, (Reg. No. 59)

June 22, 1967: Introduction of new transformation factors for feed cereals into poultry products, hence new gate prices and basic levies for poultry. (Reg. No. 146).

July 21, 1967: Introduction of supplementary levy for boned parts originating in Denmark. (Reg. No. 319).

November 1, 1967: Introduction of supplementary levy for turkey drumsticks and other legs of turkey originating in USA. (Reg. No. 772).

Introduction of gate prices and basic levies for further extension of tariff position "legs of turkeys, other than turkey drumsticks" into "other legs of turkey other than drumsticks" and "other legs of poultry".

Fixation of new basic levies as follows: Poultry parts in relation to the mean levy of whole chicken, prep. B, whole duck, prep. 70 percent, whole geese 75 percent, whole turkey and whole guinea fowl at—

1.85 for boned poultry parts and other parts of poultry;
0.70 for wings;
0.45 for backs and necks and edible offals and in relation to either whole chicken, prep. B or whole turkey respectively at 1.70 for breasts of turkey, breasts of chicker; 0.80 for turkey drumsticks; 1.50 for other turkey legs; and 1.50 for legs of other poultry (Reg. No. 68a).

March 22, 1968: Introduction of supplementary levy for whole turkeys (Reg. No. 314).

II. The development of tariff position 02.02B (parts of poultry)

Parts of poultry	7. 1. 62
Backs and necks of poultry; other parts of poultry	10. 1. 62
Breasts and legs of poultry; other parts of poultry	8. 1. 64
Halves and quarters of turkey; halves and quarters of chicken; other parts of poultry	10. 1. 64
Breasts of turkey; breasts of other poultry; drumsticks of turkey; other legs of poultry; wings of poultry; other parts of poultry	4. 1. 66
Boned parts of poultry; other parts of poultry	7. 1. 66
Other legs of turkey; legs of other poultry	11. 1. 67
Backs and necks of poultry; breasts of turkey; breasts of other poultry; drumsticks of turkey; other legs of turkey; legs of other poultry; halves and quarters of turkey; halves and quarters of chicken; wings of poultry; boned parts of poultry; other parts of poultry	4. 1. 68

Senator TALMADGE. Without objection, the committee will stand in recess until 10 a.m. tomorrow.

[Whereupon, at 12 noon, the committee was recessed to reconvene at 10 a.m., Tuesday, March 26, 1974.]

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