

THE FUTURE OF U.S. FOREIGN TRADE POLICY

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HEARINGS BEFORE THE SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY OF THE JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES NINETIETH CONGRESS FIRST SESSION

JULY 11, 12, 13, 18, 19, AND 20, 1967

Volume I

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CONGRESS OF THE UNITED STATES, JOINT ECONOMIC COMMITTEE

REPRESENTATIVE HALE BOGGS ANNOUNCES STUDY OF U.S. FOREIGN TRADE POLICY

JUNE 19, 1967

Representative Hale Boggs (D-La.), Chairman of the Subcommittee on Foreign Economic Policy and the House Majority Whip, today announced that his subcommittee would undertake a broad reassessment of U.S. foreign trade policy.

The subcommittee will begin its study by holding a series of hearings in July. The lead witness at the hearing of Tuesday, July 11th, will be Ambassador William H. Roth, the President's Special Representative for Trade Negotiations. Testimony of congressional delegates to the Kennedy Round negotiations will be heard Wednesday, July 12th. On Thursday, July 13th, distinguished foreign observers have been invited to give their views on the position of the United States in the trading world of the future; the Honorable Kenneth Younger, Director of the Royal Institute of International Affairs, London, and Dr. Aurelio Peccei, Executive Manager of Olivetti, Milan, will testify then. At a final hearing, on Thursday, July 20th, there will be a summing up; on that occasion the witnesses will be David Rockefeller, President of the Chase Manhattan Bank, and George Ball, formerly Under Secretary of State.

The subcommittee intends also to publish a number of study papers to serve as background for the hearings and to canvass a wide range of opinion on significant issues of trade relations and trade policy.

In announcing the subcommittee's plans, Congressman Boggs stated, "This is an appropriate time for taking stock of our position on trade policy. It is apparent that, after the details of the Kennedy Round are worked out, the negotiations will have achieved a greater scope of concessions than any previous round. We shall make an early review of these bargains.

"But the intention of the subcommittee is to look both at the events of the past five years and to try to anticipate the problems of the future. In so doing, we expect to achieve a worthwhile congressional appraisal of future U.S. trade policy.

"Certainly, there is important unfinished business to attend to. Trade relations with the less developed countries have had less serious attention during the Kennedy Round than that subject deserves; and nontariff barriers of various types are of increasing significance as tariff barriers are lowered—to mention only two broad issues.

"But we can look forward with confidence to the recognition that world trade and interdependence between countries are growing apace. As Americans, we can welcome this, for the vast and prosperous 'free trade' market that we have developed within our own borders points the way to success in international markets also."

The members of the subcommittee are Representative Hale Boggs as Chairman, and Senators Sparkman, Fulbright, Talmadge, Symington, Ribicoff, Javits, and Miller; and Representatives Reuss, Moorhead, Widnall, Rumsfeld, and Brock.

Representative Boggs stated that the names of witnesses and the dates of other hearings would be announced in a later release.

REPRESENTATIVE HALE BOGGS ANNOUNCES SCHEDULE OF HEARINGS ON FOREIGN TRADE

JULY 7, 1967

Representative Hale Boggs (D-La.), Chairman of the Subcommittee on Foreign Economic Policy and the House Majority Whip, today issued the schedule of hear-

ings to be held before his Subcommittee on the Future of U.S. Foreign Trade Policy. An earlier announcement of the hearings was made on Monday, June 19.

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

Program of Hearings on the Future of U.S. Foreign Trade Policy

JULY 11, 12, 13, 18, 19, AND 20, 1967

Tuesday, July 11, 10:00 a.m.—Room 1202 New Senate Office Building.

Ambassador William Roth, President's Special Representative for Trade Negotiations.

Wednesday, July 12, 10:00 a.m.—Room AE-1 The Capitol.

Anthony Solomon, Assistant Secretary of State for Economic Affairs.

Lawrence McQuade, Acting Assistant Secretary for Domestic and International Business, Department of Commerce.

Congressional Delegates to the Kennedy Round.

Thursday, July 13, 10:00 a.m.—Room 1202 New Senate Office Building.

Kenneth Younger, Director, Royal Institute of International Affairs, London.

Aurelio Peccei, Vice-Chairman of Olivetti, Member of the Steering Committee of Fiat-Turin, and President of Italconsult, Rome.

Tuesday, July 18, 10:00 a.m.—Room 1202 New Senate Office Building.

S. M. McAshan, Jr., President, Anderson, Clayton & Co., Houston, Tex.

Carl J. Gilbert, Chairman of the Executive Committee, The Gillette Co., Boston, Mass.

Henry W. Balgooyen, President, American & Foreign Power Co., New York, N.Y.

N. R. Danielian, President, International Economic Policy Association.

Wednesday, July 19, 10:00 a.m.—Room 1202 New Senate Office Building.

William Diebold, Jr., Council on Foreign Relations.

Professor Robert E. Baldwin, University of Wisconsin.

Professor Richard N. Cooper, Yale University.

John Pincus, The Rand Corporation.

Professor Lawrence W. Witt, Michigan State University.

Thursday, July 20, 10:00 a.m.—Room 1202 New Senate Office Building.

David Rockefeller, President, Chase Manhattan Bank.

George W. Ball, former Under Secretary of State.

THE FUTURE OF U.S. FOREIGN TRADE POLICY

TUESDAY, JULY 11, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Reuss, and Widnall; and Senators Symington, Javits, and Miller.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman Boggs. The subcommittee will come to order.

The Subcommittee on Foreign Economic Policy of the Joint Economic Committee today begins a series of six public hearings on "The Future of U.S. Foreign Trade Policy."

The recent conclusion of the Kennedy Round negotiations—the sixth round of the GATT trade negotiations—provides an opportunity for taking stock of our position on trade policy. It is fitting that the reassessment be undertaken by this subcommittee, which was set up in the 87th Congress, just over 6 years ago ". . . to conduct studies and hold hearings on such subjects as trade, trade agreements, international investments, U.S. imports and exports, and U.S. foreign aid." It was this subcommittee, you will recall, whose first major work was the review of trade policy that preceded the enactment of the Trade Expansion Act of 1962.

Now, a few days after the expiration of the special powers granted to the President of the United States by that act, we welcome as the lead witness in these hearings the President's Special Representative for Trade Negotiations, Ambassador William M. Roth.

In the long and arduous debates of Geneva, in crisis after crisis down to the final hours of negotiation, Ambassador Roth has acquitted himself well. His talents of persistence and patience, and even on occasion his temper, have been applied to further the interests of the United States in a liberal trading world.

In expressing our appreciation to Ambassador Roth for helping to bring the Kennedy Round negotiations to a successful conclusion, I find a suitable occasion to pay tribute to his predecessor, the late Governor Herter, who did so much to focus our attention on the need

for expanding and liberalizing world trade. The public service of Governor Herter in many different offices makes us mindful that the life of the Republic gains its strength from the dutiful efforts of men like him.

The end of the Kennedy Round is a suitable occasion for a reevaluation. These hearings are certainly timely. They are also necessary. We must make a prompt beginning of a review of our thinking on issues of foreign trade. It is a matter of great importance how the Congress will form its ideas on trade policy. And we hope and expect that this initial set of hearings will lay the groundwork.

Let me repeat a statement in 1961 by George Ball who was then Under Secretary of State. In an address to the National Trade Convention, he said:

I have been aware of a measure of agreement rarely found in these esoteric circles—agreement on the fact that we are coming to the close of a familiar era in our world trading relations and entering another that is not familiar at all.

Some see this new phase as filled with opportunity and challenge. Some, on the other hand, are apprehensive. But few question the proposition that pervasive change will be the dominant characteristic of the years that lie ahead.

That, it seems to me, is still our situation.

So, in meeting this situation, we look back with the intention of guiding our aims in the future. Our purposes on this subcommittee should be—

- to examine the past, not to find errors, but to take stock and learn our lessons well;

- to try to foresee the changes that are imminent and to direct our efforts accordingly;

- to persuade the United States to dispense with policies that are anachronistic, or which cater to outmoded demands, and to reinforce our efforts to achieve significant and necessary advances in the international commerce of nations, and of the United States in particular;

- to deal plainly with the special interests of our own country in agriculture and industry, while always remembering the primary importance of the general public interest;

- to give our negotiators the basis for firm and flexible bargaining with our trading partners in other countries and through agencies such as GATT; and, finally,

- to keep constantly in mind the interdependence of the trading world and the need to maintain its growth and prosperity, which represents for us all the best protection.

We are very happy to have so many of the members of the subcommittee here with us this morning.

I want to thank the members of the staff who have worked very hard in putting together these subcommittee hearings, including the papers that have been prepared and edited which are available to the members of the subcommittee as well as others.

Mr. Ambassador, we are very happy to have you here this morning. I am reminded, however, that Senator Javits has a statement that he would like to present at this time. We will now hear from Senator Javits.

STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Mr. Chairman, I had the privilege of visiting Geneva, and so I have some concept of the extraordinary work that has been done in this particular area by Ambassador Blumenthal and Ambassador Roth. I ask unanimous consent to include in the record a list of the personnel who worked on these various negotiations as a part of the U.S. delegation. It is a fairly extensive list, Mr. Chairman. But too often Americans who render such extraordinary service and such arduous service as was rendered here go absolutely unnoticed and unknown, and I think that is wrong. And with the Chair's permission I would like to include those names in the record, and express my feeling of respect and appreciation for the extraordinarily gifted service which was shown in this case which is so critically important to the security and prosperity of our Nation.

Chairman Boggs. Without objection, the names will be included.

Senator JAVITS. I thank my colleague.

(The list referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS,
July 12, 1967.

KENNEDY ROUND PARTICIPANTS: WASHINGTON

OFFICE OF THE SPECIAL REPRESENTATIVE	DEPARTMENT OF LABOR
Ambassador William Roth	George Weaver
Philip Berlin	Harry Weiss
Theodore Gates	DEPARTMENT OF AGRICULTURE
Irwin Hedges	John Schnittker
Walter Hollis	Raymond Ioanes
Selma Kallis	Howard Worthington
Louis Krauthoff	DEPARTMENT OF TREASURY
Harald Malmgren	Winthrop Knowlton
Bernard Norwood	James Hendrick
Morton Pomeranz	DEPARTMENT OF INTERIOR
Albert Powers	Harry Shooshan
Mary Jane Wignot	TARIFF COMMISSION
Leonard Wilson	Paul Kaplowitz, former chairman
John Rehm	
DEPARTMENT OF STATE	
Anthony Solomon	
Joseph Greenwald	
Deane Hinton	
DEPARTMENT OF COMMERCE	
Secretary Trowbridge	
Robert McNeill	
Allen Garland	

KENNEDY ROUND DELEGATION: GENEVA

Ambassador W. Michael Blumenthal..... *Government agency*
STR (State).

OFFICERS

Adams, Leason B.....	Tariff Commission.
Arundale, Joseph.....	Interior.
Barton, Bernard.....	Tariff.
Birkhead, James W.....	Agriculture.
Brewster, Helen.....	State.
Brosnan, Anne.....	STR (Commerce).
Cruit, Anthony N.....	Agriculture.
Drew, Joseph C.....	Commerce.
Eads, Mabel.....	Commerce.
Fellman, David.....	Commerce.
Fernandez, Kenneth.....	Commerce.
Hamerschlag, Robert.....	STR (Commerce).
Hart, William T.....	Tariff.
Hirabayashi, Martin.....	STR (State).
Howe, Jeanne.....	Commerce.
Jones, Dallas.....	STR (State).
Karpoff, Edward.....	Agriculture.
Kelly, William B.....	Commerce.
Kilgore, Lowell P.....	Commerce.
Kirk, Northrop.....	STR (State).
Law, Dana.....	Tariff.
Lee, Roland.....	Tariff.
Lewis, James H.....	STR (State).
Lord, Winston.....	STR (State).
MacHatton, John.....	Tariff.
Martin, Edward E.....	Tariff.
Montgomery, Frederick.....	Commerce.
Musrey, Alfred G.....	Tariff.
Nelson, Donald M., Jr.....	Tariff.
Pappano, Albert E.....	STR (State).
Pinkney, Anne.....	STR (State).
Preeg, Ernest H.....	State.
Pritchard, Norris T.....	Agriculture.
Riegert, Thomas.....	STR (State).
Sacchet, Edward.....	STR (State).
Sanders, Walter L.....	Tariff.
Simons, Thomas W., Jr.....	STR (State).
Starkey, James.....	Agriculture.
Steward, John W.....	Agriculture.
Sunderland, Lawrence B.....	Tariff.
Thoreson, Mrs. Musedorah.....	State.
Thuroczy, Nicholas M.....	Agriculture.
Travis, Herman.....	Labor.
Twaddell, James.....	STR (State).
Vaughan, Hal.....	USIS.
Vernon, Mrs. Gloria.....	Labor.
Wiggins, Guy.....	STR (State).
Wolff, Ernest.....	Tariff.
Worthington, Courtenay.....	STR (State).
Worthington, Howard L.....	Agriculture.
Zaglits, Oscar.....	State.

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 Slaughter, Evelyn P.
 Sondheimer, Bernice.
 Velarde, Margaret.
 Williams, Jesse.
 York, Mrs. Ethel.

Senator JAVITS. I have a very brief statement.

The hearings which are about to start are of the greatest national importance as they can set the tone of congressional and national mood toward the results of the Kennedy Round and toward future trade legislation. Our chairman, Representative Hale Boggs, is to be congratulated for the excellent care with which these hearings have been prepared and for the outstanding witnesses who are to appear before us.

It would be the greatest folly to interpret the relative quiet with which Congress and U.S. industry have thus far reacted to the results of the Kennedy Round as an indication that these results will be readily accepted. We are about to face a major congressional battle on the agreement reached in Geneva on chemicals and the American selling price. The Senate Finance Committee is considering "legislative oversight" hearings involving the Trade Expansion Act and other trade legislation. I would be surprised if the agreement on an international antidumping code would be accepted by all. This happens to be something which is of very particular interest to me, as I have urged such a uniform code, and have introduced a resolution to bring it about.

Unless forces favoring trade liberalization are ready to go into battle in defense of the principle of trade liberalization on every one of these issues, much that has been gained over the past 4 years as a result of the heroic service of the team led by Ambassadors Roth and Blumenthal—and one cannot, Mr. Chairman, speak of this matter without the highest tribute to our former colleague in the House, Christian Herter, with whom both Congressman Boggs and I, and Congressman Widnall, served in the House—much of the gain which has been established could be lost. And, let's not kid ourselves—unless we have the full support of the President the chances of resisting self-interest and protectionist forces will be small.

There have been news reports that the White House is preparing new interim trade legislation and that a bill will be sent to the House by the end of the month. Such legislation is essential to show the President's determination that this country will continue on the path we have followed since the end of World War II.

And I hope that Ambassador Roth is prepared to give us some concept of the President's proposal either at this or some subsequent hearing.

There are several key elements that in my judgment should be contained in any interim trade legislation proposed by the President—and I emphasize the word "interim," as I will explain in a minute.

First, the American selling price (ASP) system should be repealed, if the package deal on chemicals proves on close examination as beneficial to the United States as present information indicates. The elimination of ASP on the part of the United States would bring with it a substantial reduction of European tariffs on chemicals we export to them and also the reduction of several nontariff barriers discriminating against American cars, tobacco, and canned fruit.

Second, the adjustment assistance provisions of the Trade Expansion Act of 1962 should be liberalized along the lines of the adjustment assistance provisions of the United States-Canada auto agreement but with the U.S. Tariff Commission retaining its factfinding powers as at present.

Third, the President should be given powers to undertake negotiations on nontariff barriers. With tariffs becoming increasingly a less important factor in international trade, nontariff barriers must now be dealt with.

And I think the testimony will show the material reduction, the overall percentage of total trade subject to tariffs which has now been affected by the Kennedy Round.

Fourth, the President should be authorized to put forward a significant trade proposal for the developing countries, particularly one calling for trade preferences, even if this would mean a modification of the most-favored-nation principle. These preferences should be conditioned on similar action by other industrialized nations and should be extended for manufactured and semimanufactured products. The United States should be ready with positive offers by the time UNCTAD meets next February, rather than to be put into the position of having to react and to reject plans offered by other nations.

It is quite clear that there will be a period of 1 or 2 years before Congress will enact major new trade legislation. It is essential that this time period be utilized fully to assess the impact of the Kennedy Round on the U.S. economy and on international trade patterns and to develop specific new proposals. I am pleased that witnesses coming through before us will begin this process and will give us their best judgment on the essential elements of new trade legislation, both of an interim kind such as I have described, and of a definitive kind.

In my judgment, the power to negotiate further trade agreements should again be delegated to the President based on stated criteria and should not revert to Congress. Congress is not equipped to handle tariff negotiations as history and experience have shown.

I also hope that witnesses will comment on the proposal I advocated during consideration of the Trade Expansion Act of 1962; namely, to give the President power, subject to congressional veto of the agreement reached, to reduce reciprocally tariffs and other trade barriers by any amount. The success of the flexible approach embodied in the Trade Expansion Act encourages me to think that we should pursue

it in the future. And the problems which I find abroad, particularly as they affect Britain, make it essential in my judgment for the President to be able to negotiate a free trade area, for example, in the Atlantic, but subject to the congressional veto which may be required in order to protect fully participation by the Congress in any such eventuality.

Mr. Chairman, I thank you for your patience. I think the Chair knows that I have been very heavily involved in these matters for many years, and hence felt sure that at the opening of such a hearing as this that I would make this declaration.

Chairman Boggs. I thank the Senator from New York. He has indeed been very closely associated with the action taken by Congress in the past on all of these subjects.

And I appreciate your statement, Senator. It is a very complimentary statement.

Do any other members of the subcommittee have statements?

Representative WIDNALL. Mr. Chairman, I would just like to congratulate Dr. Roth and his colleagues for the work that has been done over the years. It is an arduous task, and it seems to have been culminated very successfully. And I think in the next 2 or 3 years that the emphasis that Senator Javits has placed on keeping an eye on it is something that should be kept in mind.

Thank you.

Chairman Boggs. Thank you very much, Mr. Widnall. Senator Miller?

Senator MILLER. Thank you very much, Mr. Chairman. I would like to join with my colleagues in thanking the chairman for arranging these hearings, and welcoming Ambassador Roth before the subcommittee.

As a member of the subcommittee I am naturally interested in all aspects of the GATT negotiations and the Kennedy Round in particular.

But I am also a representative of a great agricultural State quite concerned with what has happened from the standpoint of agricultural products and more particularly the access to the Common Market countries for our grain. I have heard all kinds of statements, ranging from a statement which appeared in the press attributed to Mr. Schnittker praising the results, to cries of "sellout" of American agriculture from some rather knowledgeable members of the agricultural industry.

It was pointed out that the United States gave up trying to get guaranteed access to the market of the European Economic Community because the Community's final order had "no value." I am going to be interested in knowing what this was, and what caused the evaluation that it had no value.

I went on to point out that the United States received a reasonable assurance that the total grain exports to the Common Market will be maintained, because production there may grow no faster than consumption, and because the Community will now have to export more grain on a new agreement between more countries.

I am naturally interested in the basis for that evaluation, and especially that production there may grow no faster than consumption.

It seems to me that this is a very fine opportunity for Ambassador Roth and his staff to set the record straight, so that if indeed there has been a favorable result from the standpoint of American agriculture we know about it. And if there is false optimism, we will know it.

So I welcome the opportunity to participate in these hearings. And I again thank the chairman for arranging for them.

Chairman Boggs. Thank you, Senator.

Mr. Ambassador, again we welcome you.

Before you begin your statement, would you be good enough to introduce your associates?

Mr. ROTH. This is John Rehm, General Counsel of my office; Bernard Norwood, chairman of the Trade Staff Committee; and Mr. Raymond Ioanes, the Department of Agriculture.

Chairman Boggs. Thank you. You may go right ahead with your statement.

STATEMENT OF HON. WILLIAM M. ROTH, PRESIDENT'S SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS (WITH THE RANK OF AMBASSADOR); ACCOMPANIED BY JOHN REHM, GENERAL COUNSEL; BERNARD NORWOOD, CHAIRMAN OF THE TRADE STAFF COMMITTEE; AND RAYMOND IOANES, U.S. DEPARTMENT OF AGRICULTURE

Mr. ROTH. First, Mr. Chairman, thank you very much for your good words about the negotiations and those of your colleagues. I am particularly grateful that Senator Javits put in the record the names of the members of the negotiating delegation, because a negotiation such as this is a team effort. And this was a team that worked closely and well together, and was very instrumental in putting together the final package.

Mr. Chairman, it is a great honor to be the opening witness before this subcommittee. This series of hearings reassessing U.S. foreign trade policy comes at a most appropriate moment.

The President has ordered a major review of our trade policy. The deliberations of this subcommittee, and the testimony and papers presented before it, will be of enormous benefit to us in preparing for and undertaking the study for the President.

In trying to decide the aspects of the Kennedy Round and the future on which I could most productively concentrate this morning, Mr. Chairman, I have concluded that an extended review of the Kennedy Round and its results would not, perhaps, be in order.

A great deal has already been written and said on the Kennedy Round's conclusion, and until the President's report to the Congress is completed we will not have a definitive analysis of the agreement. I would propose for your consideration, therefore, insertion in the record of our initial report on the agreement. It is a fairly detailed account of what happened. I would then focus my remarks on the immediate future, to include, first, the issues that we face as a result of the Kennedy Round and, second, the question of what we envision as the means of meeting the President's request for a major administration review of trade policy.

May I ask permission to insert the comments on the Kennedy Round in the record, Mr. Chairman?
 Chairman Boggs. Without objection, they may be included.
 (The comments referred to follow:)

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE
 NEGOTIATIONS

Washington, D.C.

THE KENNEDY ROUND AGREEMENT

By direction of the President, W. Michael Blumenthal, Deputy Special Representative for Trade Negotiations, signed multilateral agreements negotiated in the Sixth Round of Trade Negotiations in Geneva, Switzerland, on June 30, 1967.

The signing ceremony concluded the most comprehensive assault on barriers to international trade that has ever taken place. The negotiations were known as the Kennedy Round in recognition of the late President's leadership in inaugurating the effort.

The important elements of the Kennedy Round package are:

Tariff cuts of 50 percent on a very broad range of industrial goods, and cuts in the 30 to 50 percent range on many more.

Agricultural concessions to which the United States attaches great value because they create new trading opportunities for our farmers and because they support our contention that international negotiation on trade in farm products can accomplish something.

A world grains arrangement guaranteeing higher minimum trading prices and establishing a program under which other nations will share with us in the vital but burdensome task of supplying food aid to the undernourished people in the less-developed countries.

Nontariff barrier liberalization including a very significant accord on antidumping procedures as well as European NTB modifications in the ASP package.

Useful if limited progress on the complex and sensitive problems in the steel, aluminum, pulp and paper, and textile sectors including a three-year extension of the Long Term Cotton Textile Arrangement.

An agreement on the treatment of chemical products that deals with the American Selling Price (ASP) issue in a manner that provides major chemical traders with mutually advantageous concessions in the main Kennedy Round agreement and a separate and balanced package that makes additional concessions available to the United States if it abandons the American Selling Price system.

Significant assistance to the less-developed countries through permitting their participation in the negotiations without requiring reciprocal contributions from them; through special concessions on products of particular interest to them; and through the food aid provisions of the grains arrangement.

United States participation was made possible through authority granted the President by the Congress through the Trade Expansion Act of 1962. The late Christian A. Herter directed U.S. participation as the Special Representative for Trade Negotiations until his death in late 1966. He was succeeded by William M. Roth, who continues to serve as Special Representative.

The agreements signed June 30 comprised:

1. A Final Act, which authenticates the texts of the agreements described in paragraphs 2-5 below, and which expresses the intention of all the signatories to take appropriate steps, subject to their constitutional procedures, to put these agreements into effect.

2. The Geneva (1967) Protocol to the General Agreement on Tariffs and Trade (GATT) which embodies most of the tariff and other concessions exchanged in the negotiations.

3. An agreement relating primarily to chemicals, which provides for the elimination of the American Selling Price (ASP) system.

4. A memorandum of agreement on basic elements for a World Grains Arrangement.

5. An agreement on implementation of Article VI of the GATT, in the form of a code of antidumping practices.

It is estimated that the agreements will apply to about \$40 billion of world trade. In industry, the U.S. and the other countries have agreed on cuts averaging about 35 percent. In agriculture, the average cut is less but the United States has obtained important concessions covering a substantial volume of trade.

United States tariff reductions will not enter into force until proclaimed by the President of the United States. It is expected that their effective date will be January 1, 1968. In accordance with the requirements of the Trade Expansion Act, most United States duty reductions will be made in five equal annual stages.

In overall trade terms and taking both industry and agriculture, the tariff cuts made by the U.S. are in balance with those of the other industrialized countries. In terms of 1966 trade the United States is giving tariff cuts on about \$7½ to \$8 billion of industrial and agricultural imports and is obtaining tariff concessions on about the same amount of U.S. exports.

None of the multilateral agreements negotiated in the Kennedy Round will require Congressional action, except the agreement providing for the elimination of the ASP system with respect to chemicals. The World Grains Arrangement envisaged by the Memorandum of Agreement on grains will require consent of two-thirds of the Senate.

INDUSTRIAL NEGOTIATIONS

Import duties are being cut in half on a broad range of industrial products in international trade. Cuts in the 35 to 50 percent range are being made on many more products. Categories of products on which the principal negotiating countries, including the United States, have made cuts that in the aggregate average over 35 percent include machinery, both electrical and nonelectrical; photographic equipment and supplies; automobile and other transport equipment; optical, scientific and professional instruments and equipment; paper and paper products; books and other printed material; fabricated metal products; and lumber and wood products including furniture.

Steel Sector.—Negotiations on steel were conducted against a background of tariff rates where U.S. duties are generally lower than those of other participants. These negotiations, held bilaterally and multilaterally, resulted in closer harmonization of tariffs among the major steel producing countries. Virtually all the peaks in these countries' tariffs were eliminated so that almost all rates will be no higher than 15 percent and most will be well below 10 percent.

Except for United States rates, most steel tariffs have not heretofore been bound. In the final negotiating package, however, almost all rates of other countries were bound and many were reduced.

The international harmonization of steel tariffs should also reduce the tendency for exports to be deflected to the United States market in instances where United States tariffs were much lower than those of other countries. Although the United States is primarily an importer rather than an exporter of steel mill products, lower tariffs abroad will also provide opportunities for United States exporters.

The European Coal and Steel Community (ECSC) adopted a unified tariff and agreed to reduce rates to an arithmetical average of 5.7 percent. The European Economic Community (EEC) agreed to reduce rates within its jurisdiction correspondingly so that a tariff relationship would be maintained between more highly fabricated EEC steel items and primary and less fabricated ECSC items. The ECSC/EEC concessions are a 23 percent reduction from existing rates (a 10 percent reduction from the pre-February 1964 rates on 1964 imports from the United States).

The United Kingdom is reducing most of its rates by 20 percent. Japan is reducing its rates by 50 percent except for a few alloy steel items. Sweden is binding its rates at existing low levels. Austria is harmonizing its tariffs with the ECSC/EEC at a somewhat higher level.

The United States reductions average 7 percent on 1964 imports. It is generally harmonizing its tariffs with the ECSC/EEC where they have been above those rates. United States rates higher than ECSC/EEC rates are to be reduced to ECSC/EEC levels, but no cuts are to be made where rates are now below ECSC/EEC concession levels. United States concessions take account of differences between the United States f.o.b. and ECSC/EEC c.i.f. customs valuation systems so that, nominally, United States rates would be somewhat higher than ECSC/EEC rates. Also, the differential in the United States tariff between ordinary and

alloy steel is being reduced by 50 percent but is not being eliminated as complete harmonization would have required.

Aluminum Sector.—The Community offer consisted of a binding of a 130,000 ton annual quota at 5 percent. The EEC had previously bound in the GATT a 9 percent rate of duty on ingot aluminum. Some imports were allowed entry annually under a tariff quota at 5 percent but neither the amount of the quota nor the lower rate had been bound. The U.S. is making a 20 percent cut on ingot aluminum, of benefit primarily to Canada and Norway.

On unwrought aluminum (further advanced than ingot), tariff cuts by the United States averaged less than 30 percent. The EEC average cut was about one third, while the tariff cuts by the U.K. and Canada were larger than those of the EEC. Japan and other EFTA countries also made substantial cuts in the aluminum sector. Of special interest to U.S. aluminum exporters will be the adoption by Canada of an injury requirement in its antidumping legislation to conform to the new antidumping agreement.

Chemical Sector.—The chemical sector negotiations were centered on the American Selling Price (ASP) issue. European countries maintained from the start that any more than token reductions in their chemical tariffs were conditional on United States elimination of the ASP valuation system. Since elimination of ASP would require Congressional action, United States negotiators insisted that chemical concessions be implemented in two packages: first, a balanced settlement in the Kennedy Round; second, reciprocal concessions by other countries in return for abolition of ASP.

The pattern and volume of chemical trade is such that the outcome of negotiations in this sector inevitably played a major role in the outcome of the entire Kennedy Round. United States dutiable chemical imports from countries with a major stake in world chemical trade (EEC, United Kingdom, Japan, and Switzerland) were \$325 million in 1964; these countries' dutiable chemical imports from the United States totaled nearly \$900 million.

In the end, all major Kennedy Round participants made concessions in the chemical sector. Many concessions have been agreed on unconditionally, while certain other concessions are conditional on United States elimination of the American Selling Price (ASP) valuation system. The concessions on chemicals are, therefore, in two parts: first, the Kennedy Round chemical package, and second, the ASP package.

I. The Kennedy Round Package

Unconditional obligations undertaken in the Kennedy Round are as follows:

1. The United States agreed to duty reductions on products accounting for nearly all (95 percent) of United States dutiable chemical imports. Tariffs will be reduced 50 percent on most items with rates above 8 percent; 20 percent on items 8 percent and below. These commitments will result in a weighted average duty reduction of 43 percent in United States chemical tariffs and \$325 million of dutiable imports from the EEC, U.K., Japan, and Switzerland. The combined tariff reduction made by these four countries averages 26 percent on nearly \$900 million of U.S. chemical exports, and the United States retains the ASP method of valuation for benzenoid chemicals.

2. *The European Economic Community* agreed to duty reductions on tariff items accounting for 98 percent of its dutiable chemical imports from the United States. Most duties will be reduced by 20 percent. Certain items, however, will be subject to reductions of 30 percent and 35 percent, while some others will be reduced less than 20 percent. These commitments will result in a weighted average reduction of 20 percent in EEC tariffs on \$460 million of 1964 chemical imports from the United States.

3. *The United Kingdom* agreed to duty reductions on virtually all chemical imports from the United States except certain plastics. Most British plastics duties are currently 10 percent, a level considerably lower than other major trading countries. The United Kingdom has agreed to reduce tariffs at rates of 25 percent and above by 30 percent, and rates below 25 percent by 20 percent. These commitments will result in a weighted average reduction of 24 percent in United Kingdom imports of more than \$100 million of chemicals from the United States.

4. *Japan* agreed to tariff reductions which on a weighted average basis amount to 44 percent on dutiable chemical imports from the United States. These imports were over \$200 million in 1964.

5. *Switzerland* agreed to tariff reductions which on a weighted average basis amount to 49 percent on \$45 million of chemical imports from the United States.

6. *Other participants*, notably Canada and the Scandinavian countries, agreed to reductions in their chemical tariffs as part of their Kennedy Round concessions.

II. The ASP Package

The following concessions are contingent on United States elimination of the ASP valuation system:

1. *The United States* would eliminate ASP and replace rates currently based on ASP with rates that have been proposed by the Tariff Commission to be applied on the valuation as normally calculated for other United States imports and yielding the same revenue as the previous rates. These "converted" rates would be reduced, by stages, generally by 50 percent or to an ad valorem equivalent of 20 percent, whichever is lower. The principal exceptions to this formula are dyes and sulfa drugs, duties on which would be reduced to 30 percent and 25 percent, respectively. In addition, the United States would reduce the 8 percent and below rates subject to the 20 percent cut in the Kennedy Round package by a further 30 percent and further reduce by more than 50 percent a few other items to the 20 percent level. These reductions would provide a combined weighted average cut on United States chemical tariffs in the Kennedy Round and ASP packages of about 48 percent on \$325 million of imports.

2. *The European Economic Community* would reduce its chemical tariffs by an additional amount so as to achieve a combined Kennedy Round-ASP package reduction of 46 percent on \$460 million of chemical imports from the United States. Virtually all EEC chemical tariffs would be at rates of 12½ percent or below. Belgium, France, and Italy would also modify road-use taxes so as to eliminate discrimination against American-made automobiles.

3. *The United Kingdom* would reduce most of its chemical tariffs according to the following formula: Items at present dutiable at 25 percent and above would be reduced to a level of 12½ percent, for a 62 percent combined Kennedy Round and ASP package reduction. Tariff items with duties of less than 33 percent would generally be reduced by the amount necessary to achieve a combined reduction of 50 percent in the two packages. U.K. plastics tariffs which would be above the reduced EEC rate on the same item would be cut to that level and bound. The combined weighted average reduction in the level of British chemical tariffs on United States trade would be approximately 47 percent on \$170 million of imports from the U.S. After these reductions virtually all British chemical tariffs would be at rates of 12½ percent or below. The United Kingdom would also reduce by 25 percent its margin of preference on imports of tobacco.

4. *Switzerland* would eliminate limitations on imports of canned fruit preserved with corn syrup.

Textile Sector.—Most importing countries reduced tariffs on cotton, man-made, and wool textiles less than their average reduction in other industrial products as a whole. The United States agreed to tariff reductions which, on a weighted trade basis, average approximately 14 percent for the three fibers. Cotton textiles were reduced 21 percent; man-made textiles, 15 percent; and wool textiles, 2 percent.

Negotiations on cotton textiles involved three elements: the extension of the Long-Term Cotton Textiles Arrangement (LTA); more liberal access to import markets protected by the LTA; and tariff reductions. The principal concessions by exporting countries of interest to importing countries was the extension of the LTA in its present form until September 30, 1970. In return, importing countries agreed to enlarged quotas under LTA provisions and to tariff reductions.

Within the context of the LTA, the United States negotiated bilateral agreements with its main supplying countries. These agreements typically provided for a 5 percent annual increase in LTA quotas, a one-time bonus for LTA extension, and certain other administrative improvements.

The United States agreed to cotton textile tariff reductions that amounted to a weighted average reduction of 21 percent. Reductions on apparel items averaged 17 percent; fabrics tariffs were reduced 24 percent; and yarn, 28 percent.

The EEC reduced cotton textile tariffs by about 20 percent. It also reached bilateral understandings with major suppliers providing for improved access to the EEC market. Noting that it already accorded liberal access for imports from Hong Kong, India, and other Commonwealth sources, the United Kingdom made token cotton textile tariff reductions toward other suppliers.

The United States agreed to a weighted average tariff reduction of 15 percent on imports of man-made fiber textiles, including fibers. Man-made fiber apparel duties were reduced by an average of approximately 6 percent, fabrics by 18 percent, yarn by 37 percent. Other countries made significant reductions on these textiles.

The United States agreed to tariff reductions on very few wool textiles. The weighted average duty reduction on wool fabric was about 1 percent; on wool apparel about 2 percent. On total wool textile imports the average duty reduction was 2 percent. Other countries made considerably greater reductions on wool textiles.

Paper, Pulp, and Lumber.—Multilateral sector negotiations were planned for paper and pulp, largely in an effort to get the EEC to make meaningful tariff reductions of interest to the Nordic countries and Canada as well as the U.S. Although some multilateral discussions were held, negotiations were essentially bilateral. A long series of discussions resulted in EEC cuts of 50 percent on pulp and about 25 percent on paper. Canada and the EFTA countries also made significant concessions on paper products exported by the U.S. In return, the United States made comparable concessions.

NONTARIFF BARRIERS

Antidumping Code.—A major accomplishment in the field of nontariff barriers was the negotiation of an antidumping code. In addition to the United States, the major participants in this negotiation were the United Kingdom, the European Economic Community, Japan, Canada, and the Scandinavian countries.

Negotiation of the antidumping code centered on the consideration of international standards. Although United States legislation is consistent with the GATT, foreign complaints were directed against United States procedures. These concerned, particularly, the frequent withholding of appraisement during antidumping investigations and the length of time taken in investigations. (Withholding of appraisement postpones the final determination of customs duties until an antidumping investigation is completed. However, imports may be released under bond from Customs' custody after appraisement is withheld.)

The antidumping code supplements the provisions of Article VI of the GATT with rules and procedures to be followed in antidumping actions. United States legislation and administrative regulations contain detailed provisions relating to the determination of sales at less than fair value and injury, but most countries' procedures lack such specificity.

The principal advantages of the antidumping code to the United States will be the adoption by other countries of fair and open procedures along the lines of present United States practices. The code will provide both an opportunity and a basis for United States exporters to defend their interests in foreign antidumping actions. In particular, the new common antidumping regulations that are being developed by the European Economic Community will conform with the code.

Of special benefit to the United States will be the adoption by Canada of an injury requirement in its antidumping legislation. The lack of such a requirement has impeded United States exports for many years.

Because the antidumping code is consistent with existing United States law, no legislative changes are required. However, the Treasury Department will revise its regulations to conform with the code. The principal change in present procedures will concern limiting the time period during which appraisement is withheld to a maximum of 90 days in most cases. Both foreign exporters and domestic importers and producers favor a reduction of the time taken in antidumping cases. Also, investigations will not be initiated unless there is evidence of injury.

Other Nontariff Barriers.—In addition to the negotiation of an antidumping code, described above, the principal nontariff accomplishment is the agreement to take action on the nontariff barriers included in the conditional chemical package, that is, the elimination for certain chemicals of the American Selling Price system of valuation by the United States, the elimination of the discriminatory

aspects of automobile road-use taxes in France, Italy, and Belgium, and the modification by Switzerland of regulations on canned fruit, as well as a reduction by the United Kingdom in the margin of preference on unmanufactured tobacco.

There were also a few other nontariff achievements as a result of bilateral discussions. In the negotiations Austria agreed to eliminate the discriminatory effect of automobile road-use taxes on larger engined U.S. automobiles. Canada eliminated a restriction prohibiting imports of fresh fruits and vegetables in three-quarter bushel baskets. Canada also ceased applying the Canadian sales tax to the full value of aircraft engines repaired in the United States. The 11 percent sales tax is now applied only to the value of the repairs. In addition, Canada modified restrictive standards applying to aircraft engines repaired abroad.

Although not a subject for negotiation, quantitative restrictions were eliminated or modified by several countries. Of particular importance to the United States are the elimination of restrictions in the United Kingdom on fresh grapefruit and in Denmark and Finland on many agricultural products. Japan agreed to liberalize quota restrictions on some products.

Several developing countries specified action on various nontariff measures as part of their contributions to the negotiations. These included the introduction of certain tariff reforms, the liberalization of licensing systems and foreign exchange controls, and the elimination or reduction of prior deposit requirements and tariff surcharges.

AGRICULTURE

The United States originally set as a goal in the agricultural negotiations the same broad trade coverage and depth of tariff cut as achieved for industrial products. This did not prove negotiable, however. The European Economic Community, when the negotiations got under way, was still in the process of developing its Common Agricultural Policy. It was reluctant to make substantial cuts in the level of protection at the same time it was formulating a Common Agricultural Policy among the six members. The results of the agricultural negotiations with the Community are therefore considerably more modest than the results achieved in industry. Nevertheless, progress was made in the negotiations in reducing barriers to agricultural trade.

The United States was able to obtain significant agricultural concessions from Japan, Canada, and the U.K., the Nordic countries, and Switzerland. The EEC made tariff cuts on agricultural items of trade value to the United States of over \$200 million.

No progress was made in negotiating down the trade restrictive effects of the variable levy system of the EEC. Offers made by the Community on the basis of this system were not accepted.

The agricultural negotiations were divided into so-called commodity groups and non-group or tariff items. The commodity groups included meats, dairy products, and grains. Of the commodity groups only grains yielded positive results.

Grains.—A new grains arrangement was negotiated that establishes a minimum price for U.S. #2 hard red winter ordinary wheat f.o.b. Gulf ports at \$1.73 per bushel. This represents an increase of about 21.5 cents per bushel over the equivalent minimum price for U.S. hard red winter ordinary under the present International Wheat Agreement. There will be a comparable increase in the minimum price of other grades and qualities of wheat under the new arrangements.

Market prices are currently above the minimum prices of the new arrangement but the new minimum prices should establish an effective floor under U.S. wheat exports for the three years of the arrangement. Adequate provision is made for adjusting differentials for various grades and qualities of wheat as required if trading prices should fall to the minimum. There is nothing in the arrangement that will prevent U.S. wheat from being priced competitively, as required.

Participating countries have agreed to contribute 4½ million tons of cereals to a multilateral food aid program. The U.S. share of this program will be 42 percent of the total, or slightly less than 2 million tons. Importing countries as a whole will contribute about 2 million tons of the total. The grains arrangement thus represents further progress toward one of the United States' key objectives of foreign aid, the multilateral sharing of the food burden.

Meat and Dairy Products.—During most of the Kennedy Round, the countries principally involved in world trade in fresh, chilled, and frozen beef and veal, and in butter, cheese and dry milk, sought to negotiate general international arrangements for these products. The purpose of these negotiations was to provide for acceptable conditions of access to world markets in furtherance of a significant development and expansion of world trade in agricultural products, consistent with the principle agreed by the GATT Ministers at the outset of the negotiations. Although these negotiations continued until late in the Kennedy Round, it was not possible to work out an acceptable multilateral arrangement. Countries then shifted to bilateral negotiations, through which they were able in some cases to negotiate improved access to important markets.

The U.S. made no offers on fresh, chilled, or frozen beef or veal. The duty on canned ham was bound but no reduction made. No offers were made on any products subject to section 22 quotas, including butter, dry milk and certain types of cheese. On certain non-quota cheese, cuts averaging 13 percent were made.

Agricultural Tariff Items.—The United States achieved a wide range of concessions from its principal negotiating partners which should improve the export opportunities for such products as soybeans, tallow, tobacco, poultry, and horticultural products, including citrus and canned fruit.

In particular, the United States and Canada negotiated a balance of agricultural concessions covering a substantial range of products.

THE DEVELOPING COUNTRIES

The United States negotiated with the developing countries on the basis of the plan adopted by the Trade Negotiations Committee. One of the objectives of the negotiations, that of reducing barriers to exports of developing countries to the maximum extent possible, was taken into account in the plan. The plan also took into account the Ministerial Decisions to the effect that developed countries could not expect to receive full reciprocity from the developing countries in trade negotiations and that the contributions of developing countries should be considered in the light of the development, trade and financial needs of those countries.

Accordingly, the United States made concessions of benefit to developing countries, including non-participants, which cover over \$900 million of their exports. Included in these concessions will be the complete elimination of the duty on more than \$325 million of imports from these countries. Moreover, the elimination of duties on \$45 million of these products do not need to be staged over a four-year period and thus meet one of the more important desiderata of the developing countries. Since many of the concessions on tropical products were negotiated in the context of joint action by industrialized countries, the total benefits which developing countries will receive were further increased.

Ten developing countries made concessions benefiting the United States, and these concessions will be appended to the Protocols as the schedules of these countries in the General Agreement.

Mr. ROTH. And then I would like, Mr. Chairman, to say just a few words on the Kennedy Round.

I think it is true that so far there has been a good reaction from industry and from labor on the Kennedy Round to the extent that they know what was achieved. It has now been fully made public what the cuts in our tariffs have been. And there has been made public in a more general way what we have received from other countries. Until, however, we have made the complete analysis the whole picture will not be seen.

But out of this I think two things have become clear and have been recognized. One, that we have a reciprocal deal and that we did not give more than we received; and, two, that we took particular care to be sure that those industries that were particularly sensitive to import competition were protected.

In our initial presentation to American businessmen last Friday before the chamber of commerce, I think the discussion indicated that there was an acceptance in large part of these facts.

Briefly, what we achieved out of the Kennedy Round was, first, as I said, a reciprocal deal, including something of benefit to agriculture. For the first time in a major trade negotiation something of benefit to agriculture was achieved.

And then, Senator Miller, I would like to have the opportunity during questioning time to comment in some detail on the problems you raise.

We also achieved a very full agreement with Canada in which tariffs were sharply cut on both sides of the border. In many areas where our tariffs were under 5 percent we in effect went into free trade. In an area of particular export interest to the United States, production machinery, the Canadians made sharp cuts, from 22½ to 15 percent in the tariffs.

We negotiated a wheat agreement—which again, Senator Miller, goes back to your question—which I think will prove to be of substantial benefit to American wheat producers. Representatives of those producers were with us in Geneva at the time of the final negotiation and worked closely with us.

Finally, a first major breakthrough in the area of nontariff barriers—we negotiated an international code on dumping. And, Mr. Chairman, I would like to read two paragraphs from what I said to the chamber of commerce the other day on this subject, because it is a critical one:

A major accomplishment was the negotiation of the antidumping code, committing other countries to fair and open procedures along the lines of the present United States procedures. The new common antidumping regulations that are being developed by the European Community will conform with the code. Of special interest to the United States will be the adoption by Canada of an injury requirement in its antidumping legislation. The lack of such a requirement has impeded American exports for many years.

For our part, we have agreed to certain useful refinements of the concepts we presently use in our antidumping investigations, once preliminary measures are taken against allegedly dumped imports. I would emphasize, contrary to what you may have read in the newspapers lately, that all our obligations in this agreement are consistent with existing law, and in particular that we have not agreed to the simultaneous consideration of price discrimination and injury.

And finally, before leaving the Kennedy Round, let me say that I think many of us who worked in this have felt that one of the great advantages of a successful Kennedy Round was that we averted something quite terrible—that is, a failure. If there had been a failure, I feel—and I think all of us who worked in this felt—that it would have set back the growth of a liberal world trade policy many years. And therefore we are grateful that it was, in the final analysis, possible to put such an agreement together.

Having said this, I would then focus my remarks on the immediate future, to include, first, the issues that we face as a result of the Kennedy Round and, second, the question of what we envision as the means of meeting the President's request for a major administration review of trade policy.

If this approach is agreeable to you, Mr. Chairman, I will proceed to the discussion of our immediate post-Kennedy Round problems.

Chairman Boggs. Go right ahead.

Mr. ROTH. These problems are essentially three:

1. The negotiating authority of the Trade Expansion Act of 1962 has expired, leaving the United States without an important means of conducting its normal international trade relations.

2. The criteria for making available the adjustment assistance provided for the Trade Expansion Act appear to be so stated as to make such assistance more difficult to obtain than we had originally expected.

3. In order to bring into effect a valuable package of concessions worked out during the Kennedy Round, Congress is to be asked to agree to the abandonment of the American selling price system of customs evaluation.

NEED FOR NEGOTIATING AUTHORITY

In regard to negotiating authority, we do not contemplate any further major initiative in trade liberalization in the immediate future. With the Kennedy Round just over, we believe that the present need is for review and reflection in preparation for any renewed effort to stimulate and expand international commerce. A major review of trade policy will be undertaken for the President.

Nevertheless, some minimal negotiating authority is needed during this period.

May I take an example. Under section 351 of the Trade Expansion Act—the so-called escape-clause provision—the President has authority to increase a duty or to impose a quota if he determines that such action is necessary to prevent or to remedy serious injury to a domestic industry that is caused by increased imports that in turn have resulted from tariff concession.

Under the established international rule, we would be obliged to see that some further adjustment was made to compensate the supplying countries for their loss through this emergency action of the tariff concession. The preferred method would be to lower one or more tariffs on other goods imported into the United States. If we were not able to make such compensatory tariff concessions, we would have to face the retaliatory withdrawal by the supplying countries of tariff concessions which they have granted on goods which we export to them.

In order to be in a position to make compensatory tariff concessions in connection with the escape-clause actions which we may have to take, we should have authority under the TEA to negotiate compensatory tariff settlements.

Let me take one more example. There may be times in the future when we may wish to revise upward one or more tariff concessions. This has been necessary in the past when legislation has been enacted to change tariff classifications, with the effect of increasing duties. Although these cases may be rare, they do pose the problem of negotiating a settlement with the other countries. Just as in the example I cited above, there are two basic alternative adjustments that may be made: to lower one or more of our duties on other products in compensation to the other countries, or to face retaliatory tariff increases against our exports. Our preference is obviously to negotiate for compensatory tariff reductions. This again makes desirable the existence of some negotiating authority.

The GATT rules have brought a large measure of order into international trading relations. The cost of the obligations they place upon the United States are far outweighed by the benefits we derive, as the world's biggest trader.

It is in order to maintain our GATT obligations, and to be able to act with initiative and flexibility within the GATT framework, that we need some negotiating authority. It need not be very substantial. It has been suggested, although no final decision has yet been taken, that the Trade Expansion Act negotiating authority simply be extended for 3 years, giving us the use of that part of it that was not exhausted in the Kennedy Round.

ADJUSTMENT ASSISTANCE MODIFICATION

Turning to the adjustment assistance question, we find ourselves dealing with the probability that the Congress, in writing the provisions of the Trade Expansion Act, intended far more readily available recourse to adjustment assistance than has proved possible.

These provisions were designed to authorize quick and substantial assistance to any worker or firm injured as a result of increased imports caused by tariff concessions. The underlying concept was that rather than restrict imports it was far preferable to help firms and workers meet problems created by import competition through improved productivity.

Unfortunately, however, the adjustment assistance provisions have not had the expected beneficial effect because in practice the present test of eligibility to apply for the assistance has proved too strict. In fact, in no case brought under the act have any firms or workers been able to prove eligibility.

The present test of eligibility requires (1) that tariff concessions be shown to be the major cause of increased imports, and (2) that such increased imports be shown to be the major cause of injury to the petitioner.

In the complex environment of our modern economy, a great variety of factors affect the productive capacity and competitiveness of American producers, making it virtually impossible to single out increased imports as the major cause of injury. In fact, it has usually been impossible to prove that tariff concessions were the major cause of increased imports.

Under these circumstances, it is apparent that action must be taken to make the intended assistance a reality. We now have under consideration several formulations that might meet the requirements of the situation. No final decisions have yet been taken, but it is the intention of the administration to propose congressional action to modify the present provisions of the act.

The new test of eligibility would insure that adjustment assistance would be available only in those cases of injury which are the result of tariff concessions. The specific kinds and levels of benefits would remain unchanged.

Also unchanged—and this is important, I believe—would be the provisions for relief for entire industries—as distinguished from individual workers and firms—which suffer serious injury through tariff concessions. The so-called escape clause makes possible the imposition

of quotas and increased tariffs. However, this is a drastic form of relief and one which costs other industries either tariff protection at home or export opportunities abroad, as I have suggested in my earlier discussion of GATT provisions for compensation and retaliation in the event of increased tariffs. We believe that the standards for escape-clause relief should be retained in their present form.

After this rather summary discussion of the first two of the three post-Kennedy Round problems, I would like to go into more detail on the question of the American selling price system (ASP) which, as Senator Javits has indicated, is one of the most controversial we face, and, as I have said, will be a matter for congressional consideration.

THE ASP ISSUE

ASP, as it applies to chemicals, is often referred to by critics abroad as the symbol of nontariff barriers. I should like to confine my comments to only three aspects of ASP—why it appears to us to be an undesirable impediment to trade, what the effects of its removal will probably be, and, finally, how we appraise the balance of what we gave and received in this area in the recent trade negotiations.

In 1922 the Congress determined that our then infant chemical industry, specifically that part of it which manufactures products derived from coal tars, required extraordinary protection. The Congress was apparently reluctant to raise the statutory duties to the levels it deemed necessary to provide adequate protection under the circumstances then existing. Instead, the Congress provided that any imported coal tar product, now referred to as benzenoid, which is competitive with a similar domestic product should be valued on the basis of the latter's American wholesale price. This statute has remained in effect for 45 years, although the American chemical industry has grown rapidly since then and is today one of the largest and strongest not only in this country but in the world, and even though coal tars are now less frequently involved, the major raw materials now being byproducts of our petroleum industry, itself the largest and probably most efficient in the world.

This system has long been criticized by other countries, and for various reasons. Some of them can be summarized as follows:

1. It provides extraordinary protection, both in comparison to the duties which now apply to other U.S. industries and in comparison with duties in effect abroad. The statutory rates for benzenoids alone are already higher than those applying to most other products entering the United States and higher than those typical of other nations' tariff schedules. When further applied to American wholesale prices, these rates produce effective rates often many times higher than the apparent duty. Some are actually above 100 percent and the peak, as recently determined by a Tariff Commission study, is 172 percent.

2. The system is inconsistent with the customs practices of all our trading partners for nonagricultural goods. Moreover, it would be in violation of the standards of customs valuation laid down by the General Agreement on Tariffs and Trade. But for the fact that its use in this country antedates our adherence to the GATT and was made permissible under a "grandfather" clause.

3. Under the ASP system a domestic manufacturer has unique and unfair advantages. Within the limits of the effectiveness of competitive forces in the U.S. market, a manufacturer can adjust the level of his tariff protection against his foreign competitor by the wholesale price he sets for his product. Moreover, if he is not actually making a product "like or similar" to one currently imported, he can decide to produce or merely to "offer to sell" a "like or similar" product and thereby he triggers an increase, usually substantial, in the tariff wall that imports must surmount.

4. The foreign exporter of a product potentially subject to ASP, consequently, cannot know at the time he signs a contract and ships the product whether it will be subject to ASP nor what the ASP will be until it has passed through our customs. This uncertainty as to the amount of duty is a burden on trade with no counterpart in the vast bulk of other international commerce in industrial goods.

The normal method of valuation, I might add, which applies to virtually all other U.S. imports as well as to imports into all other countries is export value, that is, the wholesale price of the product as offered in arm's-length transactions in the country of origin. For the reasons I have cited and the fact that this particular system deviates so sharply from the common practice, other countries consider it an unjustified anomaly in our trade policy. From the very beginning of the negotiations they made it a major issue, even though we made it crystal clear that we had no authority to change it under the authority of the Trade Expansion Act.

Because of the validity of those complaints and because our national stake in world trade in chemicals is so large—we export some \$2.7 billion in chemicals and our net export surplus is no less than \$1.8 billion—so that we have much to gain from liberalization of barriers throughout the world in this industry—we undertook a series of intensive studies of this issue over a 2-year period. And now I come to my second point, what the effects of the removal of ASP and its conversion to the normal basis of valuation would be.

EFFECTS ON CHEMICAL INDUSTRY

I recognize that there are those who would have the Congress and the public believe that the economic effects on this industry would, and I quote, be "disastrous." So serious a charge properly merits a painstaking examination. I am sure when the Congress examines the legislation which the President will be submitting that a vital and objective review of all the facts will be made. We shall at the appropriate time provide all of the reasons we have found that lead us to conclude that no disaster lies ahead. I can understand the self-interest of those who have benefited for 45 years from an extraordinary system of tariff adjustment and from the very high level of protection it creates in perpetuating that system. Nevertheless, the national interest and the posture of our trade policy throughout the world requires a full evaluation of all pertinent considerations.

Very briefly, what our studies found was a remarkable record of growth and a well below average problem with imports. And, I might add that the studies were based on evidence submitted by the industry in four separate public hearings, two of which dealt entirely with

the ASP issue, as well as on extensive consultations with firms in the industry.

Let me cite but a few figures, both for all of the chemical industry and for that portion protected specially by ASP. It is not always meaningful, I should note, to attempt to concentrate only on the benzenoid portion of the chemical industry. Useful data are not always available for benzenoid activities only. Perhaps more important, we found that some of the major chemical companies—large, integrated, and diversified firms—also dominate the benzenoid sector, though their benzenoid production and sales are often but a small fraction of their total corporate activity. In such cases it is not reasonable to examine only the small fraction and overlook either the largest area of their activity or the close interrelationships between the parts.

We found that in 1964, the base year for data for our negotiations, the chemical industry sold products worth \$36 billion of which \$3 billion were protected by ASP. ASP imports, in turn, were \$50 million, of which only about half were deemed by the Customs Bureau to compete with American-made chemicals. This works out to an import "penetration" less than 1 percent of our domestic market for competitive products, far below the national average for all manufacturers.

We found further that not only has the chemical industry generally been one of our fastest growing industries, as is well known, but also that its benzenoid segment has a growth record—overall from 7 percent to 8 percent per year—that is impressive indeed. I probably need not detail our export record in chemicals. The average increase has been no less than 10 percent per year. We have not only the significant export surplus I noted earlier, but a surplus with each of our major trading partners—with Japan, with Canada, the EEC, and the United Kingdom.

Our chemical exports, further, have grown even faster than average into those foreign markets where the local firms have an advantage over our producers by virtue of customs unions or free trading areas, such as the EEC and the EFTA nations. Our share of the EEC import market, for example, is equal to that of Germany, our strongest competitor and one with favored tariff treatment in selling into the other EEC member states.

The picture for benzenoids alone, though the figures are less complete, is much the same. Our exports in 1964 probably exceeded \$300 million. We exported at least six times as much as we imported or better than a tenth of production. We exported more than we imported, substantially more in most cases, in each of the major benzenoid product groups—in intermediates, in dyes, in pigments, to name the presumably more sensitive ones, and clearly more in those groups where our competitive strength is seldom called into question—in plastics, in pesticides, plasticizers, and surface active agents.

We also found great concentration of production and sales in the hands of a few large firms. While small firms, often specializing in a few products or special services, are found in many benzenoid product lines, we also found, for example, that five integrated and diversified companies account for two-thirds of total U.S. production of ben-

zenoid intermediates. Imports of all intermediates, by the way, were less than 2 percent of sales in 1964, and exports were well in excess of \$100 million.

Much has been and undoubtedly will also be heard about our dye industry, which is also protected by ASP. We found that four firms make more than half of all sales in our domestic market and 10 have three-quarters of the total, that sales have experienced an average growth of 8 percent per year, and that imports of competitive dyes were again less than 2 percent in 1964.

Another area of which much has been said is the pigment sector of this industry. Here we found that a single large firm has 25 percent of all sales; another four bring the share up to 60 percent of the market. Again, the growth rate has been well above the national average. Imports were almost all deemed not competitive with U.S. pigments and barely accounted for 1 percent of total consumption.

These are but a few of our specific findings. In reaching our conclusions both on conversion of the ASP system and on the rate reductions that we negotiated in the Kennedy Round or those we shall be submitting to the Congress, we applied the same standards as we observed in determining the reductions we could offer on all other products of American agriculture and industry. We examined carefully all available evidence on the individual companies and their workers, the prospects for future growth, the ability to adjust to increased competition, and the potential for benefiting from new opportunities to expand exports. We reached a judgment on whether tariff reduction would cause serious injury and whether the industry has the competitive strength to adjust to such concessions, taking into account the adjustment provisions of the Trade Expansion Act. In the end we found that most parts of the benzenoid industry would not be seriously injured by elimination of ASP and reduction by 50 percent in the equivalent duties computed on the normal basis of valuation. For others, we found that elimination of ASP would have no adverse effect, but that reduction of duties by 50 percent would. In such cases, we have proposed lesser tariff reductions.

I cannot leave this subject without taking note of the criticism which has been made of the manner in which we achieved a satisfactory negotiation of the ASP issue. We insisted, you may recall, that any negotiation would have to be separate and distinct from the chemical negotiations in the Kennedy Round, so that the Congress would have a full and free opportunity to judge the issue on its merits and to determine, as well, whether reciprocity would be obtained in return for abolishing the system. We also insisted that a satisfactory balance of concessions in chemicals be achieved within the Kennedy Round in keeping with the purposes of the Trade Expansion Act, as well as to prevent "overloading" the separate ASP package and thereby impair the free deliberation of its merits by the Congress.

These results were not easily achieved. Until virtually the last week our negotiating partners refused to spin off, so to speak, what they considered to be a major negotiating objective or to pay additional coin in return for its elimination. In the end, however, we were able to achieve a separate ASP package, as well as a balanced deal within the chemical sector in the Kennedy Round.

BALANCE OF BENEFITS

This brings me to my third point. A proper appraisal of the benefits gained and given in a trade negotiation necessarily involves a composite judgment based on the nature and volume of the trade subject to concessions, an evaluation of the potentials thereby created for future trade expansion, and on the depth of the concessions made. Combining all these factors, the United States negotiated a balanced exchange with each major participant within the Kennedy Round while retaining ASP and, should the Congress approve legislation eliminating ASP, we shall obtain further valuable concessions both to the chemical and other industries. Together, the two packages commit the major nations to make the same average overall percentage reductions in chemical tariffs and to eliminate significant nontariff barriers against the trade of their partners.

In each of the two packages, the concessions received by the United States cover a substantially larger volume of our exports than the volume of imports on which concessions were granted. Taking into account both trade covered by concessions and the depth of the concessions, the United States thus stands to benefit on balance in each package. This positive balance also holds in our bilateral trade with each major participant. Our chemical industry, in short, stands to derive substantial benefits.

We should derive substantial benefits not only on balance but, critically, in the areas where it most counts. Foreign tariffs on our most rapidly growing export products will be drastically reduced, while the exceptions to a 50-percent concessions by others should not adversely affect our future trade to any significant degree.

If ASP is eliminated, our negotiations will result in tariffs abroad being uniformly reduced to extremely low levels, thereby providing very considerable opportunities for our chemical industry. With very few exceptions, there will be no rate in the United Kingdom or in the EEC above 12.5 percent. Tariffs on plastics, for example, will almost all be 10 percent or less in the rapidly growing EEC and United Kingdom markets if ASP is eliminated. In 1964 we exported nearly \$150 million of plastics to these two markets alone. Another of our burgeoning overseas markets is in organic chemicals, other than plastics. The United Kingdom here will bring its many 33 $\frac{1}{3}$ -percent rates down to 12.5 percent. Some \$50 million of U.S. exports of organics go to the United Kingdom alone. The EEC, in turn, will be cutting by nearly 50 percent on an even larger volume of our exports.

Most Japanese duties will be below 15 percent, as will Canadian rates. By comparison, U.S. tariffs in certain key benzenoid sectors will still be 20 percent, while sulfa drugs will be 25 percent and dyes and pigments will be dutiable at 30 percent, substantially above comparable rates in other countries.

We are confident that rates such as these will provide a sufficient level of tariff protection for the U.S. benzenoid industry, a strong and efficient industry with a demonstrated record of international competitive ability. On the other hand, the concessions we have gained should permit it, in turn, and the rest of the chemical industry as well to continue to expand significantly their already substantial export surpluses.

LOOKING FORWARD

Now I would like to turn briefly to the far more distant future.

There are many ways the United States could move on from the Kennedy Round. We could simply seek another general round of tariff reductions. We could pursue specialized negotiations on certain products, or with certain countries. We could concentrate on some, or on all, nontariff barriers. There is a very wide range of alternatives.

The President has asked, as I said, for a major study of U.S. trade policy to determine which courses of action would be desirable in the coming years. This study will give us all a chance to catch our breath and to give close scrutiny to the likely effects of the Kennedy Round, while evaluating what remains to be done. It is my hope that Members of Congress will take an active interest in this study.

The range of issues which will require careful thought, and on which we shall be seeking your advice, is wide.

Many of these issues relate to the special trade problems of the developing countries. These countries are acutely conscious of the need for expanding their exports, and have been pressing in recent years for a new, general kind of discriminatory treatment. As you know, what they want is preferential access for all developing countries into all major industrialized countries. Such a step would, the developing countries claim, give them reasonable opportunity to export, while putting all of the developing countries on an equal basis. These countries have pressed their desire for preferences very hard, and many developed countries now appear to be willing to provide such preferred access. The President indicated at Punta del Este that he was willing to consider whether a common effort among the developed countries was desirable and feasible. Exploratory discussions along these lines are now underway in the OECD.

Meanwhile, proliferation of special trading arrangements between developed and developing countries continues. These arrangements tend to harm many countries while favoring only a few, and thus threaten to offset many of the good effects of most-favored-nation tariff reductions such as those most recently achieved. Proliferation of discrimination, if carried further, could hurt, most of all, the developing countries themselves, with a chosen few receiving modest benefits from certain highly industrialized countries, and many others being left as orphans. Somehow, we feel, a way must very soon be found to halt this trend.

Looking at trade more generally, tariffs will in the future be much lower, and in a number of cases remain only at nuisance levels. And as I said, in the case of Canada, we have actually gone to free trade in many areas. And this raises a fundamental question of approach. Should future trade negotiations adopt the same across-the-board basis as the Kennedy Round, or should they be focused upon particular commodities, as Eric Wyndham-White, the Director General of GATT, has suggested.

In the agricultural field, tariffs are becoming even less important relatively to other impediments or artificial stimulations to trade. We must try to see if the United States can obtain significant liberalization of agricultural trade for our exporters, because we are quite aware that in the Kennedy Round we made a start, but only a start. But at

the same time we shall have to ascertain what present U.S. protection we might have to give up to buy such liberalization. In trade, as you know, nothing is free. A major effort may be needed to limit the use of export subsidies, especially in countries where high price supports are in operation.

One of the most difficult, complex, and far-reaching areas with which our future trade policy must deal is that of nontariff trade barriers. The obstacles to the unimpeded, nondiscriminatory flow of goods other than tariffs take many forms. Moreover, they have very deep roots in the fiscal, social, and economic policies of each nation and by that token can be only slowly and painfully removed through international negotiations. Their impact on trade and their distorting effects on international competition are often not readily apparent, which makes them all the more arduous to negotiate and eradicate.

A difficult question, therefore, that we will face is what of our own NTB's we shall be prepared to give up in exchange for the dropping of other nations' barriers.

As part of our study, we will attempt to compile a complete index and analysis of all nontariff barriers, both foreign and domestic. In this effort, we will be seeking the cooperation of business and of agriculture. We are pleased to find that the national chamber of commerce has recognized the inadequacy of data in this field and is working on its own compilation.

It may well prove useful to us in this project, as well as in other aspects of our study, to hold public hearings.

There is need again for careful thought about what can and should be done toward improving American export performance. In particular, we must see whether American exporters are disadvantaged in any way in comparison with foreign exporters working under the benefit of their government's export programs or tax systems. We need to consider whether new U.S. export incentives are feasible and consistent with orderly development of world trade. At the same time we should consider what actions may be necessary to control the unjustified use of export incentives by other countries.

Export incentives are only one aspect of export performance. A good deal more thought is needed concerning the relationship between exports and foreign investment by American firms. We shall also need to know more about the extent to which tariffs will act as an incentive to invest abroad to get behind tariff walls despite the Kennedy Round reductions. The trade flows within major international firms, many of which have lost their national identities, is another area about which we need to know much more. The worldwide flow of technology, investment, and trade within some industries may very well provide appropriate conditions for free trade in the products of those industries.

The many interrelationships between trade and investment in economic growth and development today have another crucial bearing upon our trade policies. As the importance of the truly international corporation grows and the two-way flow of trade, capital, and technology accelerates, what is done in one field or in one geographic area inevitably affects our policies and our performances in others. If, for example, we would have other countries welcome our subsidiaries and our steadily growing direct investments, and if our investors abroad

are to expect continued equal and reasonable treatment, then we must see to it that the legitimate economic interests of other countries are also taken into account in the determination of our own policies here at home. An industry with as large and promising a stake in foreign markets as the chemical industry, for instance, should be aware of the intensity of the grievances abroad over the tariff barriers we have erected against the chemical products of other countries.

DOMESTIC ADJUSTMENTS

We must give further thought to means by which our domestic economic adjustments to increased trade are facilitated. It is clear that improved adjustment assistance provisions are needed to ease the plight of those adversely affected by increased imports resulting from concessions which are of more general benefit. There has been a tendency in the past to turn to protectionism when economic dislocations threatened to occur. Ad hoc measures to protect certain products may continue to be needed from time to time if emergencies come about. On the whole, however, if international trade is to be further expanded, the beneficiaries of this trade, including the United States, must strenuously resist adoption of special protectionist devices. At home we shall have to give much thought to finding the desirable balance-of-trade promoting, and protective devices designed to ease the process of economic dislocation. And finally, we should have another look at existing restrictive programs to see whether they can be adapted to the 1970's, or whether they should be gradually phased out.

In these remarks, Mr. Chairman, I have touched upon some of the problems which need to be studied in coming months. There are many more which need to be studied because, as you know, trade policy is extremely complex. In order to grasp this wide range of issues we are planning to establish a number of task forces within the executive branch, which will include consultants from universities and from industry. We intend to maintain close ties with various industry, labor, and agricultural groups around the country. Most important, we welcome your active interest in all aspects of the trade policy investigation.

Our intention is to consult Members of Congress as we proceed with the study for the President, as we did in the Kennedy Round. New steps, as Senator Javits suggested, inevitably require legislation, making it a matter of paramount importance that the views of the Congress be fully considered in the formative stages of recommendations. In this way, we can plan new steps toward increased world trade and prosperity, with the knowledge that our policies and our actions represent the best interests of the Nation as a whole.

The Kennedy Round was only a step in the march toward freer world trade. And the goal of world economic benefits must be pushed vigorously.

Thank you very much.

Chairman Boggs. Thank you very much, Mr. Roth.

For the purposes of the record I ask unanimous consent that the statement by Mr. Schnittker, Under Secretary of Agriculture be included in the record.

Without objection, it is so ordered.

(The statement follows:)

STATEMENT OF JOHN A. SCHNITTKER, UNDER SECRETARY OF AGRICULTURE

Mr. SCHNITTKER. Mr. Chairman, I am pleased to have the opportunity to report to you on agriculture in the Kennedy Round because I have a very definite personal interest in this trade negotiation and in agricultural trade policy issues, and in Kennedy Round problems. As you know, during the final weeks of negotiation I headed our agricultural contingent in Geneva. This has been interesting and rewarding work. It is work, I might add, which is vital to the improvement of farm income in the United States. Exports of farm products constitute a large and growing part of our sales. This year they will reach a new record of \$6.8 billion or more. We think a total of \$8 billion by 1970 is a probability, and we see \$10 billion by 1980 as a distinct possibility.

Many factors enter into export expansion, but the one vital factor is access to world markets. The Kennedy Round has given us better access to our foreign agricultural markets. Concessions won at Geneva will mean substantially larger sales for many of our farm product exports.

We gained considerably in fruits and vegetables, oilseeds, tobacco, variety meats, tallow, and a number of other products. The concessions granted by others covered over \$900 million in their imports from the United States in 1964. On products accounting for over \$700 million—where we have an important export interest—duties were cut. These cuts averaged over 40 percent.

The Kennedy Round has also given us a new grains arrangement which will provide additional price insurance to U.S. wheat producers. This arrangement contains, also, significant food aid provisions, completely unprecedented in any multilateral accord of which I am aware. Apart from their intrinsic humanitarian worth, and this in itself is adequate justification for them, these provisions should open new commercial outlets for wheat and to some extent, feed grains.

U.S. duties on some products also came down and imports can be expected to increase moderately. Duties covering around \$500 million were cut by an average 39 percent. The existing duty or duty-free status of an additional \$290 million was bound against upward change. Many of these concessions relate to tropical products which we do not produce. They were granted for the benefit of the developing nations. Bargaining is never completely without pain, however; some of our producers will be exposed to increased competition, and some to sharper competition than others. To my knowledge, though, no producer will be exposed to serious economic injury.

To be able to report this much success is a pleasure. But I would be less than frank if I did not hasten to say that I also have a sharp feeling of disappointment. In this negotiation we were unable to improve our position with respect to the EEC variable levy system. That system, which insulates home producers from the effects of outside competition regardless of the difference in efficiency, is perhaps the greatest unsolved problem in international agricultural trade today.

Now let's look at some of the specifics:

Grains

The bargain struck in grains has been discussed to a considerable extent in recent days so I will review only the highlights, the most important of which is that the grains arrangement is good for Ameri-

can agriculture in spite of the fact that we didn't get the guaranteed access we sought.

Pricing provisions will raise the world price floor from the current level by 23 cents a bushel. The "reference wheat" is No. 2 Hard Winter wheat, ordinary protein, gulf location. This increase gives U.S. wheat farmers additional price insurance. The current \$1.50 minimum under the existing International Wheat Agreement relates to about \$1.15 a bushel at the farm, whereas the new minimum of \$1.73 relates to \$1.38 at the farm. Obviously we have helped our farmers.

Food aid provisions of the agreement call for the industrialized countries to provide the less-developed countries 4.5 million metric tons a year. Helping the less-developed countries was one of the objectives of the Kennedy Round. I have mentioned that we reduced and eliminated duties on many of the products which they have to sell—this was a major contribution by the United States. The food aid provisions of the grains arrangement are another major contribution. Hopefully this program will form the nucleus of a larger and truly multilateral attack on hunger in the world. Moreover, because importing industrialized countries will furnish 1.9 million tons of the 4.5 million ton program as wheat or feed grains, our farmers should enjoy some expansion of their foreign commercial trade.

Let me point out in this connection that we set a new all-time record for commercial exports of wheat and wheat products in the marketing year that ended June 30, 1967. In that year we sold for dollars some 430 million bushels—94 million more than last year.

Our total wheat exports for the year are expected to be in the neighborhood of 735 to 740 million bushels—just about equal to our target. A decrease in Public Law 480 has been balanced by the increase in commercial sales.

All this is evidence to me that we are moving in the right direction. We prefer to sell for dollars whenever we can. The developing countries would prefer to buy their grain for dollars whenever they can. The sharp expansion of dollar sales shows that we can move—that we are moving—toward sounder trade patterns, greater self-help on the part of the developing nations, and increased sharing by other countries.

To my mind, the extent to which we expand food exports for dollars is one measure of our success in helping the developing countries meet their food problem. Conversely, an expanding need for Public Law 480 food, other than needs growing out of emergencies, should be cause for concern.

A negotiating conference to work out an International Grains Arrangement will be held in Rome on July 12. The new pact is expected to replace the existing International Wheat Agreement, substantive features of which will expire July 31, 1967.

Oilseed and related products

We did well on oilseeds. Japan cut the duty on soybeans by 54 percent, and on safflower seed by 50 percent. These are significant cuts. Japan's soybean trade had a value of \$154 million in 1964 and safflower seed \$22 million.

The United Kingdom completely eliminated its Commonwealth

preference on soybeans. Our exports in 1964 were worth over \$19 million.

Concessions we gave other countries in this category had an aggregate value of around \$41 million. We are not major importers of oilseeds or oilseed products.

Livestock and meat products

We got many useful concessions on the products we export in this sector. The EEC cut its duty on variety meats from 20 to 13 percent ad valorem, eliminated its low duty on inedible tallow and cut the duty on edible tallow. Our sales of variety meats to the EEC amounted to \$31 million in 1964, our sales of tallow to \$36 million. Japan reduced its duty on tallow from 4 to 2.5 percent. Our sales here amounted to \$35 million. Altogether these concessions amounted to a trade of \$140 million. The United Kingdom cut its duty on variety meats from 20 percent to 10 percent ad valorem. These are some of the major reductions.

On our side, we reduced the duty on fresh pork—and Canada did likewise. This is one of the items where we and the Canadians maintain the same duty. Trade in fresh chilled and frozen pork moves back and forth across our border. Our import duty on lamb was cut in half—from 3.5 cents per pound to 1.7 cents per pound and our duty on canned beef was also cut. Lamb imports over the past 5 years have been stable. They amount to only 2 percent of U.S. production.

We did not reduce U.S. duties on fresh chilled and frozen beef, veal, and mutton, on cooked beef, on feeder cattle, or on wools finer than 44's. These products accounted for about \$370 million in U.S. imports in 1964—by far the bulk of our dutiable imports in this livestock sector. No cuts were made in the duties on canned pork, although the current rate of duty—3 cents a pound—was bound at that level.

Fruits, vegetables, edible nuts, and wines

On fruits and vegetables, we negotiated the most meaningful bargains with the United Kingdom and the other EFTA countries. The United Kingdom made significant concessions on fresh vegetables, fresh fruits, canned fruit—notably peaches and fruit cocktail, raisins, almonds, and pecans. The Scandinavian countries made attractive tariff cuts on fresh, canned, and dried fruit.

Canada, our principal market for fresh vegetables, accounted for nearly three-fourths of the concessions we got in that category, as well as making significant cuts on numerous other products. On a number of products—such as fresh apples—we were able to negotiate the elimination of duties by both ourselves and Canada. This continues a long and mutually beneficial process of eliminating restrictions where the trade between ourselves is largely a two-way affair. The EEC made a few cuts on fresh grapefruit and canned grapefruit juice, cut duties slightly on canned fruit cocktail and grapefruit sections. We were sharply disappointed, however, in that we were unable to resolve either the sugar added duty problem or the fresh fruit reference price problem with the EEC. Both of these remain to be dealt with.

We gave concessions covering less than one-fourth of our competitive imports of fruits and vegetables. Among the U.S. cuts of most

interest to U.S. producers were those on canned tomato paste and sauce where the duty was cut by 20 percent and on canned whole tomatoes where the cut reached 30 percent. We reduced the duties slightly on champagne and vermouth, but not on the major still wines.

Tobacco

On tobacco our major negotiation was with the EEC. The EEC agreed to scale down from 28 to 23 percent the ad valorem duty on unmanufactured tobacco and to set the maximum charge at 15 cents a pound instead of 17.2. This will help. Even though U.S. tobacco will have to pay the maximum, it will pay less than it did formerly, which means we'll be on more even terms with our competitors. In return, we cut our duty on oriental cigarette leaf by 10 percent, for the benefit of Greece and Turkey—EEC affiliates. We did not cut duties on cigar tobaccos nor on cigarettes.

When the United Kingdom cuts its Commonwealth preference of 21.5 cents to 17.2 cents, as proposed, our leaf will be more competitive in the British market. The United Kingdom proposal is tied to our removal of the American selling price system of valuation.

Austria, Denmark, and Sweden granted duty-free bindings on tobacco, and Finland cut its duties 50 percent.

We were disappointed in not obtaining tobacco concessions from Australia, which has erected very high trade barriers around its tobacco industry.

Dairy and poultry products

We also hoped for more than we got in the dairy and poultry area. Our biggest disappointment was the continued failure of the EEC countries to give us market access for fresh frozen poultry and to agree to meaningful limits on EEC chicken export subsidies. We did get a 19-percent reduction on canned poultry from the EEC, but exports to that area are small when compared to the market for the frozen product we had up to 1963. This remains a problem for us.

Japan reduced the duty on whole turkeys from 20 to 15 percent.

Our principal concessions in the dairy area were tariff cuts on Swiss and Roquefort, and certain Italian cheeses. These types do not come under the section 22 quota system.

Those are the highlights of the concessions exchanged. I would characterize the net result of the Kennedy Round as "modest liberalization." It will improve our access to markets.

LOOKING AHEAD

American agriculture came to the Kennedy Round in a spirit of expectation. We sought a general lowering of agricultural trade barriers which would give efficient farmers, ours and in other countries, a greater opportunity to sell competitively in the world's expanding markets. We looked on the Kennedy Round as a means of helping world trade in general and our own export drive in particular.

To some extent, our expectations were realized. Considering the problems encountered, we emerged with far better results than we thought possible during some of the darkest days when negotiations almost broke off.

But while the negotiation has given us modest trade liberalization, it also has made us aware of the problems we still face in bringing more order to world agricultural trade. To me, this is the really significant result at Geneva.

The Kennedy Round has shown beyond doubt that we cannot buy—with reductions in duties—removal of the major barriers standing in the way of a substantial and orderly trade in farm products.

The Kennedy Round has also shown that a massive, multilateral trade negotiation involving all countries and all products is not an appropriate way to get at the root of agricultural trade problems. It provides too much opportunity for avoiding the real business at hand.

The Kennedy Round ended up being primarily a tariff negotiation. Tariffs remain an important means of protecting producers in many parts of the world. But in agriculture, particularly, other barriers are numerous and complex. Negotiators met with only limited success in removing or lowering them and, on the really hard-core products, had no success at all.

Overall, the problem of liberalizing trade stems from the almost general disparity in income between farm and nonfarm people. As a rule of thumb, around the world a farmer gets only about one-half as much income for his labor and investment as the nonfarm sectors of the respective countries enjoy. That disparity poses an obligation on every government to protect the incomes of its farmers and still make sure that all the people have enough food and fiber and other products of agriculture. It is an obligation that has called forth price and income programs in every country in the world. These take many different forms.

The European Economic Community for most products attempts to keep domestic agricultural prices high through a variable levy system. The EEC sets the prices, and the variable levies remove the effect of outside competition, because they always are high enough to offset any competitive advantage the outside product might have. This is truly a formidable barrier to trade. The variable levy on grains, for example, is about 100 percent ad valorem.

The United Kingdom favors the deficiency payment support system. Here internal consumer prices are allowed to seek their own level. But producer returns are kept at Government-set levels through producer payments which make up the difference between these levels and what they receive in the marketplace. The impact of this system on exporters is more obscure, but severe nevertheless. High producer prices increase domestic self-sufficiency, and the effort of an exporter to hold his sales in that market leads to artificially low and unremunerative prices.

We have our support programs in the United States also, as you know. In some cases—in cotton and wool—the program is a combination of deficiency payments and tariffs or quotas. In dairy, it is a combination of a support price and quotas and tariffs. In grains, we use a certificate program. Our system is different from most, however, in that we use, in many cases, production controls to prevent our programs from leading to ever-increasing excess output.

Government support programs often lead not only to import control, but also to export assistance. The EEC has export subsidies. Denmark uses a two-price system in which prices for products marketed

at home are held at one level, while exports are marketed well below that. Other countries use marketing boards that have great flexibility in price practices. These practices are widespread.

Let me share with you a concrete illustration of the kind of problem I have been talking about. Just the other day we had to make the very difficult decision to recommend sharp restrictions on imports of dairy products into the United States. This was not a pleasant decision, as a country which exports as much as we do must be prepared to import as well. But the trade was not a healthy one. Under the EEC system of high dairy support prices protected by variable levies, production has increased to the point that heavy surpluses of butter and cheese are a glut on the EEC market. Under such circumstances, the EEC export subsidy counterpart of the variable levy operates almost automatically to move these surpluses out of the EEC irrespective of their impact on the trade of more efficient suppliers or on the economies of importers. They move to wherever they can find entry at whatever price they can command.

EEC butter, therefore, being produced at a price of 60 to 65 cents per pound was being sold in the United States for around 22 cents per pound. It was entering the United States as a butterfat-sugar mixture in circumvention of existing U.S. import controls on butter, and in quantities which were interfering with the operation of our own support program. This was a situation which caused major difficulties for us and for all our traditional trading partners. We could not allow it to continue. The butter came to the United States because it could not go elsewhere. Some years ago, the United Kingdom, faced with almost the same problem, instituted quotas to protect her suppliers—New Zealand, Australia, and Denmark. Japan imposes tight quantitative restrictions, as does Canada and others.

You will recall that not too many years ago the United States also had burdensome surpluses of dairy products. We didn't dump ours indiscriminately into the international market. We stored them, used them at home in school lunch programs and to feed our needy. We moved them abroad only when the demand was such that they did not disturb the international market. It is a pity that other major producers have not practiced similar restraint. Their practices will make it difficult for all of us in the years to come. I might say, parenthetically, that we in Agriculture are determined to prevent export subsidization from undercutting our producers, either in our own country or in their foreign markets.

Even if countries were agreed, therefore, on the kind of order they wanted to put into the international trading system, the task of reshaping its numerous and complicated barriers to do this would be a formidable one. Even to catalog and understand them is difficult. To deal with them all in a comprehensive way is virtually impossible. This the Kennedy Round has made clear to us.

How can we deal with these barriers? What kind of plan can be used? What should our agricultural trade policy be? Ambassador Roth has mentioned the trade policy study which he will undertake over the next year. This will help us decide and I cannot anticipate it. I can suggest, however, that he explore carefully the following principles, which I think are essential.

The underlying objective in U.S. agricultural trade policy must continue to be of orienting agricultural trade flows on the basis of efficiency. In other words, those who can produce abundantly, inexpensively, and well should produce and should be leaders in trade.

There will be exceptions, of course. If some countries insist on producing at heavy cost simply because they are so inclined and have the money, we can't prevent them. But we can try in every way we know to show them that they are wrong and where they are wrong.

We should focus our attention on individual products or, at most, product groups, and we should seek to deal in depth with the barriers affecting these so that when we have reached an accord, we have some hope that it will stick. It doesn't help to lop off one barrier only to have another take its place because we have not gotten at the root of the trouble. And I think we should start these explorations among key countries in the very near future.

We must recognize that we have to work with and adapt the support systems which exist to the international economy we want. In the Kennedy Round, the United States supported this kind of pragmatic approach. We wanted to isolate the system in each country and see the full depth and scope of the barrier in its own setting. The EEC, however, supported a different approach. They seemed to want to introduce certain common elements into every country's system, such as international reference prices and variable levies, which characterize their system. This was clearly impossible. With patience and effort, existing systems can possibly be oriented toward freer international trade based on efficiency in production. They cannot be abruptly overturned or replaced, however, to accord with anyone's preconceived plan for market organization.

THE DEVELOPING WORLD

Let's also recognize that the Kennedy Round had more significance for the industrialized nations than it had for the developing countries.

The United States tried hard to make it a more meaningful round for the less developed countries. In agriculture we cut and in many cases eliminated duties on tropical products valued at almost \$120 million—products such as Indian cashew nuts, Brazil nuts, Philippine desiccated coconut, and so on. We committed ourselves not to put duties on fresh bananas and other products now duty free amounting to about another \$140 million. And we also cut duties on some temperate products—in which the developing countries had a trade interest approaching \$70 million. I know of no other area of the world that did as much in this way as the United States.

The legitimate needs of the developing countries can be only partially met through this conventional trade route. President Johnson said last April, at Punta del Este:

We are ready to explore with other industrialized countries—and with our own people—the possibility of temporary preferential tariff advantages for all developing countries in the markets of all the industrialized countries.

These are ways in which we can help the developing countries to grow—to develop their agricultural economies, for economic growth in Asia, Africa, and Latin America depends to an increasing extent upon agricultural development.

Agriculture performs several functions in promoting economic growth. It supplies the food required by urban populations, otherwise precious foreign exchange must be used for food imports. It must generate some of the raw materials for industry, earn foreign exchange, and make labor available for industrial construction and expansion. Agriculture also must provide part of the capital accumulation needed for further growth, as well as being a market for such industrial products as fertilizer, farm machinery, and a broad variety of manufactured consumers' goods. To the extent that a country's foreign agriculture promotes general economic growth, to that extent, it creates a basis for commercial trade.

U.S. help with this agricultural development goes far beyond just being a good market. We are spending hundreds of millions of dollars to finance the transfer of American farming techniques; improvement of transportation, marketing, and irrigation facilities; establishment of extension service, cooperatives, credit systems; purchases of American-made farm equipment, pesticides, and fertilizer; and research on soils and seeds.

For many years the United States has been loaning know-how through the Agency for International Development and its predecessor agencies, and through programs operated by State universities and private consulting organizations. More recently these programs have been broadened to include the Department of Agriculture, through establishment of an International Development Service, which is financed by and works closely with AID.

We have furnished over \$18 billion worth of food aid since 1954. We insist now that this aid be accompanied by a major self-help effort on the part of the countries receiving it. We also are insisting these days that other countries help us carry a part of the burden, through the India aid consortium, world food program, and other multinational aid efforts.

Altogether, progress is being made in meeting the world's food problem. And progress is being made almost everywhere in the vital area of economic development.

IN CONCLUSION

American agriculture has immense influence in world affairs. This influence will grow as both populations and per capita incomes of the world's people rise and strengthen demand for the food and fiber we can produce with such efficiency.

But trade, ultimately, is the conduit through which the bounty that is ours can reach foreign consumers. Fundamental to that trade is the extent to which the world's people allow comparative advantage to function. That's why the solution of trade problems is so important. The Kennedy Round resolved only some of agriculture's trade problems. Many remain. But I think the Kennedy Round did help clarify the thinking of our own participants and of our trading partners. It gave us new insight and perspective as we try again; and we must try again and keep trying. Only as trade in food and agricultural products is allowed to flow in a relatively unrestricted manner will the world's people share, as they should, in all the good things that our modern science and technology can make available.

Chairman BOGGS. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Ambassador, I would like to touch on some of the agricultural matters. As I understand it, as far as grain is concerned, there was no agreement regarding the guaranteed access or reduction in tariffs on the part of the Common Market, is that correct?

Mr. ROTH. That is correct.

Senator MILLER. I understand further that we did take the position that we should have a guaranteed access, that was our original position, was it not?

Mr. ROTH. That is correct.

Senator MILLER. And may I ask, what was the percentage that we asked for?

Mr. ROTH. We in effect asked a percentage that would give us what, during the base period, was our actual access. I think that was about 25 percent.

Senator MILLER. And what was the base period?

Mr. ROTH. 1964-66.

Senator MILLER. 1964-66. During that base period we had 25 percent of their domestic market. So what was asked for? May I ask, what would that mean in tons? Do you have a figure readily available? As I recall, it was around a million tons.

Mr. ROTH. Mr. Ioanes says about 17 million, both feed grains and wheat.

Senator MILLER. 17 million. Since we didn't get that, we did obtain an agreement that the Common Market would furnish a certain amount of feed grains per year, am I correct?

Mr. ROTH. Yes, about a million tons for food aid.

Senator MILLER. A million tons.

Mr. Ambassador, are you sure that that 25 percent is of 15 million tons? I did not have the impression that it was anywhere near that amount. We are talking about the 25 percent.

Mr. ROTH. That is for total imports. Are you talking just about the United States?

Senator MILLER. I am talking about the United States access to the Common Market based on the base period 1964-66, which, as I understood it, in the case of grains amounted to 25 percent, which was the point that you were seeking.

Mr. ROTH. That would be about 9 million tons as the American share of the 17 million.

Senator MILLER. 9 million tons. So that our proposition originally was that we would be guaranteed an access of 9 million tons of grain shipments to the Common Market per year. And they refused to give us that. And in place of that we obtained an agreement that they would put up 1 million tons of food aid per year, is that correct?

Mr. ROTH. Plus agreement to a higher minimum price.

Senator MILLER. Yes, but I am talking now about buying.

Now, according to Mr. Schnittker, in the article I referred to from the New York Times of May 19, 1967, he said that the United States gave up trying to get guaranteed access to the market because the Community's final offer had no value. What was the Community's final offer on that access?

(The article referred to by Senator Miller follows:)

[From the New York Times, May 19, 1967]

U.S. FARM TARIFF NEGOTIATOR SAYS ACCORD WILL AID EXPORTS

WASHINGTON, May 18.—The United States won “very significant” reductions in some barriers to America’s agricultural exports in the Kennedy Round of trade talks, the chief United States farm negotiator said today.

John A. Schnittker, Under Secretary of Agriculture, just back from Geneva where the negotiations took place, gave additional information on the new grains agreement that came out of the Kennedy Round. He declined to discuss other products in detail.

Mr. Schnittker gave his views at a news conference as Allan Shrivvers, president of the United States Chamber of Commerce, issued a statement saying, “There is widespread approval among American businessmen of the results of the Kennedy round of trade negotiations.”

Mr. Shrivvers said new efforts to liberalize trade “should begin with further elimination of nontariff barriers.”

Mr. Schnittker gave these estimates of the effects of the new grains agreement, affecting primarily wheat:

The export price of standard hard winter wheat at United States Gulf ports will range over the next three years from \$1.80 to \$1.95 a bushel. This compares with an average of \$1.70 over the last three years and \$1.83 now.

The increase will have the effect of raising slightly the price to United States wheat farmers, but it will not affect the price of bread to the consumer.

The United States gave up trying to get guaranteed “access” to the market of the European Economic Community because the community’s final offer had “no value.” However, the United States sees a “reasonable chance” that total grain exports to the Common Market (as the community is generally known) will be maintained because production there may grow no faster than consumption and because the community will now have to export more grain under the new food aid agreement for poor countries.

The net effect of the new grains agreement—including the sharing of the burden of food aid to the extent of two million tons by countries that are now importers—will be “a higher dollar value” for the United States in its wheat exports, though probably not much change in the physical volume. The high value would come both from the higher price and the probability that a larger share of United States exports would be for dollars rather than on a “concessional” basis to poor countries.

(The following letter was subsequently submitted by Mr. Roth:)

OFFICE OF THE SPECIAL REPRESENTATIVES

FOR TRADE NEGOTIATIONS,

EXECUTIVE OFFICE OF THE PRESIDENT,

Washington, July 12, 1967.

Hon. HALE BOGGS,

Chairman, Subcommittee on Foreign Economic Policy, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: At yesterday’s hearing, Senator Jack Miller asked about the value to American agriculture of the higher minimum prices in an international grain arrangement.

There is no question that the American wheat farming community believes that the new minimum price provisions are valuable. This is certainly the view of Herschel Newsom of the Grange and Tony DeChant of the Farmers Union, as well as Allen Tom of the National Wheat Growers Association and Ralph Ball of Great Plains Wheat. All of these farm group representatives were in Geneva with us at one time or the other during the negotiations, and they all concurred in the notion that the higher minimum prices will be of great benefit to American wheat producers.

The new prices of \$1.73 per bushel, f.o.b. Gulf, for No. 2 Hard Winter Ordinary wheat is about 23 cents higher than the minimum in the existing International Wheat Agreement. Today, Hard Winter Ordinary at the Gulf is bringing about \$1.76 per bushel, whereas a month ago, the price for this grade of wheat at the Gulf was about \$1.86. Obviously, what has happened is that the weight of supplies on the market, not just the United States but in other exporting countries has put pressure on prices. In part, this is also due to smaller import demands in certain areas such as the Soviet Union.

Moreover, the same downward drift in international wheat prices has been noticeable in other classes of American wheat and, in one of them, Soft Red Winter wheat, current market prices at the Gulf are below the minimum indicator level of 1.60 per bushel proposed in the new International Grains Arrangement. Again, the basic reason is the same—increased U.S. and world supplies in relation to demand. There is therefore no question in my mind that a new international grain arrangement with prices 23 cents a bushel higher than in the current International Wheat Agreement would give us the possibility of working with other exporters to translate those higher minimums into higher returns for producers.

Sincerely yours,

WILLIAM M. ROTH,
Special Representative.

(The following item was included at the subsequent request of Senator Miller:)

TRADE BLOC SEEKS GRAIN OUTPUT RISE

MOVE WOULD SERIOUSLY CUT NEED TO IMPORT FEED CEREALS FROM UNITED STATES

(By Edwin L. Dale, Jr., Special to The New York Times)

WASHINGTON, July 12.—In a move that could cost the United States millions of dollars of badly needed exports, the European Common Market has quietly set in motion a change in its farm program to increase the production of corn and other feed grains.

This has become known here in the last few days and has caused concern, if not alarm, in both the government and the grain trade.

The move follows the completion of the Kennedy round of trade negotiations, in which the United States won major reductions in the Common Market tariff on industrial goods but relatively little trade liberalization in agriculture.

The Common Market action is a proposal by the Executive Commission in Brussels, still not formally published, to raise substantially the minimum price support levels for corn, barley and rye, without any change in the price level for wheat.

TWO-FOLD RESULT

The result, in the view of both American and European officials, would be two-fold, both elements reducing the huge present European need to import feed grains for cattle and poultry. The United States is by far the largest supplier of these grains, chiefly corn.

First, the higher price support levels would induce European farmers to grow more feed grains, thus cutting the need for imports.

Under the Common Market system of variable levies at the frontier, imports form a "residual" supply, meeting only needs not filled by domestic production.

Second, with feed grains more costly, it would become profitable for some European wheat production to be used as feed for animals rather than for human consumption. This again would cut the need for imported feed grains.

FEED GRAIN DIVERSION

Diversion of wheat for use as feed would reduce the amount available for export by the Common Market, almost all France. But this would not help the United States because French wheat is of a different quality from United States wheat and is sold to markets where United States wheat is not competitive.

Thus, if the proposal is adopted, the United States would lose feed grain exports to the Common Market and would not make up the difference in wheat exports. Total grain exports to the community are about \$500-million a year, mainly feed grains.

The proposal by the Common Market commission still must be approved by the ruling Council of Ministers. It would affect the crop year beginning July 1, 1968.

SHIFT OF EMPHASIS

The Common Market commission is reliably reported to be frankly desirous of changing the "balance" of community agriculture, with more emphasis on feed grain production and less on wheat. The six member nations taken together are huge importers of feed grains, yet not exporters of wheat.

Mr. ROTH. They had developed a formula which we said would be acceptable to determine access, based upon the so-called self-sufficiency ratio, that is the ratio of production to consumption. In this base period we felt that domestic production should be around 85 to 86 percent of total consumption. Their last offer was considerably in excess of that. In other words, what they wanted was a level for imports which would give their own producers some possibility of growth. The EEC was insistent on this, and the British were insistent on it. That was one part of the problem.

The second part of the problem—

Senator MILLER. May I ask you before you leave that part of the problem, what was wrong about that from our standpoint?

Mr. ROTH. From our standpoint, in an agreement that lasted at the most for 3 years, we felt that at no time during that period would the access formula actually come into effect and that their formula allowed their own producers too much room to grow. And it wasn't worthwhile paying for this, as we felt that in the feed grain area our exports to the Community, which is more and more a meat consuming area, will grow.

Senator MILLER. But may I ask, the way it came out, haven't we given them just as much if not more room to grow?

Mr. ROTH. But we are not paying for it.

I will come back to this, but may I go on to some other aspects of this problem?

Senator MILLER. Yes.

Mr. ROTH. In order to have an access formula that really works, at a point you get almost into a rigid sharing of markets when the formula comes into effect. We found domestic resistance to this concept. We also felt that a complicated formula such as the self-sufficiency formula would be very difficult to explain. It would be very difficult in particular to explain why we paid something that wouldn't really give us what we thought we were getting. It was much simpler to get a minimum price that would set a higher base than present world wheat prices, and secondly, to get some help in food aid which would do two things: one, take part of the burden, which we have carried alone off our shoulders; and secondly, take a certain amount of wheat off the commercial market.

There is one other aspect of this. The Community and the British—but the Community in particular—said that if you want a minimum price for wheat you should also accept one for feed grain. We couldn't accept that, because the way our trade goes in feed grains we have to have price inflexibility, and because we didn't feel Congress would accept this. But we were caught in this position, saying we wanted a minimum price on wheat but not on feed grains.

So basically what we did in the final weeks was to negotiate an agreement that relates just to wheat. In feed grains, as I said, we feel that we have an expanding market. And this access formula was not that important.

Senator MILLER. On this 1 million tons of food aid, which was one of the trade offers, do I understand that this 1 million tons of food aid from the Common Market countries represents a net increase of 1 million tons of food aid over and above what they have now been supplying?

Mr. ROTH. Of course; since they have not been supplying food aid.

Senator MILLER. There has been no food aid from France or West Germany or the other Common Market countries to any developing country anywhere, Africa, the former French colonies, or any other country in the world?

Mr. ROTH. Practically none in the grains area. The most recent attempt by the United States was not quite a year ago when we tried to put together an Indian consortium. The Japanese agreed to make a contribution, but as far as I know to date we have not been successful in Europe. So this is a new step.

Senator MILLER. Now, are there any strings to this 1 million tons as to what countries will be the recipient of it? For example, is it open to France to ship its food aid to some developing country of its own choosing? How does that work out?

Mr. ROTH. Part of it still has to be worked out, by the way. The International Wheat Agreement group is starting a meeting this week in Rome to work out all the details of this.

Senator MILLER. I am sorry. I didn't hear that last sentence.

Mr. ROTH. I said that the agreement is not entirely worked out in all these phases. We still have perhaps another 3 to 4 weeks of negotiations. The negotiators meet later this week in Rome under the auspices of the International Wheat Agreement.

Mr. IOANES. There will be agreement that the aid will have to go to developing countries. And there will certainly be a procedure whereby, to the extent that the programs are operated bilaterally, as we operate our programs, reports will have to be made to the Wheat Council and a subsidiary body of that Council showing the country of destination and the terms. There will be provisions in the agreement about terms that are acceptable to make them true aid conditions rather than commercial conditions.

Senator MILLER. Do you know whether or not that will include some kind of an understanding by which countries will be the recipient? To come back to my question, will France, for example, be free to determine what country or countries its share of this food aid will go to?

Mr. IOANES. I think that each donor country will have the right—within a definition of developing countries, so that we don't get into the countries that are not developing countries—to determine the country to which its commodities will go. And for our part, this is a condition we would almost have to insist on to make sure that our commodities go to the countries that we could consider eligible under our statutes.

Senator MILLER. And then is it your thinking that because the Common Market will be putting up 1 million tons of food aid which they have not heretofore been doing that this will open up 1 million tons for our access?

Mr. IOANES. Well, certainly to the extent that areas of the world, such as the EEC, the United Kingdom, Japan, and the other exporting countries, contribute grain or cash to buy grain to go to developing countries on concessional terms, this should open up in part, I would say, commercial markets for the rest of the world. I say in part because I cannot cleanly tell you that there might not be some production increases somewhere in the world specifically designed to meet this

need. But to the extent that it is taken out of the commercial stream that exists, this will open our commercial market for exporting countries, including the United States.

Senator MILLER. I am speaking now of the EEC.

Mr. IOANES. Yes, sir.

Senator MILLER. And the 1 million tons that they are going to put up. Is it the thinking that this 1 million tons that they are going to put up will open up commercial markets of 1 million tons in EEC?

Mr. IOANES. Not necessarily in the EEC, but in the EEC or third countries.

Senator MILLER. From which the EEC would buy if necessary to meet its commitment?

Mr. IOANES. No, Senator. We would assume that the million tons of grain would come from the Community's own production. But they have exported about 7 million tons of grain in recent years, at least, about 7 million tons. So they will have the option of reducing their exports by that amount, or, say, of taking it out of home consumption and importing food grains to replace their own wheat.

Mr. ROTH. I think that the net answer is "Yes," one way or another. It would remove grains from the commercial market, Senator Miller, and the thinking is that we will be able to obtain that or a good chunk of that, isn't that so?

Mr. IOANES. Correct.

Senator MILLER. Was any consideration given to the possibility that the Soviet Union might take it over?

Mr. ROTH. The question of whether the Soviet Union, which is a member of the IWA, would at a point also become a part of this agreement, remains an open question.

Chairman Boggs. Would the Soviet Union take over the 1 million tons of commercial market that would be opened up under this agreement?

Mr. ROTH. It could compete for it, obviously, if in any particular year they were in a good export position.

Senator MILLER. I have run beyond my 10 minutes, and I apologize to the chairman. I would like to come back when it is my turn.

Chairman Boggs. Surely.

Mr. ROTH. Could I make just one remark?

As I watched from the sidelines, it seemed to me that the most complex part of the negotiations, other than the chemicals, was a two-way negotiation in grains, first among the exporters, and then between the exporters and the importers. We found it terribly important as we got to the very end to bring people other than those in Government to Geneva—Tony Dechant of the Farmers Union, Herschel Newsom of the Grange, Alan Tom of the National Wheat Growers Association, and others. What we tried to do is bring back, first, something that is simple and, second, is a great advantage to the American producer and is workable. And I hope we have done this.

Chairman Boggs. I will call on Congressman Reuss in just a minute.

In connection with the questions of Senator Miller, what is the total amount of trade today between this country and the Kennedy Round countries?

Mr. ROTH. The total trade coverage of the Kennedy Round sections was around \$4 billion all told.

Chairman BOGGS. I am talking about between this country—

Mr. ROTH. In the case of the United States—if you take both the imports and exports, you are covering about \$7½ billion to \$8 billion each way.

Chairman BOGGS. What increase do you expect in a period of, let's say, 5 years or 6 years?

Mr. ROTH. In world trade?

Chairman BOGGS. No; in trade between the United States and the Kennedy Round countries.

Mr. ROTH. I have no forecast for you, Mr. Chairman.

Chairman BOGGS. Would you make it percentage-wise? You have already forecast a very substantial increase of grains.

Mr. ROTH. I would hesitate at this point to make any judgment, particularly until our final analysis of what came out of the Kennedy Round is complete, which will be some time ahead. As you know, also, the decreases in the tariffs will be phased over 4 years, so it is going to be a gradual process. I couldn't pick a number out of the air that would have any validity at this point.

Chairman BOGGS. Just one other question. Unless Congress acts to extend some kind of authority, what basis do you have for any type of adjustment assistance today?

Mr. ROTH. We fall back on the provisions in the 1962 Trade Expansion Act, which labor feels and we feel contain criteria which are too strict.

Chairman BOGGS. Yes; but my question is—

Mr. ROTH. The negotiating authority expires.

Chairman BOGGS. But only the negotiating authority?

Mr. ROTH. The rest of the act continues.

Chairman BOGGS. Continues as is?

Mr. ROTH. Yes. My job continues.

Chairman BOGGS. What you are asking is that in any extension that we have certain modifications of the adjustment provision?

Mr. ROTH. That is right, sir.

Chairman BOGGS. That is all for now.

Mr. Reuss?

Representative REUSS. Thank you, Mr. Chairman.

I wanted to add my congratulations to Ambassador Roth and his associates for the remarkable job they have done.

We have already had some discussion of chemicals and agriculture. Those aside, Mr. Ambassador, what do you foresee as the great export opportunities for the United States that will result from tariff lowering under the Kennedy Round?

Mr. ROTH. Thank you very much, Congressman Reuss.

I think the export opportunities are really very much across the board. And they vary from country to country. For instance, as I said, in the case of Canada, where production machinery and associated electrical machinery now covers \$5 to \$6 million in terms of our exports, they have made very substantial reductions, from 22½ percent to 15 percent. The Canadian agreement in particular is a rather unique one, because both sides made maximum efforts in very large areas. Take lumber, where from Canada unfinished raw lumber comes into this country, and from the United States finished lumber goes back

to Canada. In this whole area we go to free trade. So I think in both agriculture and industry—machinery parts is another area—we will have an expansion of trade with Canada that could be fairly major.

The big disappointment—to talk about the negative as well as the positive—the biggest disappointment in terms of what we got from the European Community was their failure to make substantial cuts in the area of advancing technology, such as business machines. In steel, aluminum, and textiles, none of the countries made very substantial cuts. But in most other areas of industry, I think we have the opportunity for substantial increases in exports.

Representative REUSS. Without anticipating the detailed studies which you are now in the course of making, pick off some other bright spots. You have said electrical production machinery for Canada is down from 22½ to 15. Obviously that is all good. What are some of the other bright spots that can bring smiles to some of our American exporters?

Mr. ROTH. May I perhaps go to another question and look up some of these major areas?

Chemicals, for instance, would be one, particularly if Congress passed the American Selling Price.

Representative REUSS. Perhaps you and your associates could file at this point in the record a fuller detailed listing. I think that might be very good.

Mr. ROTH. I would be glad to.

(The list requested was subsequently filed for the record and appears beginning p. 50.)

Representative REUSS. I have one question addressed to Mr. Ioanes.

In Mr. Schnittker's statement he said, as a general principle of world agricultural trade, that those who can produce abundantly, inexpensively and well should produce and should be leaders in trade. How does that excellent precept apply to world production of sugar and particularly tropical sugar? Is that the way we are doing things in this commodity?

Mr. IOANES. It doesn't fit in exactly. The most efficient producers of sugar in the world are centered primarily in Latin America. And the United States has for some time under legislation provided, as you know, for a division of the market between home producers and importers, and has shown preference in this area. Our costs of production are higher than in most parts of the world. So to that extent there may be some clash between the principle and the acts we do.

Now, for this to really work we must take the major developed countries of the world and sell this principle. In other words, it will be impossible to sell the concept of reduced production, greater imports of a commodity like sugar, to the United States unless the other major consuming and relatively less efficient producers are also prepared to reduce their protection.

Representative REUSS. German and French beet sugar, for example, is uneconomic.

Mr. IOANES. There is no question about this. Their costs are higher than ours. And the Community is not only moving to a position of self-sufficiency in sugar beets, they are probably moving to an export position. So if this principle became one that an area like the EEC would observe, we would have to anticipate their moving in another direction, moving away from self-sufficiency.

Representative REUSS. Would you agree on the basis of this that world sugar, with particular reference to the foreign exchange needs of our Latin American friends, should be high on the agenda of immediate international discussions?

Mr. IOANES. I am a brave man. And I would say it certainly is an item that should be discussed. I would think again, Mr. Congressman, that the extent to which this would be a real possibility would depend on our ability and the rest of the world's ability to adjust programs in a number of countries, not just the United States.

Representative REUSS. So far there has not been the international discussion of sugar that there has been in wheat, has there?

Mr. IOANES. No. There was at one point a suggestion that there be discussion of sugar as there was on grain. This got dropped at the last minute, and we never really had a serious discussion.

Representative REUSS. Thank you very much.

Chairman BOGGS. Congressman Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Ambassador Roth, New Jersey ranks first in the Nation in the number of chemical plants and the workers that are currently protected under the American selling price system. On June 30, I believe it was, all 15 members of the Republican and Democratic delegations from New Jersey wrote rather strong letters to President Johnson and to you calling for release of the Report on the Economic Future of the American Benzoate Chemical Industry. To date, to the best of my knowledge, such requests have been refused by you for the 1966 full study by the Tariff Commission on dropping the American selling price. Why isn't it being released to Congress?

Mr. ROTH. Mr. Chairman, the Congressman's question was brought up in the questions by industry on Friday in the chamber of commerce. We pointed out that the Tariff Commission's report contains very confidential material from a great many firms, information that would affect their competitive position. We said, however, that we realized that some of this data would be valuable in assessing our proposed American selling price. And we are considering and have underway a letter to the chemical companies concerned asking if they would approve the release of their confidential information. If it is possible to get such approvals, then I think it is possible that we could make some of this information available.

Representative WIDNALL. Mr. Ambassador, it doesn't seem to me that we can act intelligently in connection with this matter unless we do have available to us the same type of information that you have available to you. I understand your reasons for saying that you want to protect certain people who give information to you. But I believe that those who are going to be vitally affected by this, the people in the chemical industry, are entitled to know the basis that is used for the approach that you and the other negotiators have made to other chemical industries. It seems to me quite apparent that there is a great upset within that industry, and not a general acceptance of your decisions over there. This greatly concerns the future of their industry, and they seem terribly disturbed about it.

Mr. ROTH. Mr. Congressman, I agree very much with what you said. I would like to say only that it is not a question of our policy about releasing this information until we get releases from the companies

concerned, it is a matter of law. We are, however, hopeful that we can get such releases.

I would like to say that the Tariff Commission report is only one element that went into our analysis of the problem. We went back to many chemical companies and got as much new information, much of it, confidential, as we could, in order to make as objective appraisal as possible. So we are, sir, working on this.

Representative WIDNALL. In New Jersey they are particularly concerned because of the amount of unemployment within the chemical industry. And I think these figures are significant. Fifty-two percent of the dye workers are Negroes and Puerto Ricans. So the layoff of these workers would have a significant effect, because these are the workers who have the maximum difficulty in transferring to other jobs. The retraining and reemployment of the majority of these people will be difficult, because they earn about \$7,500 a year in the industry at the present time. So it will be very disturbing if it isn't worked out to the satisfaction of the other chemical industry.

Are there other systems such as the ASP which you feel are major barriers to trade which should be abandoned in the near future?

Mr. ROTH. On our part, Mr. Congressman, or on the part of other countries?

Representative WIDNALL. On our part and on the part of other countries.

Mr. ROTH. The area of nontariff barriers is so complex—often you get into relatively small problems, but they have a large effect, whether it is labeling, or whether it is a policy of Government procurement.

Let me say that in the nontariff barrier area we are all sinners. In terms of the American Selling Price, which in a way is a variable levy. I pointed out to the European Economic Community that I considered the variable levy that they have around their agricultural products as not unsimilar. But more and more as we work with business, have worked with business, and will be working with business, we have to get into specific instances where nontariff barriers impede trade and gradually try to work these out. Many of them—we mentioned a few—have to do with special products. There are a few very substantial ones. One of these is dumping, and here we have achieved an agreement in the Kennedy Round. Looking to the future, a most difficult one is the question of border taxes.

Representative WIDNALL. Would border tax nullify any efforts made through the Kennedy Round?

Mr. ROTH. No, sir.

Let me state a little about this border tax issue. Under international law as expressed in the GATT it is legal to offset the domestic sales tax or an added value tax at the border by a tax on the import that equalizes the tax payment made by the domestic producer and the importer. And there is not supposed to be, although it may creep in, any protective incidence in this tax. It is based on the economic theory that an added value tax is passed on in the price, whereas a corporate tax is not.

Now, the economic theory, I gather, not being an economist, has changed in the 20 years since GATT was founded. And there is more question now whether the corporate tax is passed on more than, or less than, the added value tax. So this is something that we have to, and are beginning to, talk about, both in GATT and in the OECD.

But I think anyone would be very hard put to be able to prove that the substantial tariff cuts negotiated in the Kennedy Round will be nullified by border taxes that are presently in being.

Representative WIDNALL. The reason I raise the question, I have in front of me a statement recently made that in the Kennedy Round, West German Government tariffs will be cut by an average of 20 percent. That is about 21½ percentage points. However, West Germany will increase its border tax on imports by 5 percent, 5 percentage points, double the Kennedy Round cut. Where do we come out there?

Mr. ROTH. You have to remember that the increase in border taxes is to offset an increase in domestic added value tax. In other words, it is not supposed to be a penalty against imports. We, however, made a unilateral statement that is a part of the Kennedy Round record saying that, if our tariffs are in effect nullified by any protective incidence in the border tax, we would want to consult and take appropriate action.

May I say, because this is such a difficult area, that we have tried working with industry to have more studies made on what the effects of border taxes would be. One group of industrial concerns was going to pay for a study that the National Industrial Conference Board had made. But a lot of work has to be done to even know the nature of this problem. You can't make a sweeping statement in this area; it is too complicated.

Representative WIDNALL. But if our only recourse to being hurt is to go to a committee and make a complaint and have a hearing and go through something like an appeal to the Tariff Commission, where you end up with a decision on this thing maybe 2 or 3 years later, in the meantime we can be hurt badly. And I think we should understand fully what the advantages are that West Germany will gain through the imposition of the border tax.

Mr. ROTH. If we can prove that they gain an advantage in terms of additional protection for their market, then we will have a case. But we have to prove it. And as I said, the theory of the border tax is that it offsets on a 1-to-1 basis the internal tax that the domestic producer pays.

Representative WIDNALL. Mr. Roth, I have one more question. Do you agree with the president of the American Iron & Steel Institute, Mr. Roach, that the steel industry cannot improve its export position unless nontariff barriers are removed?

Mr. ROTH. The simple answer is "No." The more complicated one is that it would be necessary in steel, as in many other of the important industrial sectors, to continue to work to remove nontariff barriers. There are many areas, including that of Government procurement, where it is very difficult to get into other markets. And it is also difficult under our law sometimes to get into our markets. But certainly steel is not an area where nontariff barriers are critical. I don't think that the U.S. steel industry cannot expand their exports without further movement in this field.

Representative WIDNALL. Thank you, Mr. Ambassador, my time is up.

Mr. ROTH. Mr. Chairman, could I just say something about what we did on steel in the Kennedy Round, because I think it is rather important.

Chairman Boggs. Surely. Go right ahead.

Mr. ROTH. We originally in steel had almost a total 50 percent offer across the board, with very few exceptions. But two things happened. One, economic changes in the industry came about in the last several years. But more importantly, we felt that other countries were unwilling to make full 50-percent cuts. And, therefore, we withdrew most of our steel offer, about 80 percent of it, and came out with an overall reduction of 7 percent, whereas the British made a cut of 20 percent, and the Community something like that.

But the most important thing we got, which I was most anxious to achieve, was the binding of the principal countries' steel tariffs. Before the Kennedy Round the United States was the only major country with bound tariffs on steel, that is, we couldn't change them under the GATT without paying compensation. The Community, the British, the Japanese, all had unbound tariffs, and they are now bound. In addition, all the major countries in steel have tariffs bunched together rather closely.

Chairman Boggs. Mr. Ambassador, I have just one or two questions before we go back to Senator Miller again.

Senator Javits, who has gone, had a question he wanted me to ask.

What specific legislative measures do you leave in this Congress? I happen to be on the Legislative Committee as well.

Mr. ROTH. We hope, sir, to appear before you shortly with what will probably be a single bill with separate titles. As I said today, the first will be the extension of the Trade Expansion Act—probably by a simple change in the date for an interim period, say, for 3 years.

Chairman Boggs. And this would continue the present negotiating authority?

Mr. ROTH. Yes. Since most of that authority was spent in the Kennedy Round, it would mean having just a residual amount. We would then establish legislative history that we don't intend any major negotiations in the next year or two. In other words, this residual authority would only be used for housekeeping purposes.

Chairman Boggs. What in addition to that?

Mr. ROTH. Secondly, the adjustment assistance change, which would make the criteria in determining whether injury has been suffered by workers and firms more liberal.

Third, of course, a subject I talked about at some length, the elimination of American selling price.

Chairman Boggs. What about the antidumping code?

Mr. ROTH. The antidumping codes, as I mentioned, was done within present law, requiring some changes, not very great, in our administrative practices. But we are not required to come back and ask for a change in the dumping law.

Chairman Boggs. So that insofar as the Kennedy Round itself is concerned, the only legislation that you specifically need is the legislation dealing with ASP?

Mr. ROTH. That is right, sir.

Chairman Boggs. But insofar as certain housekeeping aspects are concerned, you want an extension of the present negotiating authority without any addition to that? And you want certain amendments to the adjustment assistance provisions of the existing law?

Mr. ROTH. Mr. Chairman, we are also considering other minor matters. In particular, although we are not prepared to make a recom-

mentation at this time, the separate funding of the United States contribution to GATT as a part of the bill. Although we do not have to come back to the Congress as a whole on the wheat agreement, it will be in the form of a treaty, and therefore we will come to the Senate Foreign Relations Committee.

Chairman BOGGS. What complaints have you had from business and industry other than certain segments of the chemical industry?

Mr. ROTH. We have really had surprisingly few. And I hope we are not being lulled into a euphoric restfulness. Originally there were some statements by the steel industry. But I think that when they look at this agreement in detail they will see that, at least in terms of the Kennedy Round, their concern is not justified. There was some concern, and there is some concern, I think, on the part of the textile industry, particularly the manmade part. In this section we had full cuts, with very few exceptions, on the table 2 years ago. But the industry's position changed from being a net exporter to a net importer. And we withdraw in the final 30 days of the negotiation two-thirds of our offers on manmade textiles.

Beyond that, although our own reductions have now been published, many companies, perhaps, have not studied them in depth. But we haven't heard very much concern. There was some expressed by the shoe industry. But here again in the most competitive areas we didn't make full offers.

Chairman BOGGS. I have one question that Senator Javits wanted me to ask.

Would you comment on proposals that have been made as a result of the free trade zones among the nations of the Atlantic Community of the North Atlantic area?

Mr. ROTH. Mr. Chairman, 2 years ago, as you remember, France in effect withdrew from the Community for almost a year over the controversy on the common agricultural policy, and the negotiations bogged down really seriously. We at that time within the Government looked at all possible alternatives to a multilateral trade negotiation that would bring all barriers down. But we found that anything that we could come up with, including a free trade area excluding from the Community, was very much a second best. Because of the tremendous flow of trade between EFTA and the EEC, if there were not reductions in tariffs between those two trade blocs overall world trade would be disadvantaged.

So I would say this is one reason perhaps why we do need a period of study here, not only to look at domestic trade problems, but to allow what is happening in Europe to take its course—will the United Kingdom become a member of the Community, for instance?

Until some of these things are clearer it will be very difficult to know which way to go, and what would be the value of a particular free trade area, et cetera. But I think basically we feel strongly that in terms of total world trade, the nearest way we can do this on an overall multilateral basis the better.

Chairman BOGGS. I have one final question. Do you personally feel that we have made substantial progress as a result of these negotiations?

Mr. ROTH. Yes, I do.

Chairman BOGGS. Would you be so sanguine as to say you are rather enthusiastic about it, or would you be less than that?

Mr. ROTH. May I say first that I was surprised that in the end we were able to put together so substantial a package. Even 2 weeks before the end I had my doubts. As it turned out, I was absolutely delighted. I think we have something which is of great value both to this country and to the world.

Chairman Boggs. Thank you very much, Mr. Ambassador.

I think Senator Miller has some questions.

Mr. ROTH. Mr. Chairman, could I in answer to Congressman Reuss put a few areas of export growth in the record?

Chairman Boggs. I think it would be perfectly satisfactory to the members of the committee if you would elaborate on any phase of your testimony that you would care to.

Mr. ROTH. I just wanted to mention some of the major areas where we would get export—

Chairman Boggs. I think that would be very helpful.

Mr. ROTH. I will do it in detail later. But just now let me mention production machinery, paper and paper products, automobile and automobile parts, finished wood products, photo equipment, leather, kraft liner board, scientific equipment, aircraft, chemicals, of course, as I have mentioned, and, in agriculture, soybeans, citrus, tobacco, variety meats, various fruits and vegetables, and tallow—and as a matter of fact, bourbon whiskey, which is considered in Europe an agricultural product, to an American a necessity.

I think these are some of the general categories. But may I put in for the record a rather specific analysis?

Chairman Boggs. Very well.

(The following material was submitted subsequently by Ambassador Roth:)

AREAS OF SIGNIFICANT EXPORT POTENTIAL
SELECTED AUSTRIAN CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex20.06	Canned pineapple.....	300 (51 percent).....	25 percent.....	\$1,166
ex20.06	Canned peaches.....	400 (51 percent).....	32 percent.....	
ex20.06	Canned mixed fruit.....	12 percent plus 400 (50 percent).....	12 percent plus 300.....	
ex24.01	Unmanufactured tobacco.....	1,500 (90 percent).....	750.....	3,477
ex28.28	Molybdc anhydride.....	Free (unbound).....	Free (bound).....	468
ex28.47	Other molybdate.....	18 percent.....	12 percent.....	167
40.14	Other articles of unhardened vulcanized rubber.....	28 percent.....	20 percent.....	198
73.13	Electric sheets and plates of alloy and high carbon steel.....	10 percent.....	7 percent.....	544
84.10F	Pumps, other.....	23 percent.....	17 percent.....	294
84.12	Air conditioning machines.....	16 percent.....	8 percent.....	307
84.22B	Mechanical loaders.....	13 percent.....	7 percent.....	2,214
ex84.23	Excavating machines, weighing over 5,000 kg., other.....	10 percent.....	5 percent.....	1,224
84.33	Paper-cutting machinery, etc.; other machinery for making up paper.....	18 percent.....	9 percent.....	181
84.45	Metalworking machine tools.....	25 percent.....	20 percent.....	297
ex85.14	Microphones and loudspeakers.....	20 percent.....	10 percent.....	193
ex87.01	Other tractors weighing over 5,000 kg.....	10 percent.....	5 percent.....	1,489
ex90.19	Hearing aids.....	13 percent.....	7 percent.....	303

¹ Rates are expressed in percent ad valorem or in Austrian schillings per 100 kilograms unless otherwise indicated (26 Austrian schillings equal U.S. \$1). Ad valorem equivalents (1952) of specific or compound duties shown in parentheses.

SELECTED CANADIAN CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round ¹	Final	
7d	Fresh port meats, not otherwise provided for in the tariff.	1½ cents per pound (4.2 percent).	½ cent per pound.....	\$11,713
93	Apples, fresh.....	¼ cent per pound (3.9 percent).	Free.....	3,308
99c	Raisins, packages of 2 lbs. each or less.	3 cents per pound (13½ percent).	1½ cent per pound.....	2,815
130	Shrimp.....	5 percent.....	Free.....	4,488
152(b)	Orange juice.....	7½ percent.....	5 percent.....	14,352
192 (part)	Tarred paper and prepared roofings.....	20 percent.....	15 percent.....	14,283
197	Paper of all kinds, not otherwise provided for in the tariff.	22½ percent.....	do.....	7,302
198	Ruled and border and coated papers.....	do.....	do.....	6,953
199	Papeteries, envelopes, and all manufacturers of paper, not otherwise provided for in the tariff.	do.....	17½ percent.....	9,937
352	Brass and copper nails, etc., and manufactures of copper, not otherwise provided for in the tariff.	20 percent.....	do.....	20,994
353(b)	Aluminum bars, rods, plates, etc.....	3 cents per pound (5 percent).	2 cents per pound.....	8,680
354	Manufactures of aluminum, not otherwise provided for in the tariff.	22½ percent.....	17½ percent.....	16,767
362c	Nickel-plated ware, gilt or electroplated ware.	do.....	do.....	12,600
382(2)	Sheet or strip of iron or steel, cold-rolled, not otherwise provided for in tariff.	15 percent.....	12½ percent.....	12,007
400	Fittings and couplings of iron or steel, not otherwise provided for in tariff.	20 percent.....	17½ percent.....	6,405
415b	Washing machines.....	22½ percent.....	20 percent.....	10,050
427(1)	All machinery of iron or steel, not otherwise provided for in tariff, of class or kind made in Canada.	do.....	15 percent.....	96,910
427b(3)	Ball and roller bearings, not otherwise provided for in the tariff.	17½ percent.....	do.....	6,933
427k(1)	Metalworking machinery.....	22½ percent.....	do.....	12,610
428c	Engines and boilers and parts.....	20 percent.....	do.....	12,647
428e	Diesel and semidiesel engines over 500 horsepower and parts, not otherwise provided for in the tariff.	do.....	do.....	9,421
438a	Autos, trucks, and parts (not under free-trade arrangement).	17½ percent.....	do.....	26,176
438f	Replacement parts for automobiles (imports from United States, 1966).	25 percent.....	do.....	46,506
439b	Cars, trailers, and mobile homes, wheelbarrows, road scrapers.	22½ percent.....	17½ percent.....	9,096
445f	Electric dynamos, generators, transformers, and parts.	do.....	15 percent.....	8,267
445g	Electric motors and parts, not otherwise provided for in the tariff.	do.....	do.....	13,038
445k	Electric apparatus and parts, not otherwise provided for in the tariff.	do.....	17½ percent.....	81,326
446a	Manufactures of iron or steel, not otherwise provided for in the tariff.	do.....	do.....	95,557
446g(1)	Electric welding apparatus.....	20 percent.....	Part, 15 percent; part, 10 percent.	7,023
519(1)	Furniture of wood.....	25 percent.....	20 percent.....	6,505
519(2)	Furniture, metal.....	do.....	17½ percent.....	7,236
522(1)	Woven cotton fabrics, not bleached, mercerized or colored.	20 percent.....	do.....	11,658
522(3)	Colored woven cotton fabrics.....	22½ percent.....	20 percent.....	24,032
523a	Clothing, wearing apparel, of woven cotton fabrics.	25 percent.....	22½ percent.....	8,283
561b	Yarns and rovings of manmade fibers: threads, etc.	22½ percent (minimum, 22 cents per pound).	10 percent plus 10 cents per pound.	9,314
562a(1)	Woven fabrics of manmade fibers, over 12 inches wide.	30 percent plus 20 cents per pound.	25 percent plus 15 cents per pound.	26,394

SELECTED CANADIAN CONCESSIONS OF INTEREST TO THE UNITED STATES—Continued

Tariff No.	Brief description	Most-favored-nation rates of duty		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round ¹	Final	
563	Clothing, wearing apparel, of man-made fibers.	27½ percent.....	25 percent.....	11, 007
568(1)	Knitted garments, fabrics, and goods, not otherwise provided for in the tariff.	35 percent.....	27½ percent.....	7, 763
588	Coal, coal screenings, and coal dust, not otherwise provided for in the tariff (bituminous).	50 cents per ton (10 percent).	Free.....	38, 424
616(1)	Rubber, crude, unmanufactured, not otherwise provided for in the tariff.	5 percent.....	2½ percent.....	14, 078
618	Manufactures of rubber, not otherwise provided for in the tariff.	20 percent.....	17½ percent.....	20, 249
618b(2)	Tires and tubes of rubber.....	22½ percent.....	do.....	6, 847
711	All goods not elsewhere enumerated.....	20 percent.....	do.....	18, 147

¹ Ad valorem equivalents (1964) of specific or compound duties shown in parentheses.

SELECTED DANISH CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
08.02	Citrus fruits.....	5 percent.....	Free.....	566
08.12B	Dried fruits except apple.....	10 percent.....	5 percent.....	1, 404
10.06B	Rice, husked.....	do.....	do.....	483
ex20.06B	Canned pineapple and peaches.....	27 percent.....	13.5 percent.....	1, 598
ex20.06B	Canned fruit cocktail.....	do.....	do.....	
27.10A	Clear lubricating oils and greases.....	0.05 krone per kilogram. ²	0.025 krone per kilogram.	2, 477
48.01	Paper and paperboard, machine-made.	5 percent.....	2.5 percent.....	816
51.04	Woven fabrics of continuous man-made fibers.	20 percent.....	16 percent.....	1, 226
84.01	Steam boilers and parts.....	8 percent.....	4 percent.....	437
84.02	Auxiliary equipment for steam boilers.....	do.....	do.....	413
84.06	Internal combustion piston engines, except outboard motors or bicycle motors.	5 percent.....	2.5 percent.....	5, 197
ex84.15	Refrigerating equipment with capacity over 250 liters and parts.	12 percent.....	6 percent.....	300
84.23	Excavating, leveling, extracting, etc., machinery.	10 percent.....	6 percent.....	4, 049
84.35	Printing machinery and parts.....	5 percent.....	2.5 percent.....	522
84.45	Metalworking machine tools.....	10 percent.....	6 percent.....	800
ex87.02	New passenger cars.....	12 percent.....	7.5 percent.....	2, 109
87.07	Work trucks of the types used in factories, etc.	4 percent.....	2 percent.....	1, 303
90.10B	Other apparatus for photo labs.....	8 percent.....	4 percent.....	610
90.28	Electrical measuring, testing, etc., instruments.	10 percent.....	7.5 percent.....	1, 452
98.03	Pens and pencils and parts.....	12 percent.....	6 percent.....	402

¹ Rates are expressed in percent ad valorem or in Danish crowns per kilogram unless otherwise indicated (6.9 Danish crowns equal U.S. \$1).

² Ad valorem equivalent of this specific rate of duty is 8.5 percent.

SELECTED EUROPEAN ECONOMIC COMMUNITY CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
02.01B11b	Edible offals of beef and pork:			
	Livers.....	20 percent.....	14 percent.....	31,417
	Others.....	do.....	12 percent.....	
07.05A	Dried peas and beans.....	9 percent.....	4.5 percent.....	8,888
ex07.05B	Lentils.....	5 percent.....	2 percent.....	3,012
08.02	Grapefruit, fresh.....	12 percent.....	6 percent.....	3,246
12.03B	Various field seeds.....	8 percent.....	6 percent.....	3,545
15.02A	Industrial use unrendered fats of bovine cattle, sheep or goats, tallow.	2 percent.....	Free.....	28,354
15.02B	Other than industrial use.....	10 percent.....	7 percent.....	8,001
16.02B1	Prepared or preserved meat of poultry (canned).....	21 percent.....	17 percent.....	3,457
20.06B11b	Canned fruit with sugar added in containers of less than 1 kg.:			
	Fruit cocktail.....	25 percent.....	22 percent.....	26,263
	Other, excluding grapefruit sections, mandarins, and ginger.	do.....	24 percent.....	
23.03	Beet pulp, bagasse, and other waste of sugar manufacture; brewing and distilling waste, etc.	Free (unbound).....	Free (bound).....	16,965
24.01	Unmanufactured tobacco valued at less than \$280 per 100 kg.	28 percent with minimum charge of \$29 and a maximum of \$38 per 100 kg.	23 percent with minimum charge of \$28 and a maximum of \$33 per 100 kg.	105,899
27.01	Coal:			
	West Germany.....	\$5 per metric ton.....	\$2.50 per metric ton.....	285,161
	Other member states.....	Free (unbound).....	Free (bound).....	
27.10	Petroleum and shale oils, other than crude; preparations not elsewhere specified or included containing not less than 70 percent by weight of petroleum or shale oils, these oils being the basic constituent of the preparations:			
	III. Lubricating oils and others.....	12 percent.....	6 percent.....	35,293
29.04C11	Dihydric alcohols.....	19 percent.....	16.4 percent.....	13,854
29.27	Nitrite-function compounds.....	17 percent.....	15.2 percent.....	14,277
ex38.19Q	Chemical products, n.e.s.....	18 percent.....	14.4 percent.....	14,354
39.01C111	Polyesters including alkyds.....	20 percent.....	16 percent.....	11,421
39.01CVIII	Unspecified condensation products.....	18 percent.....	14.4 percent.....	11,669
41.03B11	Sheep and lamb skins, leather.....	10 percent.....	5 percent.....	10,653
47.01B	Unbleached and bleached chemical woodpulp, sulfate and sulfite.....	6 percent.....	3 percent.....	43,260
48.01	Kraft paper and paperboard, not for manufacture of yarn, and certain paper, n.e.s.....	16 percent.....	12 percent.....	33,131
51.01A	Yarn of synthetic textile fibers.....	12 percent.....	9 percent.....	17,008
84.08A1b	Turbojet engines, thrust more than 2,500 kilograms.....	10 percent.....	5 percent.....	13,095
84.08D1	Parts for reaction and turboprop engines.....	do.....	do.....	29,567
ex.84.10B	Certain other pumps for liquids.....	12 percent.....	6 percent.....	18,414
ex.84.11A11	Pumps and compressors, other n.e.s.....	do.....	do.....	17,355
84.15	Refrigerators and refrigerating equipment.....	10 percent.....	5 percent.....	14,118
84.17F11	Heat treating machinery and equipment other than nonelectric hot water heaters.....	11 percent.....	5.5 percent.....	10,203
ex84.22B	Certain automotive loading, lifting and handling machinery.....	do.....	do.....	20,508
84.22C	Other lifting and handling machinery.....	do.....	do.....	16,313
84.25	Harvesting and threshing machinery and similar agricultural equipment.....	9 percent.....	4.5 percent.....	12,458
84.55B	Parts for statistical and punchcard machines.....	8 percent.....	4 percent.....	14,726
84.55C	Parts for office machines other than electronic calculators.....	11 percent.....	6 percent.....	20,393
84.59E	Other machinery, n.e.s.....	12 percent.....	6 percent.....	31,273
85.19A	Circuit control apparatus and other electrical circuit apparatus.....	13 percent.....	6.5 percent.....	35,687
85.21A111	Electronic tubes, other than cathode ray tubes.....	15 percent.....	7.5 percent.....	16,027
ex87.02A1	Certain motor vehicles, including autos.....	22 percent.....	11 percent.....	15,039
ex88.02B11	Aircraft, unladen weight of over 15,000 kilograms.....	10 percent.....	5 percent.....	94,761
88.03	Parts for aircraft.....	do.....	do.....	97,100
97.04B	Games other than playing cards.....	17 percent.....	8.5 percent.....	13,265

¹ Plus \$5 per hectoliter per degree of alcohol if in containers of less than 2 l. Ad valorem equivalent of final duty based on 1964 would have been approximately 26 percent.

SELECTED JAPANESE CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex08.05-4	Sweet almonds.....	15 percent.....	10 percent.....	2,746
12.01-1	Soya beans.....	13 percent.....	2.4 yens per kilogram (6 percent AVE).	154,045
12.01-7	Safflower seed.....	5 percent.....	2.5 percent.....	21,589
15.01-1(2)A	Rendered pig fat, acid value exceeding 2.....	do.....	Free.....	6,241
15.02-1	Beef tallow.....	4 percent.....	2.5 percent.....	28,382
ex27.10-1(5)B	Lubricating oils, specific gravity more than 0.8394 at 15° C.....	20 percent.....	15 percent.....	24,762
ex29.04	Butyl alcohol, ethylene glycol, propylene glycol.....	do.....	do.....	5,014
ex29.44-2	Certain antibiotics.....	17 percent.....	8.5 percent.....	3,230
76.01	Aluminum and its alloys, unwrought.....	13 percent.....	9 percent.....	2,348
84.22	Cranes, conveyors, lifts, hoists, etc.....	15 percent.....	7.5 percent.....	3,029
84.40	Machinery for cleaning, drying, and finishing textiles and printing repetitive designs on textiles, paper, linoleum, etc.....	do.....	do.....	4,371
84.44	Rolling mills, rollers, and parts.....	do.....	do.....	8,478
ex84.45-1(6)	Gear-cutting machines, n.e.s., and gear-finishing machines.....	do.....	Part, 10 percent; part, 7.5 percent.....	4,458
ex84.45-2	Bending machines, presses, shearing machines, forging machines, and other machines for working metal, n.e.s.....	do.....	7.5 percent.....	39,562
84.49	Handtools, pneumatic or with self-contained nonelectric motor.....	do.....	do.....	2,965
Ex84.52	Calculating machines, accounting machines, cash registers, etc. incorporating a calculating device (except digital computers and auxiliary machinery; electric calculating machines with 3 rules or more; electronic bookkeeping and accounting machines with 3 rules or more; and cash registers with 5 or more totaling devices).....	do.....	do.....	4,443
84.63	Transmission shafts, cranks, bearing housings, gears and gearing, and parts.....	do.....	do.....	6,503
Ex85.11	Electric furnaces, ovens, and induction and die-electric heating equipment and parts; electric welding machines, except those operated by numerical control systems.....	do.....	do.....	4,852
85.19	Electrical apparatus for making, breaking, or protecting electrical circuits and parts thereof.....	do.....	do.....	10,485
90.24	Instruments and apparatus for measuring, checking, automatically controlling flow, depth, pressure, temperature, etc. of liquids or gases.....	do.....	do.....	3,970
90.29	Parts of instruments or apparatus for measuring or checking falling within BTN headings No. 90.23, 90.24, 90.26, 90.27 or 90.28.....	do.....	do.....	11,695
Ex92.12-3(2)	Recording tapes, wires, sheets, etc. n.e.s.....	20 percent.....	10 percent.....	2,296
97.04-3	Equipment for indoor games, parts, and accessories, n.e.s.....	30 percent.....	15 percent.....	5,204
Ex97.06-3	Golf requisites, parts, and accessories, n.e.s.....	20 percent.....	10 percent.....	2,935

SELECTED NORWEGIAN CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
08.12A	Dried prunes.....	0.12 (4.0 percent).....	Free.....	899
ex15.02A	Inedible tallow.....	0.08 (7.2 percent).....	0.04.....	298
ex20.06C2b	Canned pineapple, peaches, mixed fruit.....	0.06 (29 percent).....	0.30.....	1,700
24.01	Tobacco, raw.....	Free (unbound).....	Free (bound).....	5,680
29.35B	Heterocyclic compounds.....	30 percent.....	15 percent.....	149
37.02B	Photo film.....	4.00 (5 percent).....	2.00.....	405
38.14	Antiknock preparations.....	20 percent.....	15 percent.....	433
68.06A	Abrasive paper.....	0.16 (3 percent).....	0.08.....	161
73.40C	Articles of iron and steel, n.e.s.....	10 percent.....	5 percent.....	297
84.06C	Outboard motors.....	do.....	do.....	386
84.10A	Pumps for liquids.....	15 percent.....	7.5 percent.....	174
ex84.19B	Dishwashing machines.....	20 percent.....	10 percent.....	338
84.23B	Rotary rock drills.....	10 percent.....	8 percent.....	385
84.51	Electric typewriters.....	do.....	5 percent.....	217
84.53	Statistical machines.....	do.....	do.....	972
ex87.02A	Passenger cars.....	do.....	8 percent.....	1,236
ex87.06B3	Passenger car parts and accessories.....	25 percent.....	12.5 percent.....	679
ex90.14B	Navigational instruments.....	20 percent.....	10 percent.....	234

¹ Rates are expressed in percent ad valorem or in Norwegian crowns per kilogram unless otherwise indicated (Norwegian crowns 7.14 equal U.S. \$1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED SWEDISH CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex08.02	Lemons.....	5 kronor per 100 kg. (4.3 percent).....	Free.....	\$655
ex19.08	Biscuits and wafers.....	10 percent.....	5 percent.....	622
ex20.02	Canned asparagus.....	75 kronor per 100 kg. (28 percent).....	65 kronor per 100 kg.....	960
ex20.06	Canned pineapple, peaches, mixed fruit.....	25 kronor per 100 kg. (17 percent).....	12.50 kronor per 100 kg.....	3,772
ex20.07	Canned citrus juices, unsweetened.....	20 kronor per 100 kg. (29 percent).....	7.50 kronor per 100 kg.....	599
24.01	Unmanufactured tobacco.....	Free (unbound).....	Free (bound).....	21,157
27.01	Coal.....	do.....	do.....	13,383
ex40.06	Adhesive-backed materials.....	10 percent.....	5 percent.....	1,380
84.06	Internal combustion piston engines.....	do.....	do.....	8,693
84.10	Pumps for liquids; liquid elevators.....	do.....	do.....	1,393
84.11	Air and vacuum pumps, compressors, fans, etc.....	do.....	do.....	1,576
84.15	Refrigerators and refrigerating equipment.....	do.....	do.....	1,727
84.19	Bottling, dishwashing, packing machinery and parts.....	do.....	do.....	3,227
84.23	Excavating, leveling, boring machinery and parts.....	do.....	do.....	5,154
84.49	Handtools, pneumatic or with non-electric motor.....	do.....	do.....	1,669
84.52	Calculating, accounting, and similar machines.....	do.....	do.....	3,050
85.01	Generators, motors, converters, etc., and parts.....	do.....	do.....	2,906
85.19	Electrical circuit apparatus.....	Part 10 percent; part 15 percent.....	Part 7 percent; part 10 percent.....	5,559
85.21	Thermionic cathode valves and tubes, etc.....	10 percent.....	5 percent.....	4,847
87.01	Tractors.....	do.....	8 percent.....	3,774
87.02	Passenger cars, new and used.....	15 percent.....	10 percent.....	11,447
90.10	Photographic and motion picture laboratory equipment.....	10 percent.....	5 percent.....	1,110
90.24	Apparatus for measuring, etc. the variables of liquids and gases.....	do.....	7 percent.....	1,051

¹ Rates are expressed in percent ad valorem or in Swedish crowns per 100 kilograms unless otherwise indicated (5.18 Swedish crowns equal U.S. \$1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED SWISS CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex08.04	Raisins.....	8 (7.2 percent).....	5.....	485
ex20.02	Canned asparagus.....	38 (14.8 percent).....	20.....	2,194
ex20.06	Canned pineapple.....	40 (34.7 percent).....	25.....	1,172
ex20.06	Canned peaches.....	45 (32.8 percent).....	30.....	2,426
ex20.06	Canned fruit cocktail.....	45 (32.8 percent).....	40.....	1,090
ex40.06	Adhesives on nonrubber backings.....	60 (5.0 percent).....	30.....	1,090
ex40.11	Tires and tubes, except solid.....	20 (3.8 percent).....	16.....	1,000
ex43.02	Fur skins, tanned or dressed, not assembled.....	45 (0.3 percent).....	30.....	1,338
ex51.04	Woven synthetic fabrics, bleached or dyed.....	Part, 700; part, 750 (22.7 percent).....	500.....	1,748
59.01	Wadding and articles of wadding.....	Part 40; part 60 (6.9 percent).....	30.....	394
ex61.09	Corsets, brassiers, etc., of manmade textiles.....	1,200 (12.5 percent).....	600.....	1,472
ex84.10	Pumps for liquids, weighing 25 kg. or less.....	60 (3.4 percent).....	35.....	830
ex84.11	Air or gas compressors, weighing not over 5,000 kg.....	Part 30 (4.2 percent)..... Part 40 (5.7 percent)..... Part 50 (4.6 percent).....	Part 15..... Part 20..... Part 30.....	944
ex84.15	Refrigerators, finished.....	90 (19.2 percent).....	45.....	490
ex84.22	Lifting, handling, etc., machinery, weighing 10,000 to 25,000 kg.....	20 (6.1 percent).....	10.....	1,021
ex84.23	Excavating, leveling, etc., machinery, weighing 10,000 to 25,000 kg.....	20 (3.7 percent).....	10.....	8,554
ex84.34	Machinery, etc., for typesetting or typesetting.....	10 (2 percent).....	5.....	717
84.49	Handtools, pneumatic or with nonelectric motors.....	70 (2.4 percent).....	35.....	904
ex84.52	Calculating, accounting machines, etc., weighing over 100 kg.....	300 (3.8 percent).....	230.....	1,026
84.53	Statistical and accounting punchcard machines.....	200 (2.9 percent).....	100.....	5,905
ex84.63	Transmission shafts, cranks, gears, etc., weighing 25 kg. or less.....	60 (5.7 percent).....	30.....	1,138
85.05	Handtools with self-contained electric motor.....	70 (2.4 percent).....	40.....	428
ex85.19	Electrical circuit apparatus, weighing 0.3 kg. or less.....	150 (4.5 percent).....	120.....	1,415
ex90.07	Photographic cameras with 2 shutter speeds.....	150 (4.5 percent).....	100.....	668
92.12	Sound recordings and articles for recording sound.....	200 (6.1 percent).....	110.....	629
ex97.06	Skis and ski sticks.....	150 (7.4 percent).....	75.....	741

¹ Rates are expressed in Swiss francs per 100 kilograms (4.3 Swiss francs=U.S. \$1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED UNITED KINGDOM CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty ¹		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex02.01Bla	Beef tongues.....	Free (unbound).....	Free (bound).....	4, 874
02.01Bib	Edible offals of beef and veal, other.....	20 percent.....	10 percent.....	
07.05D	Dried white beans.....	8 percent.....	4 percent.....	5, 642
08.04B	Raisins.....	8s. 6d. per hundred-weight (7.4 percent).	4s. per hundred-weight.....	
16.04C	Canned salmon.....	5 percent.....	2.5 percent.....	11, 766
29.15	Polyacids and their anhydrides.....	33.3 percent.....	23 percent.....	3, 077
29.27B	Nitrile-function compounds.....	33.3 percent.....	23 percent.....	5, 963
ex48.01	Kraft linerboard.....	13.3 percent.....	10 percent.....	22, 094
76.01A2	Alloys of aluminum.....	10 percent.....	5 percent.....	3, 519
84.10	Pumps and parts.....	14 percent.....	7.5 percent.....	7, 706
84.23A	Power-operated excavating machines.....	12 percent.....	do.....	15, 844
85.19C	Circuit breakers, other.....	16 percent.....	8 percent.....	17, 615
87.01A2	Tracklaying tractors, drawbar horsepower exceeding 50.....	15 percent.....	7.5 percent.....	2, 965
90.07A2	Photographic cameras, other.....	40 percent.....	20 percent.....	3, 314
90.24	Instruments for measuring, checking, or controlling flow, depth, or pressure, etc.....	16 percent.....	8 percent.....	2, 754

¹ Rates are expressed in percent ad valorem or in British pounds, shillings, and/or pence per hundredweight converted at rate of \$2.89 (United States) per British pound. Ad valorem equivalents (1961) of specific or compound duties shown in parentheses.

Chairman BOGGS. Senator MILLER?

Senator MILLER. Mr. Ambassador, can you tell us, are there any import duties now in the EEC on our feed grains and feed shipments?

Mr. ROTH. Are you talking about wheat or feed grains?

Senator MILLER. Wheat or feed grains, our export to the EEC, are there any duties that have to be paid over there?

Mr. ROTH. There are. But let me ask Mr. Ioanes.

Mr. IOANES. There are variable levies.

Senator MILLER. There is no change in those, as I understand it.

Mr. IOANES. No change.

Senator MILLER. No reduction?

Mr. IOANES. No, sir.

Senator MILLER. Did the EEC agree to reduce any of its duties on meat?

Mr. ROTH. On certain variety meats. We early decided that in dairy products and meat, as well as in grains, we would try to have a sector negotiation. In dairy products this proved impossible, and it was certainly difficult for the United States. In meat it proved impossible. The Community was very much against opening their own market. But finally they agreed to a bilateral arrangement with the Argentinians. To the extent that the Argentinians, or, say, the Australians, could get meat into the Community and take the pressure off the U.S. market, this was to our advantage.

Finally, an agreement, as I say, was reached between the Argentinians and the Community. At that point in France there were very strong reactions by the farming groups, and the agreement was canceled by the Council of Six. And the Argentinians at that time almost left the Kennedy Round. They didn't. But the answer in short is that

the EEC has not opened their market to meat to any great extent, except to some variety meats that we were particularly interested in.

Senator MILLER. We have been shipping some meat over there, especially to France. But I am not asking a question about opening their market, I am asking a question about whether or not they reduced any of their trade areas.

Mr. ROTH. Edible offals and variety meats.

Senator MILLER. What do you mean by variety meats?

Mr. IOANES. The heart, liver, tongue, and innards of animals. This is about a \$30 million trade item.

Senator MILLER. To the EEC?

Mr. IOANES. Yes, sir. And the reduction was from a duty of about 20 percent down to about 10 percent.

Senator MILLER. On poultry, as I understand it, there is no reduction of tariffs, except as to canned poultry.

Mr. ROTH. Canned, preserved poultry.

Senator MILLER. No reduction on any other. As I understand, just since the negotiation was concluded, the EEC put another 3 cents a pound on poultry. There are no reductions there.

Mr. ROTH. When we settled the so-called great poultry war we took action against them, as you remember, in a number of products of interest to the Community. During the Kennedy Round they were terribly anxious to get these tariff increases back down again, particularly on Volkswagen trucks. We refused to unless they did something about poultry of advantage to us. And they couldn't. So we stand as we did.

Senator MILLER. And on dairy I said there was nothing done?

Mr. ROTH. No, sir, except we made some cuts on a very few cheeses that do not come under section 22.

Senator MILLER. Now, on our side, did we reduce our import duties on any of their meats coming into this country from the EEC?

Mr. ROTH. We reduced no duties that I remember on meats. We bound an item, but didn't reduce it—canned hams, of particular interest to the Scandinavian countries, of which the Community was a second supplier. And we gave a reduction on goose liver paste.

What we did in the nongrains negotiations with the Community was to try to give them a sprinkling of offers in various areas as they did us. But we gave them less than we received.

Senator MILLER. Then as I see it, to summarize, there were no reductions by the EEC with respect to grain, there was no access with respect to grains, there was some reduction with respect to meats, and there was no reduction with respect to poultry except with respect to the canned chickens, no reductions with respect to dairy foods. And what I come up with is that there is concern over the implementation of the policy which has been stated by the President and by Mr. Herter and by you publicly on several occasions, and privately to me in correspondence, by both Mr. Herter and by you, that consistently any trade agreements would have to include "meaningful concessions by the European Community with respect to their agricultural trade barriers."

What I am running into, Mr. Ambassador, is criticism of the failure to implement that policy. And it may be that for a few people who export those specialty items that you referred to that this will be helpful. But looking at the agricultural community as a whole, and especially the exporters of grain, feed grains, and wheat, and the exporters of what we normally consider meat, I don't see any meaningful concessions. I recognize that there is this food aid angle, but I don't look upon that as a concession in the lowering of trade barriers. And of course there is no access that may necessarily accompany that. We just take our chances with other exporting countries that 1 million tons of food aid that might open up the market in the EEC will be available to our suppliers, but there is no guarantee that our farmers are going to get that. There is no guarantee that our 9 million tons a year of grain shipments to the EEC will continue.

Now, this is the kind of criticism I receive. And I have just laid it out on the table for you to comment on. Because I certainly don't want to have my own criticism misdirected. And I want to be responsive to the critics. So I would appreciate your comment on that.

Mr. ROTH, Senator, I thank you very much for giving me this opportunity, because I think your questions are very fair ones.

Let me say that I think the criticism that I have seen distorts the issues somewhat. Because, one, the critics are talking about our trade with only one of our agricultural markets; namely, the European Community.

Senator MILLER. But they are talking about it, Mr. Ambassador, in the light of the publicly expressed policy that any trade agreement will have to include meaningful concessions by the European Community with respect to their agricultural trade barriers.

Mr. ROTH. I am aware of this.

Secondly, when they say we did not get anything substantial from the European Community, they are talking about those areas—and poultry is one of the best examples—where the variable levy exists, where the common agricultural policy has come into being. We would like to have seen the EEC change their basic policy. There was absolutely no opportunity to do this. They would not. They had six countries that came together over a period of years and put together a policy which may in the future be changed, because it is too expensive over the years, but it could not be changed in the Kennedy Round. They made us some offers based on variable levies, say, in some of the fruit areas, where we presently have bindings of tariff reductions. We turned those offers down, because we said, as long as you have a variable levy these offers are meaningless, and rather than accept a bad offer we will keep our bindings.

But in spite of this—and this comes back to the first part of your question—we got offers of value from the Community, not just in variety meats, but in tobacco, dried vegetables, citrus, fruits and nuts, tallow—

Senator MILLER. What did you get on tallow, may I ask?

Mr. ROTH. I think that was a 50-percent reduction.

Might I say that, after 4 years of negotiations, 30 days before the end of the negotiation we had from the Community on the table \$50 million worth of agricultural offers. And I made it a point at that time that this was not acceptable, that we could not conclude the Kennedy Round with merely token offers on the table. And this was made strongly time after time after time. And finally, point by point in the final hours of the negotiation before May 15 we got this up to in excess of \$200 million in terms of trade coverage.

So it is not correct to say that we did not get something of substance, or something of importance in the Kennedy Round from the EEC. We would like to have gotten more. And looking to the future, we have to find some way to deal with the common agricultural policy and variable levy. But never before in a trade negotiation have we made this kind of breakthrough in agriculture.

Senator MILLER. You said you had \$200 million covered in agricultural items with the EEC.

Mr. ROTH. In excess of that.

Senator MILLER. In excess of that. Looking at it from the industrial products' side, how many millions of dollars did you have covered, how many were included in your agreement with the EEC?

Mr. ROTH. \$2.4 billion.

Senator MILLER. \$2.4 billion. Now, the \$2.4 billion would be roughly 45 percent, I believe, the total volume of trade with the EEC, would it not?

Mr. ROTH. I am sorry, sir?

Senator MILLER. The \$2.4 billion which you said was covered by the industrial negotiations would comprise approximately 45 percent of the total trade in 1966 with the EEC. According to my figures, we had total exports of \$5.2 billion to the EEC in 1966. So that the \$2.4 billion would comprise about 45 percent of the total exports. As a matter of fact, the \$5.2 billion total exports minus \$1.5 billion of agriculture would leave \$3.7 billion which probably would embrace industrial items. And you have tabled \$2.4 billion worth, which is well over 50 percent of the industrial loans. But when it came to agriculture you tabled \$200 million worth as against \$1.5 billion of total agricultural exports.

So, looking at it from the standpoint of a ratio, well upward of 60 percent of our industrial items were tabled, but only about 7 percent of our agricultural items were tabled.

Do you follow me?

Mr. ROTH. I follow you, Senator. I am not certain about your figures, but I would like to provide our own.

Senator MILLER. These figures can be substantiated, they are in our Joint Economic Committee report at page 89.¹ And they were based on Government reports.

(The tables referred to by Senator Miller are reprinted herein:)

¹ Senate Report No. 73, 90th Cong., first sess., 1967, Joint Economic Committee Report.

TABLE IV.—U.S. IMPORTS, 1964, 1965, AND 1966

[In millions of dollars]

	Total imports	Agricultural imports	Agricultural imports as percent of total imports
1964.....	\$18,600	\$4,082	22
1965.....	21,282	4,088	19
1966.....	25,408	4,492	18
1961-63 average.....			24
1964-66 average.....			20
From the European Economic Community:			
1964.....	2,831	258	9
1965.....	3,316	270	8
1966.....	4,098	306	7
1961-63 average.....			10
1964-66 average.....			8
From United Kingdom:			
1964.....	1,132	23	2
1965.....	1,403	24	2
1966.....	1,761	30	2
1961-63 average.....			2
1964-66 average.....			2
From Japan:			
1964.....	1,763	40	2
1965.....	2,401	37	2
1966.....	2,948	37	1
1961-63 average.....			3
1964-66 average.....			2
From Canada:			
1964.....	4,227	176	4
1965.....	4,813	234	5
1966.....	6,106	240	4
1961-63 average.....			5
1964-66 average.....			4

TABLE V.—U.S. EXPORTS, 1964, 1965, AND 1966

[In millions of dollars]

	Total exports	Agricultural exports	Agricultural exports as percent of total exports
1964.....	\$26,086	\$6,347	24
1965.....	27,003	6,229	23
1966.....	29,912	6,885	23
1961-63 average.....			26
1964-66 average.....			23
To European Economic Community:			
1964.....	4,481	1,416	32
1965.....	4,904	1,476	30
1966.....	5,264	1,561	30
1961-63 average.....			32
1964-66 average.....			31
To United Kingdom:			
1964.....	1,445	440	30
1965.....	1,537	398	26
1966.....	1,645	471	29
1961-63 average.....			38
1964-66 average.....			28
To Japan:			
1964.....	1,894	720	38
1965.....	2,042	876	43
1966.....	2,312	942	41
1961-63 average.....			35
1964-66 average.....			41
To Canada:			
1964.....	4,653	1,615	13
1965.....	5,486	2,620	11
1966.....	6,487	3,626	10
1961-63 average.....			14
1964-66 average.....			11

¹ Includes \$160,000,000 in transit shipments.² Includes \$176,000,000 in transit shipments.³ Includes \$140,000,000 in transit shipments.

Mr. ROTH. I think we are using different years.

Senator MILLER. I am talking about 1966.

Mr. ROTH. We are using 1964.

Senator MILLER. I could take 1964 if you like.

Mr. ROTH. I think you make your point.

(The following table was later supplied:)

KENNEDY ROUND CONCESSIONS—UNITED STATES AND EEC TRADE

[1964, millions of dollars, c.i.f.]

	Dutiable imports (except grains)		Average cut, dutiable	Free, bound in Kennedy Round	Grains (trade coverage)
	Total	Concessions			
Total:			Percent		
(a) U.S. imports from EEC.....	2,656	2,136	34	4	3
(b) EEC imports from United States.....	3,065	2,627	29	289	452
Agricultural:					
(a) U.S. imports from EEC.....	202	117	13	1	3
(b) EEC imports from United States.....	445	223	13	19	452
Nonagricultural:					
(a) U.S. imports from EEC.....	2,454	2,019	36	3	-----
(b) EEC imports from United States.....	2,620	2,404	32	270	-----

Senator MILLER. And the point is that when it comes to working out an agreement with the EEC, we tabled about 60 percent of the industrial volumes. But when it came to agriculture we only tabled about 7 percent.

Mr. ROTH. If you are talking in terms of U.S. offers——

Senator MILLER. I am sorry, about 15 percent.

So when it came to getting down to negotiations on agricultural items, we only got together on about 15 percent of our trade items. And on industrial items we got together on about 60 percent. And my point is that it doesn't look like we came out very well on agriculture overall, certainly not compared to industry, to the other industrial items. And I say this just to make the record straight. I understand and appreciate the difficulties you people face. But I come back to that basic policy that there weren't going to be any trade agreements with the EEC until they made meaningful concessions on agriculture. Now, what is meaningful is something that you get into semantics on; \$200 million offhand sounds meaningful. But the ratio that I point out, amounting to only 15 percent of our agricultural trade, I suggest to you is woefully weak compared to the industrial items of 60 percent.

Mr. ROTH. Senator, I feel that your point is well taken. Certainly more was done in the industry, and we expected to do more, than in agriculture. I think we did get offers of real substance in agriculture from the EEC. And, secondly, we only paid for what we got.

But there are many areas in agriculture unlike in industry, or more so than in industry, which are very difficult to negotiate in. Take dairy products; they wanted to negotiate in dairy products more than anything else, but we couldn't, because, except for Roquefort, and certain other cheeses, everything was under section 22. And most recently; namely, a week ago, the President and the Secretary of Agriculture

had to announce certain changes in cutback, because of problems domestically in the import of cheese. We couldn't go into that area. We were quite frank. Then they came back time after time and said, why can't you negotiate in the agricultural area of the greatest interest to us. And we had to say that each country in agriculture does have problems. They are more difficult than in industry, because they are related to farm income, and varying elements such as that.

So all I can say, Senator, is that in this area all the countries—I am not talking only about the Community and the United States—made a very substantial first step. But it is only a first step.

Senator MILLER. One more point. In connection with the wheat price the point was made that the wheat price would range from, well, a minimum of \$1.80. Another criticism I hear was that this was meaningless because the world price at gulf ports is substantially over that. What is your answer to that?

Mr. ROTH. Senator, finding the right mean price, which came out at \$1.73 U.S. No. 2 Hard Winter at the gulf, was a very difficult one. The other exporters, and the Canadians in particular, having in mind advance contracts with markets other than those we serve—the Soviet Union, China—were interested in as high a price as possible. So were many of our producing groups; \$1.85 is where we started in the negotiations with the others, which was a price much too high principally for the Japanese and the United Kingdom, and even for the Community. And so we realized that this would be a price that we might have to lower.

On the other hand, the U.S. grain traders felt that we should increase the price as little as possible, because too high a price would undermine U.S. competitive position.

So we had to find a price in the proper range.

I would like to add that when we first began talking to the exporters about a minimum price, we tried to develop a rather rigid mechanism that would protect that minimum when the price fell that low. And we came basically to a kind of sharing-the-market concept. Many farm groups had great trouble with this, and certainly the grain traders did, too. So we threw that out. Now we have a consultative mechanism under the agreement which operates when you begin to approach the minimum price. But it is a much more flexible arrangement.

I am sorry to be so long in explaining what our thinking is. This position developed over almost a year and a half, in close consultation both with producers on one side and the grain traders on the other.

Senator MILLER. I can see and understand that this is a complex matter, and that it would be something that would require a lot of weighing of fact. My only point is that I am not able to see—and I must agree with the critics on this point—I am not able to see any particular advantage to the American grain farmer of having a \$1.80 per bushel world price when the world market is now at \$1.83. It may be that the market will go down and the \$1.80 had been helpful, but nobody knows that. And I think that the statement that this was a great boon to the grain farmer, especially the wheat farmer, may be a little euphoria. I just want to get this thing in perspective. And I cannot reply to the critics right now by saying, oh, well, maybe the

price will go back down below \$1.80 and you will be protected; they are going to come back at you and say, you don't know what the future will bring. I take it you were trying to put a floor under this.

Mr. ROTH. That is right, Senator. We didn't want a minimum price so high that the world price for large parts of the year would rest on that minimum. We wanted and expected an increase underpinning which would permit the world price to float above it, so that we could maximize our competitive position.

Senator MILLER. One last question. I know it is not easy to gaze into a crystal ball, but you must have done this, especially in consultation with your agricultural adviser. Is it your evaluation that as a result of the Kennedy Round of negotiations our export of grains to the Common Market will not decrease?

Mr. ROTH. My simple answer to that would be yes. Perhaps Mr. Ioanes would like to add something?

Mr. IOANES. I would certainly agree to this. We took no action in grain or any other item that would decrease our exports. We already talked of the benefits that would come with the million ton food aid package, either from the Community itself or from third markets. And I can think of no other action we took that would result in a downturn in our grain marketing to Europe.

Senator MILLER. My question, by the way, should include soybeans as well. Would your answer hold to that?

Mr. IOANES. Soybeans were already bound duty free, and continue to be.

Senator MILLER. And it is your forecast that they are in their rolls—

Mr. IOANES. I would be optimistic with reasonable certainty that our marketing of soybeans would continue to expand in future years as it has in the past.

Mr. ROTH. And we also have a decrease in our soybeans tariff to Japan.

Senator MILLER. Yes, I understand.

I appreciate very much the testimony of not only the Ambassador, but his colleagues. And I thank my chairman for his indulgence in giving me so much time.

Chairman Boggs. Thank you very much, Mr. Ambassador, and the members of your staff for coming here.

We will adjourn until 10 a.m., tomorrow, Wednesday, July 12, when we will meet in room S-407 of the Capitol.

(Whereupon, at 12:25 p.m., the committee was adjourned to reconvene at 10 a.m., Wednesday, July 12, 1967.)

THE FUTURE OF U.S. FOREIGN TRADE POLICY

WEDNESDAY, JULY 12, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room S-407 the Capitol, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Reuss, and Widnall.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman Boggs. The subcommittee will come to order.

I am informed that Assistant Secretary Solomon is, unfortunately, ill this morning.

We have his deputy, Mr. Joseph A. Greenwald, Deputy Assistant Secretary for International Trade Policy, with us.

Mr. Greenwald will incorporate the Secretary's statement into the record, and also make the statement that the Secretary would have made had he been here.

We are very happy also to have Assistant Secretary McQuade, with his deputy, Robert L. McNeill.

We will hear from all of these gentlemen this morning.

Thank you very much for coming. You may go right ahead.

STATEMENT OF HON. LAWRENCE C. McQUADE, ACTING ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS; ACCOMPANIED BY ROBERT L. McNEILL, DEPUTY ASSISTANT SECRETARY FOR TRADE POLICY

Mr. McQUADE. I am very pleased to be here today to take part in this evaluation of our foreign trade policy. I believe that hearings of this type are useful in defining problems and seeking to determine precisely what our national objectives should be.

Six years ago this committee held hearings on our foreign trade policies, and a great deal of credit belongs to this committee for the passage of the Trade Expansion Act, which laid the groundwork for the successful Kennedy Round negotiations just completed. The results of these negotiations have not been fully revealed but I can assure you that in a few days complete details on the concessions granted by other countries will be made public and those interested in this area can see the fruits of our work. I think, given the aggressive

and imaginative character of U.S. businessmen, that it will open up great new opportunities for them in the international markets.

However, I do not plan to make any further remarks about the Kennedy Round other than to note at this time that there is still some unfinished business. The administration will be submitting to the Congress proposals for implementing the second part of the agreement on chemicals dealing with elimination of the American selling price system of valuation. The Department of Commerce supports elimination of the American selling price system of valuation. The Department of Commerce supports the chemical agreement and we will be testifying before the appropriate committees urging enactment of the implementing legislation. Action by the legislatures of other countries is required for fulfilling some of the obligations they have assumed. In brief, the Kennedy Round will be occupying part of our time for some months to come.

Other issues of trade policy which lie before us can be divided into two categories—those of immediate importance calling for action in the next few months and those of a longer term nature. I will discuss them in that order.

Perhaps the most immediate problem before us, other than the legislation dealing with chemicals, is additional tariff cutting authority for the President to replace that which expired on June 30. Basically our need is for a relatively small reduction authority which will provide us with tools for handling day-to-day housekeeping problems of compensating other countries for increases in U.S. tariff rates. Such increases, as you know, may be brought about by legislation enacted by the Congress, by escape clause actions which might be approved by the President increasing rates on items now subject to tariff concessions, and by decisions of customs courts. We might also need such authority to modify existing tariff concessions in order to take care of technical problems or close loopholes which may arise. We anticipate that proposals on this subject will be presented to the Congress in the near future.

Probably the second matter of immediate importance arises from the fact that the concessions granted by the United States will go into effect on the first of next year. This will necessitate, in our judgment, amendment of title III of the Trade Expansion Act to improve the provisions relating to applications for adjustment assistance. Failure of any firm or groups of workers to meet the act's tests for injury or the threat of injury from imports over the last 5 years indicates that the provisions may be too rigid. This matter is being discussed within the administration with a new view to submitting appropriate legislation to the Congress.

These are the problems in the immediate future which require action. Now I would like to concentrate on some of the longer range issues. While I cannot do so here today, I think it is proper to note that the problems have to be related to the economy of our country and to the impact on our balance-of-payments position when we try to define our national interest.

One of the problems which will be given considerable study is the effect of removing trade barriers on the flow of investment both into and out of the United States. While our knowledge in this area is

limited it is clear that a relationship does exist, as almost one-quarter of our total exports is to overseas subsidiaries of U.S. firms. As you know, when U.S. firms seek to enter international markets they have a variety of ways they can go about it. One of these is by exporting, another is direct investment, and a third is licensing. And they seek to be effective in international markets by the appropriate mix of these three methods.

This is reflected in part in the extraordinary growth over the last decade of the international firm. We know these firms are making very considerable contributions to economic growth here as well as abroad. We also know that these firms have great flexibility in shifting sales and purchases among suppliers of various countries. We believe we should look further into this relatively new aspect of international business so that we can take into account more fully the effects of policy decisions on the operations of these firms.

Much has been said and written about nontariff barriers and in the Kennedy Round the first real progress was made in tackling these restrictions on a multilateral basis. Nontariff barriers are different things to different people. Some European countries, for example, consider that the U.S. tariff is itself a nontariff barrier because the United States has not adopted the Brussels tariff nomenclature system. We, of course, reject such contentions but the very argument illustrates the variety of things which someone may regard as a trade barrier. Dealing with these subjects is very difficult and requires a great deal of time and effort and understanding as well as constructive thinking on the part of all interested parties. The agreement on international rules for dumping emerged from the Kennedy Round because all countries agreed after long discussion that there was a common problem and that individual attention to it by each country only compounded the difficulties.

This area is very broad and we believe that we should pick up from where we stopped in the Kennedy Round and proceed to see what we can do. Some of the important nontariff barriers of particular concern are in the areas of national procurement, quotas, purchasing policies of State enterprises and monopolies, and safety and health regulations.

But let's not forget that, like negotiations on tariffs, negotiating removal of nontariff barriers to trade is also a two-way street. We have to be willing to put our own house in order when demanding that others do likewise. The handling of the ASP legislation will be a major test in this respect.

Many consider that the border taxes imposed by a great number of the developed countries constitute a nontariff barrier. We do not disagree, but there is a strong relationship with the general problem of tax policy. This issue is extremely difficult in that we are dealing with national tax structures and any solution will have to be approved by a host of national assemblies. Some theorists argue that border taxes have no trade effects. However, it is another thing to explain to a businessman that a border tax of 10, 15, or 20 percent on top of import duties does not have any effect on his exports, or that exemption from such taxes of exports to this country does not have an effect on the prices in the marketplace in the United States. We do not yet have satisfactory answers to the border tax question but we will be looking

for some in the near future. Some think it would be best to seek amendment of the General Agreement on Tariffs and Trade to wipe out the distinction between direct and indirect taxes so that the United States, which largely relies on direct taxes, could legally adopt the same arrangement now followed by most European countries. Perhaps some constructive suggestions for dealing with this problem will emerge from these hearings.

The problems of the developing countries will be covered rather fully by Mr. Greenwald, so I need not dwell a great deal on that subject at this time. The problem in its simplest terms is whether we can properly adopt trade policies which would help promote economic growth in those countries and assist them in earning sufficient foreign exchange so that they can join the developed countries in a trading world free of restrictive devices.

One current suggestion toward this end is a proposal by the developing countries that the industrial nations grant to less-developed country exports the tariff cuts of the Kennedy Round right away instead of staging them over 5 years. We need to examine the implications of such action in terms of its impact on our industries and the general problem of preferences for the exports of developing countries. We know, of course, that many of the products of the developing countries are not competitive with domestic production and that these will pose no problem whatever—some, of course, would pose a problem. We still want to give this matter further consideration, however, before making specific proposals.

Second, there are a number of materials needed by American industry and not available in the United States which are subject to import duties. Some of these could be made free of duty without any difficulty. The Congress seems to be in general sympathy with this idea, for it has approved a number of suspensions of duty in recent years to relieve industry of unnecessary costs. Congress has also given the executive branch authority to negotiate elimination of duties for a few such products, namely nickel and limestone for making cement. We would like to look further into this area and possibly make some recommendations for eliminating duties which would not only help reduce the costs of our domestic industry but would also benefit the developing countries.

Next is the issue of trading with the countries of Eastern Europe and the Soviet Union. This is a matter which is already being discussed within the Congress. We support the principle that the United States should improve its trade relations with these countries. In fact, we believe it is in the national interest to do so. In addition to the foreign policy advantages involved in which we would defer to the Department of State, these countries constitute useful markets for our industrial and agricultural output. We should not, of course, rush headlong into blanket MFN treatment of all such countries, but we should, in my view, authorize the President to make individual MFN arrangements on a country by country, *quid pro quo*, basis where the benefits are clear.

I mentioned earlier that other nations have urged us to adopt the Brussels Tariff Nomenclature system to make our tariff and product classification system consistent with most of the developed countries of the world. Without prejudicing the issue one way or another I think

we should give this idea consideration. A universal tariff classification is obviously desirable and I am sure it would be very helpful to us in the Government and those in business to be able to use statistical data without having to go through complicated and tortuous comparisons of nomenclature. On the other hand, our present tariff was designed to meet our needs. So, the issue is important enough, I think, to merit our consideration in coming months.

Now, Mr. Chairman, I have briefly identified a number of trade policy issues which seem important to us in the Department of Commerce. There are others, of course. We will be following these hearings closely and we will do everything we can to cooperate with this committee in its examination of our foreign trade policy. We expect your deliberations to make an important contribution to the Nation's assessment of the next steps in this field.

Representative Boggs. Thank you very much, Mr. McQuade.

I think before going into questioning we will hear from Mr. Greenwald.

Mr. GREENWALD. Thank you, Mr. Chairman.

I would like to apologize for the fact that Mr. Solomon is not able to appear this morning. He was particularly looking forward to it. I think he attaches a great deal of importance to the work this committee is doing and particularly wanted to be present here to participate in the discussion.

I think you already have the rather lengthy statement which was prepared for Mr. Solomon. It wasn't his intention to read you that lengthy statement. And I will follow his own purpose and just comment very briefly, summarize it very briefly, extemporaneously, if that is all right.

Chairman Boggs. We will incorporate the statement in the record, without objection.

STATEMENT OF HON. ANTHONY M. SOLOMON, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

U.S. FOREIGN TRADE POLICY AND THE DEVELOPING COUNTRIES

INTRODUCTION

The developing countries, as that phrase is now commonly used, consist of well over 100 political entities. There are marked differences among them in size, population, degree of industrialization, and economic growth—so much so that it is misleading to speak of them in aggregate terms as though they were a homogeneous group of countries. But they do share certain characteristics in common: their per capita income is low; their level of industrialization is low; a large part of their labor force is engaged in agriculture with low productivity per acre and per man; and they all want to modernize their economies. Indeed economic growth has become a symbol of national worth and dignity. In human terms, the overwhelming majority of their people face the kind of grinding day-in, day-out, year-in, year-out poverty that leads to the "harsh, brutish and short" lives which is the prevailing condition in most of the world. (Table 1.)

TABLE 1.—*Gross national product per capita, by country*

[U.S. dollars]

Kuwait	3,290	Iraq	240
United States	3,020	Ghana	230
Sweden	2,040	Algeria	230
Switzerland	2,030	Mauritius	220
Canada	1,940	Brazil	220
Luxembourg	1,770	Oceania	220
New Zealand	1,760	Jordan	220
Australia	1,730	Libya	210
Denmark	1,650	Dominican Republic	210
Iceland	1,550	Korea (North)	210
France	1,540	Rhodesia	210
Germany, Federal Republic of	1,540	Iran	210
Norway	1,520	Ivory Coast	200
United Kingdom	1,500	Paraguay	200
Belgium	1,460	Honduras	190
Finland	1,440	Ecuador	190
Netherlands	1,260	Saudi Arabia	190
Czechoslovakia	1,200	China, Republic of	190
Germany (East)	1,120	Syria	180
Israel	1,070	Tunisia	180
Austria	1,020	Liberia	180
Puerto Rico	980	Morocco	170
Poland	930	Senegal	170
U.S.S.R.	890	Zambia	160
Hungary	890	United Arab Republic	150
Italy	850	Philippines	140
Ireland	800	Bolivia	140
Venezuela	780	Mauritania	140
Rumania	710	Congo (Brazzaville)	140
Japan	660	Ceylon	130
Bulgaria	650	Korea (South)	120
Argentina	650	Cambodia	120
Trinidad and Tobago	590	Sierra Leone	120
Uruguay	540	Cameroon	110
Cyprus	530	Thailand	110
South Africa	530	Vietnam (South)	110
Spain	530	Nigeria	100
Greece	510	Vietnam (North)	100
Mongolia	480	China (Mainland)	95
Singapore	460	Malagasy Republic	95
Chile	450	Sudan	95
Panama	450	Central African Republic	90
Mexico	430	Pakistan	90
Jamaica	430	Yemen	90
Malta	410	India	90
Lebanon	390	Kenya	90
Yugoslavia	390	Afghanistan	85
Albania	380	Gambia	85
Cuba	360	Togo	85
British Honduras	360	Swaziland	85
Costa Rica	360	Uganda	80
Barbados	360	Niger	75
Portugal	340	Haiti	75
Surinam	330	Chad	70
Nicaragua	320	Congo, Democratic Republic of	70
Hong Kong	320	the	70
Guatemala	290	Dahomey	70
Gabon	280	Guinea, Republic of	70
Colombia	270	Indonesia	70
Peru	270	Nepal	70
El Salvador	260	Tanzania	70
Malaysia	260	Bechuanaland	65
Guyana	260	Mali	65
Turkey	240	Burma	65
		Basutoland	60

TABLE 1.—*Gross national product per capita, by country—Continued*

[U.S. dollars]			
Laos	60	Somali Republic.....	50
Angola	60	Ethiopia	50
Burundi	50	Upper Volta.....	45
Rwanda	50	Malawi	40

Source: World Bank Atlas of Per Capita Product and Population, IBRD, September 1966. The data are for GNP and relate to 1963 and 1964. It is stressed by the Bank that the figures should not be regarded as official and must be taken with some reserve.

These countries are moving forward with varying degrees of success. A few are sprinting ahead; a few are stagnating. On the average there has been progress but the pace of improvement is uneven and slow. In the first half of the sixties, proclaimed by the United Nations as the development decade, there has been no acceleration in the rate of economic growth of the developing countries as a whole. The rate of growth of per capita income, about 2 percent in 1960-65, was lower than in the preceding decade owing to an acceleration in the rate of population increase. (See table 2.) Thus the gap between the per capita incomes of industrialized and developing countries has continued to widen during the first half of the development decade.

TABLE 2.—GROWTH OF REAL GROSS PRODUCT OF DEVELOPING COUNTRIES BY REGION, AND OF DEVELOPED COUNTRIES, 1950-65

	Annual compound growth rates (percent)		
	1950-55	1955-60	1960-65
Developing countries ¹	4.7	4.5	4.6
Per capita	2.7	1.9	2.0
Asia	4.2	3.8	4.3
Per capita	2.2	1.5	1.8
Latin America	5.0	5.0	4.9
Per capita	2.9	1.3	2.0
Developed market economy countries	4.7	3.3	5.0
Per capita	3.4	2.0	3.7
Socialist countries of Eastern Europe and Asia ²	9.8	8.2	6.7
Per capita	8.2	6.6	5.4

¹ Includes the following African and Middle Eastern countries: Algeria, Congo (Kinshasa), Ghana, Kenya, Malawi, Morocco, Nigeria, Southern Rhodesia, Sudan, Tanzania (Tanganyika only), Tunisia, Uganda, United Arab Republic, Zambia; and Iraq, Israel, Lebanon, Syria.

² Gross material product.

Source: UNCTAD secretariat document TD/B/C.3/34, Feb. 17, 1967, based on data supplied by the Statistical Office of the United Nations.

Trade is a means to economic growth. I would like to talk to you today about U.S. trade policy and the contribution it can make to the economic progress of the developing countries.

A. The importance of foreign trade to developing countries

The developing countries are far more heavily dependent on foreign trade than the United States and most other industrialized countries. For the equipment needed to build a modern economic structure and, all too often, even to import the necessary food to avert starvation, the developing countries are heavily dependent on imports from the industrialized countries. To pay for these imports, the developing countries must export. And trade is clearly the senior partner to foreign aid—about 80 percent of the developing countries' foreign exchange receipts stem from export proceeds. (See table 3.) While foreign aid is a welcome and most important addition to the developing countries' ability to acquire the goods and services they need for their economic growth—and often the margin which avoids their slipping backward—their growth prospects depend critically on the extent to which they can increase their foreign exchange earnings through exports.

TABLE 3.—DEVELOPING COUNTRIES: RECEIPTS AND USES OF EXTERNAL FINANCIAL RESOURCES
[in billions of dollars]

Year	Receipts			Total	Uses					Total	
	Commodity exports (f.o.b.)	Foreign private investment (net)	Official flows (gross)		Debt service		Other investment income payments	Miscellaneous uses (net)	Commodity imports (c.i.f.)		Changes in official reserves (net: + = Increase)
					Amortization	Interest					
1957	25.4	3.4	4.5	0.8	0.2	3.5	3.5	29.7	-0.9	33.3	
1958	24.7	2.6	5.1	1.0	.3	4.5	4.5	27.6	-1.0	32.4	
1959	25.7	2.2	4.8	1.1	.3	3.5	3.5	27.2	+1.6	32.7	
1960	27.3	2.4	5.4	1.4	.4	2.1	1.3	30.0	-1.1	35.1	
1961	27.7	2.4	6.7	1.5	.5	2.1	2.8	30.8	-1.1	35.1	
1962	28.9	1.8	6.8	1.7	.6	2.3	2.1	31.1	-1.1	37.5	
1963	31.5	1.6	7.5	1.8	.7	2.6	2.3	32.4	+3.8	40.6	
1964	34.4	2.3	7.8	2.3	.8	3.0	3.2	34.9	+1.0	44.5	
1965	36.6	(1)	(1)	(1)	(1)	(1)	(1)	36.9	(1)	(1)	

(1) Not available.

Source: UNCTAD Secretariat document TD/B/82/Add. 1, July 20, 1966.

While the total value of their aggregate exports has been increasing year by year, from \$21 billion in 1953 to \$27.3 billion in 1960 to \$36.5 billion in 1965, the developing countries have not shared proportionately in the dramatic growth-promoting spurt of world trade during the postwar era. Thus while the developing countries account for about 27 percent of world exports in 1953, this figure dropped to about 22 percent in 1960 and dropped further to less than 20 percent in 1965.

The root causes of this situation have been well documented in numerous academic studies as well as reports of various intergovernmental institutions. First and foremost is the heavy dependence of the developing countries on exports of primary commodities. About 85 percent of the export earnings of the developing countries as a whole is accounted for by exports of nonmanufactured primary agricultural commodities, crude minerals and metals, and petroleum. The dependence of particular developing countries on exports of a single product is even more striking, for example coffee, cocoa, rubber, sugar, cotton account for very heavy percentages—up to 80 percent—of the total export receipts of particular countries.

With the exception of petroleum, these commodities are not a dynamic and dependable source of foreign exchange. They are, by and large, subject to a low-income elasticity of demand; their prices fluctuate sharply because of variations in supply or cyclical changes in demand; several of them face growing competition from synthetic substitutes; and many are being produced in increasing quantities in the industrialized countries themselves.

In this situation, it is not at all surprising that the developing countries have been focusing their attention on an acceleration of industrialization and industrialization for export. World trade in manufactures has consistently exceeded the growth of world trade generally. The developing countries are anxious to break out of the straitjacket of dependence on a narrow range of products with an unpromising outlook in hopes of rapidly increasing the foreign exchange earnings they need to pay for their ever-increasing imports.

The developing countries have already achieved a measure of success in this regard. An analysis of imports of manufactures, from developing countries to the OECD countries combined,¹ reveals a yearly rate of increase of 15.5 percent between 1960 and 1964 and an increase of 16 percent from 1964 to 1965. An analysis of 49 commodity groupings over the 10-year period 1956–65 indicates an increase of 215 percent. (See table 4.) This relatively favorable picture, however, must be interpreted with some caution. First, exports of manufactures from developing countries are still only the small visible part of the iceberg—85 percent of their earnings are still accounted for by the unpromising primary or crude materials sector; secondly, the commodity composition is fairly narrow and concentrated on certain products, such as textiles, where they cannot expect large increases—indeed, the whole textile sector is fairly rigidly regulated at the present time under the international long-term arrangement governing trade in cotton textiles; and finally, only a relative handful of the 100-plus developing countries are currently benefiting from the recent rapid

¹ United States, Canada, Western Europe, and Japan.

increase in exports of manufactures and semimanufactures—African countries, for example, are almost totally absent from the figures on exports of manufactures.

TABLE 4.—LESS DEVELOPED COUNTRIES' EXPORTS TO THE OECD AREA BY CATEGORIES OF PRODUCTS

Category	Amount (millions)				Increase from 1956 to 1965 (percent)
	1965	1964	1960	1956	
Textiles and clothing (8 groups).....	\$1,122	\$10,20	\$598	\$301	273
Foodstuffs and tobacco (8 groups).....	462	428	315	256	80
Precious stones and jewelry (2 groups).....	378	196	62	54	600
Articles of wood and furniture (4 groups).....	170	159	61	39	336
Leather, leather and rubber articles, and footwear (6 groups).....	174	158	105	79	120
Iron, steel, and metal articles (2 groups).....	140	124	71	51	175
Chemicals (4 groups).....	146	103	75	80	83
Paper and paperboard and manufactures thereof (2 groups).....	11	12	3	10	10
Glass and ceramics (3 groups).....	12	11	3	2	500
Miscellaneous (10 groups).....	255	207	93	40	538
Total (49 groups).....	2,870	2,417	1,393	912	215

Source: OECD Secretariat.

B. The Administration's approach to improving developing countries' export earnings

At the present time, and for the decade ahead, trade in primary products will continue to be the main source of export earnings of the developing countries. If we want to help these countries improve their trade earnings as a means to development, commodity trade is the place to begin.

1. *Primary commodities.*—This trade is plagued by a variety of problems: by persistent overproduction in some key products; by wide and destabilizing price swings in other key products; by severe competition from both natural and synthetic products produced in the industrialized countries, often under highly protectionist regimes; and by preferential arrangements in certain advanced countries that favor one group of primary producers over others.

There is no one solution to this range of problems. What is needed is a multifaceted approach tailored to the problems of specific commodity markets.

In the case of coffee which is the single most important agricultural commodity in the trade of the developing countries and absolutely critical to Latin America and certain African countries, the key problem is structural overproduction.

The International Coffee Agreement, which we helped to develop and actively support, has conducted a valuable holding operation. It averted a disastrous collapse of prices that threatened coffee trade in the early 1960's and it has kept coffee prices reasonably stable by supply control: that is, by keeping exports in line with demand. But more coffee is being produced than the world wants to consume: land, labor, and capital are being wasted in surplus production; and this very surplus production is undermining the agreement.

The critical next step is to help the producing countries move resources out of surplus production into more rewarding uses. We would hope to see a diversification fund become an integral part of the Coffee

Agreement. Access to the funds would be open to countries pursuing appropriate policies to curb coffee overproduction, and the funds themselves would be used for investment in products with a more promising future, including importantly food for domestic consumption where this is feasible.

At the Latin American summit meeting in Punta del Este, President Johnson made clear our willingness to lend \$15 million to help initiate a coffee diversification fund that would be financed on a continuing basis by the producing countries themselves; and to match the contributions of other consuming countries by an additional loan of up to \$15 million. The International Coffee Organization is working closely with the World Bank in developing the main features of the diversification fund.

Cocoa, a critical export earner for Ghana, Nigeria, and other African and Latin countries, is notoriously subject to wide swings in price because of variations in supply due to weather and insect attack. Cocoa prices averaged 17 cents a pound last year, 36 cents in 1959, 29 cents a few months ago. We cannot disregard the impact of these price fluctuations on the economic and political stability of the producing countries.

Negotiations looking toward an international cocoa agreement foundered in 1963 on the question of price. Producers wanted a price range that consumers believed would encourage overproduction, saddle the market with burdensome stocks, check consumption, and encourage the shift to substitutes. In the years since then, further consultations have been held both on price and on the mechanics and financing of a workable buffer stock scheme. Differences have narrowed appreciably and there is reasonable prospect that an agreement can be consummated in the near future that would give producing countries steady growing earnings and assure consumers a stable supply at reasonable prices.

The outlook is less promising in the case of sugar. The International Sugar Agreement has not been operative for many years—in fact, since Cuba refused to accept the rules. Our own trade is governed by our domestic sugar legislation which provides premium prices for supplying countries to the extent of their import quotas in our market. But the world market price has been seriously depressed for some years and adversely affects many low-income suppliers that sell a substantial volume of their output at the world market price.

Efforts to negotiate an international agreement that would strengthen the world price have proved to be very difficult, complicated by Cuba's intransigence on the matter of supply control, and by the unwillingness of certain advanced countries to provide reasonable access.

For many primary products of importance to the trade of the poor countries, improved access to the markets of developed countries is a major concern. Indeed, more than half of their commodity trade, petroleum apart, competes with similar or identical products produced and exported by the rich countries. Their mineral ores and metal exports face few trade barriers in the industrialized countries; demand is buoyant and future prospects are reasonably good. Natural rubber and some tropical fibers are similarly traded freely but the

markets for these products have been eroded by the development of synthetics. For the developing countries dependent on these products the central objective must be to increase the efficiency of their production and marketing so as to meet the competition of synthetic substitutes on a price and quality basis.

There is, however, a wide range of temperate agricultural products in which the poor countries face an array of protective tariff and quota barriers that limit their access to the markets of the rich countries, and of subsidized exports from the rich countries that compete against them in third markets.

The developing countries are pressing for trade liberalization in these products. The prospects for substantial liberalization are not good. In virtually all developed countries, domestic agriculture is insulated in varying degrees from the free play of demand and supply by high price supports, direct subsidies, and import controls. The average income of the farm sector in the rich countries tends to be below that of other sectors in their economies, and the array of protective measures is intended to maintain and increase the income of this sector as a matter of equity.

The developing countries do not challenge the desirability of maintaining farm incomes in the advanced countries but they ask that measures to protect such incomes not be applied in ways that stimulate excessive production. Thus they urge that in lieu of high price supports, farmers' incomes be maintained by direct payments that do not inhibit consumption or unduly stimulate production.

We have recognized that agricultural support policies can have restrictive and disruptive effects on international trade. In the case of cotton, wheat, and feed grains, we have shifted from high price supports to direct payments and we have made our farm payments contingent on producers' cooperation with acreage control. Where surpluses have developed, we have stored them rather than dump them, or made them available on concessional terms to improve the diet and assist the development of low-income countries unable to purchase food on commercial terms. And we have taken precautions to insure that these food aid programs do not interfere with the normal pattern of international trade.

The developing countries have also asked the rich importing countries so to manage their farm economies as to give them a share in their markets and a share in the growth of these markets.

While existing U.S. legislation restricts sugar imports, we have set aside 35 to 40 percent of U.S. sugar requirements for imports. And in the case of meats, the present law permits imports equal to about 5 percent of domestic production before quotas would come into play.

The developing countries have urged the rich countries to assist their farmers by some form of adjustment assistance, of the kind applicable in industry, rather than through protective devices. We are to a considerable extent using a form of adjustment assistance in the farm sector. Thus we are helping marginal farmers to move out of agricultural through our cropland adjustment program and through training programs to enable them to develop skills in industrial employment.

We would hope that the increased effectiveness of the supply management and flexible pricing programs, the continuing shift of marginal farmers to nonagricultural occupations, and the increased role of food aid will make it possible for us progressively to liberalize agricultural trade.

This will necessarily be a slow process. The Kennedy Round has demonstrated that substantial liberalization of agricultural products is not easy to achieve. But it is important that we work together with other developed countries in the years ahead to consider how to deal effectively with all major barriers to less developed countries' agricultural exports.

In the case of tropical products produced solely in the low-income countries, we have no barriers to trade or consumption. Some developed countries do subject these products to high-revenue duties that inhibit consumption or to preferential tariffs that discriminate against certain low-income suppliers in favor of others. We believe the developing countries have a legitimate case that commodities produced solely in the tropical zone should not be a source of revenue to the rich countries at their expense. They have suggested that where such fiscal levies cannot be removed, a share of the receipts be turned back to them.

As to tariffs and quotas that restrict trade in tropical products or discriminate among primary producers, we would hope that all the rich countries would provide duty-free access for these products from all the poor countries. We shall continue our efforts in this matter.

A review of our trade policy as it affects the primary commodity trade of the poor countries would be incomplete without noting the important role that compensatory financing can play in assisting low-income countries whose export earnings fall off for reasons beyond their control. We have supported the liberalization of the compensatory financing facility in the International Monetary Fund, and developing countries are making increasing use of that facility. We are also considering the feasibility of supplementing that facility in the case of deep or protracted shortfalls in the export earnings of developing countries that are disruptive of their development and that may require longer term assistance than the Monetary Fund facility provides. The World Bank has developed a proposal for such a supplementary facility. The specifics of the Bank scheme raise a number of serious questions and we are not prepared to endorse it as formulated, but we are studying variants of the proposal that we may be able to support.

Even if everything were done that could reasonably be done to improve conditions of access for the primary product trade of the developing countries, to stabilize commodity prices at reasonable levels, and to supplement export earnings when shortfalls occur, the developing countries would still be vulnerable because with a few notable exceptions the commodities on which they depend are not dynamic. Demand is not likely to grow commensurately with the increase in world trade and world income.

The fundamental answer to the trade problems of the developing countries is to diversify their output and their exports and thus reduce their excessive dependence on a few traditional commodities. Some benefit can come from a more diversified commodity base and from

a substantial attack on their food problem to lessen their dependence on food imports. But they must also industrialize. While continuing to produce raw materials for the world market and increasing the range of materials they produce, they must expand their industry.

2. *Regional integration.*—The developing countries have tried to develop industry—on a national basis—each country shielding its infant enterprises behind protective walls. The result, by and large, has been high cost inefficient industry with little growth potential. However, by joining together with their neighbors and dismantling the trade barriers among them, they can produce for a wider regional or subregional market. In the larger market, their industry would not be limited as it is today to light consumer goods. They could move in time to more complex intermediate and capital goods. Shielded for a time by their outer tariff walls from the export competition of the advanced countries, enterprises would be exposed to more tolerable competition within the broader regional market and would reach a competitive position in international markets much earlier and more effectively. And not unimportantly, foreign investment would be stimulated to locate within the grouping.

Recognizing the benefits that could come from a continentwide market such as the United States enjoys and spurred by the example of the European Common Market, low-income countries have been moving together to develop free trade areas and common markets.

At the Latin American summit meeting in Punta del Este, the countries of Latin America undertook a commitment of major significance to move forward toward a full Latin American common market. And the United States undertook a parallel commitment to help them with adjustment assistance when the common market gets underway.

We would hope to see similar movements among developing countries in other hemispheres. We believe that regional integration among neighboring less-developing countries that are at roughly the same level of development can be a positive force for economic growth and stability. It can also be a force for political cohesion. The difficulties in such undertakings are formidable, including the resistance of protected enterprises to exposure to increased competition and the concern of each country in the group to get a fair share of new enterprises. The benefits of integration can be realized only if the governments have the political will to push ahead. But if the political will is there, encouragement and support by the rich countries could be quite fruitful.

3. With respect to trade in manufactured goods, the principal point I wish to discuss with the committee is the question of trade preferences for developing countries.

There is nothing very new or startling about trade preferences. We have had preferential trade ties with the Philippines for decades. The extensive network of British Commonwealth preferences dates from 1931. The French and a few other European nations had similar arrangements with African areas for many years. What is new is that the developing countries themselves have recently become dissatisfied with this uneven situation, and with good reason. Neighboring countries of the developing world who frequently produce the same kinds of products face discrimination in developed country markets when one receives a preference and the other does not simply because of the

historical fact of colonial relationships. The system pits the poor against the poor and has neocolonial overtones. It is made to order for creating friction and tensions among the very countries who most of all need to cooperate with each other economically and for their mutual prosperity. And one area of the world—Latin America—has historically had not trade preferences in any market; instead, it has had to cope with discrimination against its exports nearly everywhere. Moreover, developed countries, including the United States, frequently face discrimination because many of these preferential arrangements are reciprocal.

A new situation arose several years ago, however, when it became apparent that discriminatory trade arrangements of this kind were on the increase. The preferences which individual African countries enjoyed in their former metropolises were extended to all of the six member states of the European Common Market. An association agreement between Nigeria and the EEC was concluded last year after lengthy negotiations, thus extending preferences to a single African country which had previously had such advantages only in the Commonwealth markets. A large number of other African countries—the Maghreb and three east African countries—have been seeking some kind of special trade arrangement with the European Common Market.

This growing risk of further proliferation of trade arrangements which discriminate among developing countries was from our viewpoint a most unfortunate development, both politically and economically. It threatened to fragment world trade; it increased the pressures from Latin America for exclusive trade arrangements with the United States; it was a retrogression toward special spheres of influence.

We have always felt that the best way to assist the developing countries is for all industrialized countries to join together in a common effort to help all of the low-income countries. The developing countries themselves felt that a more desirable course of action would be to replace the network of existing preferences which are selective as to product and countries by a general system of trade preferences by all industrialized countries for the benefit of all developing countries and without reciprocal preferences.

In early 1966 the United States, United Kingdom, France, and the Federal Republic of Germany began to explore some of the issues involved in trade preferences pursuant to a mandate from the OECD Ministers. Our own participation in this exercise was, of course, severely circumscribed by our own position of scepticism concerning the workability of any scheme of preferences and, indeed, our basic reservation on the idea as a matter of principle. It became quite apparent to us in the executive branch that this posture which the United States had maintained since the issue of trade preferences first arose in 1964 was ill-suited to our political and economic interests. Politically, we found ourselves virtually isolated from all the developing countries, and most of the industrialized countries as well. Economically, our reservation in principle and scepticism precluded our having much influence over the proliferation of discriminatory arrangements and also reduced our influence with regard to the specific workings of a preference scheme which other industrialized countries

indicated they might put into effect whether or not the United States took part. An important precedent in this regard was the unilateral announcement by Australia in 1965 that it intended to apply a system of trade preferences of its own for developing countries.

This, then, was the general situation confronting President Johnson when he undertook to meet with his fellow chiefs of state of the Inter-America System at Punta del Este last April: a trend toward proliferation of discriminatory preferences which our own adherence to the principle of most-favored-nation treatment had done little to check, and an awareness that the Latin American countries, like other developing countries, are anxious to improve their opportunities for access to the markets of all industrialized countries.

After a searching examination and analysis within the executive branch and preliminary consultations with the Congress, the President agreed that he would indicate to the Latin Americans that we are prepared to explore the feasibility of a system of generalized preferences. The President told his fellow chiefs of state:

We have been examining the kind of trade initiatives that the United States should propose in the years ahead. We are convinced that our future trade policy must pay special attention to the needs of the developing countries in Latin America and elsewhere in the world.

We have been exploring with other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this.

We think this idea is worth pursuing. We will be discussing it further with members of our Congress, with business and labor leaders, and we will seek the cooperation of other governments in the world trading community to see whether a broad consensus can be reached along these lines.

The present hearings are very timely since it gives us in the executive branch an opportunity to discuss further with the Congress—as the President promised would be done—how we presently believe the question of trade preferences will evolve in the coming months and years. I wish to stress that the President has committed the United States only to an exploration of preferences to see whether a consensus can be reached. There are many difficulties—both technical and policy—to be overcome if we are to reach a consensus. We also need the advice of Congress and our business and labor leaders as this matter is pursued.

Multilateral discussion of the preference question thus far has indicated two different kinds of approach in order to deal with three interrelated issues: depth of cut, the means to insure that any preferences actually extended would in fact be temporary, and safeguards for domestic interests in the industrialized countries. These are by no means the only outstanding issues but they are, we believe, the really crucial ones.

One approach envisages the establishment of duty-free quotas for preferential imports from developing countries. Under this approach, the industrialized countries would agree to permit the importation of some fixed percentage of domestic production or consumption of products from developing countries on a duty-free basis. This approach contains its own built-in safeguard against excessive adverse

impact on industrialized countries—depending, of course, on the size of the percentage which might be agreed upon—since, in setting the percentage figures, governments would presumably take into account the extent to which their own domestic interests could absorb increased imports from the developing countries without serious injury.

There are, however, a number of difficult problems with this approach. One is the absence of any mechanism for insuring that preferences thus established would in fact be temporary. It has been suggested that such a scheme might operate for say 10 years after which the situation could be reviewed to see whether it should or could be extended, modified, or terminated. We are not sure this is politically realistic because it is easy to anticipate the pressures that would be exerted when the time for review occurred to extend the system rather than raise duties against the products of developing countries. Moreover, during such a 10-year period reductions of barriers among the industrialized countries themselves might be inhibited because of vested interests in maintaining margins of preference.

An alternative approach to this range of issues might be to visualize preferences for developing countries as the extension in advance to developing countries of trade barrier reductions which the industrialized countries themselves would be prepared to undertake on a most-favored-nation basis over a longer period of time. If an agreement could be reached with other industrialized countries for this kind of approach, the problem of insuring that preferences would in fact be temporary would automatically take care of itself since the preference margins would erode as trade barriers were reduced on an MFN basis. There are numerous difficulties with this approach as well, however. First there is the question of whether any industrialized country, including the United States, is prepared so quickly after the major reductions of trade barriers recently concluded in the Kennedy Round to enter into any kind of commitment to eliminate duties. I believe the realistic answer to this is no. This has accordingly led to the suggestion that the margin of preference under what has been called the "advance cut" approach would have to be something other than duty-free treatment across the board. This, of course, might reduce the attractiveness of the scheme to the developing countries. The question of safeguards under this approach would no doubt have to encompass the traditional devices such as exclusion of products deemed to be particularly sensitive, and an escape clause procedure in the event imports from developing countries threaten or cause serious injury to domestic interests. The case of cotton textiles of course is a special one in that the developing countries are already highly competitive in industrialized country markets and therefore do not need preferences. Moreover, so long as cotton textiles are subject to quantitative restrictions, tariff preferences would not be of any significant benefit to developing countries. In this particular sector, the developing countries will have to look for a gradual liberalization of quantitative restrictions rather than tariff preferences if they are to capitalize on the competitive advantage they already have.

I would like to draw the committee's attention to an important aspect of the second approach I summarized a moment ago; namely, the link between reductions of trade barriers for developing countries and the

future of trade barrier reductions among the industrialized countries themselves. As you all know, the future pattern of our trade relations with the industrialized countries of Western Europe is difficult to predict with any certainty. We have of course given our full support and encouragement to the European Economic Communities and, as the President stated last October, we look forward to a strong, united Europe—with Great Britain a part of it. We thus hope the British will succeed in their current efforts to join the European Communities. We are also aware that if the British effort succeeds, it is likely that a number of other European countries will join the Common Market or possibly associate with the Communities in some manner or other. The precise geographic dimensions and form of membership or association by the various European countries simply cannot be predicted at this stage. It is clear, however, that as trade barriers are reduced among a major grouping of European countries without the benefits of such reductions being extended to the United States, our own competitive position in this enlarged market will be adversely affected. We have accordingly felt that it will be necessary at some stage in the not too distant future—albeit after the Kennedy Round reductions have been digested—to visualize further reductions to the mutual benefit of both the United States and Western Europe, and the other major trading countries of the industrialized world. This is one reason why we have been giving close attention to the feasibility of establishing some kind of meaningful link between the establishment of a possible temporary preference scheme and the future reduction of barriers among the industrialized countries as a whole.

Another major policy issue involved in the preference question is what is to be the disposition of existing preferential arrangements. As I mentioned earlier, there are many such arrangements currently in force with the notable exception of Latin America. Latin America has been particularly critical of this situation and this, indeed, was a contributing factor to the President's decision at Punta del Este to commit us to an exploration of the feasibility of a generalized system of preferences. It has been our thought that we could develop a scheme which would subsume the existing preferences enjoyed by particular developing countries in particular markets. Some difficulties have come to light on this point, however, and we may succeed in only partially achieving our objectives. For example, the developing countries of the Commonwealth and the African countries associated with the European Communities all enjoy duty-free access to these respective markets. If a generalized preference scheme does not take the form of duty-free entry, existing beneficiaries might feel they are obtaining lesser benefits than they now have even though this point is debatable.

There is also the question of reverse preferences, that is the preferences currently enjoyed by some industrialized countries in the developing countries to whom they accord preferential treatment. We for our part have made it clear that such arrangements must be terminated as part of any generalized scheme since we do not consider it reasonable that the United States should be expected to accord preferred treatment to developing countries discriminating against U.S. exports. These arrangements, moreover, convey no benefits to the developing countries who are denied the opportunity to buy in the most favorable market.

Even if it should not prove possible to eliminate completely the preferential access to certain developed country markets that certain favored poor countries now enjoy, agreement on a new system of preferences extended on a nonreciprocal basis by all developed to all developing countries would be a major achievement. It would check the further proliferation of special discriminatory arrangements, the thrust toward new bilateral trading blocs; and it would reduce the range and significance of existing preferences.

There are other policy and technical issues related to preferences that I could discuss with the committee, but I believe the foregoing is sufficient to indicate the range of complexities which are involved.

I would like to invite the committee's attention to an excellent recent survey by the UNCTAD Secretariat of the key issues. I will make available to the committee copies of this document (app., p. 380) and would have no objection if the committee wishes to incorporate it in its report on these hearings. This particular document is being discussed at this very moment in Geneva where the UNCTAD Group on Preferences, on which the United States and 33 other governments are represented, began its meetings on July 4. The document to which I have referred and the specific proposals advanced therein illustrate some of the complexities and the options open to us and other countries. The United States will not enter into any kind of commitment on any of the key details of the suggestions presented by the UNCTAD Secretariat at the meeting now in progress. We believe, however, that the discussions based on this very competent review should serve to clear the air a bit and give us a better appreciation of how the developing countries themselves view the operation of a possible preference scheme. We need such an understanding because a workable scheme of preferences—if it is to be worth the effort which would have to go into it—would have to be one which has the support not only of the industrialized countries but of the developing countries themselves.

With the President's announcement at Punta del Este, the work of the small group of countries in the OECD entered a new phase since the United States no longer maintained a basic reservation on the principle of preferences. Still it appears that there are important areas of difference between the approaches to some of the key issues involved in preferences. The UNCTAD document to which I have referred gives a succinct and quite accurate exposé of these differences in approach.

The time sequence of events is that a report by the small group will be considered within the regular OECD framework this fall, culminating in the meeting of OECD ministers on November 30–December 1. If, at that time, a general consensus can be reached, there might well be a joint OECD proposal to be put before the second United Nations Conference on Trade and Development to be held in New Delhi beginning February 1, 1968. On the other hand, there may be no joint proposal but alternative ideas presented for consideration at that Conference. No matter which course of action may transpire, the United States for its part does not expect that any proposal or proposals will be presented on a take-it-or-leave-it basis but that, instead, the views of developing countries and detailed discussions to develop a workable scheme will require many meetings over a period of many

months both during and after the New Delhi Conference. During this period, of course, the United States will have to be refining its own views in consultations with business and labor and with the Congress since, of course, the United States will not be in a position to extend trade preferences without new enabling legislation. The actual mechanism for ascertaining these views will be part of the long-range study of trade policy which the President has charged Ambassador Roth to carry out.

Let me conclude my presentation by a brief commentary on our trade policy as it relates to both primary products and manufactured goods. The United States has been the prime mover in the worldwide effort to reduce unnecessary barriers to trade. This long effort has recently been crowned with success in the outcome of the Kennedy Round negotiations. There has been some unfortunate—and in our view inaccurate—press commentary to the effect that the Kennedy Round accomplished little or nothing for the developing countries. Let me give you our own appraisal of this situation.

One of the principal objectives throughout the Kennedy Round negotiation was to reduce barriers to exports of developing countries to the maximum extent possible. The U.S. position throughout the negotiation was conditioned by its commitment to this objective. The U.S. concessions benefiting the developing countries cover \$900 million of their exports to the United States in 1964. Of this total, the United States is completely eliminating the duty on more than \$325 million, either under section 202 or section 213 of the Trade Expansion Act. Provisions of the act are such that eliminations under section 213, accounting for at least \$45 million of imports from developing countries, do not need to be staged over a 4-year period. A substantial portion of U.S. concessions—nearly \$500 million—are on manufactured and semimanufactured products from developing countries. This represents a significant reduction of our tariffs on items of interest to the developing countries. We made these concessions, moreover, without seeking reciprocal tariff reductions by the developing countries in keeping with the negotiating principle accepted by all the industrialized countries that full reciprocity could not be expected from the low-income countries.

We have recently completed a detailed analysis of U.S. concessions in relation to a list of the products which the developing countries themselves have declared to be of export interest. This list (see appendix 2) covers 1,376 different tariff classifications of the Tariff Schedules of the United States in which the 1964 trade interest of the developing countries was \$622.7 million. The United States is making tariff concessions on 1,160 of these items accounting for \$489.8 million of their 1964 trade interest. Thus the U.S. concessions will cover approximately 84 percent of the items requested and 79 percent of the developing countries' trade interest in the items contained in this composite list.

We do not yet have similar detailed analyses of the significance for developing countries of concessions made by other industrialized countries but we know that, in general, they are of a comparable order of magnitude. The composite effect of the vast reductions by all industrialized countries is that the trade opportunities open to the developing countries are substantially better than ever before.

I would not wish these comments to be misconstrued as implying that developing countries will obtain the major benefits from the Kennedy Round. It is quite clear that trade between the United States and other industrialized countries will be the major beneficiary. But the implication that nothing was done for the developing countries is very much wide of the mark.

We in the executive branch are delighted with the successful outcome of the Kennedy Round. We recognize that a period of reflection will be needed to assess—and digest—the results, and that it may be some time before the United States and other major industrialized countries will be ready to undertake another assault on the remaining barriers to trade. But I also would not wish to end this presentation by implying that the Kennedy Round is the end of the road. Indeed, as the President stated at Punte del Este, "The process of freeing trade from unnecessary restrictions will not come to an end when the current and important Kennedy Round negotiations are completed."

Not all of the issues we and our negotiating partners had hoped to come to grips with during the Kennedy Round could be dealt with during the marathon sessions of the final months. One issue in particular of major interest to the developing countries has been left over for further consideration next fall. That is the question of extending the benefits of the Kennedy Round reductions to the developing countries without the normal staging requirement. The United States has not taken a firm position on this point. It would, of course, require specific legislative authority. If this were done in a preferential way, that is covering all products but for developing countries only, it would constitute a precedent for the longer term problem of temporary tariff advantages. We will be exploring this issue with our major trading partners over the coming months and, of course, with the Congress.

**TESTIMONY OF HON. JOSEPH A. GREENWALD, DEPUTY ASSISTANT
SECRETARY FOR INTERNATIONAL TRADE POLICY, DEPARTMENT
OF STATE**

Mr. GREENWALD. What we tried to do in our statement, Mr. Chairman, is to focus on the question of U.S. foreign trade policy and the problems of the developing countries.

I think by general consent this is one of the major trade policy areas which we perhaps have not yet dealt with adequately, and one we will have to face in the coming months and the coming years. Although I think the developing countries themselves have perhaps underestimated the benefits they will receive from the Kennedy Round, they have taken the position that the Kennedy Round was not really the answer to their problems, and that further steps would have to be taken designed specifically to deal with their trade flows.

We have laid out in the statement our estimates of what the benefits will be as a result of the Kennedy Round, which we think will not be limited just to the trade that is presently flowing from the developing countries, but also to additional trade that will emerge as they increase their developing industrialization.

Nevertheless, it is quite clear that the less developed countries have not achieved what they consider to be an acceptable level of economic activity and industrialization, and that we will have to focus our efforts in the future on working out policies which will help them.

But the trade problems of the developing countries need to be looked at in perspective. The prepared statement makes clear that in terms of present trade, the vast bulk of their export earnings come from exports of primary products. The figure is about 85 percent. And, therefore, the question of trade and pricing of primary products, particularly tropical products, is of extreme importance to the developing countries.

I think, however, that the U.S. Government has a fairly well-established and longstanding policy of trying to deal with trade in primary products, in the first instance by achieving improved access to markets, by eliminating tariff and nontariff barriers as well as internal taxes, where that is possible.

Commodity policy has to be pretty much on a case-by-case basis. It has been possible to work out commodity agreements in some areas. And we are looking into other areas where it may be possible in the future. This again is spelled out in the statement where the history, for example, of the coffee agreement, and the prospects for negotiation of a cocoa agreement are reviewed.

The second area where we think the developing countries can improve their economic and trade position is through regional integration. The problems of regional integration for the developing countries are substantially different from those in Europe that had to be solved to achieve what is now called the European Communities, instead of the European Economic Community. But the advantages which would flow from larger markets, we think, are just as important for the developing countries as for the industrialized countries.

In the case of Latin America in the recent meeting at Punta del Este there was an undertaking that the Latin American countries themselves would move toward a common market. It is expected to be achieved over a number of years. And we think this will have major benefits for the developing countries and the industrialized countries as well.

The third area covered in our paper, which I would like to spend a little more time on, is the question of special tariff treatment or preferences for the trade of the developing countries, particularly in manufactured and semimanufactured goods.

The reason I would like to devote a little more time to this subject is that it is really the major trade policy problem that we may be facing in the coming months and years.

The developing countries have argued that most-favored-nation treatment is really not most-favored-nation treatment, not equal treatment, when you have such wide disparities of economic strength and ability to compete.

Just as some people in this country feel they are disadvantaged, so the developing countries feel they have suffered a disadvantage, and they need what might be called a "head start" in international trade terms. They press their request in this field in the form of a proposal for a generalized system of nonreciprocal preferences. What this means is that all the industrialized countries would give to all the developing countries preferential treatment. I think they have all gen-

erally agreed that this would be a temporary phenomenon, designed to give them the opportunity to industrialize and to become more competitive.

Another element which has led people to consider the possibility of a general system of preferences is that since the formation of the European Economic Community and its association with certain African countries, there has been a proliferation of special arrangements. Countries like Nigeria have obtained similar association arrangements with the EEC, and other countries in Africa and elsewhere have been seeking special treatment. We have considered that this is an undesirable development, both in political and economic terms this kind of closed north-south relationship, we think, is not the most desirable way to organize either international trade or international political relations. And the two are closely related.

For this reason the idea of a generalized system which would overtake and perhaps subsume the existing arrangements, including those within the Commonwealth, presents some advantages. Again, if the United Kingdom application for admission to the Common Market is successful, some of the additional problems relating to the Commonwealth and the treatment of Commonwealth trade in the United Kingdom can perhaps be dealt with in the wider context of generalized preferences.

These are some of the reasons, then, why both the developing and industrial countries are giving serious consideration to seeing whether a system of generalized preferences can be worked out.

As far as the Latin American countries are concerned with whom we have special relations and special concern, they have been left out of all the existing special systems. As far as their trade with the United States is concerned, they receive the same treatment, for example, as African countries. On the other hand, in Europe their exports, such as coffee and cocoa, are discriminated against. For this reason they have sought either special arrangements between the United States and Latin America, or sometimes they have talked about a system of "defensive" preferences which could be negotiated off against the European-African system.

In any event, underlying these various trade policy and political issues has been the basic factor that economic growth in the developing countries has not really been adequate, and that increasing foreign trade is one of the key elements in trying to increase the level of economic activity in the developing countries.

In terms of primary products, the possibilities for exports are not growing, due to the well-known problems of the growth of synthetics, the fact that the industrialized countries themselves are producing more of the same raw materials, and that the demand itself is not very dynamic.

I think everybody has agreed that the only real long term solution to the problem of economic development is the growth of trade of the less developed countries and that this must take place in the field of manufactured and semimanufactured products.

At Punta del Este President Johnson took us perhaps a step further in our consideration of the preference issue by saying that he would undertake to consult with the other industrialized countries to see

whether a consensus could be achieved on a generalized system of preferences which would be generally acceptable. In the course of this he said that he would naturally be consulting with private interests in the United States and the Congress as well, since, if we were to depart from our basic policy of most-favored-nation treatment, we would need legislation. Most-favored-nation treatment is the policy we have had, in conditional or unconditional form, for about 145 years or so. And I think that we are all agreed that we would have to examine the situation extremely carefully before we proposed legislation which would change such an important and longstanding policy.

This search for a consensus on an acceptable system of generalized preferences has already begun in the OECD. As is explained in the statement, there is a small group of four countries, the United States, the United Kingdom, Germany, and France, looking at the various issues involved to see whether we can come out with a generally acceptable system. Some of the problems that have arisen there are spelled out in the statement: such questions as how to make sure that preferences are temporary, how to define a developing country, and what happens to existing preferences, not only those enjoyed by the developing countries, but also the preferences enjoyed by the industrialized countries in some developing countries.

This work is to continue for the next 2 or 3 months. And the subject will then ultimately be considered in November at the ministerial meeting of the OECD.

If we can proceed along these lines toward the consensus that the President talked about, the ultimate objective would be to put before a meeting of the United Nations Conference on Trade and Development an outline of a generalized scheme which the industrialized countries would be willing to consider. This meeting takes place in New Delhi in February of next year. In the view of the developing countries, it would be a major step forward in providing help for them if the industrialized countries were to come forward with a generally acceptable scheme.

As far as the domestic situation is concerned, I think Ambassador Roth has already talked about his mandate from the President to work on trade policy. The question of preferences will be one of the major issues to be discussed in the study group and with other interested bodies in the United States, and with the Congress as well.

Then there will be international discussions.

And finally, as we see the timetable and if all goes along the lines I have outlined, we will probably be coming back to the Congress for legislation in early 1969. We need a period for reflection and analysis of new commercial policy developments before deciding what sort of legislation we should seek.

Although we would not be looking for legislative action for a couple of years, we certainly would continue to consult closely with the Congress at every step of the way to make sure we would have the understanding of what we were trying to do, and that this was a feasible policy to follow.

Thank you, Mr. Chairman.

Chairman Boggs. Thank you very much, Mr. Greenwald.

Mr. Reuss, do you have any questions?

Representative REUSS. Yes; thank you, Mr. Chairman.

I certainly want to express my support of President Johnson's approach at Punta del Este to this question of preferences to the developing countries on a generalized, nondiscriminatory basis. I think that it would be a very poor thing if the world became divided up into Hjalmar Schacht enclaves. And I think the administration is on the right track there.

I am hopeful that the Congress, and perhaps this committee, can give some formalized support to what we are doing. I certainly can't complain that this is being pursued at a low level, since the President has very forthrightly put his prestige on the line on this. And I would hope that it could be a major and continuing U.S. bargaining point.

I am interested in the tour of the horizon contained in yours and Mr. Solomon's paper on the export earnings of developing countries and the primary products. Particularly, I was interested in what has been said about sugar. Would you share my impression that if all the primary commodities involved a change in policy by some of the developing countries so that they produce less of the future increment to their needs in sugar in the next 15 or 20 years themselves, and give the reciprocal countries an opportunity to produce a larger percentage, that this would be about as good a foreign exchange for many of the developing countries as one can think of? And that this one commodity, if the developed world is prepared to make some rather important changes in its domestic policies, offers the possibility of a large-scale improvement in foreign exchange earnings by many countries, including at least a dozen in Latin America?

Mr. GREENWALD. I think the general idea of maintaining a certain share of the market for developing countries is one that is embodied in our own legislation, and one that we could support on policy grounds as well.

Representative REUSS. We have, I think, under our present system, around 35 or 40 percent dedicated to imports.

I wonder how much we know about relative costs of products and what it costs to maintain 60 percent of our domestic consumption under home production.

Mr. GREENWALD. I think that would be a little hard to answer.

Representative REUSS. And what it costs the French, the Germans and the other beet sugar producers.

Mr. GREENWALD. In a general sense, where you have a very high degree of protection, whether it is in agriculture or industry, there is some economic cost involved. My impression is that the beet sugar industry has probably become more efficient over the years, and that perhaps that the disparity is not now as great as it originally was when the sugar legislation was first instituted. I think in any kind of interference with the normal market there is bound to be some economic costs. I think the situation in Europe is perhaps developing into an even more costly situation, because the plans in the European Economic Community call for an increase in their output to the degree that they will be actually exporting on a subsidized basis. In this situation you have a double cost, not only the price of the product domestically, but the cost of subsidizing exports.

And this is perhaps one of the more important developments that it might be possible to tackle if we could reach the point of an international discussion of the sugar situation. This hasn't been possible so far, for two reasons, as spelled out in our paper. One, Cuba has not been willing to consider a realistic export quota which would have to be part of any plan. And, secondly, some of the industrialized countries, particularly the EEC, are not yet willing to consider the possibility of limiting their own expansion of production.

Representative REUSS. Cuba's position, of course, I would judge, resulted not only from its sugar production potential, but from its international political position. Do you need Cuba to work out an international sugar agreement? I don't see why. If Cuba wants to be a dog in the manger on sugar, I don't see why she couldn't be hermetically sealed from the non-dog-in-the-manger world.

Mr. GREENWALD. I don't pretend to be a sugar expert. I will try to answer that, subject to correction by the people who have followed sugar in much greater detail than I have. But my impression is that it would be hard to isolate as large a producer as Cuba from the international market and from an international marketing agreement, if that is what you contemplate. It is not just the question of Cuba's direct exports on the world market, but she also has a long-term contract with the Soviet Union. What this means is that you would have to isolate the Soviet Union, too, because what the Soviet Union has apparently been doing is exporting some of the sugar. It is not clear whether it is a direct reexport of the Cuban sugar that she had to take under a long-term arrangement, or whether she is using the Cuban sugar domestically and then exporting her own beet production. But these two elements would make it extremely difficult to try to reach an agreement without their accepting commitments under the arrangement.

Representative REUSS. You say the settlements. Is the other settlement the EEC's present production policy?

Mr. GREENWALD. Well, certainly the anticipated production—what they have been talking about in terms of their targets for production. The common agricultural policy as it applies to sugar, will apparently lead to substantial increases in production within the Community.

Representative REUSS. We have not been as high level in our deprecating the EEC's sugar outrages as we have been in, let us say, the President's excellent Punta del Este observations on trade preferences or LDC manufactured goods; have we?

Mr. GREENWALD. If you mean has the President made a statement on EEC sugar policy, the answer is "No".

Representative REUSS. Who has deprecated that, and at what level?

Mr. GREENWALD. I don't know that it has been formally the subject of a deprecatory official statement by the U.S. Government. The way it really came out—and it wouldn't have come out, I guess, in formal public statements—is that the Secretary General of the UNCTAD, Dr. Prebisch, proposed that there be a standstill on production among the industrialized countries. The U.S. response was a positive one. We thought this was perhaps one way—an intermediate way—to deal with the sugar problem. But it hasn't been possible to achieve agree-

ment among all industrialized countries. And I think that possibility fell by the wayside.

Representative REUSS. What was the forum?

Mr. GREENWALD. I think this was in an UNCTAD sugar consultative group that was meeting in Geneva to see whether the basis was there for an international negotiation of a revived international sugar agreement.

Representative REUSS. What was the term of life of the International Sugar Agreement? I am not even sure it ever lived.

Mr. GREENWALD. My recollection is that it was effective for a while. I think that there still is a sort of a framework agreement. There is an International Sugar Council, if that is the proper term. But the Agreement isn't operative at the moment. I am sorry, I just don't know whether it had a termination, whether it had a limited period of life, or not.

(The following statement was subsequently supplied for the record:)

The International Sugar Agreement of 1958 was scheduled to expire December 31, 1963. Its export quota and related economic provisions became inoperative as of January 1, 1962, but the statistical work of the International Sugar Council continued. For this purpose and because the Sugar Council provided a useful forum for discussion, the Agreement was extended by protocol, in 1963 for two years, and in 1965 for one year through 1966. A further protocol to extend the Agreement through 1968 is now before the Senate.

Representative REUSS. As I review the various primary commodities which, as you point out, account for 80 percent, I believe, of the exports of the LDC's—coffee, cocoa, rubber—these other commodities other than sugar don't seem to me to offer near the possibilities for doing a great deal of good for the developing countries and removing the need for foreign aid which is otherwise going to be necessary at a given level if the LCD's are to survive. I would think that sugar ought to be consuming more time at a higher level within our executive branch than I think it does now.

Mr. GREENWALD. I think we can agree that there are a limited number of products on which you can do something internationally in terms of any kind of international arrangement. The products that have been under active discussion, if they are not yet in formal negotiation, are cocoa and sugar. For the reasons that we talked about earlier, it hasn't been possible to get very far on sugar. But it still is being actively considered. As a matter of fact, I think the consultative group was talking about Dr. Prebisch undertaking some consultations in key capitals to see whether it is possible to proceed with an international agreement on sugar.

Representative REUSS. Thank you.

And to conclude this part of the discussion, I would explain to the chairman that I am quite confident that Louisiana cane sugar production is a lot more economic than Wisconsin sugar beet production.

Chairman Boggs. I would say to my good friend that is a very complex subject.

The gentleman from New Jersey?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. McQuade, and Mr. Greenwald, would you comment on this—on the President's power to negotiate and implement the antidumping agreement without further congressional approval?

Mr. McQUADE. I believe this is within his power, as we understand it.

Representative WIDNALL. So that once the present negotiation becomes a fact—

Chairman BOGGS. Excuse me. I didn't hear the answer to that question.

Representative WIDNALL. It is within his power, I believe he said.

Chairman BOGGS. He didn't qualify it?

Representative WIDNALL. You didn't qualify it, did you?

Mr. McNEILL. Mr. Widnall, if I may, the negotiation on the antidumping code was a negotiation whereby the President did not negotiate any changes in the Anti-Dumping Act that was enacted by the Congress in earlier years. Pursuant to the Anti-Dumping Act the administration over the years, several administrations over the years have spelled out administrative procedures. And it is in the area of administration that the negotiations took place in Geneva. And so what the President has done through his chief negotiator has been to conclude an antidumping code which provides commonality of procedure internationally which in our judgment will be of substantial benefit to U.S. exporters.

Representative WIDNALL. So that you believe under the existing law, without any further implementation, the President has the power to negotiate and further implement the antidumping legislation?

Mr. McNEILL. Assuredly, yes.

Representative WIDNALL. In view of what has been going on around the world, and keeping us more or less in a tinderbox, I would like to ask what may seem to be a simple question, and yet I think it is something that we all should know. Are there any tariff or nontariff barriers to the trade in arms between the United States and the other countries?

Mr. GREENWALD. Perhaps I can try to answer that. As far as exports of arms from the United States are concerned, they are all controlled and licensed. The State Department has the responsibility for licensing arms and ammunition under an act of Congress. I don't think any arms—ones that are on this list—can be exported without specific licensing authority.

Representative WIDNALL. I understand the licensing part of it. But do foreign countries charge a tariff? Are any payments made to the foreign countries to enable us to sell arms to them?

Mr. GREENWALD. As far as the tariffs are concerned, I think they actually have tariffs on what we call arms and ammunition. But in most cases they are imported from the account of the government, and therefore the tariffs are waived—the tariff doesn't apply—because the government is the sole importer of arms and ammunition.

Representative WIDNALL. It is sort of a frightening thing to think that for war purposes you have free trade, and yet for other commodities having to do with the growth of the country and the health of the country we have the tariff barriers. I don't think it makes any sense.

Mr. McQUADE. Well, there are two observations. First is that when you talk of free trade you are generally talking of transactions in the private sector, and in one sense all trade in arms and ammunition has a government involved. In our case we would control the export, and the purchaser would be a government.

And the other thing is that there is another barrier which is in the form of the United Nations resolutions which have been implemented by countries with respect to, for example, Rhodesia and South Africa. There are some limitations. And it is really not on all four's with other products.

MR. GREENWALD. I don't think you can really call it free trade when there is a complete licensing system, certainly on exports as far as we are concerned, and on imports in most countries. The fact that the tariff is rebated because the purchase is for the account of the government doesn't make it free trade in the usual sense. As Mr. McQuade says, it is not the same as a private transaction, and you can't call it free trade. The most effective nontariff barrier to trade is a quota or licensing system. And that is what you have in arms and ammunition.

Representative WIDNALL. I have been very much disturbed since receiving word recently that a great amount of the arms trade between our country and the countries in the Middle East have been financed through the Export-Import Bank. Now, this is more than just licensing, too. And if it is true—and I'm going to pin it down, and I intend to follow it up—I think it is something that the country can well look into to our present posture and our future position with respect to this kind of trade.

MR. MCQUADE. I am sure the answer, Mr. Widnall, is that if we make a national decision to sell arms, that it is the sensible thing to do under the military assistance program, why then we will facilitate that sale with credit if that is appropriate.

Representative WIDNALL. We certainly find ourselves in a great box since this Middle East system blew up. And a lot of things have come to light with respect to our own participation and that of the Soviet Union. And I think we had better have everything fully on the record as to what we are doing with respect to this entire trade.

Representative REUSS. Will the gentleman yield?

Representative WIDNALL. I will yield.

Representative REUSS. I think the gentleman from New Jersey is performing a very useful service here. I was not aware of the use of the Export-Import Bank for this purpose. But it was certainly not the intent of Congress to set up a Sir Basil Zaharoff institution when it inaugurated the Export-Import Bank. And I hope the gentleman will pursue this. I pledge my help with it.

Representative WIDNALL. I thank the gentleman.

If Britain fails in its bid to enter the European Common Market, what alternative sources of action might be open to the United Kingdom, and what might be the United States attitude toward such possibilities?

MR. GREENWALD. Let me try to answer the question.

If the United Kingdom doesn't succeed on this occasion in joining the European communities, there will certainly be a great deal of consideration given to what people describe as alternative arrangements. As a matter of fact, I think both in the United Kingdom and in other countries people have thought about this on past occasions, and something called contingency planning is going on all the time.

My own feeling is that perhaps too much attention is given to the institutional aspects of these alternative schemes. People talk, for ex-

ample, about a North Atlantic Free Trade Association as a possible alternative. I think in economic terms an alternative, not just for the United Kingdom, but perhaps for all the industrialized countries of the world, would be to try to move toward the elimination of all tariff and other barriers to trade. This is the economic aspect of the United Kingdom effort to try to join the Common Market.

The economic objective can be dealt with rather simply. And I don't think it needs an elaborate institutional arrangement.

The real problem, I think, is probably on the political side rather than the trade or economic side. The problem for the United Kingdom, as Dean Acheson once put it, is to find a role. And as it sees itself now, its role is part of an integrated European community. In that sense it is very hard to think about any viable or sensible alternative in political terms. And I think that there is some risk that the people will mix up the two: institutional arrangements with essentially political overtones, and economic arrangements which could be just an agreement among all the industrialized countries of the free world to move toward the goal of free trade. We don't need any elaborate system. I think it has been demonstrated by the Stockholm Convention of the European Free Trade Association that you can move toward complete elimination of tariffs and other trade barriers without having either special political relationships or a very elaborate institutional structure.

This deals with the economic side of the problem of United Kingdom entry. The question of handling the political aspect is much more difficult and much more complicated. And I don't think there is any simple solution or simple alternative in that case.

Representative WIDNALL. Mr. McQuade, if Britain succeeds in entering the Common Market, what would you think the long-range impact will be on U.S. trade?

Mr. McQUADE. The important thing is that as overseas markets become stronger economically they generally become better markets for the United States. Now that we have the Kennedy Round behind us, and we seem to be moving in the direction of removing tariffs as a really big factor in the trade picture, I do not view Britain's accession to the Common Market as particularly troublesome. In fact, if it makes the Common Market a better and stronger economic entity, it will probably help our trade, especially if we keep the various non-tariff barriers in control and hopefully move forward to lower them. I think that it would not be a troublesome thing for us.

Representative WIDNALL. Thank you, Mr. McQuade. My time is up.

Chairman BOGGS. Mr. Greenwald, did I understand you correctly when you said that no legislation was required until 1969? Or did you say that no programs would be recognized?

Mr. GREENWALD. I didn't say that no new legislation would be required until 1969. I think the legislative program we have in mind was outlined by Ambassador Roth earlier, which would be what is referred to as essentially housekeeping legislation—a simple extension of the trade agreements program for another 2 years.

Chairman BOGGS. He also said that he would recommend certain amendments to the adjustment provisions of the existing trade agreement program?

Mr. GREENWALD. Yes. There are other elements in the legislative program to be presented this year. One would be the adjustment assistance amendment that you spoke of.

Chairman BOGGS. Are you prepared to spell those amendments out?

Mr. GREENWALD. No, I am afraid that—

Chairman BOGGS. Is anybody?

Mr. McQuade?

Mr. McQUADE. I don't think that we have hammered out in our own minds what would be the right thing to propose.

Chairman BOGGS. When do you plan to propose them? This is July.

Mr. McQUADE. In the very near future.

Mr. McNEILL. Mr. Chairman, if I may just add to that comment, the Trade Expansion Act test for eligibility for adjustment assistance has proven indeed to be a very difficult test, as I think you all know. You will recall that in passing the Canadian Automotive Products Act the Congress liberalized very considerably the test for eligibility. Pursuant to the Canadian Automotive Products legislation, the Tariff Commission and the administration have in most cases, where applications have been made, been able to certify under the looser and more liberal eligibility tests that workers indeed have been adversely impacted and affected by operation of this particular agreement that we have with Canada. The administration is very carefully examining both tests of eligibility; that is, those in the Trade Expansion Act and those in the Canadian Automotive Products Act, with a view to asking the Congress to liberalize the Trade Expansion Act test. We have not at this time made final determination as to whether we would want to move wholly in the direction of the Automotive Products Act, or go beyond this, or go almost up to it. But we will, I think, quite shortly, as Mr. McQuade indicated, be submitting to the Congress proposals for amending the Trade Expansion Act.

Chairman BOGGS. Have you ever had a case under either act?

Mr. McQUADE. We have had quite a number of successful cases under the Automotive Products Act. All cases under the Trade Expansion Act have been turned down by the Tariff Commission.

Chairman BOGGS. What has happened? What has been the action?

Mr. McQUADE. In the case of the employees under the Automotive Products arrangement we have granted quite a number of adjustment assistance programs. And I could get that number if you would like to have it.

Chairman BOGGS. Yes; and we will include it in the record. (See p. 100.)

Mr. McQUADE. But under the Trade Expansion Act the Tariff Commission has never determined that the major test required by the statute has been met, which is that the tariff concessions must be the major cause of increase in imports and that the increased imports must be the major cause of the injury. We have never had a successful determination on that front.

Chairman BOGGS. Is it the general feeling that the test in the Automotive Agreement would be better than the existing arrangement?

Mr. McNEILL. Yes; I think that is true, Mr. Chairman. It was the intention of the Congress in enacting the Trade Expansion Act to provide for adversely affected persons and firms a program of adjustment

assistance. And this simply has not worked, whereas the Canadian Automotive Arrangement has.

Chairman BOGGS. Mr. Greenwald, on another subject, what implication, if any, does the conclusion of the Kennedy Round have for the question of the East-West trade?

Mr. GREENWALD. The results of the Kennedy Round were fairly limited in terms of East-West trade. Perhaps the major development was the adherence of Poland to the GATT. Poland negotiated for access in the course of the Kennedy Round and, therefore, there will be some impact in that sense.

As far as the United States is concerned, we already give "most favored nation" treatment to Poland and Yugoslavia, which are two of the Eastern European countries that are members of the GATT. Czechoslovakia is also in, but we have a special decision which permits us to discriminate against Czechoslovakia in accordance with our own legislation. Our law will continue unaffected by the results of the Kennedy Round.

The proposal that the President made for East-West trade legislation is one that would still be relevant and still important, even after the Kennedy Round. What he asked for, you may recall, is the authority to negotiate most-favored-nation treatment with individual Eastern European countries and the Soviet Union when it is found to be in the national interest. This is something that we would do, at least initially, on a bilateral basis. And we still think that this is an important foreign policy tool that ought to be given to the President to allow him to carry out his policies with respect to Eastern Europe and the Soviet Union.

Chairman BOGGS. Again, in connection with the less-developed countries, the Kennedy Round gave no consideration at all to Latin America, is that correct?

Mr. GREENWALD. I wouldn't say that it gave no specific consideration. A number of the countries of Latin America participated in the negotiations. Argentina, for example, received some concessions from us and other countries on meat, which is an extremely important export product for Argentina. Other countries got concessions on items of interest to them. The Kennedy Round didn't have any specific provisions for any particular area of the world. It was a multilateral negotiation.

Chairman BOGGS. Let me put it another way. The existing discrimination against the Latin American tropical products will continue, will it not?

Mr. GREENWALD. That is true. That is not an outcome of the Kennedy Round, but a continuing situation which we hoped we might be able to deal with in the Kennedy Round. We had authority that the Congress had given the President to eliminate duties on tropical products if other countries did the same. We weren't able to use that authority as we would have liked to use it, because particularly the EEC wasn't prepared to go further. The major discrimination against Latin America—that is, the duties on coffee and cocoa—continues. And we didn't get anywhere in trying to reduce that discrimination in the Kennedy Round. That again is one of the reasons why we were trying to pursue another route to put Latin America on the same footing as the other developing countries.

Chairman BOGGS. Suppose you spell out simply and categorically what you propose to do in this other round.

Mr. GREENWALD. What we are trying to work out is an arrangement whereby all the industrialized countries—for all practical purposes, this means the key countries in the OECD—would be willing to give either duty free treatment or reduced duty treatment to the products of the developing countries. This is the basic element. It would be a temporary extension of duty free or reduced duty treatment. And how the temporary feature would be made to operate would depend upon the particular approach. Some people, for example, have been talking about this as an “advance cut,” the idea being that the industrialized countries among themselves would agree to reduce their duties, the MFN duties, over a certain period of time, and that they give lower duties immediately to the developing countries. This is the idea of an “advance cut,” or a “head start” for the developing countries.

Chairman BOGGS. In our case, though, again referring specifically to Latin America, in most cases the countries produce one commodity, such as tin in Bolivia, or coffee in Chile, or beef in Argentina, or oil in Venezuela, or sugar in Peru, and coffee in several of these countries. There are no tariffs there to speak of on Latin American products coming to this country, are there?

Mr. GREENWALD. Not in the United States, no. But there are into Europe, and in some cases into the United Kingdom and some of the other industrialized countries. So what we have been suggesting is that the other industrialized countries either eliminates the duties on these products of interest to the Latin American countries, or they give them duty-free treatment on these products to put them on the same basis as their African suppliers who now receive duty-free treatment under the terms of the Yaounde convention.

Chairman BOGGS. What tools do we have to induce the countries to bring this about?

Mr. GREENWALD. I think probably the major bargaining tool, or weapon, if you want to call it that, would be this idea of a generalized system. If we say we are prepared to go along with a generalized system that will meet the concerns and problems of Latin America, then we have some leverage to bring the European countries along to eliminate or reduce discrimination against Latin America.

Chairman BOGGS. My time is up.

Mr. REUSS, do you have any further questions?

Representative REUSS. I have had a chance. Thank you.

Chairman BOGGS. You are entitled to more time if you would like it.

Representative WIDNALL. I have a couple of more questions.

I think we all recognize that the process of negotiating removal or the moderation of the nontariff barriers is very difficult. Do you believe that the procedure of negotiating rounds is appropriate to reduce nontariff barriers, or should some new negotiating procedures be developed?

Mr. McQUADE. I don't think it is going to be as easy to have a large multilateral system working here. The problems oftentimes have only bilateral implications. And I don't think we would like to prejudge how it ought to be done. There are some items which might lend themselves to the multilateral treatment. For example, I think I noted in my

statement that the problem of Government procurement is something analogous to the antidumping arrangement about which Mr. McNeill spoke of, something where all of us could benefit from more forthright, openly stated general rules. That would be helpful for the world market in general. Maybe something like that would lend itself to the multilateral system. But many of these things are so special that they really have to be fought out on a bilateral basis, perhaps, before we try to make them more generally applicable.

Representative WIDNALL. Do you really believe that the system using the Kennedy Round wouldn't apply here in order to be effective?

Mr. McQUADE. We will have to see.

Representative WIDNALL. Do you see any danger that as a result of the tariff reductions achieved under the Kennedy Round new instruments of protection will be developed, or that more extensive use may be made of the old instruments?

Mr. McQUADE. Would you say that again?

Representative WIDNALL. Do you see that as a result of the tariff reduction due to the Kennedy Round, that new instruments of protection will develop, or that more extensive use will be made of old instruments?

Mr. McQUADE. It seems to me that all these things have large political overtones, and we are never going to totally remove the kinds of actions which will have some protective benefit for a particular segment of the community which, after all, is a political entity. The object of the game is to try and minimize these in a way which each country can see is consistent with its national interest. And while I think the Kennedy Round technique may be something which will be useful in some selected items of nontariff barriers, I think that there will be some effort inevitably of pressure groups in every country, including our own, to use nontariff barriers more, if that is the necessary tool to gain some protection.

Chairman Boggs. I wonder if the gentleman would yield?

Representative WIDNALL. I yield.

Chairman Boggs. In that connection, what authority do you have now to negotiate on these? And if you lack sufficient authority, is it the intention of the President to recommend such a grant in any new legislation?

Mr. McQUADE. This is, of course, the main objective of Mr. Roth's assignment from the President, to try and find what new authorities and what new policies we ought to seek. And I would not be surprised if there were such an effort.

Mr. McNeill, do you want to comment on that?

Mr. McNEILL. I think that with respect to the second part of your question, that is absolutely the correct answer, Mr. Chairman, that this is something that will be considered in the major study under the leadership of Ambassador Roth.

On the first part of your question, the nontariff barriers that are maintained in the United States tend to be in many areas in the form of national legislation, such as the Antidumping Act, the Buy American Act, and others. And in these areas the President, of course, does not have the authority in the Trade Expansion Act or elsewhere to negotiate away an act of Congress. Where he does have negotiating flexibility is in respect of the administration, perhaps, or some of these acts. For example, in the Buy American Act the Congress, in 1933,

said that there shall be special preference for domestic suppliers in Government procurement programs, but did not designate what that special preference should be. The President, in 1954, through Executive order, laid down some very specific price preferences. And it would be in that kind of an area of administration and presidential flexibility where the area of negotiation now lies. And this was the case in antidumping.

Mr. GREENWALD. I wonder if I could come back to Mr. Widnall's question. I think most people feel that the effect of the Kennedy Round; that is, the relationship between the Kennedy Round and nontariff barriers, is that as the tariff barriers are reduced two things happen. One, as the nature of the nontariff barrier becomes clear and as tariffs fall it is evident that they have a greater impact than tariff barriers. Tariff barriers are not that significant so the people who want a higher degree of protection not only in the United States but in other countries will look to nontariff barriers. Second, I think the comments of both Mr. McQuade and Mr. McNeill have made it clear that you can't talk about nontariff barriers as a general category as you can about tariff barriers. Negotiations to deal with tariffs are possible because they are fairly easily identifiable, and represent a common technique of protection that all countries have pursued for years. But when you come to nontariff barriers, as Mr. McNeill pointed out, you get involved in purely national legislation, tax systems, fiscal systems, and it gets extremely complicated. They are related to national economic policies that aren't adopted purely in terms of international trade and are extremely difficult to deal with. Therefore, it would be hard to have a negotiation that tried to cover all nontariff barriers.

What we have been trying to do is deal with nontariff barriers as appropriate, and sometimes in different forums. For example, we have tried to tackle the border tax issue in the OECD through its relationship to economic policy in something called the "adjustment process"—trying to convince countries in good balance-of-payments situations—surplus earners—that they shouldn't take action on taxes which is contrary to the policy that a good creditor nation should follow. There is also the issue of government procurement which is a problem mainly of the industrialized countries. We have pursued it in the OECD in the terms that Mr. McNeill suggested—trying to arrive at a uniform system of government procurement practices. The real problem, it turns out, is that we have a law, we have open competitive bidding, but other countries in the world use much more subtle methods to achieve "buy national" purposes.

So our first effort there has been to get agreement on the publication of bids and publication of the results of the bids and the system of competitive bidding. And this is what we have to try to deal with rather than going immediately to the question of what is the percentage of preference, because some of them have come to us very blandly and said, we don't have anything like a Buy American Act. We found, though, that the results are actually the same achieved through a much more subtle, devious method. So each nontariff barrier has to be looked at individually, not only the methods of negotiation, but the forum in many cases may be different, depending on the kind of nontariff barriers it is and how we can best tackle it. Nontariff barriers are an important problem, and they will be more important as time goes on.

Representative WIDNALL. I just have one more question. How long a period of time do you think it will take before we can obtain a fair evaluation of what has been accomplished by the Kennedy Round?

Mr. GREENWALD. I am not sure what it means to get a fair evaluation and I don't know whether time will necessarily help. I think opinions differ on the results of the negotiation. You have heard Ambassador Roth's evaluation of it, and the administration generally. I don't want to denigrate or undermine the objectives of tariff reduction. But I think a number of economists who have been working in this field recognize that there are factors other than Government decisions on tariffs or other trade barriers which will affect the flow of trade. It is awfully hard to predict exactly what has been caused or not caused by particular reduction of a particular tariff, or a whole series of tariff reductions in a negotiation. Just as the weather perhaps has more to do with the crop results than an agricultural policy of the Government, so the general level of economic activity which is related to tax policy, fiscal policy, deficit financing, may well affect the results in trade flow terms more than what actually happened to the tariffs.

Representative WIDNALL. Thank you.

Chairman BOGGS. Thank you very much.

Mr. McQuade?

Mr. McQUADE. Just to give you a roundhouse feeling on this automotive parts arrangement, I might mention that as of December 31, 1966, 1,141 workers had filed for assistance, and 819 had been found eligible. And they paid out something less than \$900,000. But there have been several cases since then, including the American Motors case.

Chairman BOGGS. Thank you very much. Thank you Mr. McNeill, Mr. Greenwald. You have been very helpful to the subcommittee.

Now, Congressman Curtis, we will hear from you.

We are very happy to have our colleague, one of the distinguished members of this committee, and distinguished member of the House Ways and Means Committee here this morning, Congress Curtis of Missouri. Congressman Curtis was one of the two Congressmen appointed by the Speaker to represent the House Ways and Means Committee at the Kennedy Round, the other being Congressman Cecil R. King of California. And he was very diligent in attending the sessions there. Mr. Curtis has been kind enough to come and make a statement before the subcommittee this morning.

Before he begins, we will accept Representative King's statement for the record and include it herein.

**STATEMENT OF HON. CECIL R. KING, A U.S. REPRESENTATIVE
FROM THE STATE OF CALIFORNIA AND DELEGATE TO THE KENNEDY ROUND**

Mr. KING. Mr. Chairman, you have invited me as a congressional delegate to the Kennedy Round to appear before the Subcommittee on Foreign Economic Policy currently conducting hearings on a reassessment of U.S. foreign trade policy.

The Kennedy Round agreements are exceedingly complex, as might be the expected result of more than 3 years of negotiations involving

more than 50 countries, countries that account for three-quarters of the world's trade. The final agreements were not signed until a little over a week ago. It is not surprising, therefore, that we in the Congress have been given only preliminary information on the outcome of the negotiation.

We await the report to the Congress required by the Trade Expansion Act for definitive analysis of the Kennedy Round result. Until we see this report, our assessments must be tentative.

I am, nevertheless, willing to express confidence that our negotiators have brought home a Kennedy Round settlement that will largely fulfill the expectations and intentions of the 87th Congress which wrote into law the historic Trade Expansion Act of 1962. Basing my views on observations made as a congressional delegate, I believe that our people in Geneva have used their negotiating authority wisely and well. The act enjoined them, to quote from the statement of purposes, " * * * through trade agreements affording mutual trade benefits (1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of U.S. agriculture, industry, mining, and commerce." I can attest that they were persistent and diligent in pursuit of this objective.

I shall reserve comment on details of the agreements until I have had the chance to study these agreements carefully and to consider the analysis which is under preparation.

I would like to remark, however, on two matters that are creating considerable controversy.

The Kennedy Round has resulted in the negotiation of an international antidumping code. Without entering into the merits of the provisions of this code, I am inclined to support our negotiators' contention that they have entered into an agreement that does not violate the letter or the essential spirit of our U.S. antidumping law. I know that they made a very great and sincere effort to achieve this end, which included extended domestic consultation and public hearings.

Secondly, an agreement was reached that commits the administration to seek legislation to convert the American selling price (ASP) system of customs evaluation to the normal evaluation system as it applies to certain chemicals. Again, I don't intend to discuss the merits of such legislation at this time, but I do want to say that prior to entering into negotiation on ASP, a maximum effort was made to seek public advice, to assure that the views of the industry affected were heard and considered, and to establish that a change in the system was justified.

Both in regard to dumping and ASP, the administration has recognized its obligation to seek and fully consider public and congressional opinion. In fact, to a far greater extent than in the past, the development of U.S. positions throughout the Kennedy Round has involved extensive consultations not only within the administration, but also with representatives of the public and with Members of Congress. The Trade Expansion Act established, for the first time, the Special Representative for Trade Negotiations, directly responsible to the President for the conduct of such negotiations. The act stated in section 241(a) that the Special Representative should " * * * seek information and advice with respect to each negotiation from representatives of industry, agriculture, and labor, and from such agencies as he deems appropriate."

The act further obliged the President to seek Tariff Commission advice (sec. 221), advice from the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury (sec. 222), and public views through hearings (sec. 223).

A hierarchy of interagency committees, including one at the Cabinet level, was established for the purposes of formulating policy recommendations, with the Special Representative and members of his staff presiding over their work. Similarly constituted was the Trade Information Committee, which held public hearings on concessions that might be made or sought by the United States. These supplemented the hearings which were held by the Tariff Commission.

The President appointed a 45-member public advisory committee to the Special Representative, made up of spokesmen for the public interest selected for their leadership in the business, labor, farm, and consumer sectors. This group met regularly with the Special Representative and many of its members traveled to Geneva for a firsthand look at the negotiations.

Members of Congress have also been brought in as an integral part of the policy formation process in the role of congressional delegates. The creation of congressional delegates was an important innovation of the Trade Expansion Act, which, in section 243, states:

Before each negotiation under this title, the President shall, upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation.

Two Members of the House and two delegates and two alternates from the Senate were so accredited from the beginning of the Kennedy Round.

Throughout the negotiations, and increasingly as the bargaining reached the critical stage, we were kept current with developments and were consulted on moves to be made. We held regular meetings with the Special Representative, received written reports from him, and, on several occasions, made individual trips to Geneva. There we sat in delegation meetings and negotiating sessions and were given access to the position papers and cable messages concerning negotiations.

As the U.S. position evolved on the handling of such difficult questions as American selling price, an international antidumping code, inclusive of agriculture and nontariff barriers, the views of the congressional delegates were sought, given, and, in my view, very carefully considered.

Ambassador Roth has, on several occasions, testified before congressional committees on the usefulness to him of the delegates to the Kennedy Round. He has had an opportunity to probe congressional views and sensitivities and to take advantage of prior consultation on matters that might require, or result, in congressional action. He has been able, based on the consultations, to make clear to other participants in the negotiation the realities of U.S. politics.

With the Kennedy Round concluded, we, the congressional delegates, would appear to have finished our assignment. I believe very

strongly that the concept of congressional delegates to trade negotiations should not be allowed to expire with our retirement. As new negotiations are begun, Members of the Congress should be named as delegates. Through this means, the Congress can both advise and be kept informed on the conduct of our trade relations. The two-way usefulness of the congressional delegates has been proved in the Kennedy Round.

Mr. Chairman, I have tried to focus my remarks on a particular aspect of our conduct of trade negotiations, that of the utilization of means of clarifying the public interest through the participation of representatives of the public and of the Congress in the policy development process. I would recommend that this aspect be given full consideration in the deliberations of this distinguished subcommittee.

Chairman Boggs. Congressman Curtis, we are very happy to have you here this morning. You may begin.

STATEMENT OF HON. THOMAS B. CURTIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI AND A DELEGATE TO THE KENNEDY ROUND

Representative CURTIS. Thank you, Mr. Chairman.

Mr. Chairman and members of the Subcommittee on Foreign Economic Policy, I first want to thank you for your invitation to me as a congressional delegate for trade negotiations to testify during these important hearings on trade policy. I also want to thank the chairman for his invitation to me to sit on the subcommittee panel during these hearings, in light of the fact that, though I am a member of the full Joint Economic Committee, I am not formally a member of this subcommittee.

I would also like to express my great enthusiasm that these hearings on foreign trade are now being held. They have been badly needed, and will serve a very useful and very important purpose: to give perspective to the negotiations just past and to give focus to the many new ideas about trade policy now current. I hope such hearings by this subcommittee, or by the full Joint Committee, can be held regularly—ideally, I would hope they could be held at least annually and that the base of this annual congressional trade inquiry could be the President's Annual Trade Report, a requirement of section 226 of the Trade Expansion Act.

If the Joint Economic Committee would hold hearings annually on this document as they do on the President's Annual Economic Report, I think we could move forward greatly in our understanding of these very complicated matters involving international economics and trade.

At the outset I would like to establish what I consider to be the context in which our trade negotiating efforts have taken place since the 1930's. The Tariff Act of 1930—the "Smoot-Hawley" Tariff enacted the highest rates the Nation had had—higher even than the exceptional rate in the 1922 Fordney-McCumber Tariff. Starting from this high level of rates, reciprocal trade negotiations beginning in 1934 and proceeding until the Kennedy Round have in effect amended the 1930 tariff schedules.

Thus we have descended, step by step, from the rates fixed by the 1930 act—rates that still appear in column 2 of our tariff schedules—to levels where the tariff per se has ceased to be really meaningful restriction to flows of international trade in the industrialized free world.

With the successful conclusion of the Kennedy Round we have come, then, to the end of an era, and we stand at the threshold of a new effort. Now, if only because of the relative unimportance of tariffs, many new trade problems spring to our attention, demanding study and action. I will discuss some of these problems and what to do about them later. I wish to note here however that I detect a new trend of thought, one that I feel contradicts the thrust of U.S. foreign economic policy evident in the progressive reduction of tariffs.

The purpose of this tariff reduction has been to establish a more competitive international economy based on the fuller operation of a fair marketplace. But this objective is endangered by developments such as measures that use quotas and licenses as means of regulating trade in order to bring about objectives that governments consider to be important. Commodity agreements, for example, are major deviations from marketplace conditions because they use quotas and licenses to completely regulate trade in a certain product, often of major importance. The Long Term Cotton Textile Arrangement, renewed for 3 years by the same Kennedy Round agreement that will result in the reduction of tariffs, is just such a measure. It establishes a comprehensive quota system for cotton textile imports, and this has had a profound effect on economic development in the poorer countries.

So I see two themes, two ideas of foreign trade, now current. On the one hand, there are those who wish to expand international trade and payments on the basis of freely operating, competitive international marketplace. The reduction of tariffs has brought us toward this objective. On the other hand, there are those who, though they may even support tariff reduction, at the same time seek to establish new methods of trade regulation that will impair the function of the marketplace. I believe that it is important to resist such "neomercantilist" efforts and to adhere in the new period that lies ahead, to the principles of international competition that have guided our policy in the tariff-reduction period.

Beyond these comments I will limit my remarks to observations about the role of Congressional Delegate for Trade Negotiations, some post-Kennedy Round concerns of international trade policy and some comments on our administrative organization for formulating foreign trade policy, conducting trade negotiations and in other ways implementing that policy.

The function of congressional delegate is set out in section 243 of the Trade Expansion Act as follows:

CONGRESSIONAL DELEGATES FOR TRADE NEGOTIATIONS. Before each negotiation under this title, the President shall, upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation."

I should note that, in addition to the two full Senate delegates, two alternate delegates have been designated from the Senate Finance Committee as a measure of the interest of that committee in the trade nego-

tiations. These alternate members, one from each party, have served as full congressional delegates.

The language of section 243 obviously leaves the congressional delegates' role open to interpretation, but it is nonetheless important. For the first time, congressional participation in trade negotiations was elevated from the level of "observer" status to that of actual participant. This is an important distinction, one that I am keenly aware of, having also served as a congressional "observer" of past negotiations. As "observers" access to documents and meetings was limited. As "delegates" we have access to classified data and to negotiations between governments.

The resulting relationship between executive and legislative branches has been described as "unique." Initially it may have created a bit of disquiet in administrators accustomed to the usual cards-against-vest approach to dealing with Congress. But my opinion is that the "unique" relationship has worked well: I have found that efforts to expand and intensify congressional knowledge and participation in the foreign trade program have been met with good cooperation by the executive branch.

My interpretation of the language of section 243 and the role of congressional delegate for trade negotiations has been to keep well informed about the negotiations and trade matters generally, to consult with the trade negotiating staff, and to attempt to explain to the public and its representatives in Government—my colleagues here in Congress—the issues in the trade negotiations, with attention at the same time to their meaning to our domestic industries, our relations with other nations, and our future trade concerns.

Moreover, I have hoped to promote what I consider to be another profoundly important objective. I believe the Congress is an institution intended to make decisions through processes of open study and debate. I have hoped that publicly exposing as completely as I could the facts about the negotiations would aid better congressional decision-making in foreign trade and related matters. This has been a principal reason why I have used the consultations and participation open to me as a congressional delegate to report extensively on the negotiations and related problems to the Congress.

In May 1963 at a meeting in Geneva the Ministers of the major countries participating in the Kennedy Round resolved upon certain resolutions to guide the "Kennedy" negotiations. A year later, in May 1964, I attended the formal opening of the Kennedy Round, at which time the Ministers published new resolutions essentially reaffirming those of a year earlier.

But by May 1965, my second visit to the negotiations, very little had been accomplished in fulfilling the earlier ministerial resolutions. So on June 2, 1965, Congressional Record pages 11925-11930, I explained the arguments surrounding the negotiating ground rules that had absorbed everyone's energies during this 2-year period.

Our negotiators had spent months simply trying to define the meaning of a "tariff disparity," and the idea of establishing world reference prices for all agriculture commodities based upon fixed levels of farm support—a Common Market proposal known as the "montant de soutien." These intellectual exercises had delayed any real tariff bargaining very effectively.

As an indication of the recency of the progress of the round, I would recall that, even as late as June 2, 1965, the antidumping agreement that was signed on June 30 had not even been discussed. The group—the Non-Tariff Barriers Committee of the General Agreement on Tariffs and Trade—that was to be the forum for organizing the negotiations on nontariff barriers, had not even met, and its membership had not even been organized.

But very shortly thereafter, I believe the middle of June, the British Government submitted its paper deeply criticizing what it then considered the shortcomings of the U.S. administration of the Antidumping Act of 1921, an opinion shared by many other countries.

It is rather a surprise that, 2 years later, we have mollified our foreign critics first just by explaining the logic behind our antidumping administration, and second, making apparently minor changes in our administrative practices. Above all, we have succeeded in having the essence of much of our own procedure—open hearings with rebuttal, public explanations of antidumping actions, and the criteria for such actions, among other safeguards—adopted by all the major trading nations under article 6 of the new antidumping agreement.

It has seemed to me that such an international agreement harmonizing national practices is a very promising achievement, an important first step toward much broader agreement on other international business practices. For the record, I would like to cite my previous comments in the Congressional Record on the problem of dumping: June 1, 1965, pages 11645–11647; March 8, 1966, pages 5112–5116; August 24, 1966, pages 19554–19557.

The year from May 1965 to May 1966 will be remembered as perhaps the period of most frustration in a very frustrating 5-year negotiation. The long stalemate in the functioning of the Common Market from June 1965 through February 1966 prevented its participation in the negotiations—the negotiations could not proceed.

But by the spring of 1966, the negotiations had begun again. After my early May 1966 trip to Geneva, I was able to report on May 31, Congressional Record pages 11280–11293, about the opening of discussions in two critical industrial sectors, steel and chemicals, and the resumption of discussions on wheat and feed grains, among other matters. Later in the summer, the Community tabled additional agricultural offers and so, by the fall, real negotiations were at last well underway.

Time does not permit me to chronicle minutely the step-by-step development of the negotiations, and that is not my purpose here. Suffice it to say that by the time of my return to the Geneva negotiations in late November 1966, the major issues had been clearly delineated, initial assessments of the dollar value of the offers had been drawn up and these were being presented to other participating countries with lists of requests for additional offers and lists of possible withdrawals.

Key issues remained, however, and their solution, as we know, was a touch-and-go proposition until the very final weeks of the negotiations. These key issues—mainly steel, chemicals, American selling price, a grains agreement, dairy and meat sector problems, and other

temperate zone products—were the matters of greatest concern. But equally important, if somewhat in the background, were the trade and development problems of the poorer countries.

To explore these issues, I began on April 10, this year, a five part series of reports titled "The Kennedy Round and the Future of United States Trade Policy." The April 10 installment, part I, Congressional Record pages H3819-H3830, dealt with the tactical negotiating problem in agriculture, but mostly with the efforts, and the issues, in the negotiation of an international grains agreement.

On April 13, Congressional Record pages H4128-H4140, I submitted part II, which dealt with dairy, meat, poultry, and other major farm products.

In reviewing the content of these two speeches and the results of the negotiations it is obvious that the Kennedy Round agriculture negotiations did not alter at all the Common Market's farm pricing and import restriction systems, which we had hoped we could modify. Of course, many believed that this was not possible, even from the start of the negotiations. But I think we made a very good try—a beginning in treating in an international forum difficult problems of agriculture. This itself was an important initiative, because previous negotiations had not attempted discussion in the agriculture area.

These inquiries into international farm trade demonstrated an important lesson. The failings, the complications of international farm trade, begin at home. Almost all governments have stepped into their own agricultural marketplaces to achieve through government direction social and political objectives they consider important. Establishing real competition in international agriculture markets largely requires that governments first step out of these markets, remaining there only to perform the essential function of guaranteeing their honesty and enforcing other standards of fair competition. So complex is this problem that I am reminded of a statement by the very able, astute Director General of the General Agreement on Tariffs and Trade, Eric Wyndham-White, at a press conference in Washington in April 1965. He said that—

The evolution of an acceptable viable international agricultural and food policy is something which will have to be worked out very patiently over the years. We mustn't expect that one can solve all these very deep-seated problems in one go-around—in a single negotiation.

Part III of the report, which appeared on May 1, Congressional Record pages H4891-H4905, was an effort to explain the tactical problems in the industrial negotiations, particularly the development of the sector approach to negotiations in difficult industries—steel, chemicals, textiles, aluminum, and pulp and paper. Part III also discussed the so-called technology gap which was used by certain countries as a reason for excepting certain tariffs from cuts in the negotiation. In part III I also described the problems facing the conclusion of a meaningful negotiation in the steel sector talks and, in relation to this, I explored some of the problems in our own steel industry, in an effort to bring them out into the open and examine their merits at a key time in the negotiations, the last moment when, if some special measures were required, they would have to be taken.

My descriptions of the problems in the other major industrial sectors—chemicals, textiles, aluminum, and pulp and paper—begin on Monday, July 10, Congressional Record pages H8380–H8394, with a discussion of chemicals. The second section of part IV will be submitted next Monday, July 17, and it will conclude the discussion of the industrial sector negotiations. I would conclude that these sector negotiations, an innovation in the Kennedy Round, resulted in more intensive study of the international and domestic economics of these industries than any previous negotiation. This has been a major positive result of the Kennedy Round approach to the industry sectors.

Study of these sectors of international trade negotiations, and the domestic economics of the U.S. industries in question, has led me to emphasize the importance of change—that is, shifting inputs of resources among and within industry groups as a result of new technology, new demands, and new sources of supply. These continuing changes are the expression of a truly dynamic economy. A tendency I see is that, in examining intensively an industry, some of us become wedded to a static view of the industry in question, forgetting that change is incessant and that some very profound economic changes can take place very rapidly.

This is an attitude sometimes adopted also by businessmen themselves. Used to looking at their role in the economy in terms of a certain share of production or sales or other measure of size, they are proud to see an increase and very reluctant to accept a decreased share, even though the larger forces of economic activity and innovation may demand constant changes in the relative importance of various industries. And I must add that the actual amount of that industry has increased, the proportionate share may decrease, but the industry still is expanding.

So we are continually faced with the question whether to maximize economic growth, thereby increasing the totality of economic activity, or accept some lesser amount of activity in order to preserve certain dominant or less dominant interrelationships among major industrial groups.

Implied in this observation is that certain industries may in a sense be “doomed” to suffer declines. This is not necessarily the case, as we know. By flexibly responding to new challenges in the marketplace, perhaps by diversifying into related but more growth-oriented lines of production, perhaps even by selective foreign investments, so-called “older” industries may rejuvenate themselves. And all of this activity should take place in terms of fair competition, both domestic and international, in a situation where the competitive rules of the road, the “conditions of the market and the exchange” must become internationally understood.

My researches into the textile industry have given me some insights into this dynamic economic process. These were published in the Congressional Record of August 29, 1966, pages 20077–20113. A new report on textiles will update much of the data that I then related.

I found that what seemed to be a genuine economic depression in the cotton textile manufacturing industry in the late 1950's and early 1960's was diagnosed as a problem of import competition, when the essential problems were those of industry modernization and of anti-

ficially expensive raw cotton supplies under the so-called "two-price" cotton subsidy system.

It is well known that for cotton textiles a continuing program of comprehensive quotas, which are by definition the most restrictive form of measuring the international economic differentials a society considers it important to measure, was begun. Though the quotas were initially applied to Japan and Hong Kong, Spain and Portugal, the countries that are now most affected are the poorer developing countries, many of them striving for industrial development, in which textile manufacture is conceded to be a natural beginning step.

Since 1960 the cotton textile industry, according to a wide variety of economic indicators, has shown tremendous improvement. It has ironed out some of its basic structural problems, it has modernized and expanded extensively, it employs more workers, produces more goods at lower unit costs, and makes higher ratios of profits on invested capital. The quotas remain, however, as an obstacle to the reestablishment of the marketplace. The industry is understandably reluctant to give up the quotas—they in fact want stricter quotas and want them extended to the wool and manmade fiber sectors of the industry, seemingly unable psychologically to adjust to new conditions.

To me the textile quota program is of deep concern because of its effects on the poorer countries. It raises this profound problem: how can we effectively create the conditions for worldwide economic growth and prosperity?

The financial foreign aid programs carried on by the United States and other countries since the early 1950's have been less than successful, barely, if at all, bringing about increases in per capita income. Foreign trade; that is, the ability to sell goods in foreign markets to earn income, is a more fundamental, more correct method of generating income and growth, and would remove much of the need for financial aid.

Restrictions on exports of such things as cotton textiles both discourage the natural process of industrial development and create a continuing dependence on unearned financial aid—with all its psychological impact, including irresponsible expenditure of such unearned money.

So our businessmen and our labor unions, and our investors and Government officials must face this question: Will we allow the developing countries to sell us what they make, or will we continue to support them by means that I and many others consider to be wasteful and even harmful? Will we really accept the meaning of the slogan, "Trade, not aid"? Do we really mean it? And if we do, of course, then, we have to give thought to what is it economically feasible for these countries to produce.

I regard foreign aid—and I am in favor of the basic program, if it is designed to help nations get on their economic feet. But just as in welfare programs domestically, if it doesn't get people on their economic feet, it can result in creating a condition of permanent welfare or permanent aid.

Because I have used textiles as an example does not at all mean that this argument applies only, or even exclusively, to textiles. It might not even apply to textiles, though I think it does. It is a consideration for all goods and service industries.

Another consideration that has broader application is the question of foreign investment. The case has been very strongly made that textiles, like other industries, should defend their home markets by establishing their own foreign factories, thus participating in growing markets outside the United States. There are fewer and fewer large American industries that have not entered international markets through direct investment abroad, largely to sell in the foreign market rather than simply supply the U.S. market. One of these exceptions appears to be steel. Such industries should consider how they can take advantage of the global opportunities for their products, their know-how, their unexcelled merchandising and distributive ability, and their efficient management. If they were to do so in poorer countries, they would also make fundamental contributions to sound economic growth.

These are some of the observations derived from the examination of the industrial sectors in the trade negotiations. They may seem far afield from the topic of negotiations, but they serve again to illustrate that tariff negotiations as they have been conducted in the Kennedy Round have been exceptionally fruitful in terms of deepening our understanding of the industries that are the subjects of the negotiations.

Part V of my five-part report is still to come. It will deal with other-than-tariff trade problems, especially dumping, international patents, and other matters, many of which will absorb our attentions in future international trade efforts.

I have been told that I have become knowledgeable in events that are past, the implication of course being that the knowledge is now useless. I reject this theory. Nowhere is the aphorism "Past is Prologue" more applicable than the just-completed Kennedy negotiations on tariff and trade. The many lessons learned from the wealth of detail of this negotiation will instruct, enlighten, and shape future action. They are the basis for a beginning of a new, more fruitful kind. Coming through years of negotiations concentrated on tariffs is like passing through a high mountain range and emerging to find some remaining foothills to traverse, and to see, a little distance beyond, a lush plain. The plain is lush, but hazy—its outlines dim. We are in the unique position of being able now as we look down over it to shape the economic conditions that will be in force there. The question is, what courses of action should we take?

The Kennedy Round itself holds the seeds of the answer. It made innovations in areas like agriculture, nontariff barriers, and problems of the developing countries that were very meaningful and basic.

In the area of agriculture, I have already identified above what I consider to be the main problem: Government interference. Here, one course of action would seem to be establish more effective international consultative institutions to deal with domestic policies as they affect international trade and impinge on the domestic agriculture policies of other countries.

In the area of nontariff barriers, much work study has to be done. I will simply mention some of the more obvious matters that are considered to be problems: border taxes and export rebates, Government buying regulations, valuation and tariff nomenclature problems. These

are matters that can affect exports. There are other Government programs that can affect imports into this country as well as our exports to third markets, such as grants and subsidies, especially to stimulate exports.

There is another group of trade problems of the other-than-tariff type that must also be subject to concentrated attention. I have in mind the area known as restrictive business practices, or problems of unfair trade practices, such as combinations in restraint of trade, which essentially have to do with creating fair marketplace conditions.

In addition, there are areas such as international patents and copyright protection, where national practices should be harmonized and internationally codified in order to equalize and stabilize these basic business laws.

There is another area, where the costs of doing business may be severely affected by various governmental programs, that should be given consideration in future trade negotiations. Wage differentials in context with productivity should be treated as an element affecting trade negotiations because they may reflect an unfair competitive burden on U.S. producers.

Finally, there is the very complex problem of our trade and aid policies toward the economically disadvantaged, developing countries. In our attempt to find the proper solutions to these problems I believe that the basis of consideration should be to permit such countries to manufacture and to sell to us those products that they are able to produce efficiently, such as the processing of raw materials to more finished stages. The tariff structures of industrialized countries often contain built-in differentials that permit the free importation of raw materials but tax, by means of a higher tariff rate, the same materials in processed form. These tariff differentials can therefore adversely affect economic development.

Incidentally, these apply to most developed countries. The United States has got some of these, and other countries do the same.

Removing discriminations against the exports, and the industrial development and diversification of the developing countries, should be our first concern. Only then should we take the step toward other special measures on behalf of the developing countries. We are all aware of the proposals that have been made to establish tariff preferences for the developing countries. The political case for preferences on the part of the developed for the developing countries has been argued effectively. But the economic case is much less clear. Is it logical to adopt, for political purposes, an economic program that will not have the expected economic consequences in terms of real benefits for developing countries' exports?

I urge that the United States and other industrialized countries give very careful scrutiny to the economic case for tariff preferences and other special trade measures for the developing countries. It would seem to me that the first steps in helping such countries has only been taken partially.

One such area is commodities. Commodity agreements for cocoa and coffee and other basis materials, cocoa, sugar, copper, are merely devices to organize international markets along mercantilist lines. I believe that the stabilization of prices is important, both for buyers and

sellers. But I also believe that the market has created a mechanism for bringing about price stability for internationally traded commodities. And we need to develop those. Futures markets are such a mechanism. They focus the wealth of knowledge of the producer, trader, and merchandiser to create an educated market where, if well regulated in the same sense that our stock markets are regulated, price movements take place in an orderly stabilizing environment.

Just as many of our domestic commodity markets perform these essential price functions well, so international futures markets can be created to perform the same functions. Futures trading may not now exist in all types of coffee, but I believe that, with less effort than is now expended in the administration of the International Coffee Agreement, a smoothly functioning international futures market could be created for coffee. I have long hoped that an appropriate committee, but particularly the Joint Economic Committee, would intensively study one of these commodities, sugar or coffee or any single one, in order to have an economic case study upon which to base our commodity policy. And this study is basically needed. All these questions and more are in need of concerted action. Our next problem is to decide what to do about them. The President has asked the Special Representative for Trade Negotiations, Ambassador William Roth, to conduct a full-scale study of these problems. As Ambassador Roth explained yesterday, this study will take place by means of interagency task forces, and it will be headed by a new Public Advisory Committee. This Public Advisory Committee and the format of the study should be modeled as much as possible along the lines of the Hoover Commission—that is, there should be congressional participation in all its aspects.

Of course it would not provide one feature of the coffee agreement, which is a hidden subsidy to coffee producers accomplished by means of maintaining artificially high coffee prices. A futures market would provide desirable price stability but not subsidy—it would therefore not artificially encourage continued coffee production and continued surplus, but provide a market stimulus for producers to lessen production and, hopefully, to diversify into other products. I have commented further on international futures markets in the Congressional Record of July 11, 1966, pages 14373-14374.

The pause for study, while needed to formulate effective policies and effective means of carrying them out, must not be allowed to dull our Government's responses to the trade problems that will continue to confront us. In my July 10 report concentrating on chemicals I also discussed the problem of the border tax. Here is an area where I believe that, because of the rapid development in Europe of a harmonized turnover tax system and increased border taxes, there is a need for international consultation at least to define the issues behind the dispute about the alleged adverse effects on U.S. exports of the border tax and export rebate that are part of the turnover method of indirect taxation.

Let me emphasize one of the great things I thought we created in the Reciprocal Trade Act of 1962, this prominent mechanism in our society, the Office of Trade Negotiator of which Ambassador Roth is the head. This is permanent structure.

While discussing the trade policy studies to be undertaken by the administration, I would suggest that there is an alternative that should perhaps be considered. Would not the most effective method of studying our foreign trade policy in its proper context be a much broader Foreign Economic Policy Commission, which has adequate financial backing to hire an independent staff and secure outside studies from external sources, hold hearings in various parts of the United States and abroad, and publish its own studies? My concern is that we attempt to create a policy that is farsighted as well as oriented to problem solving in the near term.

There is another kind of study that should be undertaken either within or outside the Government. There has never been an effort to find out what the economic effects of tariff reductions really are. Five rounds of tariff negotiations have been undertaken since World War II without any thorough attempt to document their effects on world trade. The sixth and most far-reaching, tariff negotiation has just concluded, and it has been accomplished with the best statistical resources and equipment that have ever been employed. This wealth of statistical data should be used to study the economic effects of the tariff cuts just completed. This would necessarily be a long-term effort because the tariff cuts are staged over 5 years. But it should, at some stage, be undertaken.

One of the great achievements of the 1962 Trade Act was to establish the organization needed to conduct trade negotiations, the Special Representative for Trade Negotiations. I am convinced that the Special Representative for Trade Negotiations, created by the Trade Expansion Act as a position responsible directly to the President and with confirmation by the Senate, was the proper means of carrying out the mandates of the 1962 Trade Act. I think it has brought much greater independence and much more scholarship into the conduct of our trade negotiations.

I am pleased to see that the continuation of the Office of the Special Representative has been budgeted for this fiscal year. Even though the Trade Act's delegation of negotiating authority has run out, there is nothing in the Trade Act to suggest that the Special Representative should cease functioning, and instead of allowing the function to wither, increased responsibility should be given to the Special Representative for conducting foreign trade relations. The impending legislation to give the President some "housekeeping" authority in this area may be an appropriate place to redefine the functions of the Special Representative and strengthen his office.

Ideally, I would like to see us move toward a method of administration used by the British and other governments. That is, I believe we should ultimately create a Department of International Economic Affairs headed by a Cabinet Secretary. This Department would combine functions in the trade area trade and monetary policy, including development aid, that now are scattered throughout the Government in many different agencies.

Finally, what of the congressional role in such decisionmaking? It is understood, of course, that the President has the power to conduct foreign relations, and it is equally certain that the Congress has the power to regulate interstate and foreign commerce. There is obviously

a tension created by this assignment of powers. The tension can be restored by Congress truly taking the initiative in many difficult trade areas by holding hearings, by studying the problems, and then giving the President the mandate to try to solve the problems through international action. Another way to help resolve this inherent tension between executive and legislative powers is to include full congressional participation in cases where the President employs his negotiating power in the foreign trade field such as in the Kennedy Round.

The role of Congress in foreign trade is not simply passive. The Tariff Commission, of course, is an arm of Congress, in one way in which we do follow these things closely.

We should not simply sit by to act only when called upon by the President, or to examine trade policy broadly only in the years preceding or concluding a new tariff and trade negotiation. The role of Congress, and the participation of Congress, should be persistent and continuing, and it will be much more informed as a consequence.

So, I conclude by again urging that the Joint Economic Committee put on its agenda as a regular function hearings on the President's annual trade report.

Thank you very much.

Chairman Boggs. Mr. Curtis, I would like to commend you on a very comprehensive statement, and on the amount of time and effort that you gave not only to the statement but to the work that you did in Geneva. I appreciate very much your coming here. Your statement has been most helpful.

Mr. Reuss, any questions?

Representative Reuss. Thank you, Mr. Chairman.

I join with our chairman in congratulating Mr. Curtis, not only on the statement, but on his valuable work in making, I think, a tremendous success out of the congressional experiment in the Trade Expansion Act in section 243, in setting up a full-fledged congressional delegate.

I have read over the years with great interest the interim reports which you have given us in the Congress, and usually in the pages of the Congressional Record. I don't say that I have read every word of the fine print, but I have read most of it. And I think you have done a tremendous job of keeping us informed.

I also find myself in very close agreement with you on almost every point you make in this substantive paper this morning.

I would take time to pursue just one line there with you. You point out, and it is surely true, that in trade negotiations themselves we in the Congress through the congressional delegates, have established a pretty good liaison arrangement. We have tried to adapt our congressional political system to the needs of the modern world. It is also true, I think, that in the field of international monetary reform—something that is not before us this morning—due to the receptivity of Secretary Fowler and the Treasury Department generally, a good working arrangement has been provided whereby the Joint Economic Committee and the Banking and Currency Committee have been kept in close touch with the progress of international monetary negotiations. And while some of us aren't formal delegates, there is a role analogous to our role in trade.

Which leads me, of course, to your excellent suggestion that we should give consideration to the establishment of a permanent or semi-permanent foreign economic policy commission, on which I would take it you would want Hoover Commission type congressional representation?

Representative CURTIS. Yes.

Representative REUSS. You spoke specifically of Ambassador Roth's ad hoc informal activities. But there he is concerned just with trade. And it is informal. I think I am right in distilling out of what you said a recommendation that there should be a statutory forum and a congressionally participated in foreign economic policy commission.

Representative CURTIS. Yes; I think it should be formalized. I think we know enough now so that we could formalize it with some wisdom.

Representative REUSS. And this commission would concern itself with trade negotiations, of course, with international monetary matters, but also with some of these other important things, monetary values, commodity agreements—

Representative CURTIS. Investment, development loan funds, and very close coordination with AID. I want to again emphasize that I think that AID performs a real function, but in order to do it it should be closely coordinated with the private sector.

Representative REUSS. One point you made in connection with primary commodities of developing countries. You particularly mentioned the other commodity which I have had occasion to allude to the 2 days of hearings, sugar. And it seemed to me that these were items as to which long range and well thought out policies were necessary. It is not criticizing anybody in particular to say that we do not now have them. We are hopeful that a foreign policy economic commission could take a fresh approach.

Representative CURTIS. I think the Joint Economic Committee would take any commodity, sugar, for instance, one that is important to developing countries—or coffee, or copper and go into depth to determine what the economics and the political problems are. I think that would be very desirable. That is where I would like to see us do this study on the futures market to see whether my hunch that futures markets, properly regulated, would serve the very necessary purpose of stabilizing prices is valid. That was the big reason for the International Coffee Agreement. The prices do fluctuate. So we went to, in effect, the quota license technique of stabilizing the prices. I think if we understood the futures markets better we would find that this would serve this purpose and really utilize the great efficiencies that do exist in the marketplace.

Representative REUSS. I am not sure, at this stage, that I share your optimism about the futures market as a sole regulator of the price and protection of basic commodities. But the only way to find out is to study it. And that has not been done.

I conclude with the hope that you will further refine your thoughts about a foreign economic policy commission and introduce legislation on it. I am certainly disposed to want to work with you on it.

Representative CURTIS. Let me say that perhaps we can work on this together. I would very much welcome you, and particularly someone from the other side of the aisle. This is not a partisan thing in any

sense, and I think it would be very valuable to work on this on a bipartisan basis.

Representative REUSS (now presiding). I thank the gentleman. Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

I do want to join with the chairman and with Congressman Reuss in complimenting you on the excellent presentation today and the fine effort that you have been making in this particular field.

For those of us in the Congress who have been with you over a period of years know of your own expertise in this particular area and your own dedication through the years.

You have made some very constructive suggestions here today that I think, as Congressman Reuss has just said, refined and presented would give us something more than a pause for thought, and a chance to act affirmatively on something that can improve our present position.

I want to especially commend you for the great effort that you have been making through the years to inform the country and also the Congress as to what has been going on. And the five reports that you are now making in a series called "The Kennedy Round and the Future of the U.S. Trade Policy" I think will prove invaluable to all of us.

Thank you.

Representative CURTIS. Thank you very much.

I would like to add one other thing. Many people in my own community have said why spend all of this effort on such a complicated subject as foreign trade and what it does to us.

I honestly believe that there is more war and peace wrapped up in these economic problems and trade than anything I can think of. If we can come up with more rational solutions in this area, we are going to do more toward attaining that which we are all seeking, which is a peaceful world based on justice. And I think the efforts are well worth it to dig into this most complicated subject and see what we can do.

Representative REUSS. I agree with you. And I don't have to adjure the gentleman to stick to his guns, because I know he will.

We want to thank you, Congressman Curtis, for your great contribution. And we want to thank the other excellent witnesses that appeared before us this morning.

Chairman Boggs had to go to the phone, but he has asked me to say that we will convene tomorrow morning at 10 o'clock in room 1202, New Senate Office Building, where we will hear Kenneth Younger, director, Royal Institute of International Affairs, and Aurelio Peccei, vice chairman of Olivetti, member of the Steering Committee of Fiat-Turin, and president of Italconsult, Rome.

We stand adjourned until that time.

(Whereupon, at 11:55 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, July 13, 1967).

THE FUTURE OF U.S. FOREIGN TRADE POLICY

THURSDAY, JULY 13, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Widnall, and Rumsfeld; and Senator Miller.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; Donald A. Webster, minority staff economist.

Chairman Boggs. The subcommittee will come to order.

We are pleased to have two distinguished witnesses, Mr. Aurelio Peccei, who is an outstanding industrial and business leader in Italy. He has probably done as much to contribute to the outstanding industrial development of Italy since World War II as any single man.

I would like to make a part of the record at this point his complete biographical sketch.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF DR. AURELIO PECCEI

Born July 4, 1908 in Turin, Italy, he holds a *summa cum laude* doctorate in Economics from the University of Turin. During the war he was an active member of the underground Resistance Movement in Italy; and was jailed during one year for that activity.

He joined the Fiat Co. of Turin in 1930 and has been member of the Steering Committee since 1950. He is head of the Latin American Affairs Division and Chairman of the Board of Fiat Concord, the industrial subsidiary in the Argentine.

He has been President of Italconsult, Rome, the foremost firm of engineering and economic consultants in Italy, since its incorporation in 1957.

When Fiat took an interest in the Olivetti Co. of Ivrea in May 1964 he was appointed President and Chief Executive of the Company for three years. Having completed his mission he remained with Olivetti as its Vice Chairman.

Chairman Boggs. Also the Right Honorable Kenneth Younger, who has had a distinguished career. He was a Member of Parliament from 1945 until 1959, during which time he held the positions of Parliamentary Private Secretary to the Minister of State from 1945 to 1946, and to the Under Secretary of State for Air, 1946 to June 1947, and the Chairman of the UNRRA, Committee of Council for Europe from 1946 to 1948.

I will also include in the record the complete biographical sketch of Mr. Younger.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF RT. HON. KENNETH YOUNGER

Kenneth Younger was born December 15, 1908 and educated at New College, Oxford. During World War II he served in the British Army Intelligence Corps.

He was elected to Parliament in 1945 where he served as a Labour Party member until 1949. During this time he held the positions of Parliamentary Private Secretary to the Minister of State (1945-46) and to the Under-Secretary of State for Air (1946-47), and Chairman of the UNRRA, Committee of Council for Europe (1946-48).

He became Parliamentary Under-Secretary of State for Home Affairs from 1947-50 and was Minister of State for Foreign Affairs from 1950-51.

In 1953 Mr. Younger accepted the position of Joint Vice-Chairman of the Royal Institute of International Affairs and in 1959 became Director of that organization.

Chairman Boggs. We are happy to have you here, Mr. Younger and Mr. Peccei.

Mr. Peccei, you may proceed first. And the other members of the subcommittee will be coming along.

We appreciate the long journey that you have made.

STATEMENT OF AURELIO PECCEI, VICE CHAIRMAN OF OLIVETTI, MEMBER OF THE STEERING COMMITTEE OF FIAT-TURIN, AND PRESIDENT OF ITALCONSULT, ROME, ITALY

Mr. PECCEI. I wonder, Mr. Chairman, if I may make some side comments to my prepared statement?

Chairman Boggs. Certainly. Proceed in any way you wish.

Mr. PECCEI. First of all, I should like to thank you for the honor that you have done me with your invitation to appear before you, thus giving me an opportunity to express some personal views with regard to certain aspects of international trade.

It is particularly gratifying for me to address you, gentlemen, since I am fully aware of the great contribution that your subcommittee has made, and is making, in the continuous review of the various problems which beset the expansion of international trade.

We in Europe have been particularly impressed by, and indeed we owe you a debt of gratitude for the initiative that you have taken some years ago in clearing the ground and making it possible for the United States to adopt the 1963 Trade Expansion Act. We would have had no Kennedy Round but for your enlightened foresight.

I propose to discuss today three main areas in which international cooperation and bold American initiative are required; namely, the post-Kennedy Round prospects, East-West trade, and trade relations with developing countries. There is nothing novel in this approach, but these are undoubtedly the main issues before us.

With regard to the Kennedy Round, I believe that one can say that the world has gotten adjusted even too quickly to the extraordinary technical results which have been reached. It seems to me that we haven't yet had the time to appreciate and appraise the fact that the negotiations which went under the Kennedy Round name have pro-

duced the greatest tariff reductions known so far. It is true that the original goals have not been attained, and that therefore there is a residue of custom duties still barring a completely free international trade. Nonetheless, one could ask legitimately the question whether there is any sense in maintaining—after all—a custom structure so small, so insignificant and yet so expensive to administer. In many cases, isn't this residue more a fiscal than a protective feature? Certainly, this is true for the external tariff of the European Economic Community. My hope is that in due course the governments concerned will draw the logical conclusion and muster the necessary strength to dispose entirely of it.

The Kennedy Round is to be applauded for its outstanding technical results, but even more so for its political implications. There were and are still latent, in every country in the world, powerful protectionist forces. The political implication of the Kennedy Round is that these forces have been deterred, if not finally defeated. Had the Kennedy Round failed, or had it produced inadequate results, we would be witnessing their resurrection, and ours would be an uphill fight.

But those who believe, as I do, in an ever freer international trade, cannot rest in complacency. One large area has remained unattacked by the Kennedy Round: the whole diversified cumbersome area of nontariff obstacles. And this provides the ground for our work ahead. Permit me to say that in this respect as a European I look to your subcommittee with confidence and hope. No country goes blameless for having devised, through an ingenuity that would be better placed in the promotion of free trade, all sorts of unilateral and objectionable measures. It is quite obvious that each one of these measures is justified by Governments responsible for them on various grounds, and that all of them are deep rooted in each of the national economies concerned. Nevertheless, very few of them could stand the test of broader international interests.

If I may give you an example, in the opinion of people in my country and the rest of Europe, this is the case of the countervailing duties on imports from Italy of fabricated structural steel units established by a Treasury Department's decision of April 21, 1967, right on the eve of the Kennedy Round successful conclusion.

This decision is based on the Bounty Act of 1890, which in 70 years was applied only in a very few cases. Now, the Treasury Department modified its longstanding interpretation that the legislation does not apply to rebates of internal taxes by the exporting country; and imposed countervailing duties by unilateral action, instead of proceeding by international consultation and agreement in OECD, as all the member states unanimously agreed, or in GATT, which, by the way, would have assured that every country and every party would be treated equally, instead of selecting a specific product from one country.

I have mentioned this example, among others, because of the disconcert, bitterness, and malaise it is raising in Italy.

I believe that after the Kennedy Round the time has come for a sincere soul-searching analysis. It is my hope that—for the sake of

international cooperation—a stock-taking operation, painful as it may be, will be promoted on the widest possible international basis.

I am aware that such exercise has been already started in the United States on a national basis, but an international approach is needed. I am confident that through an objective analysis, through a sincere give-and-take attitude, a process of gradual elimination will be initiated. For too long Americans and Europeans have been accusing each other of ill-doings, with the result that only the faults of the other side were emphasized, in a fruitless and frustrating exercise. A more direct confrontation might serve the more constructive purpose to turn the criticism inward. In this connection may I suggest that it might be well that the trade policy study President Johnson has asked Ambassador Roth to undertake over the next year be matched by or combined with a similar study to be undertaken by the EEC, which should be prompted to do it, and another by EFTA on the United Kingdom.

Some quiet, off the record contacts among the Atlantic protagonists of world trade may serve some of the purposes outlined in the very good paper presented to this subcommittee by Mr. Robert Schwenger, that is, to coordinate the economic activities of governments—at least across the Atlantic—without resorting to arbitrary political pressures.

Such an approach is even more necessary now that, having almost dismantled the custom tariff fortress, governments will be subject to severe pressure and tempted to restore protectionist policies and practices on a nontariff basis. No doubt, we must be vigilant.

When looking to American-European trade relations, assuming that the process of elimination of tariff barriers may continue to the very successful end, the nontariff area offers the greatest opportunity for further cooperation.

Some adequate arrangements will have to be made, also, with regard to the implications of the growing technological gap between the United States and Europe. As you know, we are faced here with a rather hazy problem, because a clear-cut definition of the gap is still to be found. Nevertheless, I believe that informed circles would not any longer doubt that a gap exists.

Specifically, the problem that affects international trade is the question as to how technology should be transferred from one country to another and from one company to another.

Here again, I believe that a liberalistic approach should be adopted, and that the countries which lag behind in technological development should not shield themselves under a protective structure, whether custom or otherwise, least they are condemned to a progressive underdeveloped status; conversely, countries which are ahead in technological development, should not indulge in monopolistic attitudes least they themselves are tempted by ephemeral advantages and thus isolate themselves from the rest of the world.

We must keep in mind that the main feature of our contemporary world is interdependence, and that any action intended to ignore reality can only produce damages for all.

I would like to mention in this connection that an important Conference on Trans-Atlantic Technological Imbalance and Cooperation was sponsored by the Scientific Technological Committee of the

North Atlantic Assembly—of which Senator Javits is so prominent a member—and the Foreign Policy Research Institute of the University of Pennsylvania; and was held last May in Deauville. After an extensive study of the problems involved, the conference reached some conclusions, which may be of some interest to this subcommittee, as they are related to the exchange of goods and know-how.

The continuation of the conference work which was decided at Deauville may receive moral support from this subcommittee.

Mr. Chairman, I have here the final report of the conference for this subcommittee, if you will allow me to put it at your disposal.

Chairman Boggs. It is so ordered.

(The report follows:)

REPORT OF THE CONFERENCE ON TRANSATLANTIC TECHNOLOGICAL IMBALANCE AND COLLABORATION*

(Sponsored by the Scientific/Technological Committee of the North Atlantic Assembly and the Foreign Policy Research Institute of the University of Pennsylvania; Hotel du Golf, Deauville, France, May 25-28, 1967)

INTRODUCTION

A conference dealing with the problems of technological imbalance in the Atlantic Community was held in Deauville, France, from May 25-28, 1967. The conference chose to work in five different panels which dealt with the following problems:

(1) *Education*.—Higher education (problems of scale, nature and quality), implications of cultural factors for scientific creativity, education in institutes of technology, university or other educational facilities, source and adequacy of educational funding.

(2) *Scientific Research*.—Status of pure research, basic research base, technological transfer organizations, information transfer schemes including common standards for documentation, reporting, institutional mechanisms.

(3) *Industrial Management*.—Size of corporations, national/international characteristics, size of national markets, impact of patents and licensing regulations, scope of U.S. investment in Europe, barriers to collaboration, management education and training, competitive situation of U.S. and European corporations in various industrial lines, attitudes toward privately financed research, adequacy of privately financed research.

(4) *Governmental role*.—Government investment in Research and Development (defense-oriented and non-defense-oriented), government contract policies, defense spin-offs, weapons standardization, security restrictions (i.e., McMahon Act), leadtime problems, military collaboration, political-economic competition, and rivalry (i.e., the SST), taxation policies (i.e., amortization time).

(5) *Technological Development and Application*.—Topics in this seminar dealt with present status, level of achievement, and priority with respect to: electronics, computers, avionics, ceramics, metallurgy, nuclear energy (peaceful and military applications), life matter (e.g., biophysics, biochemistry), problems of technological transfer.

I. DIAGNOSIS

The panels began their deliberations by asking the following questions: Is there a technological gap and will there be a gap in the future?

The answers varied according to the differences in definitions of the words "technological" and "gap" as well as to conflicting judgments. The differences of definition of "technological" derived from differences in focus on such phenomena as scientific research; the application of research to production; the marketing of production; investment, government and private, in research and development; as well as restraints upon political independence brought on by disparities in politically relevant technological resources.

*A draft report was presented at the Plenary Session of the Conference on the morning of May 28. This report incorporates suggestions and criticisms made at that time by the participants.

These different definitions of "technological" made it difficult to agree on whether or not there was a gap because each person's reference was not the same. As the panels progressed, the referents became clearer, and a consensus was built which included the greatest number of participants. It was generally agreed that there was an overall imbalance between Europe and America, but in a number of specific industries and in certain areas of pure science Europe enjoys parity and even superiority. However, the number of such sectors was relatively small and the United States was seen to have a decided edge, not only in the overall conditions, asserted to result in technological growth, but in the specific results themselves, especially in the critical industries of aerospace, electronics and computers.

Thus, defining "gap" as an uneven distribution of technologically relevant resources, it was agreed that such a gap existed. There was also a sentiment that, even in the local circumstances where now the gap was not pronounced, the future was threatening because of the large scale impetus to technology which the Americans were able to stimulate in their society. Furthermore there were gaps within Europe itself and between Europe and the undeveloped nations. Under these circumstances, the panelists turned to the causes of the disparities identified.

While there is much variation in the individual cases, reflected in the different examples discussed in each panel, a number of common themes can be identified which lay at the base of the technological imbalance. Large scale European-Atlantic differences in values, mobility, institutional structures, size, and rigidity were seen to account for the discrepancies. Values or attitudes which might foster behavior leading to technological growth were found to be relatively weak in Europe. Whether the issue under discussion was the attitudes toward accepting innovation and change, or working to increase the profit of a firm, or moving to turn pure science into applied technology, the values of Europeans were deemed to be less supportive to technology than those of Americans.

Mobility was another common theme. The reference varied from one panel to the other. Some stressed the relatively greater capacity of Americans for geographic mobility, while other stressed the relative ease with which Americans enjoyed occupational mobility between universities, research institutes and the industrial sector. In each panel, the relative dynamism of American society was underlined as a major cause of technological superiority deemed to be dependent on the free exchange of individuals and information throughout the society. Special attention was paid to the link between the generator of science, the university, and the applicator of science, industry. The link was seen to be highly productive in the United States and relatively weak in Europe.

Related to the differences in mobility, are the differences in institutional structures. Communications between institutions and within institutions were deemed to be better in the United States than in Europe. In the new pragmatic political environment of the United States, government is allowed and even encouraged to play a major role in developing the U.S. technological base. Government aids industry by subsidizing research in the early non-profit stage. Industry profits from spin-offs from government initiated projects. Mutual benefits accrue from the structural relations which industry, government, and the university have evolved with each other. The relative absence of structural barriers against trade and the relative ease with which the different economic, political, and intellectual institutions can communicate with each other and adapt to changes in the needs of one or the other partner, all these assets of the dynamic environment were considered by many to be at the root of technological disparities.

For others, size was counted as a major asset in favor of the United States. Size of firm, to allow for capital formation and size of production facility, to allow for small unit cost, were said to work in the favor of the United States. The size of market was judged as an especially important and, perhaps, critical factor. However, some panelists argued that size alone was not the key factor. Some small firms have managed to be extraordinarily innovative. It was pointed out that the critical role of size varied from one phase of product development to the other, and from one sector to the other.

In all panels, mention was made of the relative rigidity of European factors of production. The flexibility and adaptability which characterizes social and economic institutions in the United States was deemed as a useful asset of a technologically receptive society. Unpredictable demands of a rapidly developing

technology are most readily met in a society which is flexible and willing to evolve new forms of person-to-person, institution-to-institution relations. The relatively larger sector of American society which has been educated on the college and university level, contributes to that flexibility and mobility which enhances employment opportunities.

Among the factors judged by most conference members to be at the base of technological differences between Europe and America, the disparities of values, mobility, structure, size, and rigidity were viewed as the most serious. Their influence was great because they were related to each other in an interacting system in which the multiplier effect of the American assets made the potential of the United States appear enormous and European disadvantages appear to be part of a vicious circle.

The pessimism which appeared in some panels as a result of diagnosing the problem was relieved by a number of alternative views. It is evident that there has been substantial success in Europe. There are many examples which cast doubt on the assumptions in the diagnosis. Evidently, there are firms which, applying technology, successfully compete with the United States, even in the North American home market. There are industries—notably, nuclear energy, metallurgy, and chemicals—which have readily technologically equalled or surpassed their competitors in the United States. Obviously, the vicious circle can be—and has been—broken in many technological areas.

The examples of success show that a diagnosis which excludes the possibility of remedial solutions is too pessimistic. Nonetheless, these are severe restrictions on Europe's ability to rapidly accelerate and close the gap in a short time. The interaction of factors is complicated. It requires systematic treatment. While there was a consensus on the list of important factors, there was no consensus on their relative importance and the nature of their interaction. Scientific and systematic methods of analysis must themselves be brought to an understanding of the process of technological growth. The conference participants had no such systematic knowledge available to them. Differences of opinion derived not only from different values, but also from different understandings of what is needed to stimulate technology. It was clear from differences in national and sector performances, that the problems are complex and in need of further systematic effort.

However, no one underestimated the magnitude of the assignment. A large body of interacting and complex factors had to be moved together to make a major assault on the problem. To do this, goals had to be defined which would capture the attention of relevant parties and motivate them to a major effort. However, when the panels turned their attention to the goals which might provide the unifying and motivating impetus, the agreement on causes gave way to disagreement on aims. While the motivating symbols of past regional co-operation still commanded attention, they did not now suffice to ensure consensus. Instead, more emphasis was placed on solving problems by functional categories. Regional loyalties to nation or to Europe or to the Atlantic area were determined by the pragmatic criterion of their respective relevance to the solution of problems at hand.

In sum, the gap was recognized. Though its seriousness was evaluated differently, no one wanted to allow present forces to continue in the present direction. Whether the reasons for action be political, economic, social, or some mix of these motives, action was desired by the greatest number of participants. The panels then turned their attention to a program for action.

PART II—RECOMMENDATIONS

A. GENERAL

In dealing with such a complex problem as the Transatlantic technological gap it is much easier to diagnose the causes of disparities than it is to present prescriptions for eliminating them, let alone to achieve consensus as to which prescriptions should be adopted. The recommendations which follow reflect a consolidation of those reported by the various panel chairmen as both desirable and to a lesser extent feasible. Their presentation does not imply any endorsement by individual panel members or by the conference as a whole. These recommendations were preceded by discussions of American and European environments and goals respectively.

Great achievements result from sustained and compelling motivations along with the dynamic competitiveness of the American system. The source of many American accomplishments in science and technology can be traced, in part, to the successive challenges presented to the United States by the Second World War, the cold war, the Korean conflict, the space race and involvement in Vietnam. Which challenges will evoke a comparable European response or which goals can the peoples of Western Europe pursue which will similarly motivate the nations of Europe to accelerate their technological capabilities? Some of those might be:

1. *The Soviet Challenge.*—Under the American umbrella Europeans never felt compelled to meet, by themselves, the challenge of Soviet power. As long as the growing Soviet industrial and technological base is perceived by Western Europeans as posing no threat to their societies, the peoples of Western Europe are unlikely to make great technological exertions to counter balance Soviet technological advances.

2. *American Technological Hegemony.*—The potential threat to European independence posed by this possibility may motivate some but not all Europeans to match American technological powers. At the very least, however, most Europeans would like to improve their technological status in order to bargain more effectively with America regarding technological disparities.

3. *Solving Common Problems.*—The social, political and human problems posed by urbanization and environmental pollution are now threatening the quality of human life for people living in urban areas in most parts of the globe. A co-operative search for solutions to these new problems may hasten technological progress.

4. *Aid to Developing Nations.*—Modern technology is compressing the distances that formerly separated peoples. If the gap between the well-being of peoples living in the "Third world" and those living in the industrialized nations grows, the world may become politically more unstable than it is now. There may be a common European and American interest in exploiting technology and making it available to the new nations.

None of the foregoing goals may provide sufficient motivation to the Western European peoples to take all the measures required to reduce, if not eliminate, the existing transatlantic technological gap. Nevertheless, partial response to any of these challenges may inspire a determination in Western Europe to reduce the imbalance between the new world and the old.

Throughout the conference it was generally agreed that concentration of effort and new experimentation are required within each country and on a European basis. Though the problems themselves are functional, their solution ultimately requires both private and political action at the national, European and Atlantic Community level. Hence, the conference proposals are grouped into three categories: National, European, and Atlantic Undertakings.

B. NATIONAL UNDERTAKINGS

The recommendations put forward include those concerned with long-term action affecting structures and attitudes, and those for immediate action.

I. Education

(a) The expansion and democratization of higher education should be promoted so as to extend the pool of competent participants in productive functions and improve exchange and mobility between employment opportunities. This should be accompanied by a systematic effort, which is now proceeding, consisting of providing programs of studies corresponding to requirements and capacities at the various levels.

(b) The system of education should be adapted to the new structures of the world of today, where the scientific approach has become an element of culture and this end in view:

(1) the training of students in political, social and economic sciences and the humanities, such as history and law, should be supplemented by an introduction to technological problems and an education in basic science.

(2) technical training should be supplemented by the teaching of political, social and economic science and business management.

(c) New disciplines should be introduced into the traditional teaching of scientific subjects. As scientific subjects and others concerned with the manage-

ment of businesses are both involved in technological development, they should be made the subject of programs of studies in higher education.

(d) Promising young students should be drawn into technical disciplines, and more of them should be encouraged to prepare themselves for careers in the application of the natural and social sciences in business and industry.

In view of the reduction in the number of students currently attracted by scientific subjects, it is essential to reverse this trend to intervene both at the secondary education stage and subsequently to organize programs of higher education which, being adapted to the modern world, would promise to stimulate interest, and enthusiasm, for demanding subjects.

Continuous education in the technological field should be encouraged by industrial firms. This could be accomplished by staff participation in technical retraining or advanced training courses lasting from one to six months and taking place outside the firm. The teaching profession would have to develop many programs adapted to modern industrial needs. The organization of these programs will facilitate collaboration between industrial and educational circles.

None of these proposals are very new; many of the methods have already been applied, and they do not have the same importance for all the countries of the Atlantic world. Nevertheless, it is well to emphasize these guiding principles, if only to stress the pressing need for such efforts.

2. *Research*

While the excellence of much of the fundamental research of Europe is evident, many reforms are necessary to increase its effectiveness. This is a matter of urgency since such research is a pre-requisite for increasing technological vitality for the following reasons:

(a) it is vital to the quality and scope of the educational process;

(b) it produces new knowledge available for development and industrial innovation;

(c) without a first class research effort, the level of scientific awareness of a nation can hardly provide a critical assessment of the significance of scientific developments throughout the world which have high technological potential;

(d) advanced study, associated with research is necessary for the provision of higher skills;

(e) the encouragement of inter-European cooperation should be considered as a means of extending and complementing national efforts.

Considerable barriers to the full deployment of European effort exist in the rigidity of many of the national systems and institutions. Recommendations are therefore made:

(1) to encourage mobility of scientists between European countries;

(2) to improve university-industry relations.

3. *Mobility of Scientists*

(a) All European governments should recognize university degrees in science and technology granted by the other countries. (Discussion of equivalence of diplomas is likely to be sterile but employers and especially research institutes are well aware of the value and nature of degrees in the main countries. Degrees in medicine pose special problems preventing mutual recognition.)

(b) Governments should make it possible for foreigners to occupy university chairs where this is not now possible. Provision should be made for the appointment of visiting professors from abroad.

(c) Consideration should be given to means of maintaining pension rights on movement from one country to another and also that social security schemes should be extended where necessary to insure medical and other benefits.

4. *University-Industry Relations*

(a) It is highly desirable that mobility between universities, industrial firms and government research laboratories be encouraged. Furthermore, it is to the benefit of both firms and universities that many other forms of cooperation be extended including the acceptance of suitable research projects by universities, the use of university staff for advice, the recognition of good work completed in industrial and governmental laboratories for higher degree purposes, and the participation of industrialists in special university courses and seminars.

(b) It is specifically recommended that each country should initiate dialogue between industrialists and academics to assess the existing situation on such

matters, to make specific recommendations and initiate schemes of cooperation, International exchange of such schemes is also desirable.

(c) European scientists should be taught to appreciate the importance of the industrial sector of society. To maximize collaboration between the universities and industry, opportunities should be sought and devices worked out to promote greater intimacy between them in enterprises of mutual benefit.

(d) To promote further interchanges and improved collaboration between industry and the world of education, professors should be granted one or two sabbatical years, during which they have the opportunity to participate in industry as research workers or consultants or are employed part-time in industrial laboratories. Conversely, businessmen could be invited to deliver lectures at universities.

6. Government

(a) To encourage the greater mobility of men and information, improve the management of this mobility, and improve the partnership between the State and industry and education in the pursuit of certain challenging national aims, European governments should:

(1) promote greater mobility of men between government, industry and the universities;

(2) develop clearly defined machinery at the national level for deciding priorities of a science and technology policy in order to be able to participate effectively in a European science policy.

(b) Computer technology should be dealt with on a European basis as soon as possible. Until appropriate arrangements are worked out, it is necessary to tackle it first of all on a national level, and subsequently try to broaden the field and develop teaching in the "soft-ware" fields and computer utilization.

C. THE EUROPEAN LEVEL

1. Education

(a) Young engineers leaving their college or university should be encouraged to follow training courses in industry in countries other than their own. (Such courses should last one or two years; they should not compromise the future career of those concerned, but could provide a good means of effecting the transatlantic transfer of technologies. Even if a certain amount of emigration resulted from such a scheme, the advantages arising from the return to Europe of engineers with their training completed in this way would largely compensate for such loss.)

(b) A few European strong points of research should be developed on an experimental basis choosing new, interdisciplinary subjects. (As an example, computer soft-ware was suggested.)

(c) A European Institute of Science and Technology should be established. (The organization of a European postgraduate course with an international faculty and students in all subjects concerned with technical progress, ranging from scientific subjects to their industrial application and including the basic sciences, economics, sociology and psychology, could be not only a considerable stimulant for the various European educational systems but also a rich source of engineers trained for the requirements of our society. The lengthy discussion of this proposal surveyed the financial problems involved, the necessity for a suitable site, the recognition of its diplomas by the various countries concerned, and the necessity for close cooperation at government and private enterprise level, both among European countries and between them and the United States).

2. Industry

(a) European industry should seek to prepare and promote a program for the Governments of Europe to eventually computerize the economic and administrative activities of the Continent with due consideration for the hardware, the software, the communications and the education of personnel needed for the efficient execution of the program.

(b) Multinational companies should form themselves into an active group to make available generally the benefits of their experience in organizing business across national frontiers.

(c) The Conference should draw the attention of European Governments to the magnitude of the gap in the aerospace sector as between Europe and the United States, and stress the urgency of deciding what part Europe wishes to play in this sector and what aims it wishes to pursue, and upon what European industry should concentrate its efforts.

3. Government

(a) An overall strategy for European science and technology should be developed by a common authority. While welcoming the progress being made on the basis of bilateral and *ad hoc* arrangements, these must be integrated, as soon as possible, within an overall strategy.

(b) European public authorities must seek to harmonize their requirements, for instance in the fields of computers, communications equipment, aircraft and defense equipment.

(c) Common requirements should be established to encourage the development of trans-national consortia and companies.

(d) Certain major joint European development projects would also be a useful means of promoting the development of European companies or consortia. An example of such a common development project would be the establishment of a common European Information and Documentation Center for the whole of science and technology. This Center would provide information rapidly to the major centers of research in industry, universities and governments throughout Europe. It would work closely with similar centers in the United States and other regions. The Center should aim at a highly selective approach to information acquisition and exchange in order to minimize the dissemination of irrelevant or trivial documents and data.

(e) European projects should have clearly defined goals and in each case be run on the single director managerial principle.

(f) European Governments should take early action to facilitate supranational corporate activities, including the creation of a European company statute. Simultaneously, fiscal and monetary legislation and practice should be harmonized and standards and measurements unified. Efforts should be made to accelerate the removal of the remaining obstacles to the completely free movement of goods, persons and capital between European nations.

(g) Every encouragement should be given to efforts to simplify and harmonize existing patent procedures, and, if possible, to establish common European or Atlantic machinery for patent searching and recognition.

D. THE ATLANTIC LEVEL

Common policies in science and technology for Europe should be developed to create a more fruitful partnership with the United States through the exchange of information and know-how, and by further negotiations to remove nontariff barriers to trade and open up public buying on both sides of the Atlantic to competitive tenders from the partner Continents.

The work of the Conference should be continued in some form in order to promote closer ties between the academic and industrial communities across the Atlantic.

Mr. PECCEI. Before I turn to other subjects, I should like to spend a few words on the European Economic Community and its relations with the world.

On the positive side, I should like to mention that not only the process toward the completion of the customs union has practically come to a successful end, but also the gradual movement toward an external common tariff is reaching its prescribed final level.

Even before this level is reached, as a result of the Kennedy Round the Community has accepted to lower it beyond the target established by the Rome treaty. This is a significant factor, which substantiates a posture of the Community itself as an outward-looking system.

The process of economic integration among the six member countries has had very positive effects in expanding their reciprocal trade, but, more significant, has made of the Community the first ranking

trading bloc in the world, and its external tariff also ranks among the lowest in the world.

Having made these few positive remarks, I will admit frankly that there are certain negative aspects as well. In the first place, the Community has been too busy, and justifiably so in holding its own structures, and has, therefore, been forced to postpone consideration of other matters, and particularly the establishment of a common trade policy, of which there have been so far only scattered examples.

The Community has also suffered from a certain imbalance, due to its limited membership. Most Europeans—and I am one of them—are openly in favor of enlarging the Community and admitting other members.

However, it is too early to advance any prediction at this stage as to the outcome of the new application submitted by the United Kingdom, and as to the prospects of other countries to follow suit.

With regard to the Community position regarding developing countries, one can detect a certain apparent contradiction. In fact, on one side, the Treaty of Association with African States provides a model of sound cooperation insofar as preferences are established to the benefit of trade with the African countries concerned, financial assistance is provided through the European Development Fund, and broad technical and cultural assistance is also envisaged. On the other side, developing countries, which are not part of this broad scheme, and do benefit from it, claim that they are discriminated against. A claim, however, which is not confirmed by statistical evidence, since trade between the Community and nonassociated developing countries has increased remarkably in the last few years.

Whether a similar arrangement could be devised on a worldwide basis as between all developed and all developing countries, is a question that involves the attitude and the political will of many governments and not only of the major ones. Nonetheless, I believe that one could venture to say that the Community, without reneging on its obligations, freely undertaken with the associated states, would not be opposed to any broader arrangement, as is evidenced by concrete proposals submitted by the Commission to the Council of Ministers at the beginning of the year 1967.

With regard to East-West trade, I should like to assure you that I am fully aware of the deep and serious political implications which dominate the issue in your country, particularly at this juncture. May I be permitted to say that we in Europe recognized at an earlier stage the vital importance of establishing lively trade relations with the East, in the firm belief that we would be helping a positive political development. In taking this attitude, we had to accept the sometimes unpleasant fact that societies and economies in Western and Eastern Europe, including the U.S.S.R., were different, and that there was no use in our trying to convince the other side to follow our pattern, nor would it have been practical to wait for the other side to become more similar to us in structures, policies, and practices. To recognize this essential fact meant for us to introduce flexible adjustments in our own methods and approaches. To deal with Government agencies in those countries, for instance, rigid and cumbersome as they are sometimes, is certainly not so pleasant and congenial as to deal

with our Western business counterparts. However, through time, we found that a certain evolution had taken place among the Eastern executives with whom we were dealing. They have come nearer to our point of view; they might rightly say that we have gone nearer to their point of view. In sum, we came to understand each other better.

We find that prospects for business in the U.S.S.R. and Eastern Europe are increasing and expanding continuously. There are, of course, severe limitations, besides mentality and methods. One main limitation is a very classical one; namely, that trade being by necessity a two-way avenue, we must, perforce, conceive of exports and, simultaneously, of imports. And there are not very many products manufactured in those countries which are readily acceptable to our markets. Furthermore, in order to accelerate economic development and actively participate in it, we are confronted with the expectation that we should extend ever longer credits. In this context, a rather unruly competition is taking place among Western suppliers. A sobering international action to bring this factor under reasonable control would be very helpful.

The United States has kept somewhat aloof so far, and in this connection I should like to express the view that a more active U.S. participation in trade with Eastern Europe not only would have positive political implications and would give momentum to the development process of that area, but also might help in establishing more acceptable rules. Personally, I regard the Soviet Union and Eastern Europe not as a hunting reserve for Western Europe, but rather as a promising ground in which international trade may expand profitably for the world at large. I feel sure that Europe would welcome a healthy competition there with the United States.

Of course, one must keep in mind that in Socialist countries a centralized procurement system prevails; therefore competition should take a very special connotation and be obviously different from the kind of competition that businessmen meet in market economies.

I am not a politician, and as a businessman I might have a slanted view. Nonetheless, permit me to say that through my contacts and transactions with East Europeans I have acquired a firm conviction; namely, that trading with them is an effective way to promote better political understanding. I would go as far as to say that the great political issues still dividing West and East would, per se, provide recurrent incentives to perpetuate the cold wave, whereas sound trade relations have proved to be a thawing factor. The knowledge of reciprocal requirements and supplies, the comparison of each other's technological achievements, the prospect of a lively exchange, undoubtedly are solid prerequisites for the establishment of a psychological and political situation such as prevailed at Glassboro, and, hopefully, for its aftermath.

In this connection, Mr. Chairman, I have read with great interest your statement that this subcommittee's study is the long view of the U.S. foreign trade policy. But then we, the United States *and* Europe, should make up our mind as to what are our objectives during the next 10 to 12 years vis-a-vis the U.S.S.R. and Eastern Europe. If our objective is to bid for more time and defer any action likely to strengthen

the Eastern economies, even at the risk of making it more difficult and costly to bring them over to our side in the future, then we may simply go ahead piecemeal as we have done so far, because the scattered agreements and contracts the European firms have entered or may enter into in the future with Soviet bloc organizations, however important some of these contracts may be, would not appreciably change the overall situation of these countries relative to our situation. If on the contrary our objective is to try and bring the vast markets, from the Iron Curtain to Vladivostok, into closer interdependence with the Atlantic markets, and seek to influence through trade and economic cooperation the entire development of these nations, then we must be prepared to make a bold step forward. We must recognize that to help their economies move toward the mass consumption of more sophisticated goods is a rather long term proposition which will require a well-planned combined East-West effort. And the more clearly and the sooner the United States and Europe define their common policy in this respect, the better it is for both of them.

Finally, with regard to trade with developing countries, I should like to say that I am looking at the issues involved with no little concern. This is due to the fact that I am not satisfied that developed countries have made the necessary effort so far in order to devise agreed-upon solutions.

We have had a first round in the United Nations Conference on Trade and Development in Geneva in 1964, and now we are approaching the second round, which is scheduled in Delhi in early 1968. The first conference served undoubtedly the purpose of focusing on the myriad of problems. Solutions were also recommended more or less realistically. The second conference should serve the purpose of assessing achievements and suggesting further steps. But are we really in a position to do so? In my opinion we are not.

I will not use here the wealth of statistical information which has been produced in the meantime to prove that those underdeveloped remain such, and that in relative terms they are more underdeveloped than before. There has been a distinct lack of unity in the industrialized world in spite of the best intentions displayed and some efforts undertaken in various international fora. I would venture to say that perhaps too much emphasis has been placed on the expected cure-all implications of trade. If massive trade were possible purely through intergovernmental debates, then I should say that all the words which could be spent have been spent. But trade is above all a technical matter, which requires structures, know-how, competitive strength, distribution skill, quality, prices, and none of these factors can be expected to become real by a fiat. Developing countries have indulged in claims and recriminations; developed countries have indulged too much in lecturing. Unless we recognize that inducements are only the starting point of a long and painful process, I am afraid that we will get nowhere.

To promote trade to the benefit of developing countries, in the order of magnitude which would be required, we must accept in practice, not only in principle, the need for an international redistribution of labor and production. The principle has been heralded forcefully and insistently, but the practice has not yet been adopted, if not in a token measure.

This is an extremely unpalatable proposition, since it entails first of all a bold action within our own countries, and also a willingness to assume delicate political and economic consequences. It is in fact a double-edged blade, because we should decide gradually to eliminate within our own economies certain productions, even though the most elementary, and at the same time open our doors to the imports of the same products from abroad.

In the process, domestic production and import production will have to compete on an uneven basis, and instead of pursuing protectionist policies which would be called for according to classical patterns, we should extend a preferential treatment.

This is undoubtedly one of the hot issues which will be reiterated in Delhi after Geneva. Are we prepared to face it? I have singled out this problem and will not take any more of your subcommittee's time in elaborating on others. The question that this problem arouses is whether the road which has been taken by UNCTAD at Geneva is going in the right direction. At a time when aid is declining and is becoming increasingly unpopular, both in donor and in recipient countries, the question is whether enough groundwork has been done in order to have trade replace aid. My own view in this connection is that too little has been done to establish the necessary technical and structural prerequisites, and too much political theory has been thrown on the world's lap.

One important fact should be borne in mind, that is that international trade is no longer going to be governed by a purely mercantile basis. International trade requires a more complex and sophisticated approach: industrial and financial investments, consultative activities and technical assistance become part and parcel of the commercial activity at large. Trade demands nowadays a global participation in the challenging venture of economic development.

Turning now to the general situation of developing countries, as it appears to be in realistic terms, I should like to emphasize another conviction of mine. To lump together Africa, Asia, and Latin America, and to label them as all underdeveloped, provides one of the greatest misconceptions of which the international community suffers nowadays. You, gentlemen, know, as I do, that the countries within these wide areas are much more different than similar in very many ways. Their level of development is a widely apart among them as in certain cases it is apart from us. We must use a different yardstick. We must rationalize our interventions and our contributions.

I may add that, if the Atlantic nations want, as I hope, to adopt a long-term trade policy with respect to the less-developed countries, they should (a) realize that the issues of trade are strictly intertwined with those of aid, technical assistance, and development at large, and cannot be shred from the fundamental and increasingly serious world-wide problems of population growth and education; and (b) be prepared to define priorities because their resources, however great, are not enough to do everything everywhere.

They must also objectively assess which of the great world regions is more likely to reach, with our help, self-sustained development in the near future.

In this context, in my opinion, we should concentrate a great part of our efforts in Latin America.

I have particularly in mind that Latin America provides the most mature economies to be positively helped by our interventions and contributions. Speaking to Americans, I know that they are fully aware of this incontrovertible fact. I see in this area of Latin America not only the prospect for a further and bold American aid and trade activities, but even more a fertile ground for an imaginative American-European cooperation.

Thank you.

Chairman Boggs. Thank you very much, Doctor Peccei, for a very fine statement.

Now, we will hear from the Right Honorable Kenneth Younger.

Mr. Younger.

STATEMENT OF RT. HON. KENNETH YOUNGER, DIRECTOR, ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS, LONDON, ENGLAND

Mr. YOUNGER. Thank you, Mr. Chairman.

I believe that the statement which I put in has been circulated to members, and I don't wish to take up the time of the committee in going through it in much detail. But I would like to pick out some of the main points that I wish to bring to the committee's notice.

I would like, first of all, like Mr. Peccei, to thank you very much for having given me the opportunity of coming here. I am all the more honored by it since your subcommittee already has an international reputation for looking far ahead and for taking a very wide view of your country's trading policies.

Some of the witnesses who have already appeared before you have drawn attention to the many uncertainties immediately following the end of the Kennedy Round negotiations. I think perhaps your committee will wish me to say something about the major uncertainty which affects my country, namely, the question of whether we are or are not going to become a part of the European Economic Community.

Chairman Boggs. We would be very interested in hearing about that.

Mr. YOUNGER. As you know, we had to go through these negotiations from outside the Community. It is very ironical that some of our continent friends who are among those who do not wish to see us inside, nevertheless criticized our negotiators because during the negotiations they didn't behave as though they were entirely inside. This seems to me an unreasonable proposition. But it illustrates the dilemma that we are in.

The point which I wish to make to you is that although there is a great uncertainty about the time at which we might join the Community, and in particular about the fate of the present application, I would put it to you, Mr. Chairman, that the correct calculation is that sooner or later Britain will be in, and with her one or two of the other countries of Western Europe.

I say this because I think that the opposition to Britain's entry is of a more temporary kind than the determination which she has now reached to get in.

She has reached this determination as a result of looking at all the alternatives, and has not found any alternative which appeals so much.

I don't believe this opinion is going to change, whereas it seems to me that the opposition to her entry has been limited largely to the Government of France. And we know that even within France there are several opinions on this matter. I think that French opinion is more likely to change than the British one.

Nobody can presume to talk for all sectors of opinion, because there are still differences. And some people believe that if this application were to be blocked, Britain might feel a revulsion against Europe and turn elsewhere. But my judgment is clearly against that. I believe that the concept of the organization of the Western World to which my country is likely to adhere with a great deal of determination is what you might call the grand design of two communities, one on each side of the Atlantic, with Britain being a part of the European Community. I believe very strongly that that is the sanest pattern that has as yet been put forward at any time. And just because it has run into difficulties I don't think we ought to give it up.

I would like to make a brief comment on the proposal which is talked about nowadays for the North Atlantic Free Trade Area. As I understand it, this is being propounded in this country largely by people whose first preference would be for seeing Britain inside the Community, and they think of the free trade area as an alternative only if Britain is excluded. They see it to some extent as a tactic for persuading the members of the present Community to allow their Community to be enlarged.

I don't myself feel a strong appeal in this. I think it is significant that in Britain it is supported almost entirely by those who do not in any case wish Britain to join Europe. There is a fear among the majority in Britain who do wish to join the Community that a proposal of this kind would not bring any pressure on Britain's friends to help them into the Community, but on the other hand would cast doubt upon her continuing determination to become a part of Europe.

The second point about our relations with the Community is that if, as I believe, we do eventually join it, this will, of course, change our attitude to certain particular tariffs in tariff negotiations, because we would then be inside the common tariff barrier instead of outside it. But I do not believe it would change the general attitude of my country toward what your Trade Expansion Act called open and nondiscriminatory trading in the free world.

We would, of course, from the time we got in, be negotiating as part of the Community. And therefore it is of great importance to us to assess what the attitude of the Community in general has been determined to be in these negotiations.

The first point, which is of great significance to the whole world trading community, is that the European Commission succeeded in negotiating for the whole body of six countries, despite the fact that they started with many differences of policy. And I think that this is an indication that the Community today has the lasting power to go forward.

Moreover, it emerged from a very difficult period of internal dispute and conflicts strong enough to be able to show considerable flexibility, and a degree of liberalism toward the end of the negotiations. I feel that the fear that many people had 3 or 4 years ago, which continued

during much of the negotiating period, namely, that we might be faced with an inward looking, highly protectionist European Community, this fear, is much less likely to be realized than was then thought. I do not believe that great differences of doctrine about trade have been thrown up in these negotiations either between Britain and Europe, or Britain and the United States, or the United States and the Community. I think there has been a high degree of doctrinal agreement, and most of the difficulties have arisen out of the pull and push of sectional interests.

I would like to say a few things about the less-developed countries, realizing, as we all do, that the United Nations Conference on Trade and Development is due to assemble next year, and that we shall not be allowed simply to sit back and forget that the less-developed countries were not so satisfied as they might have been with the outcome of the Kennedy Round.

So far as preferences are concerned, I would hope that the more-developed countries may be a little nearer together than they were in the Conference in 1964. At that time, as I understand it, the United States was opposed to preferences of all kinds on the ground that they were a legacy of imperialism which was no longer appropriate. The Community upheld its preferences because it said that this protection was required by the struggling economies of what had been formerly the dependent territories. While Britain at the end put forward a proposal generalizing these various systems, giving preferences to all less-developed countries alike.

I would hope that that proposal might be seen now to have made some progress.

I have seen many references in your statement, Mr. Chairman, to President Johnson's speech at Punta del Este in which he seemed to be accepting the idea of some temporary arrangement which would enable preferential treatment to be given, not to the regions based on old imperial systems, but to all underdeveloped countries by all developed countries.

I have some reason, though it is not a very firm one, for thinking that the European Community might be moving in the same direction, at least so far as thinking in the Commission in Brussels is concerned, though I understand that no decisions have been taken which would enable the Community to negotiate on this basis at the present time.

I would hope that the U.S. policy might begin to move in the direction of a concept of this kind. And in this connection I would like to mention the proposal of the Director General of GATT that the concepts we agreed on in the Kennedy Round might be applied more rapidly to the developing countries. I realize that there are difficulties about that, not least, perhaps, the difficulties of new legislation. But I would hope that this might have favorable consideration in this country.

Of course, it is not only preferences that are of interest to the developing world; indeed other questions are of greater importance. I think perhaps in my paper I have rather underplayed the interest of less developed countries in having better access to the markets of developed countries for their manufactured and semimanufactured goods. They say, not without reason, that we are always telling them

that they must diversify their economies, that they must not depend on exports of agricultural products, particularly one special crop in the case of many countries, and that they must therefore begin to industrialize. But the structure of tariffs applied by most of our countries in the developed world makes it exceptionally difficult to do this. And from the moment they begin to try to export semiprocessed goods they meet a higher tariff, and fully manufactured goods, a higher one still. This is something I think which very urgent attention should be given.

The other great issue for them is the question of commodity agreements. And here there has been, I think, a considerable resistance in the developed world, not only because of what one might call doctrinal grounds, but because it is intrinsically a very difficult thing to regulate prices in a reasonable way, if you once start interfering with the market.

The point here that I would like to make is that, particularly so far as agricultural produce is concerned, since virtually no country is prepared to apply the principle of free trade to its own agriculture, it is not plausible to object to the organization and regulation of the international market in agricultural produce on any kind of theoretical ground. I think the pressures that prevent it being done are very largely against interests. I hope that we may see a more active support in the future, certainly from my country and from other countries, but perhaps particularly from the United States, and the U.S. Congress, which has a very powerful influence in these matters.

Mention has already been made of the nontariff barriers to trade, which are rapidly becoming the most important issue, more important than further reduction of tariffs.

I don't know whether it is true, it may well be quite untrue, but I think it is fair to say that there is a general impression outside the United States that the protection offered by nontariff barriers to U.S. producers is somewhat more marked than it is in the case of other countries. This may only be because you have explicit expressions of this, such as the Buy American Act. All of our countries, of course, adopt practices of one kind or another, often very subtle, and often very hard to identify, which have the same effect. And they all affect particular business interests, and they are therefore particularly hard for us to change.

The famous instance of the American Selling Price, which is the most prominent one which has come up in the Kennedy Round, is a good example of this. But it is, of course, by no means the only one. Indeed, these nontariff barriers are so varied and so numerous that one's heart quails at the thought of a round of negotiations on a multinational basis which are directed to this particular problem.

One aspect to which I would like particularly to call your attention is that the removal of nontariff barriers nearly always takes one directly into what have previously been considered purely domestic matters. There is therefore a specially strong resistance to what seems to be foreign interference.

Here again I would like to come back to what I understand to be the approach of the European Economic Community.

It is generally assumed that the most important aspect of the Community's policy directed to creating future unity among the six has been the common external tariff. This was probably so at the beginning. But I have been assured by well-informed officials of the Community that this importance has been decreasing. It is still important, of course, that they have a common external tariff. But the level of it, whether it is high or low, has become much less important from this particular point of view. What has become more important has been the efforts which they have made, with varying success, to coordinate their policies in a whole range of other matters, bringing them nearer to the concept of an economic union.

I don't think that we can doubt that this has been their experience. But I think we ought to give our mind rather carefully to the implications of this sort of doctrine, if it is applied to wider groupings of countries which have little prospect in the near future of becoming an economic community.

How far can one, in fact, hope to go beyond the point that we have now reached in eliminating tariffs among a group of countries which are not contemplating economic union? It may be that the limiting factor will turn out to be precisely what we can achieve in the field of nontariff barriers, in the field of harmonizing and coordinating policies on taxation, on governmental procurements, on various industrial practices, and so on.

Whereas few doctrinal differences emerged in the Kennedy Round, because the target for reducing tariffs was limited to 50 percent, had the target been 100 percent, that is to say complete free trade in these products, at once some of the discussions on whether this could be achieved without a much higher degree of harmonization in other fields would have become important.

Here again, if I may revert for one moment to the North Atlantic Free Trade Area, if I am right in what I have said about the Community's attitude over this, it seems to me almost inconceivable that the Community would be willing to become a member of a free trade area which was not accepting economic discipline in a wide range of other fields. Therefore this free trade area has to be seen as something which excludes the European Economic Community.

In that event I would think that it would be likely to remain a rather unacceptable concept to Britain, and I think to her EFTA partners, too, because if they were to join in the free trade area this would have a tendency to separate them, perhaps, forever, or at least for a long time, from the Community. I do not think that they would be prepared to envisage that. I think they would feel it more realistic and worthwhile to wait, even if they have to wait for some years, in order to become a part of the European Community.

The lowering of tariffs in the Kennedy Round of negotiations would make that period rather less difficult for them than it would otherwise have been.

I would like to say a word about East-West trade which Mr. Peccei mentioned. And here I want to make what is primarily a political point. I realize that East-West trade is not quantitatively of great importance in the trade of most countries, and probably very unimportant in the trade of the United States. But it is becoming politically

important in Europe for two reasons. First, because improved relations with Eastern Europe have begun to take a very high priority in the policy of the leading Western European countries, particularly France and Germany. Indeed, this is one of the few major policies at the moment in which the Federal Republic and the present Government of France are at one. While everyone realizes that the limit to East-West trade is broadly set by the limited capability of the Eastern countries to produce the right kind of goods, there nevertheless are a number of Western restrictions which limit this trade.

Some of these are either not applied at all or are somewhat resented in Europe. I am thinking particularly of the regulations which prohibit the export to Eastern European countries of a range of goods outside the strategic field, which happen to incorporate certain U.S. patented items. In my paper I cite the rather ridiculous example of my own institute, which was anxious to buy a rather modest, secondhand office calculating machine, one with no special modernity. But it found that it could do so only if it undertook not to export it to a wide range of Communist countries or to the British Colony of Hong Kong. This didn't prevent it from buying the calculator. But this extension of restrictions over a wide range of items which are not normally considered of direct strategic importance does cause a certain resentment. And I think it is important to have a fresh look to see how far these export regulations still fulfill an important American purpose.

The second aspect of political importance is that there is clearly great concern felt in a number of Eastern European countries to increase their trade with the West. There are many signs that in order to do this they are prepared to modify their trading systems. Some of them see this quite specifically as a development through which they will also be able to liberalize their internal systems. Since this has always been something to which the West has attached importance, I think this is a political motive which should not be ignored.

What we have to get away from is the assumption which grew up at the worst period of the "cold war" that our policy should be directed to impeding the progress, or perhaps even weakening Communist countries. This is not generally thought in Europe to be an objective of policy today. There is still an acquiescence, of course, in certain strategic controls, but of a much narrower kind than our present practice. I think that the doctrine that Western Europe ought to be trying to impede the progress of countries in Eastern Europe runs directly contrary to the present trends. And it is very important that it should not be thought in Western Europe that, because in general Western trade has an orientation to the West and across the Atlantic, this is going to be an impediment to improving their relations with the East. It is one of the arguments that is most frequently used by those who wish to see Western Europe separated from the United States. I believe it to be a false argument, and I would hope that in our future policy we should see that no color is lent to it.

Mr. Chairman, there are not many other comments that I would wish to make. If I have said certain things to suggest that the old concept of free trade has its limitations, this is not because I think that we should therefore do less to achieve the freeing of trade, but simply

to point out that we need to do many more things as well, that we cannot stick to the old simplicity of the idea of freeing such things as tariffs, and that we have got to take the matter much further. We have become quite accustomed to the idea that in order to help the less developed territories we must be prepared to depart from pure free trading doctrine in order to help the weaker parties.

And I think it is worth mentioning that something of the same issue arises between industrialized countries in the so-called technological gap which there is between the United States and Western Europe.

This again is one of the arguments most frequently used by those who are urging Western Europe to separate itself from the United States. I am not going to spend much time on it. It is not strictly, I suppose, a question of trading policy. It is more a question of investment policy. And it largely concerns the great American corporations which engage in international investment on a large scale.

The only point I would like to leave with you on this is that it seems to me that there are many great American corporations highly experienced in the field of overseas investment which have realized that in order to avoid political resentments against American power, against the taking over of local industries by American companies, they have to adjust their policies. They have to accept something which in the purely commercial sense may be less than the best solution for them. I think it would be very wise of them to do so, because unless this does happen—and perhaps in particular unless rather special steps are taken to see that a substantial amount of advanced research is done in countries outside the United States—I am afraid there may be a tendency to put up certain barriers to the free interchange of technology and investment between Europe and the United States just at a time when we would like to see the opposite happen. The fact that this situation is no fault of the United States, indeed it is precisely due to the fact that they are technologically excellent, and that their industrial management is normally better than that of other people, doesn't affect the fact that there are political disadvantages which may result unless the problem is fully recognized.

In conclusion, I would like to say that it is well realized, certainly in my country, and I think in most other countries of the Western World, that we owe a great deal to U.S. policies in recent decades for the liberalization which has occurred. If the United States had taken a different line, we would be very much more sharply separated from each other technically and politically than we in fact are. It is of enormous importance to all of us that the United States should maintain this attitude of wishing to see trade on a multilateral basis and freer so far as it can be made freer.

We are encouraged to think that this will go on by our experience of U.S. policy in the past, which has shown that, even at the cost of short-term inconvenience, the United States is often prepared to take the long view.

(The prepared statement of Mr. Younger follows:)

PREPARED STATEMENT OF KENNETH YOUNGER

I am grateful to you, Mr. Chairman and to this subcommittee for the honour you have done to me in inviting me as a non-American to participate in your hearings on future United States Foreign Trade Policy. Now that the Kennedy

Round, with whose initiation five years ago many members of this subcommittee were so closely associated, has just been brought to a much more successful conclusion than had at one time seemed possible, it is good that we should all be reminded by you that this is a moment not only for congratulating ourselves on what has been achieved, but also for giving our minds to the next steps which we have to take in the promotion of world trade.

The moment is of course a difficult one for forecasters, since it is still too early to feel sure what effect the agreements reached in Geneva will actually have upon the flow of trade. It will be several years before the negotiators will know for certain whether their calculations were sound; and until this becomes clearer, governments are unlikely to commit themselves to fresh policies. For that very reason there may be a chance to influence future thinking by free discussion.

There is one uncertainty in the present situation which particularly affects Britain, her exclusion up to the present time from the European Economic Community and the doubt whether her second application for membership is going to succeed. It may be appropriate for me to start by saying something on this issue.

BRITAIN AND THE E.E.C.

Contrary to the hope entertained in 1962, Britain had to participate in the Kennedy Round negotiations, from start to finish, on the assumption that she would be outside the Community at least for several years to come. From January 1963 until the end, negotiations for her entry were not even in progress and there was no certainty about their renewal. In these conditions the British negotiators could hardly be expected to adopt all the positions which they might have done had British membership of the Community seemed imminent. The fact that some continental critics have blamed Britain for having shown herself in sufficiently European in these talks illustrates the dilemma in which she is at present placed.

It is still impossible to name a date when Britain might join E.E.C., but on the issue of whether she will join at some time or other, I would suggest that calculations should now be based on the strong probability that she will. Although it is clearer now than in 1962 that President de Gaulle will keep Britain out if he can, he has obtained virtually no support for this policy among his five partners in the Community, and even in France there is a substantial body of opinion which does not share his view. The opposition to British entry has thus a temporary look; whereas the conversion of Britain to the policy of joining E.E.C. seems more durable. It has occurred as a result of serious examination of available alternatives over a period of more than five years, and this has produced unanimity among political leaders of all the main parties, solidly backed by an overwhelming consensus of industrial opinion. The British drive for entry therefore seems less likely to change than the French opposition to it.

It is true that the question is still being asked whether, if the British application were to be blocked again, the British government and people would undergo a revulsion against Europe and look elsewhere. I do not think this likely, if only because Britain has already considered all other possibilities and found them wanting. I believe that she will cling to the concept of a partnership between Europe and North America, in which she will be an integral part of a growingly united European component. This concept, which used to be called the Grand Design, has suffered some setbacks in the last five years. Its realisation may now seem a longer business than was once hoped. But it is still the sanest pattern that has been proposed for the Western world and it should not be lightly given up, nor should anything be done for tactical reasons which might make it harder to resume an advance towards it.

In this connection I should like to make a comment on the proposal for a North Atlantic Free Trade Area. As I understand it, those on this side of the Atlantic who have promoted it are, broadly, those who favour the entry of Britain into E.E.C. as part of a wider Atlantic grouping, but feel that, if this course is blocked, an immediate alternative should be envisaged, which does not require the Community's co-operation. The Free Trade Area could leave room for the Community to join in at a later stage, but in the meantime would proceed separately. There is the further idea that the mere formulation of this alternative may in itself be a useful tactic in bringing pressure upon the Community to agree to Britain's entry.

This proposal has not met a ready response in Britain where, in contrast to the United States, its supporters are to be found wholly among those who have been either hostile or at best lukewarm towards British entry into the Community. As a tactic, it is seen as being unlikely to bring pressure upon Britain's friends in the Community to help Britain join and more likely to cast doubt upon the firmness of Britain's newly-accepted commitment to Europe.

I shall return to the NAFTA proposal in another context. For the moment I only want to say that it does not affect my belief that Britain will now pursue her objective of joining E.E.C. with persistence and that she will succeed, only the date of success being in doubt.

By the time that governmental decisions have to be taken about new trading policies, this uncertainty may or may not have been resolved. In any event, I do not anticipate that British entry into E.E.C., though it would inevitably affect her attitude on particular tariffs, would alter her fundamental attitude to what your Trade Expansion Act called "open and nondiscriminatory trading in the free world". From the time of her entry, Britain would of course be negotiating through the E.E.C. and would have to adopt as her own the common attitudes which had been agreed within that body. I now turn therefore to consider what the attitudes of the E.E.C. have been shown to be in the course of the Kennedy Round.

THE EVOLVING ATTITUDE OF E.E.C.

It is of great significance for the Community and for the world that these gruelling negotiations were carried through to success on behalf of the Six member nations by the European Commission as their sole spokesman. There could hardly have been a stiffer test of the Community's ability to represent a common interest among countries whose national attitudes were widely divergent at the start. It will be remembered that the negotiations were seriously held up for many months while the Community sorted out its sharpest internal conflicts. Frustrating as this was for the other partners, encouragement can be drawn from the fact that, once the internal difficulties were resolved, the Community emerged strong enough to negotiate as a single whole and, in the closing stages, proved capable of greater flexibility than would have been attributed to it only a few months before.

I have already referred to the fact that, on a number of important points, Britain came into conflict with the Community. As examples, our attitude over steel disappointed them; their attitude over heavy trucks disappointed us. But on the wider issue of the approach to the structure of industrial tariffs among the advanced nations, no serious differences of philosophy or principle emerged.

Indeed the fact that, in a field where the target had been set at a 50% across-the-board cut in tariffs, an average cut of 35% was actually achieved is surely strong evidence that really serious differences of principle cannot have existed among any of the main trading nations represented at Geneva. It was not doctrinal differences which caused the greatest difficulty, but rather the power of sectional interests to exert pressure upon governments. Whether a different situation might have been revealed if, as had been hoped in 1962, the enlargement of the Community had led to the raising of the target for many of the cuts from 50% to 100%, we cannot know. For the difference between lower tariffs and no tariffs at all is a qualitative as well as a quantitative one and raises some new issues on which there might have been more fundamental disagreement.

All that one can confidently state about the attitudes of E.E.C., as demonstrated in the negotiations, is that within the limits which were set by the actual course of events, the earlier fear that we might be faced with a determinedly inward-looking and protectionist Community was not borne out. At the end of the Kennedy Round a split between the Community and her Western trading partners on this score seems much less probable than it once did.

THE LESS DEVELOPED COUNTRIES AND UNCTAD, 1968

It has been widely noted that the success of the Kennedy Round in satisfying the wishes of the more advanced countries in respect of industrial tariffs was by no means matched by successes on the issues of primary concern to the less developed countries. To some extent, this is a reflection of the fact that the efforts of the negotiators had to be concentrated on avoiding a failure of the whole Kennedy Round, which seemed all too likely during the greater part of the period, and that the necessary time and energy for dealing adequately with the

problems of developing countries simply could not be found. This is one of the big pieces of unfinished business to which attention must now be turned. The prospect of the second United Nations Conference on Trade and Development, due to be held next year in Delhi, is sufficient to ensure that we shall not be allowed to ignore it.

We all remember how, at the first UNCTAD in 1964, the impressive solidarity of the less developed countries was matched by almost total disarray among the leading industrial nations—including incidentally the Soviet Union. On the issue of preferences, the differences within the Western world at that time could be crudely stated in these terms; the United States maintained its traditional opposition to preferences, as a legacy of dying imperialist systems; the Community, in upholding its association agreement with former colonial territories, maintained that though this might be a legacy of colonialism, it was nevertheless an essential prop for these struggling economies; while Britain, at the end of the Conference, proposed to generalise the various preferential systems, giving preferences to all the less-developed countries alike.

Various events which have occurred since then encourage me to believe that something on the lines of the British proposal of 1964 may now be more generally acceptable than it then was. I base my optimism partly on President Johnson's statement to the Inter-American Summit Conference at Punta del Este last April, when he said that the temporary tariff advantages for all developing countries by all industrialised countries would be one way of increasing the export earnings of the less developed countries. I base it also on the belief that the thinking of the E.E.C. on this issue, though not yet crystallised in any decisions, has been moving in the same direction, and that it too might now be willing to consider generalising to all developing countries the preferences at present given only to its associated states. The amount of tariff protection given to these states on their main tropical products was in any case substantially lowered by the Yaounde Convention of Association of December 1962 in return for increased financial aid for development. Moreover, the importance of preferences, as opposed to other aids to development, will diminish as tariffs are generally lowered, and this should make it easier to secure the acceptance by the Community and its Associated States, of a change in the system.

So far as United States policy is concerned, I would hope that President Johnson's willingness to consider giving temporary tariff advantages to developing countries might lead to the United States adopting a more positive attitude to the recent proposal of the Director-General of the GATT, that the Kennedy Round cuts might be implemented in full in a single installment for the developing countries, or at least at an accelerated rate. It seems to me that this, by giving them an advantage that would diminish to zero at the end of 5 years would exactly correspond to the President's thought. I understand that legislation would be needed before such a scheme could be implemented in the United States, but I would suppose that this might seem a less formidable obstacle to a Committee of Congress than to the Administration.

If I am right in thinking that doctrinal differences among the major trading nations on this question are beginning to lose their sharpness, I would hope that UNCTAD might produce an agreement to pursue the question of generalised preferences being given to the less-developed world by the more developed world, and that serious negotiations in the GATT might follow the UNCTAD Conference. Something of this kind is surely going to be needed, if the tendency to favour regional preference systems is to be checked; for the abolition of the present systems without anything being put in their place would be fiercely resisted. In contrast, a generalised system would enable both the Community and Britain to reconcile their concern for the interests of their former dependencies with the desire, which they share, to give some satisfaction to other trading areas, particularly Latin America.

There are other questions which are of even more concern to the less developed countries. One of these, which admittedly only affects a limited number of them, mainly in Asia, is access for their manufactured and semi-manufactured goods to the markets of industrial countries. Of more general concern to a wider range of countries is the question of commodity agreements for raw materials and food stuffs. I believe that the United States accepts in principle the need for agreements to establish stable and reasonable prices for at least some of the staple commodity exports of developing countries and to avoid continuing surpluses. But in practice progress has so far been exceedingly limited, partly no doubt be-

cause of a built-in tradition in Western trading countries, and especially in the United States, against interference with market forces.

The main point which I wish to make on this is that it is now tacitly recognised that the concept of free trade does not include free trade in agriculture—in circumstances in which virtually every country insists on regulating its own agriculture and protecting its producers, it is not plausible to object on theoretical grounds to the organisation of international markets. Here again the main obstacle, apart from the intrinsic difficulty of establishing what are reasonable minimum prices, levels of production, and so on, is not the doctrinal one, but quite simply the strong pressure exerted by special interests.

These pressures are particularly strong in the United States, whose negotiators have, in general, felt able to work towards commodity agreements only where there is an American export interest, as in cereals.

I would not feel myself well-qualified to dispute with you the details affecting particular commodities, but I think it important to stress that the general issue of commodity agreements is of the greatest significance to the developing countries and that full American co-operation is going to be indispensable if progress is to be made. In some cases, such as cocoa and sugar, the problem is already urgent and is bound to be a main topic at the UNCTAD in 1968. It is very much to be hoped that, when the time comes, it will be possible for Congress to give its support to a more active policy in this aspect of international trade.

NONTARIFF BARRIERS

One thought which seems to have imposed itself forcefully upon all those who participated in the Kennedy Round is the growing importance of non-tariff barriers to the free flow of trade. As tariff barriers are lowered, the relative importance of the non-tariff barriers increases.

This issue arose from time to time during the Kennedy Round and in a few cases some practical progress was made, but it did not occupy the centre of the stage. It was, however, identified by almost everyone as being one of the next and hardest items for inclusion in any future agenda. Indeed, it is not at all certain that agreement on a further round of substantial tariff cuts will be even worth attempting unless it can be preceded or accompanied by progress in this more intractable field. Some tidying up of the results of the Kennedy Round will no doubt be possible and perhaps some further attempt to "harmonise" tariffs which are seriously out of line with average practice. But measures of this kind would be the completion of the past phase rather than a step forward into the new.

Some of the more obvious non-tariff barriers, such as discriminatory customs definitions, attracted attention during the Kennedy Round, but many others have hardly begun to come under discussion in the GATT. I am thinking of such devices as differing tax provisions, or discriminatory arrangements for tendering and purchasing by governments and public authorities. These often cover a wide range of capital goods and equipment and are by no means limited to the defence field.

There is a fairly wide-spread impression that, although all governments engage in these practices to some extent, non-tariff protection given to producers is more extensive in the United States than elsewhere and that, in consequence, there will have to be active co-operation from the United States if this thorny subject is to be adequately tackled. It is well recognised that this may pose difficult problems for the United States Government.

Many of these practices are deeply engrained in the business thinking. Any attack upon them is fiercely resisted by the industries affected, a current example being the agitation in some parts of the chemical industry against the undertaking given by American negotiators at Geneva to reconsider the American Selling Price. Since American exports only account for about 3% of the Gross National Product and imports for even less, it is harder than it would be in some other countries to argue for reducing protection on grounds of the national economic interest. It is instructive to note that the corresponding figure for Britain in 1966 was 22% of Gross National Product for exports and slightly more for imports.

If this particular difficulty applies to the United States in special measure, other difficulties apply to everyone. In the first place, whereas an exchange of tariff concessions can be quantified and its fairness made apparent, in non-tariff negotiations like is not being traded against like. Nor is the effect of a concession

similar as between different countries. A round of non-tariff bargaining on a multilateral basis is therefore something of a nightmare to contemplate. Nevertheless its possibilities and limitations must be explored if any further freeing of trade is to be attempted. In the second place, most of the practices involved are widely regarded as matters of domestic policy and pressure from foreign countries to alter them is consequently resented as interference.

The approach of the E.E.C. to this question is of very special interest. Although in the early days of the Community the common external tariff was seen as the essential instrument for forging future unity, as the work has proceeded, the task of reaching common economic policies and of harmonising such things as tax systems and transport arrangements has come to seem more important still. Indeed it is sometimes said that the elimination of internal tariffs could never have been accepted by the member states had the Community not also begun to secure greater standardisation over a wide range of economic activity. There is nothing surprising in this when one remembers that the object of the Six in coming together was always to form an economic community, the Common Market being only one of the means for achieving it.

In the light of its experience so far, the Community looks with growing disfavour on any policy which aims simply to abolish tariffs without imposing any form of common economic discipline. A Free Trade Area, it is contended, is a nineteenth century concept. The concept appropriate to the twentieth century is economic union, which permits the taking of responsibility not just for foreign trade but for such purposes as stability, growth, currency strength and full employment.

So far as E.E.C. itself is concerned, it is hard to challenge this doctrine or to deny that, whatever may have been the case at the start, other things are now more important than the common external tariff in holding the Community together at least in the sense that it is only the existence of the common tariff and not any particular level of tariff that now matters from this point of view. But in applying this to wider groupings, such as the Atlantic nations or the members of O.E.C.D., for whom common political and economic institutions are either impossible or a rather distant dream, the implications require careful thought.

What limitations, for instance, does this doctrine place upon the elimination of tariffs among a group of countries which are not contemplating economic union? May it be that the willingness of the constituent parts to work towards conformity over a wide range of essentially domestic matters is the limiting factor which determines how far the group can usefully attempt to go in abolishing external barriers to trade? I had this in mind when I reflected earlier that if the target for the Kennedy Round had been a tariff reduction of 100% instead of 50%, differences of fundamental doctrine might well have been exposed.

NORTH ATLANTIC FREE TRADE AREA

It is in this context that I wish to revert briefly to the proposal for a N.A.F.T.A. In view of the E.E.C.'s attitude which I have attempted to describe, it is inconceivable that the Community would join such a body, either initially or at a later stage. For Britain and some or all the members of EFTA, to join the NAFTA would be the surest way of making permanent the present division of the Six and the Seven within Western Europe, and of inviting the very separation of E.E.C. from North America which it is one of the objects of Western trading policy to prevent.

It will be, in my view, much wiser and more realistic to cling to the concept embodied in the Old Grand Design, namely that there should be a genuine community on each side of the Atlantic, and that the economic relationship between the two should be as free and non-discriminatory as persistent negotiations can make it. Britain should form part of the European Community and if at first she cannot get in, it is nevertheless worth her while to wait. The lowering of tariffs as a result of the Kennedy round will make the waiting period less difficult for Britain than it would otherwise have been.

I can imagine a pattern of this kind creating in due course a genuine, if institutionally limited, unity within the Atlantic world, whereas the NAFTA solution, if it were to be accepted by governments, which at present I do not expect, would in my view lead only to a dangerous fragmentation and would risk a lasting estrangement of Britain from the Community.

TRADE WITH COMMUNIST COUNTRIES

Before I close I want to call to your attention one other topic upon which European and British views have been changing fast in the years since the Kennedy Round began.

I refer to trade between the West and the Communist countries, especially those of Eastern Europe. This has been, I know, a relatively small part of the trade of all Western countries and an almost negligible part of United States trade. Although there are Communist governments in the GATT, the work of GATT has had little relevance to what has come to be called East-West trade.

The point which I wish to make is that the importance of this trade has been rising fast in Europe and that great efforts are being made, on both sides of the divide, to accelerate this trend. Over a 9-year period the exports of the Eastern bloc to E.E.C. have gone up by 125%, starting, it is true, from a very modest base.

Though quantitatively this trade may still be of only secondary importance, its political significance is increasing in two ways. In the first place, improved relations with Eastern Europe have become one of the major political objectives of both France and the Federal Republic of Germany. In the new atmosphere in Europe, it is important that the Atlantic orientation of western trade should not seem to be an obstacle to simultaneous increase in trade with the East. While the limit of trade with Eastern Europe is still set principally by the capacity of the Eastern countries to produce goods which are acceptable in Western markets, there are various forms of Western discrimination or quota restriction which add to the difficulties. For instance, in so far as restrictions are imposed upon the export by Western Europe to Communist countries of goods which incorporate American patented processes, this is now counter-productive in relations between Western Europe and North America. I had a rather ludicrous example of this in my own Institute recently, where we found that we could acquire a second hand American calculating machine, worth some \$450 only if we signed an undertaking not to export it to a long list of Communist controlled countries and even the British colony of Hong Kong. It may be timely to consider how far these regulations still fulfill any important American purpose.

The second way in which East-West trade is acquiring new significance lies in the keen wish of several East European countries, notably Czechoslovakia, Poland, Hungary and Romania, to maximise their Western trade. There are growing signs that they may be willing to make adjustments in their own industrial and commercial practices in order to facilitate this trade and that these adjustments in turn contribute to the general process of liberalisation and to the decentralisation of authority within the Communist world, which the West has long professed to welcome.

What is being suggested here is not any drastic re-orientation of the trade of the United States itself with Communist countries, which seems likely to remain marginal. It is rather a further shift away from the spirit of the old policy, which deliberately discouraged the growth of trade between the countries of East and West Europe, presumably on the assumption that, even apart from strictly strategic issues, it was a Western objective to impede wherever possible the economic advance of the countries of the Communist bloc. This is not a doctrine which any longer commands support in Western Europe.

CONCLUSION

I would emphasize in conclusion, how decisive it has been for the stability and prosperity of the Western world that the United States has given the lead since the Second World War in working towards a free system of multilateral trade. Had she pursued a contrary course—and there must have been many temptations to do so—we should today be faced with much sharper divisions among the Western countries, especially between the United States and Europe; while the large number of newly independent countries, whose need is for the diversification of their foreign trade, would now be tightly encased within much more rigid discriminatory preferential systems than they are today.

For much of the period since 1945, strategic arguments for keeping the Atlantic countries together in the economic as well as the military sphere have been persuasive. I have indicated my view that these particular arguments have

lost much of their force in Europe in recent years, though they have not yet entirely vanished. But, quite independently of these arguments, there will continue to be an enormous advantage, both for the developed and for the less developed world in keeping international trade upon a multilateral and, so far as possible, a free basis. We do not want to see another retreat into national or regional economic defensiveness such as the world experienced in the inter-war slump.

It is true that we are not likely to achieve the objective of complete free trade, in the sense in which we inherited this idea from the 19th century. The responsibilities which modern governments have to accept for a wide range of economic policies virtually rule out any such simple solution. Moreover, when trading partners are at widely different levels of economic and industrial development, unregulated, free trading relationships tend to favour the stronger partner, so that special arrangements designed to facilitate the development of the weaker have to be envisaged.

We have become accustomed to this notion in considering the arrangements to be made between the developed and the less developed world, though, as I have said, we have not yet gone far enough in carrying it into practice and are under pressure to go further. We are less accustomed to recognise that a similar kind of tension may also arise between industrialised countries, as it has in the current argument about the technological gap which has opened up between the United States and Europe.

I have not spoken of this because it is not strictly a question of trade policy, but it is one of the causes of a certain defensiveness in the European attitude to its economic relations with the United States and it would be unwise to ignore it.

An improvement in European performance in both technology and industrial management is, no doubt, the indispensable remedy for this situation and one may hope that the evolution of a larger and more integrated community in Europe will contribute to this end. But this is bound to take time. In so far as American policy can help, perhaps attention should be paid to some modification of the attitude of American Corporations in the modalities of their overseas investment. The reluctance to share ownership of the equity of overseas subsidiaries with non-Americans and the difficulty of decentralising advanced research so that an undue share of it is not concentrated in the United States is already giving rise to defensive reactions in some European countries, both against American domination of whole industries and against the prospect of advanced technology becoming increasingly an American prerogative.

The fact that this situation arises from American excellence rather than from errors of policy does not make it less disruptive in American-European relations. It is in fact one of the most powerful arguments used at the present time in Europe by those who, for a variety of reasons, wish to see Europe maintain a certain distance and aloofness in all her dealings with the United States. There would be political and, in the long run, economic dividends to be earned if American investors could be persuaded to content themselves with less complete control and to permit a larger amount of research and development to take place in Europe. This is a serious problem which if it cannot be handled in co-operation with American business, is likely to result in the erection at the European end of new barriers between the United States and Europe at a time when in the general interest, we should be moving in the opposite direction.

I will not pursue further this question of the technological gap, only remarking that it provides an example of the extent to which United States policies are of direct concern to her trading partners in Europe and elsewhere. These partners have reason to be grateful for the attitudes adopted by the United States in recent decades. If they seem to Americans to be constantly asking for more, this is a tribute both to United States strength, which carries inescapable obligations with it, and to past American policies which have shown that the United States is capable, even at some cost in short-term inconvenience, of taking a long view of world trading problems.

Chairman Boggs. Thank you very much, Mr. Younger.

Mr. Rumsfeld was here first, so I will call on him first.

Representative RUMSFELD. Thank you, Mr. Chairman.

I would be interested in having a comment from both of these distinguished gentlemen, concerning the procedures used within their

respective governments, to the proposal to create an international department of economic affairs in our Government. Unquestionably this proposal is a result of Mr. Curtis' feeling of dissatisfaction with the procedure of handling these matters through a variety of different agencies and segments of our Government. As I understand it, in Great Britain there is a procedure that is not dissimilar to this proposal. And I would be curious to know how you in your respective countries do handle the problem.

Mr. PECCEI. Thank you, Mr. Rumsfeld.

I suggest we should look at Europe, not at Italy or France or Germany, or at least at the EEC in Brussels. In Brussels there was a start at institutionalizing a common economic policy by delegating a member of the commission to represent the EEC in external affairs. It was M. Jean Rey, who is now president of the EEC. And I think that more and more the external economic policy of the six would be made or inspired by joint decisions taken in Brussels. We are going toward economic integration in Europe, though at a slower pace than we would like. And that will mean that we will have a unified organization of the Community for foreign economic affairs.

Mr. RUMSFELD. In Italy, if I might ask, are the foreign trade and monetary policy aspects combined within a single division of government?

Mr. PECCEI. No. In our country, as in most European countries, the Foreign Ministry has a kind of overall supervision of foreign economic relations. In addition, we have a Foreign Trade Ministry. And we have the Treasury, which deals with monetary affairs.

Mr. RUMSFELD. Mr. Younger?

Mr. YOUNGER. We have a number of ministries concerned with a matter of such great breadth as the Kennedy Round negotiations. I am not myself in Government and I may not be up to date on this. I think I am right in saying that the primacy of the Foreign Office for coordinating all of these aspects of overseas policy is still maintained at least insofar as political issue may be at stake. But in practice, of course, it depends very much on the content of the particular thing that is being dealt with. And the board of trade would be, and indeed was, during the Kennedy Round, the leading agency for coordinating the trading policies of the Government. There are so many ministries involved that I don't think it would be possible to see it as being wholly centralized under one agency. All one can hope to do is to have an adequate system of interdepartmental consultation and good representation on various ministries on the delegation which is actually doing the negotiating. And it should be possible to do it that way. You have to bring in, for instance, the Ministry of Agriculture on some issues. I think that to attempt to centralize all the work in one ministry would only be lifting the problem of coordination to a slightly different level. You couldn't release yourself of the obligation to consult all of the different interests in your government at some point or other.

I am not aware, incidentally—although I think here you would have to ask somebody who has been personally concerned at the official level with these negotiations—I am not aware that we in Britain suffered any very grave difficulties from a lack of coordination among the different agencies during the Kennedy Round.

Mr. RUMSFELD. I would like to have some clarification on the question of East-West trade from each of you, also.

Doctor, in your statement you mention the firm belief that we would be helping a positive political development with respect to East-West trade. On page 10 you said it would have positive political implications. On page 11 you said it would be an effective way to promote better political understanding, and added that, whereas sound trade relations may prove to be a thawing factor. This is, of course, a point of view. And as you know, this country engages in modest East-West trade. And as each of you has suggested, it is well to say we should have East-West trade, but the cold facts are that there has to be an economic advantage to trade and a need, and a pressure within the economic communities of the various countries to trade. Can you expand on any of these three statements?

And Mr. Younger, you also referred to this. Can you think of any instances where you can point out positive political developments, or could you possibly enlighten the committee by giving some examples where it hasn't really accomplished very much? One example might be Cuba, where the United States did over a long period of time have close economic ties. And our current situation with respect to Cuba certainly couldn't be described as that trade having resulted from positive political development or a thaw. I think that this question needs to be more precisely discussed, if you could provide me with some insight.

Mr. PECCEI. If I may, Mr Rumsfeld, first of all, I would like to tell you one, I believe that I have. And I think it is substantiated by facts. And that is, the economies of Eastern Europe and the Soviet Union are very weak economies. When they are exposed to contacts with Western Europe, and more especially when they will be exposed to contacts with the United States, they see that many of their procedures and many of their ways and methods of organization are not a match for those that we have in the West. And there are more and more technocrats, or leaders in their countries who wish to adopt our methods of organization in manufacturing of motor cars, or data processing and handling, and many others. I might cite the situation in Yugoslavia and Rumania, where we see people of high standing from the Ministers downward who are prepared to do practically everything that they can and to influence the organizations of their States to come very much our way, because it is the only possible way for them to manufacture at cost and in quality acceptable to their markets, and to export new goods as their markets are widening.

I think that this has an impact. Let's take the motor car, the boom on which is going on in practically every Eastern European country. The motor car will change ways of life of those countries. Roads, service stations, repair shops, and the possibility of moving within their national boundaries and outside—this is a new outlook that they have. If they had had no motor cars, they would have been much more inward looking, restrained.

Mr. RUMSFELD. My time is up, I am afraid. Let me just see if you would say that this is correct. From your response is it safe to say that your suggestions concerning the desirability of East-West trade are restricted to instances wherein the United States could be trading with a country that did not have a strong economy because the ad-

vantages that would accrue from encouraging that country to evolve to a system that, as you say, would encourage consumer products, automobiles and so forth, would not be applicable if the economy were already strong. The argument that you have given is an interesting one, and has some merit, but it would not apply to a country that already had a strong economy, and where there was already emphasis on consumer products, according to your definition. Is that correct?

MR. PECCEI. Yes, sir. But I don't know of any Eastern European economy which is strong.

MR. RUMSFELD. I am just trying to pin down the argument.

MR. PECCEI. And it would take a very long time before they became stronger than they are now.

MR. RUMSFELD. Thank you very much.

Chairman BOGGS. Thank you very much.

Senator MILLER?

Senator MILLER. Thank you, Mr. Chairman. I have just a couple of questions.

MR. YOUNGER, you referred to a narrowing strategic goods policy. Would you elaborate on that?

MR. YOUNGER. Mr. Chairman, I think it is probably fair to say that the importance of this particular issue, the strategic list as it used to be called, has already diminished a good deal; that is to say, the range of goods covered by the strategic list is already substantially less than it once was. But I think that it would not be felt in Europe that it is yet as narrow as it really should be. At the back of this dispute lies a question almost of philosophy, which I tried to raise at the end of my remarks, as to whether it is still part of the background to our policy that we are aiming to weaken Communist countries wherever we can, as opposed to merely seeking to deprive them of direct strategic material and weapons.

I have no doubt at all that there was a time when the doctrine went much beyond the strictest strategic argument, and where it was felt in some Western circles that to hold up economic development, and to make things difficult for the Communist countries, was in itself a legitimate objective of Western policy.

What I am saying is that in Europe, at any rate, I feel sure that this is no longer the case.

I think the trivial example that I gave of my own institute shows that the American list—which is, I think, still considerably wider than the list applied by other countries to their own trade—must be quite wide. This instrument that I was referring to was a rather ordinary office calculating machine. Of course, you can argue that it can be used like anything else, as part of a war effort. But to include it in a list of strategic goods is stretching the term strategic very wide indeed. This is the sort of thing I had in mind. I am afraid I don't know in detail what are the particular items to which objection would now be taken on the American list, but I do know that there are items which are considered to fall within altogether too wide a definition.

Senator MILLER. Do you think the European attitude on this has altered at all in the light of the Middle East situation, and especially if it is true that the Soviet Union and the bloc nations are resupplying the Arab States with fighter aircraft and war armaments?

Mr. YOUNGER. I wouldn't have thought it made any difference. I am not suggesting that European countries would wish to see all limitations on strictly strategic goods and weapons removed. But I don't think it would be felt in Europe that what has happened in the Middle East was particularly relevant to the withholding of marginally strategic goods, the sort of hardware that could conceivably be used in some military connection, but would be more normally used in civilian affairs. I wouldn't think that Europeans would feel that that was at all relevant when you are considering trade with a country like Poland or Rumania. It would be thought to have nothing to do with it at all.

Senator MILLER. Well, suppose that Czechoslovakia were providing tanks for Egypt, and other war armaments, and there were a danger that this could result in a closing of the Suez Canal to the European nations. Do you think that under those circumstances that it would be prudent to expand trade between Britain and Poland and Czechoslovakia?

Mr. YOUNGER. I would very much like to know from Dr. Peccei if I am misrepresenting the European point of view on this, but I would think that in most countries of Europe, and I am sure in Britain, people are looking to a continuation of closer relations and of detente, which after all has been going on between the Communist world and the Western world at least for the last 3 or 4 years, at least since the Cuban crisis. They are not thinking of reverting to the earlier situation which existed, say, in the late 1940's or 1950's, because there was never believed to be a military danger. The object then was to weaken the adversary without any discrimination. Whether it was the Soviet Union or Poland or Yugoslavia or Czechoslovakia, the object was to weaken them. I do not believe that this philosophy holds anywhere in Europe at the present time.

Senator MILLER. But if the philosophy moves from a philosophy of weakening to one of strengthening, or to one of a timing, the opportunity for expansion of East-West trade would be a factor in causing certain actions which Europe does not like to stop. What I am getting at is that it seems to me that a closing of the Suez Canal, possibly the withholding of petroleum shipments from Arab States, is of great importance to Europe, and that with a view to enabling that situation to cease, there is the opportunity for East-West trade to be expanded which could be used as a bargaining point to mediate the situation in the Middle East. In other words, it doesn't necessarily come down to widening an economy, I don't think that is putting it realistically. It gets down to a matter of the negotiating propositions.

Mr. YOUNGER. I would go this far, that if one is trying to get improved relations between the East and West there is an element of diplomatic bargaining over a situation like the Middle East, in the sense that you can say, well, if you are wishing us to be more friendly in this or that sphere of policy, you can't expect to be free to conduct wholly hostile policies in another area. This, of course, is generally true, I suppose, as a diplomatic proposition. The whole world in that sense is one, when you are dealing between great powers. But I would have thought the connection between the closing of the Suez Canal, possibly as a result of some Soviet moral or material backing for Egypt, and the provision of more or less normal civilian goods, capital equipment

to, say, Rumania or Hungary would be thought in Europe to be very slight and, indeed, virtually nonexistent. I don't think people would see this as a possible bargaining element of any importance.

Senator MILLER. But certainly this must be a two-way street. If the bloc nations looked upon the expansion of East-West trade with great hope and expectancy, I can't understand why you say that this is a rather slim or marginal factor. I would think it would be a very great factor. And certainly, as you point out, their economies are weakening. If they have a hope to strengthen them, I would think it would be a very big factor. I can't understand why you would play that factor down in the diplomatic bargaining arena.

Mr. YOUNGER. I think there are rather important differences, if I may say so, between us on this. I suppose one of them is perhaps the assumption that by withholding some commodity from Rumania one can thereby bring direct pressure on the Soviet Union because of these other matters. It is much more the Soviet Union that is involved in the Middle East than it is Rumania, Hungary, or Poland. We don't regard the bloc, to use the old out-of-date phrase, as being very much of a bloc any more. And the danger that I see in what you have been saying is that this sort of doctrine can be used in Europe to support the proposition that Western Europe and Eastern Europe can never get back on reasonable terms so long as they have to follow an American policy of the kind which you have outlined. If the United States is always going to suggest holding back on East-West trade with Hungary or Poland because of annoyance with the Soviet Union in the Far East or Middle East or somewhere, this is precisely the argument that is used in Europe for separating Europe from the United States. I always combat that argument.

Senator MILLER. I don't think you have precisely stated the American policy as I understand it. And the American policy is certainly not this at all. It is a temporary matter hoping that in time it can develop into a genuine trading partnership. But it is a matter of timing. It is not an always, forevermore negative proposition at all. So, I think we ought to make that clear. But it just seemed to me—and I appreciate your frank comments about the attitudes, the European attitudes—and I was trying to point something that might be timely, because I know petroleum is of great concern to free Europe, and if Europe received the impression that the bloc nations were contributing to the difficulty of petroleum, I would say that from an American standpoint it would not appear to be a proper and prudent time to start expanding the trade. It would be a proper and prudent time to hold out the opportunity for expanding trade when the petroleum problem is diminishing.

Now, there is another point, too. I don't think that we ought to say that the American viewpoint toward the Soviet Union is identical with the American viewpoint toward the so-called bloc nations. I would like to ask you whether you feel that the trade approach ought to be identical vis-a-vis the Soviet Union and the bloc nations or whether you would recommend perhaps a more relaxed trade position with some of the bloc nations as against the position toward the Soviet Union at this time.

Mr. YOUNGER. I don't know that I really can conceive of any practical way of distinguishing between the Soviet Union and the other Communist countries in terms of discrimination against their goods. I wouldn't have thought that one would want to have any specifically separate policies. But of course I can see that on the other level that you were referring to; namely, diplomatic negotiation over certain situations unconnected with trade, like the attitude toward such areas as the Middle East or Southeast Asia, there might be a different diplomatic situation between the United States and the Soviet Union from what there would be between the United States and one of the small countries of Eastern Europe, whose say in those matters would obviously be minimal. These are matters which it would hardly be relevant to talk about in the smaller capitals, but it would be relevant to talk about them in Moscow. To that extent I can see that there is a distinction to be made.

Senator MILLER. And then that would lead you to conclude that there could be a difference in the trade basis as between one or more of those countries, and the Soviet Union? Would you go that far?

Mr. YOUNGER. I would expect that there probably would be as far as the United States is concerned. I think I am right in saying that there are distinctions made by the United States as between, for instance, the Soviet Union and China, or the Soviet Union and Cuba. These countries are not on an absolutely equal footing in U.S. policy at the present time, as I understand. So, I expect that for political reasons this distinction would probably be maintained. I don't know whether it would have much relevance except as regards the United States own trade. So far as the trade of, shall we say, Belgium with Poland, or with the Soviet Union, I doubt if the distinction would have much relevance.

Senator MILLER. As far as you are concerned, you can see no particular difference in the trade basis that should exist between Poland, Czechoslovakia, Rumania, and the Soviet Union?

Mr. YOUNGER. As regards the regulations one made for it, I would think probably not, no.

Senator MILLER. Thank you very much. My time is up.

Chairman BOGGS. Thank you, Senator.

Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Dr. Peccei, Mr. Younger, we certainly appreciate your coming before the committee this morning and giving your statements. I am sure you have made a fine contribution to the discussion we have at hand.

I want to express my regret that I was unable to be here at the time you gave your statement. But I had advanced copies, and I read them last night, and I prepared questions.

Dr. Peccei, you mentioned the need for a sobering international action to bring under reasonable control the tendency toward the extending of longer credits to Eastern Europe and the Soviet Union. Would you say that in the technological position that Eastern Europe finds herself today that there is an opportunity beyond which long-term credit becomes, in actuality, a form of economic assistance?

Mr. PECCEI. Yes, sir. Very substantial and long-term credits to any of these countries will in the end result in economic assistance. I think that what we should have for the United States and Europe is a common yardstick, and that we should not compete with each other in extending more favorable terms, either for long-term or short-term credits, to the Soviet Union and Eastern Europe.

Representative WIDNALL. Would 15-year credit terms on a million dollar industrial plant incorporating the latest Western technology constitute a form of assistance not generally available to normal trading partners? I think you know what I have in mind when I am talking about that.

Mr. PECCEI. Yes, sir.

Representative WIDNALL. We have, as you know, the Berne Union, which was a multilateral agreement reached by Western Europe and the United States in 1934. This informal agreement discouraged credit terms beyond, I believe, 5 years. The Berne Union limitations, are they still realistic, or should they be renegotiated?

Mr. PECCEI. The provision for the limit of 5 years in the European agreements has been in fact disregarded by all exporting countries with respect to all the developing nations and also in the case of Eastern Europe. Europeans have extended credits to India, Argentina, Brazil, and others on much longer terms than those. As to Eastern Europe I think we should come to a certain understanding among us that the rule should be for instance, 8, 9, or 10 years, and then stick to the agreed terms. The terms you mentioned a while ago should be considered as a very exceptional case.

Representative WIDNALL. What are the terms?

Mr. PECCEI. Payment will begin after completion of delivery and will take place from 1971 to 1979.

Representative WIDNALL. What interest rate is charged?

Mr. PECCEI. 5.6 percent.

Representative WIDNALL. Is it not a fact that sometimes reckless extension of credit to the East was one of the prime sources of trouble for the Krupp industries in West Germany?

Mr. PECCEI. Would you repeat that?

Representative WIDNALL. Is it not a fact that reckless extension of credit to Eastern Europe was one of the prime sources of trouble for Krupp Industries in Western Germany?

Mr. PECCEI. I am not sure of that, because I think the credit extended was not in very big amounts. I think in the case of Krupp the trouble had something to do with management.

Representative WIDNALL. I don't have the figures here, but I thought it was quite sizable. With regard to the proposed Fiat deal with the U.S.S.R. have any orders for machine tools been placed with U.S. firms yet?

Mr. PECCEI. To my knowledge no, because the necessary credit arrangements have not yet been approved. If they will eventually be approved, there is a long list of machines which will be ordered by the Soviet Union on the recommendation of our technical people.

Representative WIDNALL. Would Export-Import Bank participa-

tion in the U.S.S.R.-Fiat arrangement be an absolute necessity or consummation?

Mr. PECCEI. I am not in a position to give you a lucid answer.

Representative WIDNALL. Is Fiat prepared to move ahead without U.S. machine tools?

Mr. PECCEI. In all likelihood, yes, because there surely are other machine tools, which can be obtained from England, Germany, and perhaps Italy, and which can be a substitute for the U.S. machine tools which are considered now.

Representative WIDNALL. I have been very interested in looking over some trade figures which I obtained from the Library of Congress on the balance of trade of Western European countries and the Soviet Union and Eastern European countries in 1965, and the first half of 1966. These figures show a considerable deficit in trade with the Soviet Union for both 1965 and 1966, and a deficit changed to a surplus with Eastern Europe in 1965 and 1966. Now, given the change between 1965 and 1966 from a deficit to a surplus intrade with Eastern Europe as opposed to the Soviet Union, what has been the reason for this?

Mr. PECCEI. I think in the case of the Soviet Union they are buying presently more than they are selling in Western Europe; and they are buying on credit terms and selling mostly cash.

Representative WIDNALL. Actually, the balance is in favor of the Soviet Union for both 1965 and 1966 in the trading with Western Europe?

Mr. PECCEI. It might be that they stepped up their sales to Western Europe to offset the adverse trade balances.

Representative WIDNALL. I would like to ask both of you, should we really be talking of East-West trade as a whole, or rather trade with particular countries?

Mr. PECCEI. I think that if we consider our long-term policies, that is, what are we going to do as far as trade is concerned with that part of the world during the next 10 years, we should devise an overall harmonious policy for the whole area, which then may have different implementations as to different countries. For instance, already now in the case of Yugoslavia, many European countries are following different practices than those applied to Eastern Germany. But I believe that we must come to an overall decision as to what to do on the long run for Eastern Europe and the U.S.S.R. as far as trade is concerned.

Representative WIDNALL. Mr. Younger, would you answer that, please?

Mr. YOUNGER. I don't know that I am very well qualified in this field to say more than I have already said. What my original remarks were aimed at was an over-all discrimination in Western trade against trade with Communist countries as such. And my view there was that one would wish to see that discrimination diminished or abolished, except in a purely strategic aspect, for all alike. Obviously, the application of this might work out differently in the case of different countries. They have very different capabilities of trade with the West.

Some of them would probably not be able to take much advantage of any relaxation.

But I would agree with Mr. Peccei that in the long run one has to treat the whole of Eastern Europe as one in this regard. East Germany has been an obvious exception up to the present time on political grounds. I don't know myself whether this exceptional position is going to survive another 10 or even 5 years. I think that the future problem is going to be one of the attitude toward Communist countries in Eastern Europe as a whole rather than of discriminating in each case, at least as far as legal discrimination is concerned.

Representative WIDNALL. It would seem to me that there is more opportunity for economic and political benefits for trade with particular European countries rather than just in general East-West trade. Don't you think that that might be the best approach?

Mr. PECCEI. No doubt, and practically that is a reality already. Also, in the near future it will be much easier to deal individually with the Rumanians or the Hungarians, the Czechs or the Eastern Germans. But that will be the practical side of an overall policy which should be considered, having in mind the whole of the area.

And if I may add one comment, I think that we must try to assess accurately which would be the results of much greater trade with that whole area, say, in the next 15 years. Because much greater trade with the West would probably mean a greater diversification of their economies. And this diversification will probably reduce the efforts they are doing now, say, in the military or paramilitary fields, increase the importance in their societies and economies of the civilian sector and divert resources and energies towards the production of consumer goods; that is, toward more peaceful ends. And that study is something that I think has not been really done yet, but is worth doing on the part of the United States and of Europe, too. In this connection I would like to add to the records of this subcommittee if you allow me. Mr. Chairman, a paper I prepared on this subject and which was published in the spring issue of the Atlantic Community Quarterly.

Chairman Boggs. We will include it in the record.

(The report supplied by Mr. Peccei's follows:)

DEVELOPED-UNDERDEVELOPED AND EAST-WEST RELATIONS*

[By Aurelio Peccei]

To place in perspective the growing world problems during the next ten or 20 years requires far more understanding and imagination, wisdom and capacity for synthesis than we are accustomed to demand of ourselves.

In modern society the issues are so broad, complex and global, and the speed of change has become so rapid, that man's very qualities and his capacity to meet them will certainly be put to test.

To start with, he must realize where he is in the world and what his assets and liabilities are; then he must consider in what direction he is actually heading; and finally, decide where he wants to go and can go, using which means and at what price.

What in the past was only abstract design or moral commitment we are now in a position to consider in more positive, operational terms. And this we must

*A paper presented at the Business International Bermuda Roundtable on Corporate Planning Today for Tomorrow's World Market, December 15-18, 1966. Reprinted by permission, from The Atlantic Community Quarterly of the Atlantic Council of the United States, Inc. Spring 1967.

do, for our own sake, for now we control forces which match those of nature itself and produce machines capable of multiplying the power of our arms and brain. For the first time we may decisively influence our future, create a great society or totally destroy it.

Therefore our thinking has to acquire a new dimension, in keeping with human expectations and the dangers and opportunities of our various societies at this point of history; failing which we may all too easily lose control of the shrinking arena of growing contrasts which is our world.

I will attempt to give some indications as to what kind of thinking in my opinion we should produce not only to keep this explosive arena manageable during the next decade, but also to insure that life therein can be lived in a way befitting our quality as civilized human beings.

Above all, the new relation between man and his future poses problems of leadership.

If we take our macrocosm, the world as a whole, the first-choice first-refusal right to leadership should be in the hands of peoples and countries capable of taking up the main challenge of our times. I am convinced that West and West alone can, at the present time, muster the intellectual and organizational capacities in order to marshal and guide the tremendous pace of the technological revolution and to provide thereby means and rules for the progress and prosperity of all mankind.

Furthermore, Western culture can greatly contribute, in a joint effort with the other new and older cultures of the world, to the solution of the supreme dilemma of how to reconcile man with the world which he himself is progressively de-humanizing.

However, at the present reading the West has not yet picked up this leadership option. Although in the race for progress it is way out ahead, this hardly means that it is offering guidance to the others. It is not even clear if the West knows itself where it is going.

The Western nations in fact are not united. And lack of unity has so far prevented them from taking a constructive long-range lead in world affairs.

Moreover, their unprecedented riches and the protection of the U.S. nuclear umbrella are lulling them into the illusion that they can live permanently in a privileged position.

This is another reason why we should wake up to the complexities of our world and think well ahead.

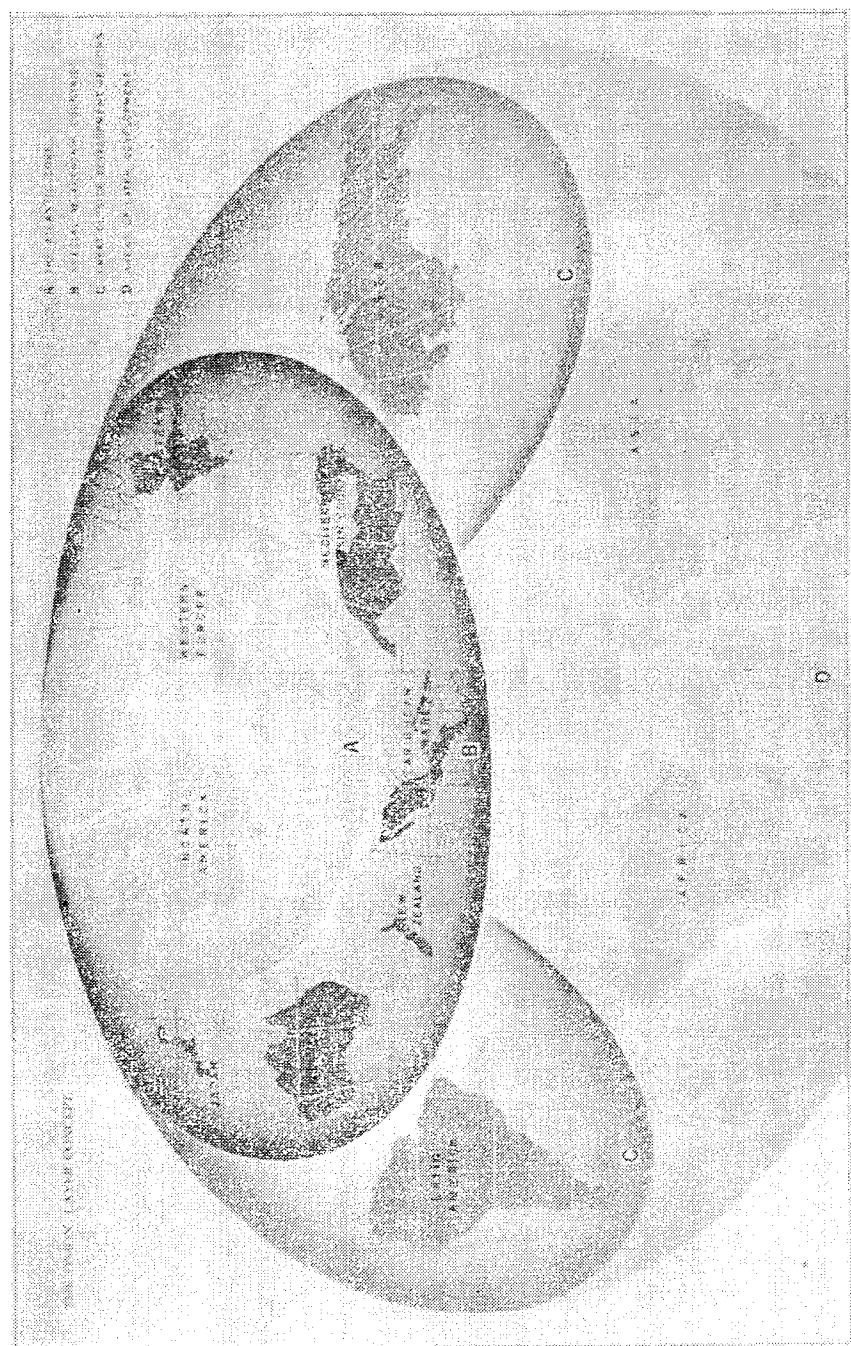
THE ONION LAYERS CONCEPT

It is not only a question of updating our mental approach. The necessity of forecasting and planning for the future will have to be profoundly rethought and the supersonic and superhuman speed of our time gives us very little respite.

Looking ahead, the first question is what new and convenient reference framework can be devised to replace the now obsolete and misleading North-South, East-West schematization.

Let me then sketch a unitary view of the world, a kind of model for the next decade, although I have to concede that it is an optimist's view. I hope it may help formulate our forward thinking and systematize our approach to this complex world of ours.

The world is represented by a strong core where the main forces of progress are centered and which exerts leadership; and that is in fact the Atlantic Community. Around this great Atlantic center, irradiating force and support, are concentric belts of countries linked to the core itself by a variety of bonds and interests which gradually diminish from the center towards the periphery. (See map.)



This image may be compared to the layers of an onion, and there are three principal layers around the Atlantic core:

The special relationship countries; the great outside development regions; and areas of later development.

This concept of the world of the seventies, is again geopolitical. But it makes sense, not least when we consider it from the socio-economic development angle and understand that development, though it be a global issue, cannot be promoted everywhere at the same time nor at an equal rate and with equal success.

In the first layer there are groups of countries which, for different reasons, such as tradition, culture, geographical position and level of development are in a special relation with the Atlantic countries.

We should not spare any effort nor leave any stone unturned in order to have them develop as rapidly and as homogeneously as possible with respect to the Atlantic area during the next decade.

OPERATION EASTERN EUROPE

First among them is Eastern Europe. We can foresee that these countries will tend to gravitate ever more toward Western Europe as they gradually develop and increase their foreign trade and also because of the consequences of peaceful engagement policies towards the East. Operation Eastern Europe should, however, be geared to Operation USSR of which we will speak in a moment.

This new rapprochement between two groups of European peoples which have been historically engaged in trade, alliances and wars, and which are bound by a common culture, may represent a basic feature of the coming decade. Furthermore, it represents a *sine qua non* condition for the coming together of the two Germanies with a view towards a later reunification; it is therefore the keystone for resolving one of the great problems which has remained unsolved so far.

A second group consists of the non-European countries of the Mediterranean basin which are linked to Europe more than to any other region or country. The reciprocal attraction between them and Europe is likely to increase in the near future, again under the spur of growing trade, coupled with investment and tourism and the complementary nature of the two areas in terms of demand and supply of manpower.

Europe should see that it is not only to her advantage but also her mission to develop these countries, which in any case cannot do the job themselves. The concept that the Mediterranean basin—as a development area—is a prolongation of Europe serves the interests of all the peoples around its shores and by extension the interests of the Atlantic Community itself. Probably the thorny problem concerning Israel and the Arabs could, with strong United States backing, find a solution in this enlarged European framework.

A similar special relationship is that linking the United States with the peoples living in the great continental and insular expanse immediately to her South.

THE CENTRAL AMERICAN AREA

This is an area to which the United States is obviously rather sensitive. It includes the Caribbean countries (Cuba as well, in due course), those grouped in the Central American Common Market, and Mexico although she is a member of LAFTA and deserves a position of her own. It is of prime interest to all these countries that one of the main objectives of the Atlantic Community, and the United States for sure, should be that of helping them draw up and implement a long-term growth and modernization plan.

Finally, the developed countries of the Pacific: Australia, New Zealand and Japan, also participate in the Atlantic area of progress and prosperity although they do not directly belong to it. The same is probably true for the Philippines.

All countries belonging to this first layer are in one way or another a logical extension of the Atlantic Community and should be considered as such. They can receive immense benefits from their integration into or association with the Atlantic Community, while keeping their own national characteristics and their own political philosophy and institutions.

If these achievements and developments are feasible, it would be unforgivable if the Western countries did not plan ahead this way. The urgency is such that from this very moment the United States and the European nations should consult on how to cooperate and lead these first layer countries towards a future of progress within the Atlantic framework.

The second layer is represented by two great regions: the Soviet Union and South America. It will depend on their amalgamation into the Atlantic area

of progress and prosperity whether history will see the next decade as a decade of great development or as a time of growing dangers for mankind.

The peaceful and constructive engagement of these external areas should be contemporaneous to the consolidation of the inner layer of countries more tightly linked to the Atlantic Community.

As far as the USSR is concerned, it is difficult indeed to forecast her political, economic and organizational development in the next ten years.

The Soviet leaders have repeatedly declared that the Soviet Union must make an all-out industrial effort, and that this effort is essential to her future. However, the giant bureaucratic apparatus of the country has yet to prove that it can undertake it.

At the beginning of this century a Russian historian pointed out that his country's progress was barred by the enormous weight of the state administration. Presently there is no great change in this situation. Furthermore, the USSR must also overcome great internal difficulties before attaining such essential goals as self-sufficiency in the production of agricultural and consumer goods, increasing the quality and variety of industrial products, and diversifying exports.

A NEW SOVIET COURSE OF ACTION

The Soviet Government is making an agonizing reappraisal. They have come to accept that their industrial economy and their administrative apparatus are entirely inadequate. Hence the new course of action based on profit and automation.

The new Five Year Plan approved last spring embodies these directives, and its objectives seems much sounder and more coherent than those of the previous Plans during the last 30 years. Its nonvoluntaristic character, as they call it now in the USSR, means that it should be more reliable, less bent on propaganda. In this respect it goes somewhat back to the earlier Soviet tradition which is at the root of the technique of modern planning.

The five-year period covered by the present Plan may represent a crucial turning point for the second world power. After the galling and costly setbacks in agriculture, the system has a second chance to prove its validity by successfully modernizing industry and substantially increasing overall productivity.

On the basis of the present situation in Russia some observers have considered various possible developments in their forecast. In our analysis we shall consider two opposite and extreme alternatives whose seeds are apparently already present in Soviet society.

According to the first alternative, whose plausibility is to some extent borne out by some attitudes of the present Soviet leadership, the Party and the Government will go all the way with the new course, courageously devoting their energies and capacities to devising and trying new measures to bring about all the necessary structural and economic reforms. For the top echelons in the Soviet Union this will also represent a dramatic form of self-criticism.

Apart from the expected results in the economic field, important political consequences may ensue. The inevitable social and psychological crises which will be caused by such reforms may lead to a partial democratization of the political system and an alliance of the establishment of the top echelons with the intelligentsia permitting better use to be made of the country's intellectual capacities.

Accurate balance of these reforms will be necessary within the USSR to avoid a sharp downturn in the standard of living, thereby igniting social explosions. As to external conditions, peaceful coexistence alone will probably not suffice. Only extensive cooperation extended to the USSR by the Western countries can put at her disposal the vast resources of foreign exchange and the managerial techniques which only the West possess and which are indispensable for this historic transformation of the Soviet economic system.

If this perspective is not altogether unrealistic, new opportunities undreamed of during the '50s and early '60s open up before us. Can we let them pass us by? Is it possible for us to cautiously foster their appearance?

The other extreme alternative is that reactionary elements will block renovation so that the status quo will continue within the USSR; and the present international situation of bare co-existence will go on, interspersed with recurrent crises of the Vietnam type.

DISRUPTIVE FORCES IN THE USSR

If this occurs, the economic vicious circle of low standard of living-low productivity will in all likelihood be perpetuated. Under the spur of increasing demands from the population the situation may one day become untenable. The disruptive

forces still present in Soviet society would then emerge. The efforts to marshal events by a drastic return to stalinist methods would inevitably result in a worsening of the domestic and international situations, without solving the problem altogether.

The result might be a progressive disruption of the country with the possible break-up of Soviet society into forms we cannot anticipate. This occurrence would spell suffering and grave risk, not only for the USSR. And the development of such a disruptive process could result in the Soviet leaders pursuing aggressive policies abroad.

In any case, the break-up of a country which has a world position such as the USSR would create a power vacuum and a chain reaction of unpredictable but extremely dangerous crises in international relations, thereby increasing once again the effective dangers of war.

In conclusion, the Soviet Union may shortly find herself at the crossroads. The decisions she will take may powerfully affect our lives. Ours may advance hers, and greatly influence her course. They may represent the decisive factor for the East-West and world relationships in the years to come.

When the chips are down, the United States is bound to accord first place to her own hemisphere and to the risks and opportunities which lie on her own doorstep. Europe as a whole, not only Latin Europe, is linked to Latin America by a variety of bonds: bonds of culture, bonds of tradition, and complementary economies, unique in comparison to other regions of the world. There are other objective reasons why Latin America comes first and these are illustrated by the case of Adela.

THE CASE FOR LATIN AMERICA

Adela was devised for Latin America; it could not have been launched for any other developing area. When this novel undertaking was decided upon, the case for Latin America was stated as follows:

The continent has been independent for 140 years, whereas in Africa, non-Communist Asia, and most of the Middle East countries independence is new or quite new. Latin America has had decades of experience with various forms of self-government, or at least local government, and in most of the countries there is deeply-held popular allegiance to the concept of government by the people. There is a great deal of illiteracy, but there is also a great deal of literacy. The cadres are made up of reasonably well-trained and responsible people. It will be a miracle if Africa, for example, manages to have comparable cadres two decades from now.

Latin America is also more fully prepared than the other developing areas in the growing validity and strength of its regional institutions, such as IADB, OAS, ICAP, LAFTA and CACM.

Another basic difference characterizes the problem of development in Latin America, where there are fundamental contrasts between regions and within economic sectors. Underdevelopment in Asia and Africa, on the contrary, is much more even. These contrasts, which are the reflection of bottlenecks and obstacles to development, are also the symptoms of ferments and vitality which are not to be found in the stagnating areas. They also mean that the forces of organization are beginning their process of polarization.

LATIN AMERICAN TESTING GROUND

Finally, Latin America has had extensive experience with a system of economic activity based primarily upon private endeavor. The bulk of activities which Americans or Europeans would consider to be normally in the private sector, are in the private sector in Latin America.

Latin America therefore is presently the great testing ground as to whether a system substantially based upon political freedom and private economic endeavor can work in an underdeveloped region. And the world work has to be interpreted not only economically but also socially and politically.

It depends on Latin American decisions whether an adequate and combined policy for Latin America can be started by Europe and the United States, or whether Europe and the United States will be inclined to indulge in their present uncoordinated and sometimes antagonistic policies with little benefit to Latin America.

Another question was raised some months ago by a prominent American political leader: "whether or not Latin America can successfully walk the razor's edge across the development threshold depends to a large extent on whether or not civilian, democratically elected governments there can provide sufficient satisfaction."

But the progress and prosperity of 200 million Latin Americans will greatly depend on the vision and on the action taken by the Atlantic countries as well.

If the Atlantic countries will accept their prominent responsibilities towards Latin America as a basic feature of their long-term policies, and not only as an extemporaneous posture in times of political and financial emergency, another sound basis will have been established for tackling the problems of the '70s.

The third and last layer comprises the remaining countries of the world, namely Africa south of the desert belt from the Sahara to the Red Sea (except the Union of South Africa, which I am at a loss to categorize), China and that part of Asia which does not belong to the first two layers.

With respect to these really underdeveloped countries (including China, some day) we should—during the next decade—expand trade with them and extend trade facilities; step up economic aid, technical assistance and credit support; and help them exploit their natural resources; jointly devise how they should industrialize, increase agricultural productivity and organize their markets; and do as many other things for their benefit as we can.

We should, and do doubt will, also adopt emergency aid measures, expressing our solidarity in case of calamity.

But in our global appraisal and planning we must be clear in our mind.

Whatever we do, these countries by and large will not mature towards anything approaching our standards of organization and growth capacity. Their philosophy of life, their beliefs, values, motivations and attitudes—in some cases the heritage of a great culture older than ours—their total approach to what we call modern civilization, all these fundamental elements on which the future rests are not homogeneous with ours.

THE WEST'S ROLE IN UNDERDEVELOPMENT

Whatever we do, these countries will remain areas of later development as we understand it, and a matter for our thoughts during the '80s under this aspect.

As we realize this situation and try to map out the future globally, we are led to make a most painful reappraisal, that of redimensioning and timing the West's role with regard to underdevelopment.

It is quite obvious that we are facing here a most critical contradiction.

In fact, on the one side, interdependence is growing and modern communication systems make it possible for any point on the globe to be reached speedily and promptly, and for any people to reach other people, no matter how far apart they are geographically, culturally or politically. Yet, on the other side, the technological revolution, which has reached such momentum in the last few years, is creating at the same time a gap in this shrinking world among countries which were by and large considered to be at a compatible level of development until not too long ago.

This gap becomes immense and awesome when it is considered with regard to underdeveloped peoples. It is a gap in development level. The less endowed countries are not in a condition to absorb aid and the new technology, and therefore sink further in relative terms. In its turn, this causes a greater quality gap. As time passes the acquisitive capacity of these countries becomes weaker and weaker as technology becomes ever more complex. The gap widens to unbridgeable proportions: a gap in per-capita income, in growth capacity, in understanding, in everything which characterizes societies nowadays.

In fact Asia encompasses societies permeated with ancient traditions and cultures, which under present conditions can hardly be expected to be influenced from outside to the point of accepting radical change. Their customs are such that many aspects of modern life appear to be totally uncongenial to them.

Suffice it to consider the tragic struggle in India between the need of modernizing agriculture and the religious belief which makes cows and monkeys sacred, when the sanctity of cows and monkeys perpetuates starvation among men. Suffice it to consider the turmoil incomprehensible to Western minds which is the torment of China.

As to Africa, the last continent affected by the hurricane of political independence, it is still trying to weather the transition from a highly divided tribal society, to a nationhood in many cases difficult to trace and define. There is very little chance of planning ahead there. The economic and political viability of too many of the new African states is questionable at best.

In the face of this situation, we must also recognize that there are definite limitations with regard to both our human and material resources. We may feel deeply the human urge, but it would be unrealistic for us to plan a massive and decisive contribution toward solving the problem of underdevelopment in Asia and Africa.

It follows necessarily that the West will have to give priority to the countries we have already mentioned, and postpone consideration of this massive commitment in Asia and Africa by ten years or so. In the meantime, present technical and financial aid should be continued and possibly increased for humanitarian reasons, irrespective of the fact that we do not expect that it will in the least change the situation for the time being.

THE ATLANTIC CORE

In the meantime we will hopefully also have set our Western house and its adjoining areas in order, and gained more strength. From that expanded and consolidated platform the problems besetting the vast human masses of Asia and Africa can then be systematically tackled with some better chance of success.

Advancing this conclusion, I realize that ten years is rather a long time for a human being, and even more so for a suffering human being. But it is not a long time in history.

The contrary solution would be self-defeating. The world, East-West-South-North all together, would be doomed to bankruptcy, should large (and yet insufficient) resources be prematurely drawn into the blotting paper named Asia and Africa. And probably none of the other objectives we have indicated for the next decade would be accomplished.

The unitary concept of the world we have expounded as a basis for our thoughts for the future rests on the assumption that the Atlantic core be there, and that it will exude vitality and guidance.

Although the Atlantic Community of the United States, Canada and Europe is our foremost concern and hope, I will not deal with it here, beyond saying that I believe it represents quite an attainable objective for the early seventies.

Let me, however, make a few observations about Europe, the old yet respectable continent with traditions, vested interests, divisions, contrasts and contradictions, and which represents the crux of the matter.

It is much harder to correct and amend rather than create anew, and Europe is an example. Europe has already caused two world wars; the germ is still latent, fortunately inactive and perhaps rendered innocuous. There is also the danger that new affluence may soften its societies, dampen the driving force and imagination its best spirits must possess at the present juncture.

DISARRAY IN EUROPE

Moreover, Europe is presently at low ebb. Disarray in the EEC, difficulties in the ECSC, gloomy economic outlook for England, uncertainty in Germany, Scandinavia going through a recession, Spain still reluctant to adopt modern institutions, Italy slow in reforming and modernizing her structures, Gaullism rampant not only in France.

In spite of these real dangers, these shortcomings and these psychological obstacles, there is, in my opinion, room for optimism. Within 18 months from now all internal custom barriers will be abandoned in the EEC; and the great majority of people want the United Kingdom in. Most European corporations and many American ones, too, plan ahead with an integrated European market, not against it. Public opinion is mature. Many other instances may be offered that European unity-economic integration at least—is not too far off.

The day the Europeans find themselves free from their present divisions and inhibitions, and realize the marvelous adventure they are about to embark upon, all of them together, a new Europe will emerge and the stage will be set, I believe, for another Renaissance.

But in the context of the world situation, Europeans cannot consider Europe merely as a new continent-state whose birth is nothing more than the integration of an array of nation-states. They must conceive it as Europe-plus. They must form it with the objective of marching towards an Atlantic Community, with a keen sense of their responsibilities and chances at this juncture in history.

And in this process the influence of the United States on Europe will be enormous. The major burden of steering the future course of humanity and shaping our destinies certainly resides with the United States of America, at least pending the creation of the Community.

There are the authentic and effective levers of power. There a new society is growing out of its continental confinement, out of its obsolete inclination for iso-

lationalism, a society evermore aware of its worldwide responsibilities. There are the most advanced technological achievements, effectively and unceasingly conceived and utilized.

There the Atlantic Community must be prepared while Europe evolves towards unity.

Because of all these formidable assets, the world, and Europe in particular until it has reached its unity, rightly expect the United States to take decisive, bold and enlightened initiatives toward a new world.

SECURITY IS DEVELOPMENT

In this survey I have not touched upon the military aspect, firstly because I am utterly unqualified to speak on this matter, and secondly because I am naive enough to believe that if we succeed imaginatively and courageously in mapping out our objectives and in intelligently charting our way towards them, the world will be immensely more secure, and military problems will become less and less relevant.

For Americans and Europeans alike, let me quote a top-flight expert, Secretary McNamara, hoping that his words really have the high moral meaning I read in them:

"In a modernizing society, security means development. Security is not military hardware—though it may include it. Security is not military force—though it may involve it. Security is not traditional military activity—though it may encompass it. Security is development.

"Without development, there can be no security. A developing nation that does not in fact develop simply cannot remain secure. It cannot remain secure for the intractable reason that its own citizenry cannot shed its human nature. If security implies anything, it implies a minimal measure of order and stability. Without internal development of at least a minimal degree, order and stability are simply not possible. They are not possible, because human nature cannot be frustrated beyond intrinsic limits. It reacts—because it must."

I am afraid that what I have been saying will stir controversy more than arouse consensus.

If, however, some merit is to be seen in the concepts and the study program which I have outlined, practical questions will follow.

Let me suggest that three steps may be considered in this respect.

Firstly, that the program for the seventies be sponsored by the highest political authorities who should lend it their prestige and maximize the impact on international public opinion of this nonpartisan endeavor to penetrate into the future.

A PRAGMATIC APPROACH NEEDED

Secondly, that the program be entrusted in fact to a non-political non-controversial institution such as a foundation of high repute, whose task should be to prepare the terms of reference and then to mobilize and co-opt the most qualified institutions, research centers, academies and individual experts from all over the world. A pragmatic approach should be adopted to carry it out and use should be made of studies by other bodies; assignments should be given to ad hoc groups in the various fields, political, social, economic, technical, scientific, and so on; specific investigations, appraisals and model simulations should be made in areas and sectors of special interest; alternative assumptions and trends should be considered and their effects discussed; and finally the entire documentation should be reviewed for coordination and harmonization and with a view to making possible recommendations.

Thirdly, that a report be prepared on what is expected to be the shape of the world during the next ten years according to various alternative groups of assumptions, objectives and policies; and on which strategies could make it a better world to live in. The report should be made public, save for those recommendations which by their very nature would be submitted for consideration only to centers of power.

Business cannot progress if society and the world do not progress. Corporate planning is meaningless if North-South, East-West relationships go unplanned. Corporate long-range international programs require that the future world environment, conditions and consequently business climate be reasonably assured.

However, I am fully aware that it is unthinkable that a program of the nature and magnitude I have outlined should be conceived, formulated and enacted

without the determinant participation of the International Corporation which, inasmuch as it is international, is certainly world aware, and inasmuch as it is a corporation, represents the highest expression of modern efficiency, drive and capacity to deliver.

For these reasons, I believe not only that large banks and big industrial concerns have a great stake in our society setting its course towards systematically striving for a more secure and developing world; but also that all of them should combine and commit their unequalled organizing and planning capacity towards decisively contributing to this objective.

Representative WIDNALL. Mr. Chairman, I have two unanimous consent requests, one to include to my remarks today the Library of Congress report from the Legislative Reference Service on the "Balance of Trade in Western European Countries with the Soviet Union and East-West for 1965 and the First Half of 1966."

Chairman Boggs. Without objection.

(The report follows:)

LIBRARY OF CONGRESS

LEGISLATIVE REFERENCE SERVICE

Balance of Trade of Western European Countries With the Soviet Union and East Europe,* 1965 and 1st Half of 1966

[In thousands of dollars]

Country	1965			January-June 1966		
	U.S.S.R.	East Europe	Total	U.S.S.R.	East Europe	Total
Austria.....	+4,383	+13,765	+18,148	+6,641	+11,044	+17,685
Belgium-Luxemburg.....	-23,492	-3,612	-27,104	-7,900	+4,378	-3,522
Denmark.....	-3,759	-14,243	-18,002	-6,876	+808	-6,068
Finland.....	-4,620	-1,924	-6,544	-31,843	+1,051	-30,792
France.....	-73,993	+102,647	+28,654	-47,902	+87,312	+39,410
Germany, West.....	-63,973	+48,951	-15,022	-52,560	+98,450	+45,890
Greece.....	-9,620	-17,874	-27,494	+3,242	+3,200	+6,442
Iceland.....	-5,333	-1,705	-7,038	+849	+1,036	+1,885
Ireland.....	-1,025	-11,120	-12,145	-1,250	-5,553	-6,803
Italy.....	-83,178	-25,733	-108,911	-51,013	-23,785	-74,798
Netherlands.....	-23,632	-22,801	-46,433	-10,934	-558	-11,492
Norway.....	-9,640	+4,543	-5,097	-5,042	-1,026	-6,068
Portugal.....	-116	-5,673	-5,789	(1)	+642	+642
Spain.....	-19,058	-24,974	-44,032	-1,839	-764	-2,603
Sweden.....	-2,087	-3,201	-5,288	-20,489	+6,186	-14,303
Switzerland.....	+3,111	-59	+3,052	-3,003	+10,246	+7,243
Turkey.....	+2,019	+7,118	+9,137	-2,760	+4,648	+1,888
United Kingdom.....	-204,453	-89,351	-293,804	-50,964	-39,969	-90,933
Yugoslavia.....	+79,641	+10,792	+90,433	+18,226	-59,937	-41,711
Total.....	-458,825	-34,454	-493,279	-265,417	+97,409	-168,008

¹ Less than \$500.

*Prepared by Vladimir N. Pregelj, analyst in international trade and finance, Economics Division, Legislative Reference Service, Library of Congress, Apr. 4, 1967.

Source: U.S. Bureau of International Commerce, International Trade Analysis Division, exports of free world countries to Communist areas and imports of free world countries from Communist areas, January-December 1965 and January-June 1966. All Western countries listed value exports f.o.b. and imports c.i.f.

Representative WIDNALL. And the second request is on behalf of Congressman Curtis. He would like to have placed in the record the European Free Trade Association Experience in Abolishing Barriers to Trade, a report issued from the Washington Information Office. This is a very able discussion of how the EFTA has adjusted to the reduction of trade barriers. I think it would be very helpful.

Chairman Boggs. Without objection it will be incorporated in the record.

(The report referred to follows:)

THE EFTA EXPERIENCE IN ABOLISHING BARRIERS TO TRADE

GEORGE R. YOUNG, DIRECTOR

JULY 10, 1967.

In the past ten years there have been two large-scale practical demonstrations in Western Europe of the effect of the adoption by industrial countries of liberal trade policies. In both cases the abolition of trade barriers has been accompanied by remarkable increases in trade and also in the economic growth of the participating countries. The fears of particular industries have been proved, almost without exception, to be without foundation in practice. The "escape clauses" which were incorporated into the agreements between countries to reduce tariffs have been little used, and then only for short periods. Perhaps most striking of all, as a result of these experiences the industrialists of Europe, with few exceptions, now have a much more relaxed attitude in regard to protection. They see a steady rate of economic growth as being much more important to their future prosperity than any measures to protect them from outside competition.

This recent European experience means that decisions on trade policy can now be made on a much sounder factual basis. In past years, decision-making on trade policy consisted of trying to choose between different hypotheses. The advocates of liberal policies expressed their confidence that all nations would greatly benefit from the reduction of barriers to international trade. Advocates of protection, on the other hand, sought to forecast the serious and possibly calamitous effects on particular industries, and on the economy as a whole, of a flood of foreign imports following the reduction of trade barriers. Government decisions on trade policy therefore inevitably represented a choice, or more often, a compromise between these different hypothetical possibilities.

The European experience of free trade in practice has vindicated those who analyzed U.S. prosperity as being very largely due to the existence of a huge single market without significant barriers to internal commerce. This example was accepted as the one for Western Europe to follow twenty years ago, when the OEEC was established to administer Marshall Aid and to liberalize trade and payments throughout the region. The effects of this liberalization were already apparent when decisions were made to embark on more intensive reduction of trade barriers in Europe, first by the formation of the European Economic Community and secondly by the creation early in 1960 of the European Free Trade Association (EFTA). This paper seeks only to analyze the economic effects produced by EFTA integration; it need only be said in passing that results in the EEC have been of the same type.

On the last day of 1966, trade in manufactured products between the EFTA countries—Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom—became free of quota or tariff barriers, save for some minor temporary exceptions. EFTA became a single market, as is the United States, and industrial trade between its member countries became the equivalent of interstate commerce. Externally, of course, each EFTA country maintains its own tariff structure toward other countries. EFTA has no common external tariff.

For the largest member of EFTA, the United Kingdom, completion of the free trade area represented a doubling of her home market. For the smaller members of EFTA, their home market was enlarged between 10 and 25 times. In consequence, production and trade in the EFTA countries now operate in a quite different environment. The Swedish manufacturer, for example, now has a home market 12 times its previous size. It follows that his investment, production and marketing decisions must be set against a new background. It follows also that structural economic changes must be expected over future years. The tendency toward larger units of production and distribution is already very marked in EFTA and can confidently be expected to accelerate.

But the free trade area did not come into being overnight. The process of reducing trade barriers began in 1960 and proceeded by reductions of 10% to 20% a year until the end of 1966. In other words, the businessmen of the EFTA countries have had a new background for their decisions for several years past, based on the commitment by their governments to the timetable of tariff cuts. Even during the transition period, therefore, very encouraging results were obtained in terms of increased trade. Taking EFTA as a whole, commodity trade between its eight countries increased from \$3.5 billion in 1959 to \$7.5 billion in 1966, an increase of 110%, or an average growth of about 12% a year. In those

years the trade of EFTA countries with each other grew at almost twice the rate of their trade with the outside world—and at twice the rate of growth of trade between the EFTA countries in the six years before the Association came into being. This development was certainly partly due to the stimulus of general world prosperity in those years and possibly partly due to some diversion of trade from non-EFTA countries to EFTA partners, but largely also a result of new trade created through EFTA tariff dismantling.

Within the overall figures for EFTA, however, there were even more striking trade increases between member countries. One of the difficulties of EFTA cooperation is the fact that its member countries lie in a sort of ring around Western Europe, so that the Association does not share the advantage of the EEC of being a geographically contiguous grouping. It happens, however, that the four Nordic countries are all in the Association, and they do represent a contiguous grouping with a relatively homogeneous structure and outlook—and intra-Nordic trade increased by 160% between 1959 and 1966.

This was a rate of growth which could not have been forecast. All four countries are competing industrial economies, and this fact prevented the realization in the '50s of the plans for a Nordic Common Market, due to the usual protectionist fears. The Nordic countries achieved their free trade area, however, under the wider umbrella of EFTA and found to their surprise and gratification that the enlargement of their markets more than compensated for their loss of protection. It should be noted that the great majority of the new trade between the Nordic countries is in manufactured goods, based on a high degree of specialization and producing a great extension of consumer choice.

Many more figures could be produced, if desired, to illustrate the successful effect of the adoption of free trade in EFTA, but what has been said above should suffice for the purposes of this paper. It may be noted, however, that the free trade argument is supported in reverse, so to speak, by what has recently been happening to trade between the EFTA countries and the six members of the EEC. This trade held up very well up to 1964, but thereafter the effect of the barrier between the two markets began increasingly to be felt, and trade between the two groups ceased to grow as fast as before. This is, of course, one of the main reasons why the majority of countries in both groupings are anxious to enlarge the Community and thereby to obtain the even greater advantages which would flow from a single Western European market of almost 300 million population.

It is recognized, of course, that certain safeguarding measures are necessary to make the process of trade liberalization as smooth as possible. One example is the special timetable which was given to Portugal in EFTA, based on the realization that many Portuguese industries are still at a very early stage of development and cannot be exposed too quickly to free competition from outside. Another necessary safeguard is that the generally accepted timetable for the reduction of trade barriers should be long enough to enable businessmen to make the necessary adjustments. In EFTA the total timetable was originally set at nine and a half years; it was later shortened without difficulty to six years. The essential thing is that sufficient time should be allowed for new investment and marketing decisions to come into operation. It is also necessary, of course, that provisions should exist for the retraining and relocation of work people who may be displaced by competition. It has not been found in EFTA in practice that this constitutes a serious problem, since most EFTA countries have been very short of labor in recent years. In any case, such factors as automation, new processes and new products seem to mean much greater structural changes in industry than a growth of imports. It is therefore a matter of seeing to it that arrangements for retraining and relocation can also cope with needs arising from free international competition. But it should be stressed again that, by and large, industries in EFTA have not encountered the difficulties which they feared at the outset. The number of complaints has been very small; the number of requests for special treatment has also been small and has been dealt with satisfactorily on the basis of common-sense compromises. Where exceptions have been allowed to the tariff reduction timetable, they have been limited in scope and in time.

It may be observed also that success in the abolition of the more obvious barriers to trade, tariffs and quota restrictions, has also caused the EFTA governments to tackle non-tariff barriers, whose effects might become more serious once tariffs and quotas are out of the way. As a result of a process of successful negotiation,

agreement has already been reached in EFTA whereby the governments, when they are in agreement about the harmful effects of a restrictive business practice, will use the legislative and administrative means available to them in order to try to abolish the practice. In these circumstances EFTA governments will thus try to prevent their own nationals from impeding the growth of EFTA trade. Similarly, even though EFTA industries now enjoy no tariff protection from their EFTA competitors, their governments are also committed over a fairly wide area to ensure that government purchasing agencies and other public undertakings in EFTA should not discriminate against suppliers from other EFTA countries when they purchase goods for which tariffs have been abolished.

Work is now proceeding to make EFTA a complete free trade area by eliminating barriers arising from patents, compulsory and other standards, labeling and so on. It should be noted, however, that there is no tendency to seek purely EFTA solutions to most of these problems. The EFTA countries are trying to obtain and to subscribe to the widest possible international agreements, so that their trade with the rest of the world should not be impeded. There is also activity inside EFTA on the possibility of a multilateral double taxation agreement to cover all the EFTA countries.

Trade in agricultural goods and fish products is not covered by the rules for free trade in industrial goods, but is governed by special provisions in the Stockholm Convention. The EFTA objective in these two fields is to facilitate an expansion of EFTA trade in agricultural goods and fish products, and trade in them has as a result grown substantially.

The effects of economic integration on the prosperity of Western Europe and its citizens have been, of course, considerable. As a whole, the area has enjoyed a high rate of economic growth. The demand for labor over most of the period has been so high that large numbers of workers have been attracted from outside. As in other parts of the world, of course, the rapid rates of economic growth achieved have produced growing pains of varying severity, and governments have frequently had to step in to moderate growth in order to prevent too high a degree of inflation. By and large, prices have risen fairly steadily in Western Europe over the past twenty years, but not so rapidly as the rise in income; the rate of economic growth has been such as to take care of the amount of inflation generated. In these circumstances, it is difficult to give a simple answer to those who wish to know how the consumer has benefited from the process of tariff reduction. With all economic factors in motion, it is hard to analyze separately the effect of only one factor, the reduction of import duties. But a good deal of serious analytical work has been done in EFTA on this aspect and has led to the conclusion that the tariff cuts have in fact been passed on to importers and to consumers. It is clear that the prices of EFTA imported goods have tended to rise less rapidly than prices of similar goods of domestic production or from sources outside the Association, and also less rapidly than the general trend of prices in the member countries. In other words, the consumer is benefiting from free trade policies not only in terms of higher employment and wages but also in terms of greatly increased choice and more stable prices.

In drawing conclusions from EFTA's experience with free trade policies, it should be remembered that the total foreign trade of the group is as large as that of the United States. EFTA, with only 3% of the world's population, and 9% of the world's annual income, does 18% of the world's trade. The results are therefore those of a large-scale experiment.

And the conclusion seems obvious and clear. Free trade policies have shown themselves to be of great advantage to industry and trade, not only in the EFTA area but also for third countries. EFTA has been able to build its single market without erecting any new barriers to trade with countries outside the Association. Indeed, two-way trade between EFTA as a group and the rest of the world grew by 70% between 1959 and 1966. United States exports to EFTA almost doubled in the same period, from \$1.8 billion to \$3.5 billion.

The acceptance by EFTA that free trade pays was illustrated in the "exceptions lists" submitted by its member countries in the Kennedy Round. (These lists were of items on which the country concerned gave advance notice that it would not negotiate a 50% tariff cut, nor, perhaps, even any cut at all.) Five EFTA countries—Austria, Denmark, Norway, Sweden and Switzerland—made no exceptions. The United Kingdom submitted the shortest exceptions list of any major participant in the Kennedy Round, affecting only about 5% of her trade.

In short, the lesson of the EFTA experience is that advocates of liberal trading policies can now prove their case in practice. Advocates of protection by tariffs, quotas and levies have to face the fact that experience has proven their fears to be illusory, and even damaging in the long run to their own best interests.

Chairman Boggs. Mr. Younger, why doesn't General deGaulle want the United Kingdom in the Community?

Mr. YOUNGER. Mr. Chairman, you are in danger of receiving a long speech from me on a question as wide as that.

I feel myself that if you are talking of President deGaulle himself, his whole philosophical concept of what Europe ought to be, and what France's place in that Europe ought to be makes it very hard for him to accept the enlargement of the European Community, particularly by Britain and other North European, non-Latin countries. I think this is partly a cultural matter, quite apart from political interests. It is partly a question of maintaining Latin culture, the predominance of the French language, and so on. I think this goes back very deeply into his political attitude throughout the whole of his life, and that of the generation of Frenchmen of a particular political tradition to which he belongs.

Therefore I am inclined to discount many of the contemporary economic arguments which he uses against our membership. When he says, with some plausibility, that we ought to put our house economically in order, and that we ought to have a strong currency before we can be acceptable, I don't dispute that. But I feel fairly sure that if we did these things and became strong, he would like our entry even less.

Therefore, I have always taken a very pessimistic view of his personal attitude to British entry.

But I think that influence is bound in the nature of things to be more or less temporary.

Chairman Boggs. In the light of that attitude, when do you think you will get in?

Mr. YOUNGER. Well, I must say that it is likely to be a year or two. I have been in the habit of saying 1970. But it could take a little longer.

Chairman Boggs. If and when the United Kingdom comes in, will the other EFTA countries apply for admission?

Mr. YOUNGER. Certainly some of them will, and nearly all of them will want some kind of economic association, if they don't actually want to join. I don't think there is any doubt—

Chairman Boggs. Which ones in your opinion will apply?

Mr. YOUNGER. Denmark and Norway. I am not quite so sure about what the Swedish attitude will be. It used to be said that Sweden couldn't possibly aim for more than association, but even that is not quite so certain as time goes by. It depends largely on the strategic issue.

And then, of course, apart from EFTA there are other countries, like Ireland, which is not in EFTA, but which would also wish to join.

So that the British entry would certainly bring with it an enlargement of three or four others, say, at least.

Chairman Boggs. Do you envisage, with the growth of the Community, greater political strength in the Community?

Mr. YOUNGER. I think so, yes. I think the political aspects of the Community are likely to develop rather slowly. The emergence of common economic and foreign policy are slow growths. But I would think that a larger Community would have an inherently greater stability, probably from quite an early stage, even before the full economic benefits of a large Community had become obvious. I think from the point of view of the outside world that relationship with the Community should become easier with this country inside it, because there would be a larger element inside the Community than there now is with very widespread world trading ties. There are already very large and strong forces inside the Community that take a world view, but they would on the whole be strengthened by the enlargement of the Community.

Chairman Boggs. Dr. Peccei, would you like to comment on that question?

Mr. PECCEI. I share Mr. Younger's view that by 1970 we may come to have the United Kingdom in the Community. I think that it will not be a much larger Community than six plus one, say seven, because of the difficulty adapting the Community mechanism to a larger number of participants. If there are more than seven or eight countries, they will have to be somehow associated with all the benefits, but not represented in Brussels, because it would be too cumbersome. The Community would benefit immensely from the United Kingdom entry, politically as well as in outlook, and I think, also, to balance more the Saxons and the Latins.

Chairman Boggs. You will mix them up pretty good. Dr. Henderson, our staff economist, has a question for you, Dr. Peccei.

Mr. HENDERSON. Mr. Boggs has permitted me to address a question to you, Dr. Peccei.

I will be happy if you will comment on the role of the international corporation. As you know, the increasing share of world trade that is between affiliates must have some influence on trade policy. Does this influence go in the direction of making harmonization of national policies easier or more difficult? Does it go in the direction of making easier the policy that you mentioned of redistributing productive facilities?

Mr. PECCEI. First of all, I will answer that the international corporation is but one of many transnational movements.

There are so many transnational movements in Europe now going on, breaking through the State boundaries so that Europe may as well be built from below much earlier than might be expected. Some of these transnational movements may be found in the fields of culture entertainment, sport, and music; others are now appearing in entrepreneurship. In Europe we feel that we are at a disadvantage with respect to the U.S. corporations which operate in our continent, because it is easy for them to define a unified European policy, or devise a unified European organization; while companies in Italy or Germany cannot have that if they do not acquire some kind of European status.

Pending the approval of a European corporate statute, there will be more and more European arrangements on the line of the Agfa-Gevaret deal.

Looking at this issue in more general terms, I think that the international corporation is one of the forces for the future, and we may expect that a much greater part of the world production will be accounted for by a limited number of international companies.

I think that this is one of the features of the future, and that the international corporation will have a stabilizing effect on world markets, be a prime factor for moving technology from one country to the other, and be a means of creating a new kind of international managers and staffs recruited in many countries.

There is afoot a movement to create a kind of club of the international corporations to foster the spirit of cooperation and competition on the open markets of the world. Thus, I think that we will see much more of the international corporations in the next few years.

Chairman Boggs. Thank you very much.

At Senator Javits' request we will insert in the record of today's hearing an address delivered by him in London.

On behalf of the subcommittee I would like to express our appreciation to both of you gentlemen for coming here and for the very splendid contributions you have made to our discussions.

The committee will now adjourn until Tuesday, July 18. We will meet at 10 a.m. in this same room. At that time we will have a panel of business executives.

The subcommittee will now adjourn.

(Whereupon, at 12 noon the subcommittee adjourned, to reconvene at 10 a.m., Tuesday, July 18, 1967.)

(The address of Senator Javits follows:)

BRITAIN AND THE FUTURE OF EUROPE*

The Middle East crisis which we are just passing through dramatizes a stark reality of the present world situation. The plain fact is that before hostilities began only the United States and the Soviet Union jointly could have prevented war and even thereafter a cease fire depended on agreement between them. By any standards—especially when possible nuclear confrontation between the two super-powers is always with us—this is hazardous too much for all mankind. Western Europe should be able to play a greater role than it does now in the maintenance of world peace outside of Europe. The world needs a Europe capable of playing its full role in world affairs; and the adherence of Britain to the European Economic Community is an essential element in bringing this about.

This, in my judgment does not call for a "third force" but rather for marshalling their full strength on the side of conditions that can bring peace by that group of nations which has a common tradition, a common state of society, and a generally common outlook on world conditions and the way to establish the rule of law to replace the rule of force.

It must also be frankly faced that many in the United States feel that the climate of policy now being created for Europe by President de Gaulle's France is hardly representative of Europe. We see a striking example of this in the tortured effort by President de Gaulle to make Israel the aggressor in the Middle East and to take the side of Arab leaders who have kept the Middle East a tinder box of war for 20 years. Nor can this be justified by strained and tautological reasoning regarding the struggle in Vietnam, as it relates to the Middle East. There is a world of difference between these two world crises. To suggest cause and effect simply ignores the fact that the Middle East has seen three wars in the last 20 years.

*Remarks of United States Senator Jacob K. Javits (Rep. N.Y.), at a dinner in his honor sponsored by The Pilgrims, Savoy Hotel, London, England, June 27, 1967, and released in London.

The presence of Britain in the European Economic Community and through it in Europe as a society, will, I believe, lend a far more European note to European world policy than the colouration General de Gaulle gives that policy now in a practically unchallenged way. The voice of Europe needs to be heard again, as such, and I doubt that this will happen unless Britain's European Economic Community application is successful. It is alarming for us in the United States to see one man, President de Gaulle, giving a twist to Europe on world policy as archaic as Metternich and as mischievous as de Gaulle. The rest of Europe wants Britain but President de Gaulle is unwilling to accept the competition of British leadership in policy-making with its wider vision and deeper insight.

But we, in the United States, I feel, have every interest in seeing Britain remain vigorous and becoming even more productive. The tremendous experience and skill which she has acquired during centuries in world affairs must continue to be utilised in the cause of peace and of regional and international co-operation. It dismays many Americans to see economic reasons compelling Britain to consider withdrawing from East of the Suez—and trimming back such of its responsibilities in Germany as it would otherwise carry. It is sad, too, that Western Europe is not playing its full part in co-operation with North America in providing needed assistance to the developing nations and in world trade, technology and science.

When will the people of Europe—and even the people of the United Kingdom—understand that my fellow countrymen do not glory in the responsibilities which they now carry so heavily in the world? When will they understand that we are more than anxious to share this responsibility—not only as to its burdens but also as to whatever benefits and glory it may bring? There is no imperial spirit in the United States. This should be clearly understood in Europe and in Britain.

By every measure Britain seems to me to have reached a crossroads of its national life. British industry needs modernisation both in terms of machinery and manpower. The requirements of maintaining a modern defence establishment and sustained domestic growth place a heavy burden on the British economy and Britain's balance of payments. It seems now to be widely accepted among the British people, whether Labour or Tory, that Britain must take steps to deal with the dangers of the erosion of British energies.

By taking the initiative to apply for Common Market membership, although long and difficult negotiations lay ahead, Britain signified its readiness to take the road that is more challenging. It is not every nation that invites competition to sharpen itself and enable it to compete in broader markets.

The American people, I feel, strongly support your government's decision to apply for Common Market membership and not only because British membership in the Common Market is vitally important to Britain in economic and political terms. In my judgment, the American people believe that this decision is vitally important to Europe as well, if Europe wishes to provide itself with the authority necessary to assume a significant share in the responsibilities of world leadership as well as to compete effectively in the world's markets.

Clearly, if Europe is to play a role commensurate with its traditions and combined power, the European Economic Community must include Britain and other European nations.

Beyond that, it is also my conviction that this greater Europe should eventually associate itself in some formal economic way with the other industrialised nations of the West. In our world, only these nations together possess the capital, the technical resources and manpower skills essential to the modernisation of the developing nations. Such modernisation, if accomplished in time, can win the race with the revolution of the have-nots, a revolution that often endangers world peace and is accompanied often by an erosion of freedom.

It should be kept clearly in mind, therefore, that the negotiations for United Kingdom membership in the European Economic Community are but one step in the process of forging closer links among Western European nations; and in turn, between Western Europe and the other industrialised nations of the free world, including the United States.

There will be those who will express serious doubt that under present conditions, Western economic unity can be established. I disagree. The successful conclusion of the Kennedy Round of trade negotiations in Geneva offers proof to the contrary. Here was a situation where the vital economic interests of the

EEC, the United States and the other industrialised nations were at stake. Yet when it was clear to these supposedly deadlocked negotiating trade partners that the price of failure was the unravelling of the entire painfully constructed fabric of Western multilateral trade co-operation, there was an agreement and an enormously significant one at that.

Europe (if it really wants to lay claim to the future), it seems to me, must work toward a single-minded objective. The development of a free trade area of the broadest possible grouping of the industrialised nations of the free world (International Free Trade Association) who have the capacity to compete with each other on relatively equal terms in brains and skill and equipment. An Atlantic Free Trade Area can lead to the broadest possible exchange of goods, people, and ideas, in order to stimulate maximum production and the maximum power in the interests of a free and prosperous world. Such a development is as inevitable as the tides, and I suggest it will be a reality in 10 to 15 years.

The next few months will determine whether the first step in that process—i.e., the UK joining Europe economically—will be taken. But even if this step should fail, Britain can still leapfrog the stage of European Economic Community membership by the helping to form, and then joining an Atlantic Free Trade Area. Eventually, the European Economic Community will come along and accept Britain into membership or join such an Atlantic Free Trade Area itself.

It is for these reasons that I believe so deeply that whatever occurs within the coming months, a full examination must be made of the Atlantic Free Trade Area proposal. This is necessary to enable Britain to size up the Atlantic Free Trade Area as an alternative to joining the EEC, should an alternative become necessary. Such an examination would also serve to assess the costs and benefits to Britain involved in EEC membership, as the costs may very well be high indeed—if President de Gaulle has his way. Proper contingency planning may well strengthen Britain's bargaining position and therefore its chance of entry into the European Economic Community on favourable terms. And should admission be denied it—such planning would leave Britain in a much stronger position for facing the future. For, although an Atlantic Free Trade Area is not the preferred alternative, it is by no means without benefit to Britain for the same economic reasons for which it wishes to join the EEC.

What would be the principal benefits of an Atlantic Free Trade Area? It would create a single competitive market among the United States, Canada, and other industrialized countries of the West—not in the EEC—some from the European Free Trade Association, some from the Commonwealth—through gradually lower tariffs and other trade barriers on manufactured products and raw materials over a 15 to 20-year period. At the end of this period there would be substantially free trade within this area with special arrangements made to assure access to this market by developing countries which agree to the rules of the Atlantic Free Trade Area.

According to estimates I have seen, the principal benefits in trade terms would accrue to the United Kingdom and Canada rather than the United States. It would provide "a home market" for the UK certainly equal to that which would be offered by the EEC (the total trade of the UK with the EEC in 1966 was 2.1 billion pounds sterling as compared with a little over 2 billion pounds sterling with North America) and it is reasonable to expect that the UK's trade with North America would expand at least at the same rate as that with the EEC. It would free Britain of many of the obsessions and restraints incident to Britain's position now as an economic "loner". Indeed, the alternative might also have a salutary effect on the European Common Market, in enabling it to reject the counsels of those who seek to make it an exclusive protectionist trading area rather than an effective part of a liberal world trading system.

I don't agree with those who feel that in a situation of free competition, U.S. firms would drive British firms out of business or that they would take over key industrial sectors in the United Kingdom. To a large degree U.S. technical superiority in certain industries would be offset by lower wages in the United Kingdom, including the costs of scientists and research.

There would be new American investments in Britain and a new infusion of technology via joint ventures—but this would contribute to the increase of Britain's rate of economic growth. It is entirely possible, however, that the United States investments in the UK may in fact slow down from past trends. The relatively high UK tariff on manufactured goods may have caused

some U.S. capital to "jump" this barrier to U.S. exports. The removal of this barrier might slow down the capital flow. On the other hand should the UK begin to grow at an accelerated rate, U.S. investors, especially by direct investment, may consider UK investment opportunities enhanced and the U.S. capital inflow may increase.

An Atlantic Free Trade Area would also create conditions which would strengthen sterling as an important trading currency and as one of the two key reserve currencies. It would be important to the world economy to continue a significant role for sterling; at least until the international monetary system is reformed to relieve the heavy pressure on the dollar and sterling. Our interest in the continuation of a role for sterling is not entirely unselfish. Should there be any general movement to shift reserves away from sterling to dollars, the effect would be to place tremendous additional burdens on the dollar and thereby to challenge the ability of the United States to maintain the free convertability of a dollar into gold at \$35 an ounce. In the absence of new sources of international liquidity, a crisis of confidence in the dollar could cause a serious economic crisis in the world economy.

I have heard much talk about a 51st state if Britain must accept an alternative to the EEC. This is an invention of Britain's isolationists or Europhiles and is demeaning to and contemptuous of Britain, its people and its history and the United States, its national identity and its honour. What is more to the front is that Britain should not wait to the eve of disaster before joining in integration of the Atlantic economy as did Churchill in his call for union with France on the eve of the blitz.

Every person on both sides of the Atlantic who is in authority and of mature years has a great stake in the current course of Britain. Will we be good trustees and hand on a better and more unified world to our successors or will we be enmeshed in our own inability to agree and hand on a poorer and more disorganised world? This is the question that we must ask ourselves at this critical moment in the history of Europe.

THE FUTURE OF U.S. FOREIGN TRADE POLICY

TUESDAY, JULY 18, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs; and Senators Symington and Miller.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman Boggs. The subcommittee will come to order.

This morning we are pleased to have with us a panel made up of Mr. S. M. McAshan, Jr., president, Anderson, Clayton & Co., Houston, Tex., who was so helpful to us when he was here some years ago; Carl Gilbert, chairman of the executive committee, Gillette Co., Boston, Mass.; Henry Balgooyen, executive vice president, American and Foreign Car Co., New York; and N. R. Danielian, president, International Economic Policy Association.

Mr. McAshan, we will be pleased to hear from you first.

STATEMENT OF S. M. McASHAN, JR., PRESIDENT, ANDERSON, CLAYTON & CO., HOUSTON, TEX.

Mr. McASHAN. Thank you, Mr. Chairman. My name is S. M. McAshan. I am chairman of Anderson, Clayton & Co., of Houston, Tex.

None of us can foresee all the trade negotiations which will follow the recent Kennedy Round agreements, but I would like to mention briefly a few points which can arise as our long-range trade policies take shape.

FOLLOW UP ON KENNEDY ROUND

First, to follow up on the Kennedy Round, authority to continue negotiations is essential, if we are not to lose much of the good that has come from 5 years of hard trading.

Great accomplishment has come from these 5 years of tough negotiations in freeing up large parts of the international trade of the world's most important industrial trading nations. But it is inevitable that some industry or some country will try to make changes or renege for their own advantage. Mr. Roth, or his successors, will need

to be empowered to negotiate adjustments to prevent such changes from becoming too one sided or too deep.

You gentlemen know how far such authorization can or should be the subject of legislation, but some form of continued authority will surely be needed to implement the recent agreements and to apply a fair interpretation to the many nonspecific clauses.

A NATIONAL TRADE POLICY

We will need to clarify our long-range international trade policy.

We have such a hodgepodge of liberal thinking and special privileges that we cannot present a clear, united front in negotiating with any foreign country or group.

We need to decide whether we really believe in the mutual benefit of comparative advantage, allowed free play without tariffs or quotas, or whether we want to continue special privilege for a few at the expense of the whole.

If the former, and I think we must enjoy the efficiencies and benefits of trade expansion, we should make it clear to the rest of the world and require them to adopt similar treatment of our exports.

The EEC has proven to themselves the efficiencies of expanded trade, but unless we force them to come along with us on a worldwide free-trade basis, they are likely to try to retain petty restrictions for the benefit of certain industries, aimed primarily at us.

We must take the lead in establishing a world pattern.

THE HUNGRY WORLD

Unless populations are controlled more successfully than we have a right to expect, agriculture of a large part of the world must be modernized, mostly by private business, the success of which depends as much on trade as technological processes.

(a) Many of the less-developed countries cannot be expected to become fully self-sufficient in foods and fibers, since such a large part of the world's land best adapted to these products lies within the temperate zones of the developed Northern Hemisphere.

Self-sufficiency being too much to expect, the problem becomes so serious that the world cannot afford any waste of efficiency. Any sound solution to the problem of feeding the hungry millions of the presently underdeveloped countries must include provision for freer access to markets for their surplus products; not only to those of Western Europe, Japan, and North America, but to markets generally.

The needs of the hungry peoples are so great that the free world must be organized to assure maximum food and industrial productivity, organized so free trade will guide production into its most efficient channels.

(b) If, say, India can get more wheat by exporting textiles and buying wheat than by attempting to raise it, are we not reducing India's—and the world's—efficiency, if in the name of self-sufficiency we ask India to do otherwise? If, to come closer to home, we were to lift our restrictions upon the import of all minerals and raw materials, we would surely obtain more of what we need through trade than by our own production, while at the same time the countries better fitted for

the production of these materials would not only be able to pay cash for our surplus grain, but to get more of it.

It is with productivity—world productivity—that we must all be concerned. I do not minimize the importance of the contributions that technical efficiency can make to productivity, but I wish to emphasize that economic efficiency is fully as important.

Not all developing countries must necessarily remain the hungry countries. Their basic need and hope lies in permitting the working of free economy, free business determination to guide the way to maximum productivity.

The first requirement is the wide opportunity to trade what they can best produce for what they need from others. This is too basic, too urgent, to debate it further.

WESTERN HEMISPHERE COMMON MARKET

The time has come for us to start a Western Hemisphere Common Market by removing all tariffs and quotas on any products from Canada and Latin America.

In 1965, the so-called four wise men—Messrs. Herrera, Santamaria, Mayobre, and Prebisch—vigorously recommended a Latin American Common Market, but excluded the United States. They did not even offer us associate membership. Their proposal has been the basis for hemispheric discussions since April 1965, particularly at Punta del Este this year.

I do not know what President Johnson meant by “temporary preferential tariff advantages for developing countries” in his Punta del Este talks. But I hope it was a bid for U.S. participation on a more liberal basis in the beginning than would be required of less industrialized Latin American countries. The eventual effect could be disappearance of negotiated temporary preferential treatment, perhaps after some 10 years of graduated equalization.

One of your members, Senator Javits, has wisely helped develop this idea, and has made it clearly to be reckoned with in future trade negotiations.

COMMODITY AGREEMENTS

Several lesser developed countries are requesting us to back up international commodity agreements, particularly as a means of price stabilization of their major export items.

Our position in this respect will depend partly on our basic free-trade policy, and partly on what we are willing to do with some of our own protected commodities.

(1) Commodity agreements, such as the international coffee agreement and the international sugar agreement, have shown up as forums for attempted negotiation of special treatment.

To the extent that these become restrictive in their effect, and particularly to the extent that restrictions run in terms of production quotas, these agreements obviously violate the principle of maximum productivity. Particularly this is true when the product is affected by long-term adverse influences and when the effect of controls is to freeze production in increasingly obsolete patterns. Many of the products of the less-developed countries are, it is true, nor-

mally subject to substantial price fluctuation from year to year, and as a result their balances of trade and of payments are for the time being distorted. But when such distortions occur, the provision of "supplementary financing," as by the IMF and the World Bank, appears to be least disruptive of market principles.

And in that connection I would like to mention for the record an article by Dr. John A. Pincus entitled, "Commodity Agreements, Bonanza or Illusion?" printed in the *Columbia University Journal of World Business*, January-February 1967. I would like it made a part of this record.

Chairman Boges. Without objection, it is so ordered.

(The article follows:)

COMMODITY AGREEMENTS: BONANZA OR ILLUSION?

By JOHN A. PINCUS

Kwame Nkrumah loiters in Guinea, a solitary redeemer, savoring memories of former potency and dreaming of power as yet untasted. A protesting Sukarno slides inexorably down a pole greased by his cabinet ministers. Middle Eastern sheiks command without deftness a power that their fathers, in mud-walled isolation, could never aspire to, even in the most paranoid of reveries.

These vagaries, which help to shape the world's political destinies, all reflect in part the fluctuations of world markets for commodities—the food-stuffs and raw materials that enter world trade. Nkrumah suffered politically from the consequences of falling prices for cocoa; Sukarno from declining rubber prices and reductions in export volume for tin and rubber; while the Middle East rides a petroleum boom.

Each of these examples deals with underdeveloped countries. This is no accident, because only in the poor countries of the world is commodity production—farming, forestry, and mining—the principal source of income. Many of the rich nations, such as the United States, Canada, Australia, and the Scandinavian countries, are major producers and exporters of commodities. In fact, the rich countries export half of the world's primary commodities, but only a small part of their population is employed in commodity production, and only a small part of government revenues stem from commodity taxes. Even Australia, Canada, and New Zealand, which export mostly commodities, today produce much more manufactured goods than commodities.

No wonder therefore that the pressure for world commodity controls comes largely from poor countries allegedly seeking to stabilize, but really to increase, their export earnings. Commodity export earnings account for a large part of their total production, with most of the people living and working as farmers. Exports of commodities (or in some cases capital inflows) are the prime source for financing the capital imports that they need now in order to become rich later. Furthermore, when commodity exports are booming, export taxes and import duties offer the governments a ready source of revenue to finance the ambitions of a Sukarno or a Nkrumah, as well as the less flamboyant goals of an Eduardo Frei in Chile, or a Kenneth Kaunda in Zambia.

PLEA FOR INTERNATIONAL RESCUE

Most poor countries seek rapid economic growth, which inevitably generates inflationary pressures and the demand for imports. Increases in commodity export earnings are therefore seen as a key to development without excessive inflation. Large-scale export of manufactured products still seems remote, and accounts now for only one-tenth of underdeveloped countries' exports. Finally, the governments of most poor countries take it as an article of faith that the terms of trade of commodity exporting countries are in a long-term decline that can only be overcome by conscious international action. Otherwise, in their view, as expressed in the resolutions of the United Nations Conference on Trade And Development (UNCTAD), the normal operation of world trade will tend to make the rich nations richer and the poor nations poorer.

This pressure for higher commodity prices has generally been resisted by the industrial importing countries, despite their own widespread use of farm-

price supports as a means of transferring income to farmers. Their standard arguments against price control through international commodity agreements are:

(1) They interfere with normal operation of markets, and tend to build up surplus production in response to higher prices; pressure of these supplies leads to breakdown of agreements, or at least to erosion of their effects on price.

(2) Because commodity agreements are usually based on export quota systems, they tend to freeze historical production patterns, to the disadvantage of efficient producers.

(3) They require a complex apparatus for control of exports and supply, which is further complicated by the existence of different grades of each commodity, each of which has a submarket of its own with fluctuating prices.

(4) Price and output controls, as established in commodity agreements, are an inefficient way to redistribute world income, as compared to direct subsidy, because price controls lead to less efficient production and lesser satisfaction of consumer preference than subsidies do.

(5) The income-redistributing effects of higher commodity prices may mean in effect that low-income consumers in industrial countries are forced to pay for improvements in the living standards of high-income producers in the underdeveloped countries. * * *

The controversy between governments of rich and poor countries has been thoroughly confused because they are simultaneously discussing several different issues without necessarily recognizing it.

First of all, much of the discussion of commodity agreements stresses price stability as an objective at least coequal with higher prices. Thus the UNCTAD resolution on the subject calls for: "suitable international arrangements . . . designed to *increase and stabilize* primary commodity export earnings, particularly of developing countries, at equitable and remunerative prices. . ."

In fact, stabilizing earnings as such (i.e., smoothing out periodic fluctuations around a trend) is a trivial goal in poor countries' eyes. It has been much stressed, however, for two reasons: (1) year-to-year commodity price fluctuations are dramatic, and the advantages of greater stability, in terms of central economic planning and private investment, seem both obvious and ideologically innocuous; and (2) the stabilization goal offers an acceptable argument for introducing international commodity agreements, which can then be used to raise prices to "remunerative" levels.

STABILIZATION SMOKESCREEN

Statistical evidence indicates that short-term fluctuations in export earnings do not slow down economic development, as compared to steady annual receipts. Though this statement is the reverse of what is usually said by spokesmen of poor countries, the proof-of-the-pudding principle casts substantial doubt on their contentions. If a country wants to stabilize annual export revenues, it has only to set money aside in good years, and spend it in bad ones. Yet very few countries do this.¹ The obvious answer is that poor countries lack the reserves to finance such stabilization in light of their aspirations for development. While this proposition may be perfectly valid, those who offer it frequently fail to recognize that it amounts to a demand for more foreign exchange in the guise of stabilization goals. Alisdair MacBean's exhaustive study of this subject² demonstrates conclusively that there has been no correlation in recent decades between income growth in poor countries and export fluctuations. Indeed, MacBean's conclusion, based on extensive analysis, is that short-run fluctuations in national income bear very little relation to fluctuations in export earnings. To the extent that short-term balance-of-payments problems arise entirely as a result of short-term fluctuations around an earnings trend, IMF credits, bilateral loans, and suppliers' credits are readily available; poor countries appear to feel no urgent need for additional safeguards aimed solely at the objective of stabilizing year-to-year earnings. What poor countries do want is higher prices (or at least no decline in prices) for commodities; "stabilization" objectives are primarily a tactic toward that goal.

A second source of confusion is between fact and theory about underdeveloped countries' terms of trade (export prices divided by import prices). According to theories developed by the Argentinian economist, Raul Prebisch, who now serves as Secretary-General of UNCTAD, there are inexorable forces at work tending to reduce the prices of commodities relative to manufactured products. This tends to hurt poor countries, which export mostly commodities,

Footnotes at end of article, p. 184.

and to benefit rich countries, which import commodities and export manufactured products. In support of this view, Prebisch has argued that underdeveloped countries' terms of trade have in fact fallen since the latter part of the 19th century. He has been challenged by a number of economists, both as to theory and fact, but unfortunately the distinctions between logic and observation have not always been maintained. The theoretical objections point to a number of inconsistencies in his rather complex argument. The empirical ones question the data he has cited and argue that conclusions as to the long-term course of terms of trade depend on the choice of base period.

PRIMARY PRODUCER CAN BOUNCE BACK

No final conclusions about either fact or theory seem to be possible as yet. In recent years world demand for most major commodities other than petroleum has increased slowly compared to demand for goods and services in general, while commodity supplies have increased rather rapidly, thanks to the stimulus of high prices in the 1950's, the growth of synthetic output (particularly fiber and rubber) and protectionist policies in the rich countries. It may however be doubted whether world commodity prices will long continue sluggish or declining if world population continues to increase at current rates. * * *

A third source of confusion lies in the debate about what commodity agreements can accomplish. The poor countries, supported at UNCTAD by the government of France, sometimes appear to claim that higher commodity prices, secured by international agreement, are a source of instant prosperity. Most rich countries seem to argue that commodity agreements could not be effective in raising prices above market levels, but only in stabilizing prices over a cycle. This contention in its extreme form is obviously wrong, as witness the high prices paid to farmers in countries where agriculture is protected, or the high prices received for crude petroleum by low-cost exporters in the Middle East and Venezuela. The confusion lies both in the effort of rich countries to prove that because the policy is undesirable, or leads to administrative complications, it is therefore impossible; and in the effort of poor countries to show that because high commodity prices have often been beneficial in the past, they can therefore be legislated as a development panacea for the future.

This last dispute of course reflects the fact that each side assumes away the obstacles to its case and, thereby, simply sidesteps the central issues: What are the effects of commodity agreements on price? Who pays and who benefits from the higher prices? What commodities could be subject to effective international action in the interests of underdeveloped countries? Could the objectives of commodity agreements be met more easily by other devices that are both feasible technically *and* likely to be adopted?

THE TROUBLE WITH SUBSIDIES

It is clear that rich countries can pay poor countries any "price" they want for commodity exports. There is no logical, constitutional, or economic barrier to doubling or tripling the revenues that underdeveloped countries receive for commodity exports. This has nothing to do with whether demand is elastic (revenues declining in response to price rises) or inelastic (revenues rising in response to higher prices). If, for example, the governments of industrial countries want to pay some amount into an economic development fund for each pound of coffee they import, that sum can be as large as the generosity of governments allow. It is simply a subsidy to coffee-growing countries, and there is no limit to the amount of a subsidy.

But subsidies are not a popular technique for supporting farmers' incomes. The technique of operating through market prices via supply control is universally preferred by farmers and governments, because the consequent income transfer takes on the status of an impersonal market transaction rather than a gift, and does not enter as an item in the government budget. Furthermore, there is no particular reason to tie direct subsidy into commodity production. If rich countries want to subsidize poor ones, they can do it by foreign aid appropriations rather than subsidies to commodity exporters.

LONG LIST, BUT MANY HITCHES

Therefore the income-increasing objectives of international commodity agreements are expected to operate through supply restriction. These techniques can normally succeed in raising producers' incomes only if demand for their output

is inelastic.³ Demand for a number of the major commodities in world trade is quite inelastic. The principal traded commodities are, in order of trade value: petroleum, meat, wheat, fats and vegetable oils, cotton, coffee, copper, wool, sugar, rubber, dairy products, tobacco, rice, corn, tea, cocoa, tin, jute, zinc, lead, bananas, and citrus fruit. The combined annual value of trade in these products is about \$35 billion.

There are, however, a few hitches that would cause a number of these products to be dropped from any list of candidates for price-fixing agreements aimed at benefiting underdeveloped countries. Petroleum, accounting for nearly \$10 billion of exports, is already subject to international price fixing by private agreements between oil companies and governments of the major petroleum-exporting countries. Meat, wheat, wool, dairy products and corn, amounting to an additional \$5 billion, are primarily exported by rich countries, so that price-fixing schemes would hurt poor countries more as consumers than it would benefit them as exporters. Of the remaining sixteen products, six (oils and fats, citrus fruits, tobacco, copper, lead and zinc) are exported in substantial quantities by both rich and poor countries, so that the United States, Canada, Australia, Spain, and South Africa would be major beneficiaries of price-fixing schemes. This difficulty is not necessarily crippling, because these countries could presumably agree to pay their "profits" into a fund for the benefit of developing countries. However, these products present other problems for regulation. Nonferrous metals substitute for each other (and for plastics in some uses), so that the price of each would have to be regulated in light of all others. Vegetable and animal fats and oils also substitute for each other (and for synthetic detergents), so that the problems created by control efforts would be even more complex than for metals. Citrus fruits substitute for other fruits in the consumer budget. Finally, since each of these products, or a close substitute, is produced in a number of the major importing countries, a rise in the world price might lead to substitution of home production for imports, unless importers agreed to maintain home production at preexisting levels.

This leaves 10 major traded commodities for initial consideration under price-fixing schemes aimed at benefiting underdeveloped areas: cotton, coffee, sugar, rubber, rice, tea, cocoa, tin, jute, and bananas. All of these products are primarily exported by poor countries.

Jute and rubber are ruled out from the start, unless other textile fibers and synthetic rubber prices are also controlled. General control of world fiber prices seems out of the question, and while joint control of natural and synthetic rubber prices is theoretically possible, the countries that produce synthetic rubber show no interest in such a program.

AND THEN THERE WERE SIX

Cotton and rice are special cases in that the United States is a major exporter. Even if the United States renounced its potential profits under price-fixing schemes, other difficulties would arise. Raising cotton prices again implies control of other fiber prices, both natural and synthetic. The problem with rice is that underdeveloped countries are the principal importers, so that raising the price simply helps producers in some underdeveloped countries at the expense of consumers in poor countries. Furthermore, such a price rise would simply stimulate production in the importing countries.

The 10 products therefore reduce to six. The following table shows the average value of trade in each for the years 1959-61.

<i>Product</i>	<i>Value of exports (millions)</i>
Coffee -----	\$1, 878
Tea -----	616
Cocoa -----	521
Sugar -----	1, 498
Tin -----	392
Bananas -----	334
Total -----	5, 239

Two of these products, coffee and tin, are now organized under international commodity agreements. Tea was marketed under a commodity agreement from

Footnotes at end of article, p. 184.

1933 to 1939, as was sugar intermittently from 1931 to 1961. Negotiations for an international cocoa agreement have been proceeding without success since 1958. Bananas, produced exclusively in the tropics, are probably ruled out because of competition with other fruits, both imported and domestic.

MORE FROM THE LAGGARDS

I have indicated elsewhere⁴ that establishment of effective price-fixing agreements for these products, excluding tin, might have succeeded in raising underdeveloped countries' export earnings by \$450-\$900 million in 1961. The United States would currently pay about 35% to 40% of this total, and the other major industrial nations the following percent shares: United Kingdom, 11-12; France, 7-8; Japan, 6-9; Germany, 8-10. These percentages are based on estimates of each country's elasticity of demand for each of these products at monopoly price levels.

If these monopoly prices were in effect, the upshot would be to increase the relative share of western foreign aid now paid by some of the laggard donors—U.K., Japan, and Germany—and decrease the shares of the major donors, United States and France. United States and France now provide respectively about 60% and 17% of western foreign aid. If their aid through commodity pricing were respectively 35-40% and 7-8% of total western costs under a system of commodity agreements, then their relative share of total official aid would be reduced.

But the most important point to note from these figures is not their effects on the distribution of foreign-aid costs, but their total amount: \$450-\$900 million in 1961, rising to more than \$1 billion by 1970, and nearly \$2 billion by 1975. This compares with 1965 capital flows from rich to poor countries of about \$9 billion, and poor countries' total merchandise exports of \$36 billion. By 1970, capital flows may not have changed substantially from 1961 levels, while export values will have risen to about \$45 billion if current trends are followed.

The effects of monopoly pricing on export earnings would therefore be modest, but far from insignificant. This after all is what we would expect. The price of coffee (and the earnings of coffee exporters) has risen about 20% since the International Coffee Agreement was negotiated in 1962. Meanwhile, the world price of sugar has fallen to record low levels since the breakup of the Sugar Agreement in 1961, with disastrous effects on those exporters who depend heavily on world market sales. There is obviously a relation between prices of these products and exporters' foreign exchange earnings.

FIVE INGREDIENTS

But signing agreements is no guarantee of high prices, high export earnings, or favorable effects on economic development. For the agreements to work effectively as agents of development goals, several conditions are required, in addition to inelastic long-run demand:

(1) Effective provisions for control over supply (not only export control, because when supply builds up, the pressures for breakup of the agreement become strong).

(2) Effective capacity on the part of existing governments to channel the increased earnings into economic development, rather than into higher profits for plantation owners.

(3) Less generally recognized, a market organization in which one or two producing countries dominate world supply, so that they are willing to practice restraint in the face of the inevitable supply control violations by smaller producers.

(4) A large number of producing countries, in order to assure a fairly wide distribution of gains from higher prices.

(5) Agreement to limit domestic production in those importing countries that can or do produce the commodity.

Let us take a look at existing and proposed commodity agreements in light of these criteria. First of all, it should be noted that the impetus behind most of them was the desire to stem price erosion rather than to achieve some maximum long-run level of earnings for producers. However, in terms of development goals, the issues listed above are nonetheless predominant.

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TEA, WITH SUGAR

The Tea Agreement (1933-1939) clearly succeeded in stabilizing world prices during the depression, but its impact on development may be doubted. Most of India's and Ceylon's tea gardens were under British control, and the benefits of earnings' stabilization largely accrued to the plantation owners. Furthermore, with tea production then largely concentrated in four Asian countries, the benefits were also concentrated geographically. These very limitations made it relatively easy to control tea supplies. With a small number of large producers and a very inelastic demand for the product, each could see his advantage in cooperating in export control. Furthermore, tea can be "stored" on the bush, so that control can be exercised up to a point by picking more or fewer leaves at any time.

The Sugar Agreement (1931-1961) was a completely different matter. In the first place, the agreement covered only the so-called "free market," accounting for perhaps two-fifths of world trade. The rest of the world's imports are controlled by national legislation, notably British, American, and French import systems, under which each country imports from preferred suppliers at a premium price. The essence of the Sugar Agreement, as operated from 1954 to 1961, was a bargain by which Cuba, as the dominant free market supplier, agreed to manage its supplies and stocks, in exchange for its large quota in the high-priced U.S. market. The objective was to maintain world prices between 3.25 and 4.25 cents per pound, through a system of export quotas. The system worked moderately well until 1960, when the United States first reduced and then abolished the Cuban quota. The agreement has not been renewed since 1961, when Cuba insisted on and was refused a large increase in its basic quota. It presumably will not be renewed until the underlying political issues are overcome.

Any effort to maintain very high prices for sugar (more than 5 or 6 cents a pound in the long run) is probably self-defeating, even though world demand for sugar is increasing steadily. Unlike tea, sugar can be produced almost anywhere, even if at high cost. Therefore if prices rise, and are expected to remain high under a system of export control, production in importing countries would tend to rise sharply. This puts sharp limits on the price objectives that exporting countries could aspire to. In these circumstances, it is arguable that developing countries would gain more from free trade in sugar than from price manipulation. However, the tendency seems to be for more rather than less agricultural protectionism in importing countries, so that a sugar agreement still retains considerably more luster in exporters' eyes than the unlikely alternative of free trade.

TIN STAYS BUOYANT

The Tin Agreement (1954 to date) operates under some of the same conditions as the earlier Tea Agreement. There are only five major signatory exporters (Malaya, Indonesia, Thailand, China, Bolivia), dominated by Malaya; there are a relatively small number of producing units. Tin, like tea, can be "stored" easily, either by mining less, or by stockpiling. The agreement provided for a buffer stock, in addition to export quotas, which helped to manage supply. The buffer stock manager bought tin when prices fell below a floor level and sold it when they rose above a given ceiling. After considerable price fluctuations in the 1950's, the world price of tin began to rise in 1960. By 1961, the buffer stock was sold out of tin, all export quotas were off, and world prices since have been consistently far above the pre-1961 levels. The agreement remains in effect inoperative today, because of continued strong demand. Both floor and ceiling prices were raised when the agreement was last renewed (1965). The presumption is that tin prices will therefore remain well above the levels that led to the original agreement.

As in the case of tea, it may be questioned whether international action in the world tin market is a significant force in promoting economic development. Concentration of production is great, and although Bolivian, Indonesian, and Chinese governments, with their nationalized tin industries, clearly benefit from the rise in price, Bolivia is the only one that is heavily dependent on tin exports as a source of income.

COFFEE IS SUCCESSFUL; OR IS IT?

The International Coffee Agreement, negotiated in 1962, has clearly succeeded in maintaining export earnings of coffee producers above equilibrium levels by a system of export quotas. As might be expected, its very success threatens the stability of the agreement. By providing high and stable prices for coffee, it tempts producers to evade export controls. It therefore places a great burden of self-restraint on the major producers, Brazil and Colombia, who face erosion of their market shares at the hands of Central American and African producers. These smaller producers are unwilling to establish close control over exports and production. Even though importing members are theoretically unable to take extra-quota imports from exporting members, there seems to be a good deal of evasion in the form of transshipments through nonmember countries or so-called "new markets" not subject to the quota provisions.

In terms of many of the criteria discussed—demand elasticity, substitution, widespread benefits—coffee is an appropriate product for price-fixing arrangements. But the willingness and ability of the smaller producers to control supply still remains an open question, and it may be doubted that Brazil will consent to continual reduction of her share of the world coffee market by what are in effect extra-legal methods of quota evasion on the part of small producers. Recent modifications of the Coffee Agreement are designed in part to solve this problem.

CHANGING THE RULES

The agreement is administered by a Coffee Council, composed of representatives of importing and exporting countries. The council regularly receives pleas for export increases from members who are unable or unwilling to control production and exports. The agreement assigns fixed percentages of the export market to each exporter so that selective quota changes are theoretically forbidden. In practice, however, when the alternative is collapse of the agreement, the council has devised ways of changing the rules. The most recent set of rule changes, adopted in September, 1966, is worth reviewing in detail as the first consistent effort to deal with the obstacles to price-fixing objectives and economic development goals.

First, the council explicitly recognized that the world coffee market is composed of submarkets for the four main types of coffee: Brazilian arabica, Colombian and Central American arabica, and African robusta. In the future, export quotas will vary by coffee type. This will presumably allow the major robusta producers (Ivory Coast, Camerouns, Angola) to increase their exports faster than other growers, reflecting the steady growth of demand for the lower-priced robusta in instant coffee preparations. It also offers an additional advantage: robusta producers generally complain that their quotas are too small under the existing agreement, and these producers are also often the least able to control production and exports.

A second element of the revised agreement combines temporary quota increases of varying percentages (zero for Brazil and Colombia and up to 10% for some African producers) with use of the proceeds to promote production control. Each country receiving a quota increase agrees to put into a special fund either 20% of the increased sales proceeds, or an amount of coffee equal to the amount of the quota increase. Each country will use the fund, under rules established by the Coffee Council, to promote agricultural diversification. This provision is presumably aimed both at promoting the economic development of the exporting countries and at meeting the objections of Brazil and Colombia to the perpetual growth of uncontrolled supply in other countries.

The third element proposed in 1966 (but not yet adopted) was a tax of one dollar on each bag of coffee exported under the agreement, to be paid by the exporting country. This would produce a revenue of about \$45 million during the current marketing year. The proceeds would be used to finance programs of agricultural diversification, under control of the Coffee Council.

Finally, the council took steps to limit evasion of export quotas. Importing members agreed to limit their imports from nonmembers. Beginning in 1967, exporting members cannot ship coffee unless the export documents bear a stamp obtained from the Coffee Council. These devices can also be viewed as efforts to satisfy Brazilian demands for more effective control over world supply.

OUTLOOK ON COCOA

Among the major products discussed here, only cocoa and bananas have not yet been subject to international commodity controls. Cocoa qualifies on many of the same grounds as coffee, but is difficult to store in the tropics, and faces a greater threat of competition, either from vegetable oils (used in place of cocoa butter) or from other confectioneries. Efforts at agreement failed in both 1963 and 1966, because of disagreements between producers and consumers as to the price at which export quotas would become operative. More recently, it has been suggested that a cocoa agreement include provision for a buffer stock, along the lines of the tin agreement, in order to maintain price within agreed limits. A cocoa agreement would provide a number of the prerequisites: one or two major exporters (Ghana, Nigeria), large numbers of producers, inelastic demand, good possibility of devoting excess profits to development goals. It is less certain that the African countries can effectively control supplies. This is probably one major reason for their insistence on an international buffer stock. Unfortunately, the producing countries seem reluctant to recognize that buffer stocks exist not only to buy, but also to sell, so that the buffer stock cannot be relied on as a permanent siphon for excess production.

IS IT ALL WORTH THE EFFORT?

This review of the major products suitable for conscious efforts at price fixing shows that the possibilities are limited, the complexities of production control great, and the technique essentially inefficient as compared to direct aid. Furthermore, as noted above, the export quota system offers little incentive to efficient new producers, because it freezes an historical production pattern, without much regard for changing cost and demand patterns (although it is theoretically possible to adjust export quotas selectively, no exporter wants his share reduced).

Coffee and cocoa are widely produced by individual farmers, so the allegation that high prices benefit only the plantation owner is clearly untrue for these crops. For sugar and tea, the charge may be closer to the mark, although there are many small producers and export taxes can be used to siphon off excess profits, unless the government is dominated by producer interests. Tin is a rather special case where demand has long been buoyant; half the world's output stems from nationalized industries (Bolivia, Indonesia, China, Russia) and most of the rest from Malaya. There seems no particular reason to believe that for these five products the distribution of gains from higher commodity earnings need be more inequitable than those stemming from other forms of aid (except food aid, which presumably benefits low-income groups most).

Recent developments in the Coffee Agreement indicate the commodity agreements may be a more flexible device for promoting economic adjustment than was previously supposed. It is obviously too early to judge the success of these measures in their dual objectives of controlling coffee supply and promoting the agricultural development of exporting countries. The most significant element is clearly the diversification fund. In embryo at least, it foreshadows a principle of international control of the proceeds of monopoly pricing in the interests of economic development. In that respect, the Coffee Agreement becomes, in part, an aspect of international economic assistance under the joint policy control of rich and poor countries. This novel organizational device may if successful, offer broad possibilities for application to other commodities and, for that matter, for other forms of economic aid.

However, this qualified support for a limited number of commodity agreements is, from another viewpoint, an admission of their weakness as answers to the world's commodity problems. Such agreements are only one element in a general policy to improve the trade position of commodity-exporting countries. The other elements include:

- (1) Major efforts to increase the productivity of industries facing competition from synthetic substitutes or competing production in importing countries (rubber, fiber, sugar, rice, oilseeds).

- (2) Reduction of protectionism in importing countries (petroleum, sugar, tobacco, nonferrous metals, fruits, meat, etc.). This is probably the largest potential source of increased exports for poor countries. Free trade in sugar alone might increase underdeveloped countries' exports earnings by nearly one billion dollars, at least as much as the amounts forthcoming from price-fixing agreements for coffee, cocoa, sugar, tea and tin combined.

(3) A system of international compensation for countries whose export earnings lag over a period of several years because of market factors beyond their policy control (e.g., Brazil from 1959 to 1963). This would be in addition to existing IMF loan facilities for countries facing short-term balance-of-payments problems that have arisen from commodity price fluctuations.

The excessive emphasis that the poor countries have placed on high prices reflects in part ignorance of the limitations of this technique; in part, the related belief that economic justice requires a fair price for exports; and, perhaps most important, pessimism about the likelihood of trade liberalization by the rich countries. But their confidence seems misplaced; the experience of the past five years makes it increasingly clear that no panacea will emerge. Each of the four elements—price objectives, higher productivity, trade liberalization, and balance-of-payments compensation—should play a part in a long-run adjustment effort for the nearly two billion people whose livelihoods now depend on commodity production. As long as the economic welfare of most people depends on markets for food and raw materials, the commodity problem will remain in the center stage of the world's political economy.

NOTES

1. The commodity marketing boards in West African countries were designed to operate in such a manner, and during the era of high commodity prices following the Korean War actually amassed considerable reserves. The combination of declining prices and pressures to spend reserves, stimulated by postindependence developmental goals, has largely succeeded in eliminating the income-stabilizing functions of the marketing boards.

2. *Export Fluctuations, Growth and Policy* (Harvard University Press; to be published this year).

3. Exporting governments can profit from higher prices even under elastic demand, if the labor and capital released from commodity production can be effectively used in other economic activities. But the mobility of labor and capital in poor countries is often quite limited.

4. John Pincus, *Trade, Aid, and Development*, New York, McGraw-Hill, 1967.

FOOD AID

Mr. McASHAN (continuing). American farmers can produce food as efficiently as any part of the world, due to their mechanization, cultural practices, sound infrastructure and marketing organizations, particularly if our farmers are not prevented from doing so by acreage restrictions or other controls.

In a shortly to become hungry world our ability to provide food aid will give us a strong negotiating tool to persuade the recipient nations to follow sound development programs of their own, and to take the lead among other developed countries who should share this burden proportionately with us.

Food for aid must be bought from our farmers by our Government, and partially processed in American plants, thus providing a measure of stabilization here at home with less market disturbance than recent price support programs.

PAYMENTS UNION

Just as the United States financed trade balances for and between European nations in the early days of the Marshall plan, and with very small financing loss to us in doing so, we can now provide backing for a payment union or clearing pool with the LAFTA countries or other free trade areas.

The advantages would be two:

(a) it would introduce more credit in a credit-hungry area, and

(b) it could encourage trade liberalization within the area by providing a cushion against any immediate adverse balances.

The value to new trade areas in the developing countries of such a clearing pool will be so great that it can become one of our strong bargaining points, at negligible cost to us.

Representative Boggs. I thank you very much.

Mr. McASHAN. Mr. Chairman, one other thing.

On the plane coming up last night I had a chance to read the papers submitted by Mr. Roth and Mr. Solomon, both of which I obviously endorse as basic parts of our future trade policy.

Representative Boggs. Thank you very much for your very fine statement.

We will now hear from Mr. Gilbert.

We are very happy to have you with us, Mr. Gilbert.

STATEMENT OF CARL J. GILBERT, CHAIRMAN OF THE EXECUTIVE COMMITTEE, THE GILLETTE CO., BOSTON, MASS.

Mr. GILBERT. Thank you, Mr. Chairman. My name is Carl J. Gilbert. I am chairman of the executive committee of the Gillette Co., but I will testify in my individual capacity.

We are concerned here with future U.S. trade policy. In the light of what has occurred in the Kennedy Round, I would think that what we need immediately is an extension of the unused authority in the 1962 act for housekeeping purposes, as Ambassador Roth proposed, a liberalization of the adjustment assistance provisions of that act and the approval by Congress of the second package on chemicals (or ASP). This seems to me a minimum at this time. And I join with Mr. McAshan in endorsing the comments Mr. Roth made before this subcommittee last week.

It seems to me that the deliberations of this committee are very timely in view of the need for early action by the Congress on the course of action proposed by Ambassador Roth. Equally important, it seems to me, is the hope that your deliberations may help to focus national attention, both in the Government itself and on the part of the public, on the formulation and appreciation of a national commitment to a long-term trade policy as a part of a considered national foreign economic policy. I suppose that there is no other area of public affairs in which there is a greater need for consistency and stability than in the broad area of foreign economic policy. The day must come when every decision—legislative, executive, and private—must be tested against the standard of its consistency with the country's foreign economic policy before taking action. We cannot expect consistency or stability so long as our foreign economic policy remains obscure, unformulated, and ascertainable only by a process of deduction from a series of ad hoc actions in various areas of national concern. This need has gone unanswered for many, many years. Our involvements in the world scene are economic as well as political and equally so are irrevocable and call for long-term policy planning of a very high order.

The trade policy goal on which we should set our sights is freedom of international trade on the part of the world's economically advanced countries and regional instrumentalities, accomplished in accordance with a negotiated timetable and providing for appropriate differences in phasing to reflect the capabilities of specific countries and specific types of production. Setting our sights on this objective and identifying ourselves unmistakably with its implementation is the route of maximum effectiveness in overcoming the many obstacles that made the very real achievements of the Kennedy Round considerably less than the goals considered a few short years ago to be essential (and which are still essential) to our national interest. A clear national commitment to this long-term objective stands the best chance of overcoming the short-term impediments to continuing genuine progress in liberalizing world trade.

Pointing the way to this long-range goal in this vital area of both foreign and domestic policy is of great importance to all sectors of our highly productive economy, and not just in terms of their stake in export expansion. As entrepreneurs in manufacturing, mining, and agriculture make decisions that must continually be made with respect to investments, pricing, sales promotion, and design, and all the other decisions so essential to effective business planning, it is important for those who make these decisions to take appropriate account of their government's long-term policy with respect to our trade with the rest of the world. A policy tending toward trade restriction, or indicating a posture of even temporary uncertainty regarding future policy, will tend to encourage efforts to impose restrictions on trade and to rely on such restrictions, present or hoped for, instead of pursuing efforts to generate the best kinds of job opportunities and the highest levels of economic performance of which a free enterprise economy is capable.

Pointing the way to these new goals of freer world trade is also essential at this time to the scores of countries with which we trade, and whose economic strength and cooperation are essential to the achievement of our highest international objectives in the world at large. The message from America to nations at all levels of economic development should not reflect uncertainty regarding the future course of American policy, and it should certainly not indicate any possibility of this country returning to points of no return we wisely decided to pass so long ago.

The economically advanced countries should know where we stand and the direction we intend to take, as they proceed with their own policy planning, in some cases as part of regional free trade communities. The clear determination of the United States to continue to progress toward freer trade, and even to accelerate progress in this direction, will tend to influence private and governmental decisions in those areas in ways that accelerate sound economic growth, raise living standards, and expand markets for producers everywhere, including our own. Convincing evidence of our own determination to cooperate in reducing artificial barriers to world trade is the policy declaration best calculated to stimulate other economically advanced nations and regional instrumentalities to liberalize foreign access to their own internal markets. And, working together in this way, the

economically advanced economies can proceed most effectively to carry their full share of the needed efforts to speed the development of the less-developed countries—both through foreign aid programs and through expanding the access of goods of all kinds from the less-developed countries to the world's best markets.

In declaring our readiness to pursue such a policy without delay in the years to come, we shall be reaffirming, in convincing action, to the world's less-developed countries and the millions of people who live there that there is a meaningful place for them in the world economy dominated by advanced nations of the northern hemisphere. By doing so, we shall also be serving our own enlightened self-interest.

I think it should be emphasized that trade policy initiatives are not the sole responsibility of the United States. We should, of course, seek the cooperation of other governments in implementing initiatives in which we have played a leadership role. We should also invite other governments to step forward with their own trade policy initiatives and to seek the cooperation of the United States in exploring new frontiers of freer world trade. We should invite other governments to assert themselves in this way, and promise them the earnest participation of the U.S. Government in exploring ways and means for successful international cooperation in this vital field.

The Federal Government itself should, it seems to me, pledge to the country its earnest efforts to help in the most constructive way to prepare the American economy both to adjust successfully to the higher degrees of international competition that lie just ahead and to capitalize fully on the higher degrees of export opportunity which are the other side of the same coin. The Federal Government should work closely with State and local governments to insure a domestic policy framework within which the American economy may achieve the pace of economic growth and adjustment-to-change that are so necessary to backstop the new efforts that will be made to remove artificial restraints on world commerce.

The private sectors of the American economy should reassess their operations across the board to make sure that everything possible is being done to secure for themselves a durable and highly productive place in an increasingly interdependent world economy—one that is moving resolutely toward freedom of international trade. All State and local governments should also undertake a fresh look at their own policies and practices affecting the prospects for durable competitive strength in this kind of world. The Federal Government should reassess its own policies with this objective in mind, and this includes devising ways in which the Federal Government can be helpful to State and local governments, and to the private sectors of the economy, as they prepare for the part they must play in building a brighter future for the American people, and in insuring the successful participation of their country in helping to build a brighter future for peoples throughout the world.

It seems to me clear that history tells us that world attitudes toward trade restrictions are never static. They are always in a state of flux. We led the world once down the path of trade restrictions via the Smoot-Hawley Tariff Act of 1930. By that action we triggered off a wave of severe trade restrictions which in a short period brought

world trade to a virtual standstill and contributed in a major way toward converting a serious recession into the great depression from which we only emerged during the aftermath of World War II. We can't turn the clock back and retreat into a sort of fortress America in economic terms. The momentum toward freer trade must be maintained if this complicated world we live in is to continue to produce a constantly higher and higher standard of living for more and more of its population. In attaining this aim lies an exciting and satisfying future for our country. God alone knows what the result would be if we should fail.

Chairman Boggs. Thank you very much, Mr. Gilbert.

We will now hear from Mr. Balgooyen.

**STATEMENT OF HENRY W. BALGOOYEN, PRESIDENT, AMERICAN
& FOREIGN POWER CO., NEW YORK, N.Y.**

Mr. BALGOOYEN. My name is Henry W. Balgooyen. I am president of American & Foreign Power Co. and I recently completed a 3-year term as president of the Pan American Society of the United States.

My interest in foreign trade policy derives from more than 30 years of activity in the foreign investment field in Latin America with an American company having extensive investments in Latin American utilities, and, recently, in diversified industrial investments. My remarks, therefore, are directed toward those elements of foreign economic policy which have a direct bearing on inter-American trade and investment.

The interrelation of foreign trade and foreign investment is apparent to any participant in either activity. The foreign investments of American corporations are principally in the form of exports of capital goods and equipment of U.S. manufacture. The new industries which are created and fostered by American investors increase the productivity of the recipient or host countries, create new sources of employment and income, and stimulate new wants and desires which are rapidly translated into demand for imported products as well as goods of local origin. This is particularly true of our direct private investments in the developing countries; and among the developing countries, those of Latin America provide the largest and most productive market for American goods.

Foreign trade is vital to the success of the ventures of the millions of American citizens who invest in the securities of companies with foreign operations. It is largely by foreign trade that the host countries acquire the dollars to service these investments and pay for the imports of capital goods required for their industrial development. Dollars are provided, also, by the foreign expenditures of American tourists and other service transactions; by new dollar investments; or by loans and gifts from the U.S. Government and various lending agencies and institutions. Speaking from many years of experience in dealing with Latin Americans and their governments, I can assure you that they would rather earn these dollars than to be dependent upon loans which have to be repaid with interest, or upon largesse which deprives them of their pride and self-respect. I can assure you, also, that however important and necessary these government loans

and gifts may be to the recipients, their needs for the capital, technology, skills, and administrative experience they obtain with private U.S. investments are even more vital to their economic development.

Now, how do we stand in our trade with Latin America? Do we buy sufficient Latin American products to enable our trading partners to import the capital goods required for industrial development to meet the growing demands for consumer products created by rising living standards, and to service the estimated 9 billion of the dollar debt of their governments and the \$91½ billion our private investors have ventured in Latin America?

The answer, of course, is that we do not. In fact, we don't even come close. Last year, we spent \$3,970 million on imports from Latin America and sold them goods in the amount of \$4,235 million, leaving them with a deficit of \$265 million in their trade with us. At the same time, our private investors earned and remitted \$888 million, while the interest and amortization charges on their foreign debt—perhaps three-fourths of it in dollars—cost them well over \$2 billion.

Latin America's foreign debt has been increasing so rapidly that its servicing now consumes one-sixth of its earnings from exports. It becomes pertinent, therefore, to ask how much more debt these countries can stand and remain reasonably solvent. Clearly, if our Latin American friends are to make any economic progress without becoming increasingly dependent upon U.S. aid, ways must be found to enable them to increase their export earnings—to replace their trade deficit with the United States, their principal trading partner, with a surplus. The unfortunate fact is that Latin American exports have been losing ground, not only as compared with exports from the industrial countries, but even when compared with exports from other less developed areas.

What avenues are open to us, in the area of foreign trade policy, by which we can assist the Latin American nations to increase their export earnings? The first and most obvious is by the removal of any remaining barriers, not absolutely essential to our national interest, which impede the entry of Latin American products to the United States.

One of the complaints most frequently heard in Latin America is that we exhibit great interest in our Latin American neighbors in time of national emergency but quickly forget them when the crisis is over and proceed to reimpose trade barriers of various kinds to keep out their exports. In an address delivered some years ago, Henry Holland, then Assistant Secretary of State for Inter-American Affairs, called attention to the fact that, except for coffee and bananas, which we don't produce, every one of the 10 principal export products of Latin America had been subjected to trade barriers of one kind or another. The situation has improved in the intervening years, but we still have restrictions of various kinds on such Latin American products as petroleum, sugar, cocoa, wool, beef, cotton, lead, and zinc.

European barriers to Latin American products are much more extensive than ours, and their discriminatory preferences in favor of other producing areas are a further handicap to Latin American exporters. Efforts were made by our negotiators during the Kennedy Round to have some of these barriers and preferences removed. It is

generally conceded, however, that for the less developed countries, the results of the Kennedy Round were far from encouraging. Nevertheless, we should continue these efforts, along with a constant review and study of our own restrictive trade policies relating to products which, otherwise, could be imported advantageously from Latin America.

Looking to the future, we should be prepared for the emergence of the Latin American countries as exporters of semimanufactured and finished goods; and we should do all we can to encourage this development. Unhappily for Latin America, the incidence of tariff duties on products which they are in a most favorable position to process and manufacture increases with the degree of fabrication, thus creating a disincentive for industrialization. This is true of wool, cotton, rubber, wood, cocoa, leather, copper, and many other products.

I am not suggesting that the obstacles to Latin American industrialization and exports are all of our making or that they all are external in origin. The most difficult problems are the internal ones; the emphasis on import substitution behind tariff barriers rather than on efficient production for export; the formidable geographical barriers to internal trade and commerce; the limitations on economies of scale imposed by their small domestic markets; the prevalence of inflation, often self-inflicted as a result of overspending by governments on high-cost and inefficient industrial projects which might better be left to private enterprise; inexperience in producing for, and in cultivating foreign markets; and low productivity resulting from lack of education and industrial skills, and other factors. Nevertheless, despite these obstacles, such countries as Mexico, Brazil, and Argentina are developing significant export capacity in manufactured goods, and there are numerous opportunities in these and other countries for industrialization and exportation of indigenous raw materials, if the United States and other industrial countries are willing to open their doors just a little way so that some of these products can enter.

The Latin American nations, together with other less developed countries, have been urging for some time that the industrial countries should be willing to grant tariff and other trade concessions to them, without expecting reciprocity as a contribution to their economic growth and development. This was the dominant theme at the UNCTAD Conference in Geneva, and it was taken up by the Latin American nations at the recent Summit Conference at Punta del Este. President Johnson promised, at Punta del Este, to consider what might be done by the industrial countries in the way of providing such preferential treatment. Beyond this, there have been recurring suggestions by Latin Americans and their friends in the United States that our Government should extend such concessions or preferences on a Western Hemisphere basis, regardless of what other nations may do.

The principal argument against the granting of such preferential concessions is that this would violate the most-favored-nation principle and the commitments that the United States has undertaken as a leader in world trade, under the GATT agreements. As a matter of fact, however, the most-favored-nation principle is being violated every day by the entry of duty-free African products into the EEC countries, and by the longstanding system of British Commonwealth

preferences. While it is understandable that the United States should take the position that preferences, if granted, should be extended to all the less developed nations on an equal basis, I suggest that, if this principle continues to be violated by the other industrial nations, we should be prepared to set up our own system of Western Hemisphere preferences and to seriously study the practicality of setting up a common market of the Western Hemisphere.

If Great Britain and the EEC countries have special interest in, and special responsibilities toward, the British Commonwealth and certain African countries, I submit that we have equal responsibilities toward, and greater interests where Latin America is concerned.

I would caution, however, that any trade preferences extended by the United States to the less developed countries in general, or to Latin America in particular, should not be unqualified or unlimited in duration. Rather, they should be granted in the form of incentives for adherence to specified standards of performance, and should be subject to continuing review. Performance in such matters as fiscal and monetary policy, treatment of domestic and foreign private investments, and removal of export taxes and other self-created impediments to export, and adherence to reasonable standards of efficient production and quality control should be considered in this connection.

In the case of Latin America, specifically, the granting of trade preferences or other export incentives should be related to Latin American efforts and progress toward the elimination of excessively nationalistic restrictions and the creation of a larger intra-American market through development of LAFTA, CACM and, ultimately, the proposed Latin American Common Market. The advantages to be gained through the creation of a free-trade area, or a common market, are well known to our Latin American friends, but a major effort, over an extended period of years, will be required to remove the economic, financial, psychological, and nationalistic obstacles that stand in the way of its accomplishment.

Another positive contribution that we might make to Latin American export expansion and economic development lies in the politically sensitive field of agricultural policy. Our protectionist policies in the form of domestic price supports, export subsidies, and disposition of farm surpluses abroad on noncommercial terms, are frequently in conflict with our proclaimed objective in the area of foreign economic policy, and in the Alliance for Progress. If we are sincere in our stated purpose of assisting our Latin American neighbors to be self-supporting and prosperous, we should subject our own policies, both domestic and foreign, to continuous review to be sure that they are consistent with these objectives.

One of the most serious of Latin America's economic problems is the failure of its agricultural production to expand in line with population growth and the increase in industrial production. Latin America needs financial and technical help to remedy this deficiency, but it makes little economic sense for us to extend this assistance and, at the same time, provide unfair competition for their producers by subsidizing our agriculture and undercutting their export markets. I am not suggesting that intelligent self-interest should bow to the dictates of foreign economic policy or good neighborliness, but we

might be able to save some money, and do our own consumers a good turn, by providing incentives for our farmers to stop producing commodities which can be imported more economically from other countries.

At this point, I would like to make a brief comment on a related matter on which hearings were recently held by the Committee on Banking and Currency: whether we should condition our contribution to a projected increase in the capital of the Inter-American Development Bank—which has been called the bank of the Alliance for Progress—to an agreement that the dollars loaned by the Bank must be spent in the United States. It seems to me that, as a practical matter, the borrowers should be free to spend these funds in the most economic manner—to purchase at the lowest price consistent with quality and performance. Certainly, a Brazilian borrower should not be precluded from purchasing in Argentina, or vice versa, if we mean what we say about encouraging Latin American integration and industrial development.

I will readily concede that some of the suggestions I have made may seem to conflict with efforts to bring our international payments into better balance; but I don't think it behooves us, on the one hand, to try to improve our balance of payments at the expense of Latin American countries while, with the other hand, we are loaning them money to improve their payments position. I feel very strongly that, despite our global commitments as a world power, Latin America is our primary field of interest, and anything we can do to assist our good neighbors and trading partners to speed their economic development and social progress by helping them to help themselves not only will be a sound investment in inter-American relations but will be a real contribution to our own national welfare and security.

I thank you for giving me this opportunity to express my views on some of the elements of our foreign trade policy that have a bearing on our inter-American relations.

Representative Boggs. Thank you very much, Mr. Balgooyen.

Senator Symington, do you have any questions?

Senator SYMINGTON. Thank you, Mr. Chairman. First, let me compliment the Chair for having these most constructive hearings.

Mr. Gilbert, I notice you represent one of the great corporations in this country, which excels in automation and has a strong position in foreign trade. I come from a State which is first in the shoe industry. It is difficult for my people to compete because of the tremendous difference in the standard of living, specifically, wages. The shoe business here is being steadily eroded due to foreign competition, primarily from Japan, secondarily from Italy. I am wondering how you feel about that, from the standpoint of the future of U.S. business?

Mr. GILBERT. I am not qualified, Senator, to talk about the shoe industry specifically. I think basically I have come to believe over the years that our country would be better off if we do the things we can do best and take advantage of corresponding skills in other parts of the world, and by this route our people will end up leading the best possible life. And if it requires a future negotiation, or future legislation, the problem comes up as to a specific industry. And I

tried to point out in my short remarks the timing and phasing—how one arrives at a free trade goal depends upon problems in particular industries in particular countries.

I would like to differ with you just a second on the use of the term "automation." I don't know what it means. And in that sense I don't believe Gillette is characterized by automation in the sense that you put an IBM tape in a machine and it runs the machine alone. And what we have done, I think, is typical of industry in general since the beginning of the industrial revolution. We have tried to improve the productivity of men by intelligent application of proper tools for them. I am sure this has been done in shoes as well as in other things. Whether it has been done to the limit I have no opinion. And whether it has been done as much as it could be done if they were pressured by foreign competition, I don't know either.

But I think these are good questions. I think that our country will move toward a more efficient production the more competition they have, whether it be internal or external.

Senator SYMINGTON. I appreciate that. Much of foreign automation—the word was applied after World War II—we gave abroad many billions of dollars of our best equipment. As a result, foreign competition has the same machinery, the best in this country. It has been given or loaned.

Do you have a patent position in, say, Japan?

Mr. GILBERT. Not of any basic consequence.

Senator SYMINGTON. An interesting answer.

Mr. GILBERT. I would like to make a point, if I may, Senator. Looking at the growth and the development of our company—as you know, we are in many places abroad—I would have no qualification for my opinion that our company's strength comes from the fact that we are able to attract the best technology from everywhere in the world. There was a time at the end of the 1930's when, if it hadn't been for the fact that our British subsidiary was doing a better job of making blades than we were in this country, the company would have probably gone out of business. As you look around the company, in all of our machine shops you will find Cincinnati milling machines, Genevair drill presses—we look to the best there is in the world, and get it, and combine them, and make them go to work for us. And I think this is where strength comes from industrially.

Senator SYMINGTON. Thank you, Mr. Gilbert.

Mr. Balgooyen, you say "we exhibit great interest in our Latin American neighbors in time of national emergency but quickly forget them when the crisis is over." To what are you referring?

Mr. BALGOOYEN. I am referring specifically to World War I, World War II, and even now when we are engaged in Vietnam, when we need to have the strategic materials that Latin America produces, materials such as copper, for example, and we remove the impediments to their exports. But after the emergency is over, then we hear from our own producers. The tendency has been in the past to reimpose these restrictions after the emergency is over. That was particularly apparent after World War II. I am not indicating that we forget them completely; but, in the matter of helping them to promote their export trade to this country, we do have a tendency to forget them.

Senator SYMINGTON. Thank you.

You mentioned that "the entry of duty-free African products into the EEC countries by the longstanding system of British Commonwealth preferences." But it is true, is it not, that the French have said to the Germans, you scratch our agricultural back, and we will scratch your industrial back, and together we will keep out as much Anglo-Saxon trade as we can. If you take that as a premise, would you say it was more important for us to work with the countries of Central and South America, or with the countries in EFTA, including Great Britain and the Commonwealth countries outside of EFTA, in order to attempt to establish our own bloc as against the European bloc. Which do you think the more important?

MR. BALGOOYEN. That is a very good question, and I wish I were qualified to give you an unqualified answer. But I am not.

Certainly, we have to maintain the very close relations that we have had traditionally with the Western European countries, Great Britain, France, and the other countries. But I feel very strongly that so far as the less-developed world is concerned our primary interest is in Latin America. In time of great national emergency we have always found that we can count upon the Latin American nations to supply us with the essential strategic raw materials and foodstuffs we need. And I think we have to protect our position in this hemisphere.

Right now the Latin American countries, as we know, are not making the progress that we hoped that they would make under the Alliance for Progress. The gap between their standard of living and ours is not narrowing. We are reaching a situation, as I indicated in my testimony, where it seems to be economically impossible for the Latin Americans to import the machinery and equipment that they need to speed their industrial development, and to service the investments and the loans that our Government and our citizens have extended to Latin America, unless they can export more of their products.

So, the matter of assisting Latin Americans to increase their exports, particularly in this market in the United States, which is their most important market, becomes a matter of prime importance. Latin America is a field of strategic interests as well as political interest, as is evidenced by the great efforts that the Communist world has made in getting a base in Cuba and exploiting it, which they are doing now by means of guerilla movements all over Latin America. By the end of this month an international meeting will be underway in Havana, a gathering of guerilla chieftains from Latin American countries, supported by the Russians, and of course promoted by the Russians, and their Castro Communist allies. And I am quite concerned with what may happen over the remainder of the year and next year in Latin America as a result of this conference.

This is a rather lengthy explanation, but my concern for Latin America is colored by the direction that I see that some of these political development as well as economic developments are taking in that part of the world.

Senator SYMINGTON. Thank you.

I have one more question, Mr. Chairman.

In your statement, where you discuss the question of contributions to increase the capital of the Inter-American Development Bank, are

you talking there about hard loans or soft loans? Specifically, are you talking about loans of from 30 to 40 years, with no interest, and just a carrying charge, with a period of grace for the repayment of capital, or are you talking about a straight business transaction?

Mr. BALGOOYEN. During the hearings it developed that some of the Congressmen were considering proposals for tying the loans of the Inter-American Development Bank—and I am not sure whether they were only hard loans, or both hard loans and soft loans—to the purchase of materials and equipment in the United States with the proceeds of these loans. And during the course of the hearings an example was cited, I believe, of a Chilean borrower who might be able to buy his requirements in Peru cheaper than he could in the United States, and what did I think about that.

My answer was that, No. 1, I thought that in view of the limited borrowing capacity of all the Latin American countries, they should be able to use the funds they borrowed as economically as possible, and get as much for their money as they could. And No. 2, certainly if Chile can buy something in Peru, it assists the attempts that these countries are making toward economic integration. And since we have said that we are in favor of economic integration and industrialization, we certainly shouldn't try to preclude that kind of a transaction.

Senator SYMINGTON. If you make a hard loan, I couldn't agree more. But a soft loan, you might as well give them their money and forget it, don't you think, a 50-year loan, no interest, no repayment of principal, say, for 10 years? We have put a lot of money in that kind of a loan. If you don't specify the money has to be used in the United States, why not get rid of all the bureaucratic costs incident to following the loan, and just give it to them? You would be better off from the standpoint of overhead.

Mr. BALGOOYEN. I am psychologically opposed to soft loans. But you have a situation in Latin America of course, as I have indicated, where they are so far in debt, particularly in dollars, that it is a question of whether they can stand it. And so it becomes a matter of necessity, I am sure, in some cases, to grant this assistance on a soft loan basis. And I fully appreciate the arguments for spending the proceeds of these loans in the United States. Otherwise, as you say, they become gifts. And they are pretty close to gifts anyway and for all we know they may ultimately be gifts.

But at the same time, whether it is a soft loan or a hard loan, if \$10 million is loaned to Chile, I would think that we would want the Chileans to buy as much of their necessities with that \$10 million as they possibly could, even if they had to buy it in some other country.

Senator SYMINGTON. Thank you, Mr. Chairman.

Chairman BOGGS. Senator Miller, do you have any questions?

Senator MILLER. Thank you, Mr. Chairman.

Mr. McAshan, in your statement you say, "many of the less-developed countries cannot be expected to become fully self-sufficient in foods and fibers." Would you include India in that category?

Mr. McASHAN. Yes, certainly, I certainly would. India is probably less self-sufficient than many of the other countries.

Senator MILLER. I am not talking about what it is now, I am talking about what it can be. And your statement is that many of the less-developed countries cannot be expected to become fully self-sufficient.

Mr. McASHAN. Well, I should possibly have said, for many, many years, until they change their systems in India, and until they are willing to get rid of some of their prejudices that we are all familiar with. For example, India is one of the greatest producers of peanuts in the world. They extract the oil from those peanuts and use the oil for cooking purposes, but they will not allow the meal to be used for human food, although peanut meal is very high in protein, and is just exactly what their children ought to be fed. They have got to get rid of those kinds of prejudices first.

Senator MILLER. In our food aid program to India, as you probably know—

Chairman BOGGS. I am quite curious: why won't they?

Mr. McASHAN. As I understand it, it is a matter of their religion.

Chairman BOGGS. The meal for peanuts.

Mr. McASHAN. Yes, I don't know why. It is used for fertilizer only.

Senator MILLER. In our food aid program for India, as you probably know, we concentrate on wheat and other food grains. And under their new 5-year program they have, I think, a reasonable basis for hoping that by 1971 or 1972, with a reasonable amount of rainfall, and by breaking the fertilizer bottleneck, which they hope to do, that they can be self-sufficient in food grains. Now, this peanut matter may have some impact. But I would say that it would be very small compared to the food grains problem. And I was wondering whether or not you would accept that 5-year target. Or do you think that that is just a gesture of futility?

Mr. McASHAN. No, I wouldn't call it futile in any respect. I hope they do, but I don't know that they can.

Senator MILLER. We all hope that they do. But when you were talking about the fact that you expect many of these countries will not be able to become self-sufficient for many, many years, you included India in that category?

Mr. McASHAN. Yes. And the rate of their population increase will require a terrific improvement in their agriculture to keep pace with it.

Senator MILLER. There is no question but what it will require improvement. But with the hybrid seeds and with fertilizer, and with the tremendous amount of national effort with respect to irrigation and water wells, and with a reasonable degree of rainfall, why would you think it would be many, many years before India could become reasonably self-sufficient, certainly in food grains?

Mr. McASHAN. As much as anything from their past record.

But I certainly hope that they do, sir. It would be great if they do. The only point that I was making was that they could buy our wheat from our farmers with some of the other materials that they might do better with, that they might be better equipped to produce and export and pay for their wheat. That would be my only point.

Senator MILLER. Well, if they have the hybrid seeds and the fertil-